



LEGALITY OF THE BIT COINS: NEW MEDIUM OF EXCHANGE IN INDIAN MARKET

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1. INTRODUCTION:

Milton Friedman, has prophesized of an era when the internet world will evolve out a new currency. Commerce on the Internet has come to rely almost exclusively on financial institutions serving as trusted third parties to process electronic payments. While the system works well enough for most transactions, it still suffers from the inherent weaknesses of the trust based model.

To analyse the interchangeable roles between the Virtual Currency, Digital Currency and Crypto Currency which is precise but difficult are: Virtual Currencies were first defined by the European Central Bank in 2012 as a type of unregulated, digital money which is issued and controlled by the its developers and used and accepted among a specific virtual community. Whereas Digital currency is a form of virtual currency which are electronically created and stored, lastly, Crypto currency are the subset of the digital currencies which has cryptography for its security which makes it difficult and nearly impossible to counterfeit.

Most of the currencies over the world used for transactions, including the reserve currencies, are called as Fiat Currencies. The term 'Fiat Currencies' refers to currencies that are issued by a government, and the government promises to pay the holder of such currencies an equivalent amount in gold, if needed. While fiat currencies are those which are issued by the government of the state, crypto currencies are not issued by any state or government but by the private entities. They are independent in their functions and are not governed by any entity. Another aspect of differentiation lies in the centralised nature of the fiat currencies. Cryptocurrencies being independent of the same are hence called as decentralised currencies. These currencies have a central regulatory body which issues them, and are consequently called 'Centralized'. The contemporary state can make anything it chooses as acceptable currency, without any further backing of any kind, even without a connection with gold. The volatility and speculative nature of crypto currencies indicates a new diversification across the different platforms of the world market.

Crypto comes from the word cryptograph, the security process used to protect transaction that send the lines of code out of purchases. Cryptography also controls the creation of new 'Coins', the term used to describe the specific amounts of codes. The government has no control over the creation of the crypto currencies, which is what initially made so popular. The medium of exchange with crypto currencies are far more seamless and secure as compared to the traditional means of trade. They have optimum features with regard to security comes with the technology that is used in them. One of the most important features that it offers is the close to zero transaction fees. This is possible with the 'peer to peer' (P2P) transaction process which is nothing but taking the intermediaries out of the picture. Cryptocurrencies have wallets which are known as the addresses of the users. The transactions takes place between addresses which are encrypted with digital signatures from both ends. The whole process of transaction between two addresses without the inclusion of third parties or intermediaries is called "peer to peer transaction".

A crypto currency is a medium of exchange that uses cryptography to manage the creation of new units as well as secure the transactions. These are a subset of digital currencies. Many people do-not believe in government currency but are believer in gold and silver. Now a new gen of investors have grown who have started believing in Crypto currencies. They are formed to take the power out the hand of the government and central bank and put in the hands of the people.

2. HISTORY OF CRYPTO CURRENCIES:

The digital currency which is a new medium of exchange and has been hitting hard in the market since 2009 is the "Crypto currencies". It is form of digital currencies which carries encryption with in itself, facilitating the process of generating units of currencies through the methods of buying, selling and exchange techniques. Crypto currencies are a vicinity of sensitive, fiscal, numismatic and venture interest, and yet, the understanding of the theory and foundation is left wanting among many. As in simple language, Crypto currencies are like computer codes that a monetary value. With the recent developments of digital currency investors are trying to plan to invest in this new set of assets. Crypto currencies started leveraging a disruptive technology called as block chain. It is a new currency which uses cryptography for its security. Block chain deals

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with the ways in which data is structured and invites the existence of decentralised digital registry where single organisation are not able to effect transaction. The most accepted crypto currencies that is use to power the Ethereum block chain are Bit coins and Ether.

3. WHAT IS BIT COIN?

The main idea of electronic payment system is based on the cryptographic proof instead of trust allowing any interested two parties to transact directly with each other without any form of entrusted third party. Bit coins are considered to be the first decentralised digital currency ever invent. No one knows the exact inventor of this 'Bit Coin' but it was designed for maximum anonymity. In 2009, Satoshi Nakamoto; a name used by an unknown developer from whom the Bit Coins have first appeared and all of a sudden vanished keeping a suspense about its developer and keeping behind a Bit Coin Fortune. The administration belonging to no state makes it unique with its peer to peer operations and management. The current market capitalization of BIT Coins is over \$30 Billion USD by 2017 end.

The main idea of formation of the Bit coins is to eliminate the financial institutions or the entrusted third-party entities. Bitcoin is the oldest and popular cryptocurrency network. Bitcoins behaves like a real currency except the fact that it is virtual. It is used for purchasing and availing services through online transaction. Bitcoin is a digital currency, an investment, an asset and a stock. Bitcoins are the version of electronic cash which allow direct online transaction from one party to another party. Bitcoin or cryptocurrency are mostly popular for its anonymity and secrecy it provides. BTC is the shorthand used for bitcoins (like INR and USD). The Bitcoin doesn't need a bank visit, an account, no documentation and especially no ID proof, it also doesn't even need anyone real name or gender. As per Nakamoto 2008 Bitcoins eliminate the possibility of fraud, increasing the efficiency and providing objective proof of work to guarantee validity and security in any forms of transactions.

The transactions in the case of bitcoins are carried out in P2P (Peer to peer) format which is different from the traditional means as the intermediary is absent. This puts forward the concept of borderless transactions as they call it, since cross border transactions are as seamless. The verification is carried out by nodes and the information of the transaction is noted in the public ledger called as the Block Chain. Being a completely digital based currency, it has no physical existence and needs to be fully connected for operation. The crypto graphic algorithms make sure there are low chances of data theft and avoids any kind of regulation imposed by any state or authority.

Users make use of the buying and selling of bitcoins in order to make money out of it. This is carried out by using several third party apps and digital currency wallets which can be accessed from smartphones or computers. For security reasons, there are consensus rules that guard the automatic wiring of currencies and multiple wiring in one transaction. A strict clause for security with regard to their digital signature has been maintained so that the exchange procedure becomes safe as well. The use of a public ledgers as well as digital signatures allows a secure and anonymous transaction without the need of trust, as the public network of nodes validating transactions through finding a result in the a number of nodes. So, the primary idea of bit coins is increasing efficiency and eliminating the time and costs that arrives from using number of 3rd parties to facilitate transactions.

3.1 How are Bit coins created?

Founded by Satoshi Nakamoto, similar to gold, bitcoins are created via the process called mining. Though virtual, there are limited number of bitcoins that can be mined and the number is 21 min, out of which 17 min have already been mined. Bit coins are a new financial system designed for the people by the people and theoretically everyone has equal power. People control their own money and the rules of the Bit coin system enforced by each other through mutual distrust.

Before we understand the mining process, we need to know what Block chain is. Block chain is the public ledger of all the transactions that have ever taken place in the bitcoin network. New transactions are added in batches called "block" roughly every 10 minutes, hence, block chain.

To be a miner, one needs a computer and a mining software like GUI Miner, which uses computer's resources to perform complex mathematical calculations. If they succeed in solving their math problem, they get to create a new block and receive a certain number of bitcoins as reward, known as "the block reward". And lo and behold, you have just created a bitcoin.

3.2 How does the Bit Coin work?

Since nobody knows the network or the origin of Bit coins, no person, institute or governmental organisations guarantee on such currencies. In Bit coin mining, thousands of competitors race to solve a mathematically complex repetitive problems. If an individual solves then he / she is entitled to add a block to the bitcoin global transaction and gets 25 or more bitcoins as rewards. Originally, the bits coins are considered to be known as "People's Currency" and the computing power will be de centralised and all would have equal chance to solve bitcoin problems named as Hash Function. But instead of average computer user try to mine Bit coins here, realm of people & groups invested tons on dedicated machinery just to solve hash functions.

Bitcoins are completely virtual coins designed to be self-contained for their value, with no need for banks to move and store the money. Bit coins has a completely different model, its security is guaranteed by cryptographic algorithm, SHA [Secure Hash Algorithm] instead of being approved by the government or governments. They are just like nuggets of gold in our

pocket and possess trade and value. We can either save them for future with a hope that its value will increase over years just like we invest in gold, or use them to buy goods and services online. Using a bitcoin wallet is as simple as using a Gmail, except that bitcoin addresses can be used only once. We have to start by installing bitcoin wallet either on our phone or computer. Then generate our first bitcoin address, we can create more whenever we need more. We can disclose our first bitcoin address to our friends so they we can pay them or vice versa.

4. WHERE CAN I GET BIT COINS IN INDIA?

Obtaining bitcoins in India has been through unclassified sources since its existence in the Indian market. However, there are a few self-proclaimed trusted websites that allow the purchase and exchange of bitcoins on their platform. Pocket Bits, brainchild of Sohail Merchant has been one of the few websites that still function after the ban on the websites for grounds relating to tax evasion. The usage being simple, uses two digital wallets namely the pocket bits wallet and the INR wallet which helps the user buy and sell bitcoins seamlessly. Another prominent name in the websites is Unocoin that uses cryptocurrency as a medium of exchange on its platform. This makes the usage of bitcoins vast and opens up more scopes for its future developments as well.

There are over twelve million bitcoins in circulations which work and according to the statistics from the current crypto algorithms the count can reach up to twenty one million bitcoins and the complexity will last till the year 2140. The primary ways to get access to bitcoins is categorised under 3 parts as:

4.1 Directly mining them.

Buying the same from third party renderers or exchange them with INR or other cryptocurrencies.

Using them as a standard of trade and accepting it for services and products.

The last one is the part where the entire process of bitcoin usage has been halted since not all the fields have taken this up uniformly. Though, there are certain fields like the gaming industry who have already started taking up bitcoins as a standard means of trade. The bitcoin digital wallet serves as an address to the user and the transactions are carried out between the addresses. This has a specified signature which prevents data loss, multiple transfer and unwanted funds leakage, making it absolutely safe from fraudulent activities.

Most of the sustaining bitcoin purchasing and exchange websites take up the KYC norms very seriously since there are no such law governing them. Note that there are no physical places to obtain bitcoins since every bit of it is digitally produced and run.

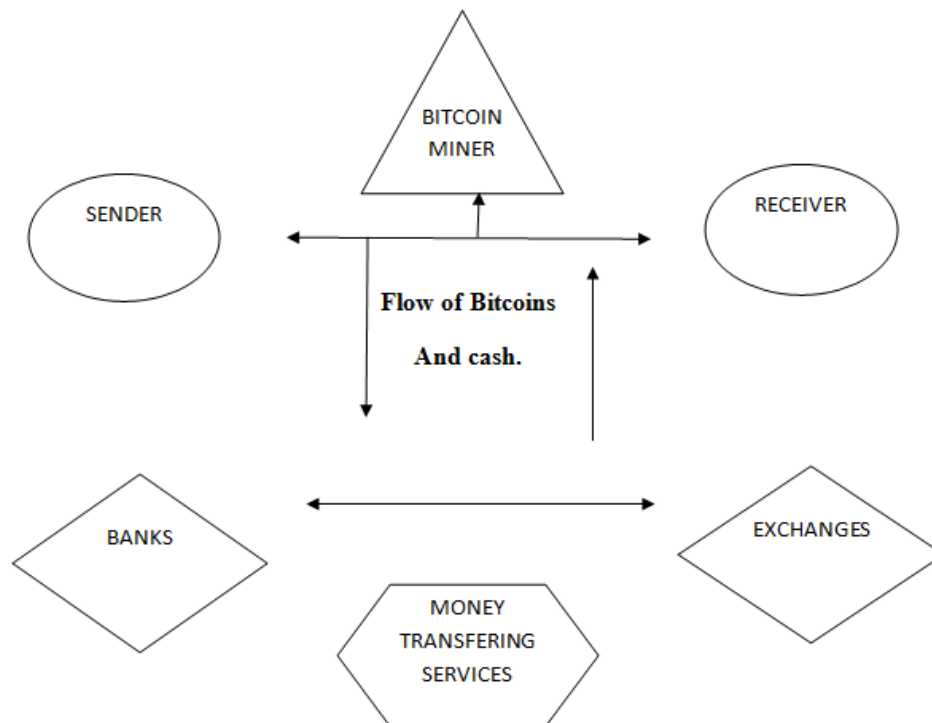


Fig. 1: The money transferring services are kept out of the loop since peer to peer (P2P) transactions are promoted. This diagram represents the process in which cryptocurrency i.e. Bitcoins can be used as a standard means of transaction. The currency is decentralised and is not governed by any specific entity or individual. The most important aspect being, that the third parties like banks and financial institutions are kept out of the loop. The money transferring services charge a hefty amount of money as transaction charges which is not there in the case of bitcoins.

In India, Zebpay exchange provides a platform to sell Bit coins, it has the smart way of transferring money directly to the bank accounts of the individuals. As per Sandeep Goenka CEO Zebpay "Indians are enquiring more about bit coins as an alternative and safe investment options". As per the Zebpay it has added near about 200,000 users every month and with a trade volume of 20 Billion INR. During Demonetisation 2016 valuation of Bit Coins was Rs. 52,000 on Unocoin and Zebpay. Google search data shows that term 'BIT COINS' was at that peak during the time of note ban in India. Experts says the demand of the largest and oldest crypto currency is high as it is untraceable by any security agency and doesn't require physical storage were it can be raided.

4.1 Legality of Bit Coins in India?

Regarding the legality of bitcoins in India, we can say that currently the bitcoins in India are in NO MAN'S LAND. At present situation there is no rules and regulation for the governing, creation, trade and usage of the virtual coins like Bit Coins in India. Bitcoin has not been recognized as a legal tender or a currency by the Govt. of India and RBI. RBI has prohibited all the banks and financial institutions to deal or settle in virtual currencies which can lead to hacking and malware attack etc. However, not accepting bitcoins as a legal tender, does not make it illegal. The only difference it would make is that we cannot use the bitcoins to settle transactions nor would receive any assistance from banks or financial institutions.

In 2013 issued press release on digital currencies like Bit coins, Lit coins, Bbq coins, Doge coins it is not a mode of authorised transaction as stated by the Central Banking Body and the Authorised authorities. Again, in 2017, RBI warned against any form of crypto- currencies such as Bit Coins as they pose Legal, financial and security related risks. As there is no established framework for the customers problems based on this situation the mode of transaction is done on peer-to-peer basis and for which the legal status is not there at all. The absence of information of the counterparts of the peer-to-peer system could subject the user for money laundering or financing terrorism.

KYC norms as provided by RBI to monitor transactions made by the customers which is not possible in Bitcoins as the transactions are anonymous in nature, for which it becomes difficult to drag it under the current laws. The Reserve Bank of India has norms related to 'Know Your Customer' which makes it mandatory for financial services to be updated with the record of the users. This makes it difficult for the bitcoins to sustain since anonymity is one of its prime features. However, this issues is closely addressed by third party cryptocurrency renderers which monitor the activity of the users and also keep the record. Cross Border or Borderless transfer of funds being the most important aspect of crypto currencies makes bitcoin a perfect currency to be the money of the future. This brings light to the FEMA regulations since all the cross border funds transfers are regulated by it. Transactions with regard to bitcoins can only be interpreted as it is since there is no specific law providing aid to it. The interpretation of this would not hinder anything in the process of using bitcoins for trades in India. However the regulations can be further monitored internally by the Reserve Bank of India. The sale, however to a non-resident with regards to bit coins would violate the regulations of FEMA, 1999. But the taxation over bitcoins would be complicated but not difficult to regulate. The fact that there can be taxation over transfers as well as mining of bitcoins would put forward difficulty in categorisation. It is unsure whether bitcoins would be put under the head of income or capital. However, this would shoot India to global fame if it becomes part of our economy. This would also allow the users to integrate bitcoins in UPI applications since the transaction fees vested in cryptocurrencies is close to zero.

Till date, no law, act or legislation has defined bitcoins or its regulation in India, nor do bitcoins come under the purview of the existing Coinage Act, 2011, Securities Contracts (Regulation) Act, 1956, Foreign Exchange Management Act (FEMA), Payment and Settlement Systems Act, 2007. Individuals or financial institutions dealing in bitcoins have to deal at their own risk. Despite of being discouraged by the Govt. there are a number of Institutions in India dealing in Bitcoins. "Coin Recoil" has filed a petition in Delhi High Court against the RBI, Ministry of Finance and GST council, challenging the RBI circular which had asked banks not to provide any services related to bitcoins. Hence, bitcoins are to be traded, but at our own risk. RBI is examining risk associated with the usage, trading and holding of the virtual currencies under the extant legal framework of India.

5. FUTURE OF BIT COINS?

Today cryptocurrencies have become a global phenomenon and is known to most people but still considered as unfashionable and social inept and not understood by people, financial institute, government and companies.

The early adopters of may hesitate to use this system as the initial round is always filled with risk. But if we use bitcoins as a payment system we can use them to pay anywhere and everywhere instead of using money and this will enable the worldwide transaction to be very fast and more convenient. So it can be considered as a substitute for the money. In future the public may embrace use of bitcoins as this will give an improved technology and independent investment phase.

But in reality nobody can predict the future of cryptocurrency, but if we could then it will be easier. At the same the value of bitcoins can change rapidly and unexpectedly and thus makes the prediction much more difficult.

6. CONCLUSION:

The standard form of currency has been almost the same since many years with only minor upgrades taking place. However, with cryptocurrencies this can be a total disruption of how the transactions take place. Irrespective of the complexities vested along with it, there are a numerous benefits tagged along as well. Borderless transactions help overcome the primary issue of

the currencies available. With exchange rates, high transactional fees and other factors like government involvement being present, bitcoins would change the scenario completely. Apart from that, bitcoins are secure with all the cutting edge technology involved in their operation and creation. They are independently operated without any specific entity having control over them. Being cost effective in various different ways, it also cuts down the issue faced with rate of exchange that makes it a true competitor for being the money of the future. India being a growing economy has a lot of scope for bitcoins and its usage. Although, the Indian laws do not have anything to govern cryptocurrencies if anything goes wrong, it can be formed over the course of time. The existing laws have made sure that bitcoins do not disrupt the Indian economy. Summing up all the features and opportunities offered by bitcoins, it does have the potential to be the future of money and standard mode of transaction in the Indian market.

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