Get real on cryptos

What is the issue?

- Crypto currencies are becoming highly speculative. Ignoring the unregulated trade happening on domestic crypto currency platforms is not a good idea.

Why crypto currencies should be considered risky?

- It has been a torrid time since November 2021 for investors in private crypto currencies such as bitcoin.
- Their values have fallen by more than 50% from the peak.
- The US Federal Reserve is expected to hike interest rate for the first time since the beginning of the pandemic and ends its monthly fund infusions.
- So, the slide is expected to intensify this year.
- A large wave of new investors had begun to trade using crypto currencies in unregulated platforms in India.
- They had been lured by the eight-fold appreciation in the value of bitcoin and other cryptocurrencies since early 2020.
- But the ongoing crash has wiped out almost half the gains in just two months.
- Many of the new investors who bought these assets last year would be staring at losses now.
- Hence these are highly speculative instruments with no underlying value, purely driven by demand.

Why it should be regulated?

- Since the platforms are not registered with any regulator, their activities and actions go unmonitored
- They don't function with uniform rules either.
- A complete ban on domestic crypto-trading is also not a viable option.
- It will only push traders to shift to overseas platforms.
- Soon the Centre has to decide on its policy towards cryptos.

What can be done?

- It will be best if the private cryptocurrencies such as bitcoin, litecoin, etc., are recognised as high-risk assets and their trading is brought under the supervision of a regulator.
- Gains made through the trading should be taxed at double the capital gains tax rate on direct equity instruments.
- Given the extremely risky and volatile nature of this investment, it is best that smaller investors are deterred from investing in them.

What will be the benefits?

- There are multiple benefits in this solution.
- One, investor interest will be protected since only trustworthy entities will be allowed to operate exchanges based on rules framed by the regulator.
- Two, details about the investors buying and selling private cryptos can be accessed by the government and the Reserve Bank of India.
- Three, the exchequer will also earn revenue from these assets.
- Once the KYC is aligned with the Prevention of Money Laundering Act the Enforcement Directorate can also maintain strict vigil on large value transactions on these platforms.
- This will prevent money laundering or terror financing.

Why there is a need for global consensus?

- Implement uniform rules for regulating private cryptocurrency trades and its use in cross-border payments.
- Since the cryptocurrency miners and traders are scattered across the globe and are mostly unregulated, unilateral ban or control by any one country will not suffice to control their misuse.

Reference

1. https://www.thehindubusinessline.com/opinion/crypto-regulation/article64937840.ece