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An insight into crypto world, regulation & framework in India

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Abstract

In general, cryptocurrency can be considered a medium of exchange in digital format only. It is pertinent to note here that Cryptocurrency uses encryption techniques to control and create monetary units and verify money exchange. As a result of the fast improvement of data and correspondence advancements, numerous exercises in our routine have been combined on the web and become more adaptable and robust. An immense development in several online users has enacted virtual word ideas and made another business peculiarity: a cryptocurrency to work with monetary exercises like purchasing, selling, and exchanging. The usage of virtual money has become all over in different structures. Virtual cash isn't controlled and coordinated; along these lines, most countries have not yielded this money in their financial activities. This paper plans to dissect the explanations for the fame of cryptographic funds all over the planet with specific accentuation on India; the paper harps on the legitimacy of digital money in India while contrasting the situation in far off nations; in the last option part, the paper manages moves approaching for the public authority to direct this virtual cash.

Keywords: Crypto currency, medium of exchange, online clients, monetary units

Introduction

There are various perspectives on cryptocurrency. Many individuals feel that cryptocurrency is the fundamental focal point of the advanced economy and is gradually taking out the present cash. A few different specialists and market analysts have a negative mentality towards cryptocurrency. These individuals accept that virtual coins don't have a splendid future and face cost bubbles. They don't see a decent future for the cryptocurrency market. Their recommendation is to stay away from this market, and they accept passage into the crypto currency market compromises contributing.

The present economies are all-cash economies since all economies have acknowledged specific monetary standards (cash) as a model of trade. The cash supply causes expansion and a collapse in economies by its abundant supply and compression cash supply. Subsequently, the government manages monetary forms of various nations to battle expansion or flattening circumstances. Presently a day's numerous countries on the planet have centered on computerized cash and transactions. Indeed, even somebody would instead not control their monetary standards and transactions. This acquired more major development of new money that is cryptographic money, one of the most exceptional ambiguities, regulation-free cash. In this article, I endeavored to study digital currency and its turn of events and transactions in India. Bitcoin is a cryptocurrency. It's decentralized computerized cash without a national bank or single head that can be sent from one client to another on the distributed Bitcoin network without mediators. Transactions are confirmed by network hubs through cryptography and kept in a public conveyed record called a square chain. Bitcoin was concocted in 2008 by an obscure individual or gathering utilizing the name Satoshi Nakamoto and began in 2009 when its source code was delivered as open-source programming. Bitcoins are made as compensation for an interaction known as mining. They can be traded for other monetary standards, items, and administrations. Research delivered by the University of Cambridge gauges that in 2017, 2.9 to 5.8 million unique clients were utilizing a cryptocurrency wallet, the vast majority of them using Bitcoin.

Objectives

The objective of this paper is as follows

1. The paper aims to ascertain the meaning of Cryptocurrency & understand the reasons behind its popularity.

2. The paper seeks to understand the regulation of Cryptocurrency in India & its legal Status.
3. The paper also aims to ascertain the various challenges of cryptocurrency while discussing scenarios in foreign nations.

Review of Literature

In a research paper titled "The Growth of Cryptocurrency in India: Challenges and Potential Impacts on Legislations by Shailak Jaini ^[1], it was concluded that Cryptocurrency offers a new, powerful, and appealing model of installment strategies that can help organizations furthermore, administrator's incomes. It likewise gives an elective strategy for installment, aside from genuine cash, that empowers clients to make monetary exercises like purchasing, selling, moving, and trading without any problem. Her examination shows that cryptocurrency is probably going to be the following money platform because of the enormous volume of cryptocurrency that is streaming in various frameworks, the gigantic extension and development of utilizing and executing digital currencies, and the amazing open doors that cryptocurrency frameworks offer.

Research Paper titled "A Study on Cryptocurrency in India – Boon Or Bane - With Special Reference to Bitcoin" ^[2] in this authors explained and put forth their view while concluding that Cryptocurrency can supplant the conventional money related framework. To embrace this period of Cryptocurrency it should initially advance and acknowledge a safe organization of cash trade. As per the discoveries of the current review, if digital currencies are as Lakshmi Coin then the general public can be spurred to cause financial backers to adjust progressively which will in turn clear away towards fast advancement in the utilization of Cryptocurrency.

Research Paper titled "An Analysis of Cryptocurrency, Bitcoin, and the Future" ^[3] it has been concluded that Cryptocurrency appears to move past the early reception stage of innovations experience. Indeed, even engine vehicles encountered this peculiarity. Bitcoin has started to cut itself a specialty market, which could help advance cryptocurrencies further into becoming mainstream; or be the fundamental driver of its causing short. Cryptocurrencies are still in their outset, and it is hard to check whether they will at any point track down evident mainstream presence in world business sectors.

Cryptocurrency Meaning

"Cryptocurrency" is one of the most widely used terms globally. Internet sales are expanding with more Techno-Indian clients as E-Commerce becomes the most critical aspect. Bitcoin was created in late 2009 as a means of making internet transactions. Financial institutions helped to bridge the gap between buyer and seller. They processed E-Payments as a trusted third party. Even if the gap was effectively bridged, both the buyers and sellers trading activities depended on one another. This dependence becomes a driving force behind the creation of Cryptocurrency.

Mining of Cryptocurrency ^[4]

With the cost of Bitcoin going up, the inquiry that rings a bell: where do cryptocurrencies come from? Monetary standards are really 'mined' by diggers. The least complex

method for pondering it is to think about gold diggers. They are chipping away at mining gold from the earth. At the point when it is mined, it enters the economy. Cryptographic money is thoughtfully something very similar.

Mining is the interaction by which new monetary standards are brought into the course, yet it is additionally a fundamental part of the upkeep and advancement of the blockchain record. Completed with exceptionally progressed PCs tackle staggeringly complex computational numerical questions. The diggers are paid as mining is fastidious, costly, and inconsistently fulfilling.

Reasons for Popularity of Cryptocurrency ^[5]

There are various factors responsible for the popularity of the cryptocurrency in this global era; some are given as follows-

- Because central banks diminish the value of money, cryptocurrency frees them from managing the money supply.
- Block-chain Cryptocurrency is more secure than traditional payment systems, and it has seen substantial growth over the years, attracting investors.
- Countless organizations don't acknowledge advanced monetary forms because the expense is low. Sending cash or making instalments with digital currency would be more practical and speedier. It won't utilize a delegate, which naturally reduces the expense.

Whether Investment in Cryptocurrency is Good Investment or Not?

Various cryptocurrencies, such as Bitcoin and Ethereum, have experienced significant growth. However, because bitcoin does not generate cash flow like other currencies, many investors see it as speculation rather than a legitimate investment. Some investors who believe cryptocurrencies will be the future money should remember that currency must be stable for merchants and customers to set a fair price for goods.

Regulation of Cryptocurrency in the World ^[6]

- **USA:** The United States has a significant number of investors and blockchain companies. For the asset type, there is no such regulatory framework. Cryptocurrency is classified as a security by the Securities and Exchange Commission (SEC), a commodity by the Commodity Futures Trading Commission (CFTC), and a currency by the Treasury. In the United States, cryptocurrency exchanges are subject to the Bank Secrecy Act (BSA) and must register with the Financial Crimes Enforcement Network (FCEN) (Fin-CEN). They must also follow anti-money laundering (AML) and counter-terrorist financing (CFT) regulations. Cryptocurrencies are classified as property by the Internal Revenue Service (IRS) for federal income tax reasons.
- **United Kingdom:** Cryptocurrency is considered property in the United Kingdom but not legal tender. Cryptocurrency exchanges must register with the Financial Conduct Authority (FCA) in the United Kingdom and are prohibited from trading crypto derivatives. Cryptocurrency-specific KYC, anti-money laundering (AML), and countering the regulatory body has adopted the financing of terrorism (CFT) procedures. Investors must still pay capital gains tax on

crypto trading profits in general; taxability is determined by the transactions' activities and the parties involved.

- **Australia:** Cryptocurrencies are the legal property in Australia, making them liable to capital gains tax. Exchanges are permitted to operate in Australia as long as they register with the Australian Transaction Reports and Analysis Centre (AUSTRAC) and meet stringent anti-money laundering and counter-terrorist financing (AML/CTF) requirements. The Australian Securities and Investments Commission (ASIC) set regulatory regulations for initial coin offerings (ICOs) in 2019 and prohibited exchanges from issuing privacy coins.

Legality of Cryptocurrency in India

In the recent budget announced by the union government, the finance minister announced a 30% tax on income gains; this decision was considered a virtual legal sanction to cryptocurrencies in India ^[7]. The Finance Minister also proposed levying TDS on payments made in connection with the transfer of virtual digital assets at a rate of 1% of such consideration beyond a monetary threshold. It has also been recommended that gifts of virtual digital assets be taxed in the recipient's hands. It is worth mentioning here while delivering the budget speech and even in the press conference Finance minister didn't term cryptocurrency as currency but used digital assets. We have tax policies in our country for every asset. This budget announcement essentially ended the uncertainty over the future of cryptocurrency in India. It has been claimed in the budget speech that there has been a phenomenal increase in the transaction in virtual digital assets. The magnitude and frequency of these transactions have made it imperative to provide for a specific tax regime. The FM also announced in the budget speech that RBI would introduce its digital currency in 2021.

Banning of Cryptocurrency & Regulation of Official Digital Currency Bill, 2019 (Old Bill - 2019)

On November 02, 2017, the IMC was established to concentrate on the issues connected with virtual monetary standards and make moves accordingly. On February 28, 2019, IMC presented its detailed report to the public authority alongside the Proposed Bill. The Proposed Bill includes 27 sections delineated under eight sections and six sections. Other than this, the Old Bill likewise contains a sum of 3 schedules. The Old Bill characterized 'cryptocurrency' as any data, code, number, or token not essential for actual computerized money produced through cryptographic means. The said data, code, number, or receipt ought to give an automated portrayal of significant worth, which can be traded regardless of thought and acknowledged in any business movement as a store of significant worth or unit of record.

The old bill planned to put a sweeping prohibition on managing, taking care of, giving cryptocurrency-related administrations or straightforwardly or by implication involving cryptographic forms of money in India. Section 3 of the Old Bill expressed that no individual will mine, create, hold, sell, bargain in, issue, move, discard, or use cryptocurrency in India aside from the motivation behind investigation or exploration. The Old Bill likewise suggested presenting an administration-supported cryptocurrency, i.e., 'Advanced Rupee,' as a legitimate

delicate. Further, the Old Bill conceived that the RBI might perceive any authority unfamiliar with advanced money as foreign cash in India. The most extraordinary discipline created under the Old Bill was as long as ten years of detainment or a fine up to INR 50 crores.

The Cryptocurrency and Regulation of Official Digital Currency Bill, 2021 (New Bill - 2021) ^[8]

The New Bill'2021 has been acquainted with a point with making a facilitative system for production of the authority advanced money to be given by the Reserve Bank of India. The Bill additionally looks to forbid all private digital forms of money in India; nonetheless, it considers certain exemptions for advancing the fundamental innovation of cryptocurrency and its purposes.

Making computerized money gives enormous advantages, such as decreased reliance on cash, higher value because of lower exchange costs, and diminished repayment risk. The new automatic cash would likewise prompt a more vigorous, proficient, trusted, managed, and legitimate delicate instalment choice. The aim of the public authority has moved before from by and large forbidding to controlling something similar. It could be all around deduced that the crypto business is anticipating a positive guideline that might allow putting and exchanging crypto with specific limitations. Be that as it may, the Indian government recorded this new bill to be postponed in the colder time of year meeting of the Parliament, yet no development has not occurred.

Countries That Banned Cryptocurrency ^[9]

China: According to different Chinese government offices, raising money and exchanging stages, for example, crypto exchanges are restricted in China. All underlying coin contributions in China are additionally unlawful and precluded. No regulation or guideline denies Chinese individuals from holding or carrying on with work in cryptocurrencies. Consequently, the boycott proposed by the Indian government will probably be more significant than that forced by China.

Bangladesh: In 2017, the Central Bank of Bangladesh responded that cryptocurrencies are illicit in Bangladesh. Exchanges with cryptocurrencies disregard existing guidelines on foreign trade, tax evasion, and fear-based oppressor funding.

Common Challenges Associated With Cryptocurrency ^[10]

Most digital currencies figured out how to set up a good foundation for themselves on the monetary market because they guarantee that they'll remain free from it. The straightforward economy is what we all crave; however, up to this point, digital currencies didn't exactly figure out how to arrive at the significant standards that were set in the good old days.

Everything boils down to the cryptocurrency you are exchanging and the trade you are working with. Each of them varies in approaches, terms, and instalment techniques. It is a direct result of this that numerous brokers are confronting misfortunes that were guaranteed to be a memory of the old monetary world yet are available in the crypto one.

1. **Security:** Similarly, as with most things that occur on the Internet, perhaps the leading issue crypto brokers are confronting is, no ifs, ands or buts, security. Not that there isn't any, most trades are hoping to offer a top-of-the-line security bundle, yet there can never be enough. You likely caught wind of various programmer assaults, and security penetrates left many individuals engaged with digital currencies with void pockets of hard-procured crypto. For this reason, greater security is expected to safeguard information and resources the same. The innovation progressed a lot to offer the most extreme security, yet programmers pursue directions and develop simultaneously. The gamble is brought together in many trades, making them inclined to digital assaults. Perhaps the maximum-security most clients are searching for can be found in a more decentralized approach. On the off chance that you worked with funds on the Internet, you know how significant security is.
2. **Transparency:** It isn't feasible to become influential in crypto. Most ICOs become penniless in the initial not many long stretches of carrying on with work. However, even starting coin offers that don't have an objective of being in the business are fully intent on misleading clients. You can never be excessively cautious along these lines, and it is an absolute necessity to request straightforwardness. We express this by having as a primary concern that you'll observe many trades swearing-in decentralization while being held in possession of the 20 most excellent wallets. There are 16 recorded instances of this incident since the origin of crypto. The Crypto circle is becoming increasingly more like a customary economy. Practically all negotiations and substantiations are finished at the hands of several power merchants. For the most part, their work depends on marketing strategies that, generally speaking, coincidentally or purposelessly can misdirect new investors and brokers.
3. **Credibility:** Exchanging Bitcoin and other cryptocurrencies have the objective of bringing in cash, and if you do it carefully, it tends to be finished. That's the issue; no matter your actual goal and time putting resources into the crypto exchange, you can turn into a casualty of a trick. Whenever there's an Initial Coin Offer, numerous financial backers will run to make their offers and begin exchanging. Yet, some of these ICOs can be a trick even with focusing. Indeed, even exchanges can be tricked, so you can never be too cautious regarding new coins available, paying little heed to how great the deal looks. Merchants should know and hope to help out exchanges that are solid and exhaustive in exploring new coins available before

delivering them.

Recent Judicial Pronouncements Regarding Cryptocurrency

With the advancement and increasing popularity of virtual cryptocurrency among the masses, our judicial institutions are coming up with various rulings and judgments to regulate the functioning of cryptocurrency, and some of those are as follows:

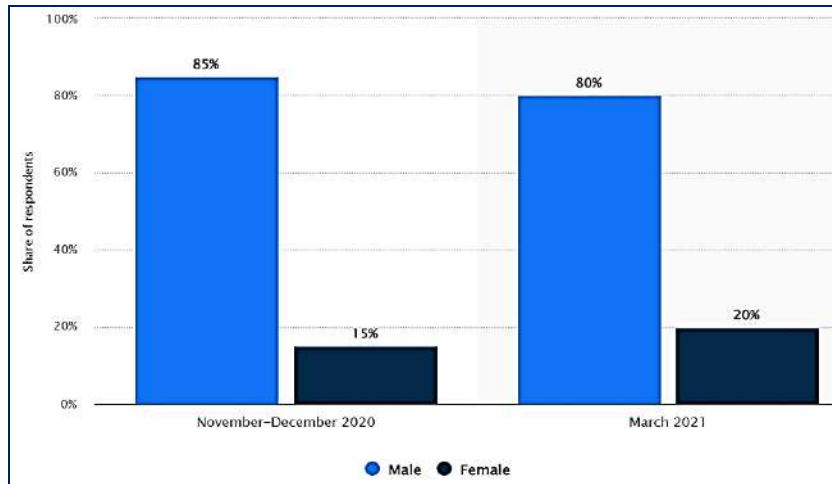
Supreme Court on Cryptocurrency: The Supreme Court struck down a roundabout of the Reserve Bank of India, which forbids monetary establishments from empowering bargains in computerized or cryptographic forms of money. The boycott that came into force in April 2018 disabled the Indian cryptocurrency industry. This ban was tested by the Internet and Mobile Association of India (IAMA) in the Supreme Court; the IAMA argued that managing and exchanging cryptocurrency was a genuine business activity. The RBI didn't have a purview over it as these resources could be delegated items instead of cash. The judgment holds that while the RBI could observe and manage virtual monetary standards, the forbiddance was inordinate since it removed the help of, in any case, authentic exchange. It additionally holds the RBI showed no damage to its controlled elements because they worked with virtual cash exchange or any imperfections in the working of virtual money trades.

Delhi High Court Issued Notice on Plea against Crypto Ban: ^[11] while paying attention to the request, the Division Bench of Justice DN Patel and Justice Jyoti Singh looked for reactions from the Ministry of Information and Broadcasting, SEBI, and crypto resources organizations like M/s Wazir X M/s CoinDCX and M/s CoinSwitch Kuber over its promoting. The court has requested that the organizations discharge a clarification. The Delhi HC scheduled a further hearing regarding this situation for August.

The Petition was documented by two rehearsing legal advisors, Ayush Shukla and Vikash Kumar, who looked for heading to SEBI to give rules commanding that disclaimer text cover 80% of the screen. It likewise requested a voiceover be perused sluggishly and not speed-read like standard practice. The appeal asked that the perusing endure five seconds against general media promotions run by crypto-resource trades.

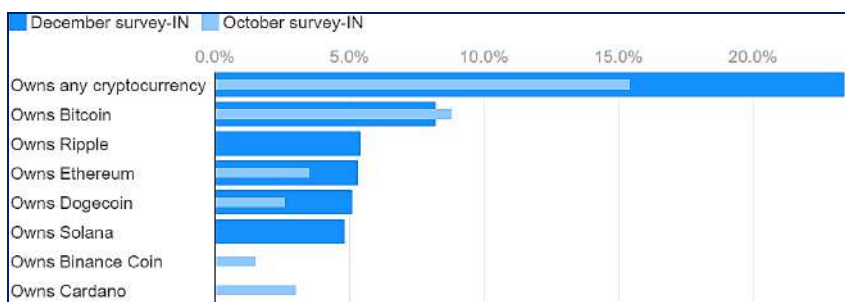
Stats Related to Cryptocurrency in India ^[12]

It is pertinent to note here that stats portray a better picture of trends of any study associated; hence few trends regarding the cryptocurrencies are as below;



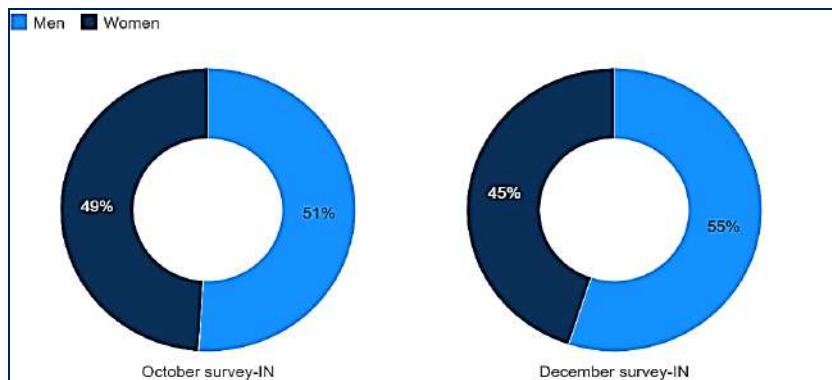
Source: <https://www.statista.com/statistics/report-content/statistic/1223466>

Fig 1: Share of men and women among the customer base of crypto currency exchange Coin DCX who own a crypto currency in India in 2020 and 2021



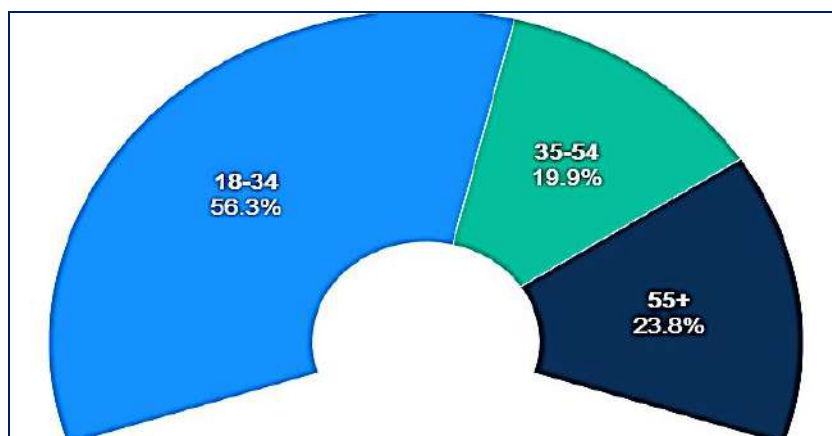
Source: Finder Cryptocurrency Adoption Index - finder India

Fig 2: Crypto ownership in India: October 2021 vs December 2021



Source: Finder Cryptocurrency Adoption Index - finder India

Fig 3: Crypto ownership in India by Gender: October 2021 vs December 2021



Source: Finder Cryptocurrency Adoption Index - Finder India

Fig 4: Crypto Ownership: By Age Group

Conclusion

In contrast to conventional speculations, virtual monetary standards have no cap on variances. They can be affected by the littlest of things and are highly unpredictable. However, it has not neglected to draw in financial backers from across the globe and give a hefty profit from its ventures. Nations worldwide are stressed that this may be another lie that would cause residents to lose a lot of their funds. Governments are continually attempting to direct the circle so the market can be balanced out, and there are legitimate signs of market development.

Cryptocurrency standards were acquainted with the expectation of having a decentralized cash framework that isn't constrained by the banks, financial foundations, or the legislatures, yet on the off chance that nations across the globe choose to control this money framework, which could antagonistically affect the very reason behind presenting virtual monetary standards. Likewise, it could lose its decentralized nature with national banks wanting to give their virtual economic forms. Subsequently, Governments all over the planet should cautiously consider these inquiries before achieving any regulation. They need to make the framework steadier for the residents so they don't lose cash yet additionally simultaneously not exorbitantly meddle or control the exercises of the market.

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