



THE NEW MONEY CHALLENGE

India should leverage its G20 presidency to push for crypto currency regulation

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ON MONDAY, FOUNDER of the collapsed crypto exchange FTX, Sam Bankman-Fried, was arrested in the Bahamas. FTX crashed almost overnight after failing to meet a run on deposits, throwing the crypto industry into its latest crisis. Earlier, in October, Singapore-based Chainalysis published the third edition of the Global Crypto Adoption Index, in which India ranked fourth. The Index ranks countries on five sub-indices, each weighted by their purchasing power parity per capita, thus favouring countries where the amount of cryptocurrency trading is more crucial based on the wealth of the average person. India's performance, therefore, is significant in light of its low per capita purchasing power.

The need of the hour is to introduce regulation commensurate with this level of crypto adoption and to protect the markets from such episodes.

Currently in India, the regulations govern three aspects of crypto-related activities. First, in 2021, RBI necessitated banks and regulated entities to carry out due diligence in line with KYC norms, and establish standards on anti-money laundering and combating financing terrorism. Second, Budget 2022-23 introduced a 30 per cent tax on income from the transfer of any virtual digital asset, without allowing for set-off of losses. Third, the Advertising Standards Council of India released guidelines in February that directed that advertisements in the sector should carry a disclaimer stating the risk of loss from such transactions with no regulatory recourse.

However, there is a lack of independent prudential regulations and robust consumer protection for crypto assets. For this, India can

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seek guidance from legal frameworks proposed by the Financial Stability Board (FSB), an international standard-setting body established by the G20, and the EU and Singapore.

The FSB released a framework on regulation, supervision and oversight of crypto assets and markets for public consultation in October. It made nine recommendations broadly covering regulations in line with the principle of "same activity, same risk and same regulation", governance and risk management proportionate to risk and complexity, adequate disclosures, and framework for data collection, recording and reporting. FSB also recommended addressing financial instability and systemic risks arising out of spillovers from interconnections between the crypto asset ecosystem and wider financial market.

The EU's major crypto-related legislation titled "Markets in Crypto Assets Regulations (MiCA)" is pending the EU Parliament's approval and is expected to come into effect in 2024. MiCA seeks to govern issuance, intermediation and trading in crypto assets to preserve financial stability, and prevent market abuse while protecting investors. MiCA introduces licences for crypto assets issuers and service providers, calls for disclosures of the environmental impact of crypto assets, ensures traceability of crypto asset transfers, requires maintaining liquidity to meet investors' redemption requests and places liability of loss of assets on service providers.

The Monetary Authority of Singapore in October released a consultation paper on the Proposed Regulatory Measures for Digital Payment Token (DPT) Services dealing with

mitigating associated risks of cryptocurrency trading. The proposal introduces provisions on consumer protection including, disclosing relevant risks; undertaking a risk awareness assessment of consumers; and restricting incentives that can unduly influence the decision of retail consumers. The business conduct provisions address conflicts of interest arising from multiple roles performed by DPT providers and require them to establish grievance redressal processes. The proposal attempts to mitigate technological risks with a requirement to maintain the high availability and recoverability of critical systems.

In India, the RBI Concept note on Central Bank Digital Currency (CBDC) has presented the digital rupee as a replacement for cryptocurrencies. However, Indian crypto firms have criticised this and argued that cryptocurrencies and CBDC can co-exist.

Even if the RBI's proposition is considered valid, CBDCs are still at a pilot stage. Meanwhile, the uptake of cryptocurrency in India remains high. India has called for international cooperation on the regulation of private virtual currencies and hinted at crypto regulation as a "working priority" at the G20. In the backdrop of the country assuming the G20 Presidency and the FSB's proposed framework, a comprehensive crypto regulation framework should be of critical importance to India. It should be at the forefront of voicing the concerns of the Global South, particularly those related to capital flight issues.

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