# RBI Clamps down on Crypto-currencies

## What is the issue?

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- RBI has recently directed all agencies regulated by it to stop doing any business with persons (or entities) dealing with Virtual Currencies (VC).
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- Notably, the government and the RBI had already been flagging the inherent risks in dealing with crypto-currencies.
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## What are the directions issued?

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- In what is by far the most direct action taken thus far, the Indian central bank issued a circular to clamp the proliferation of crypto-currencies.
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- The RBI circular mandates the stoppage of all services to those dealing in VCs, with regard to their purchase or sale of crypto-currencies.
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- This covers - maintaining accounts, registering, trading, settling, clearing, giving loans against virtual tokens, and accepting VCs as collateral.
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- In addition, the RBI stipulated a three month time from the date of the circular to exit any such relationship they might already be in.
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## Why was such an action taken?

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- The RBI and the government have repeatedly issued warnings to people dealing in crypto-currencies as the there are inherent financial risks.
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- The Finance Ministry even referring to them as “Ponzi schemes” in which investors stand to lose all their money.
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- The fear among policymakers is that crypto-currencies, being an alternative to fiat currency, could be misused to launder black money or finance terrorism.
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- RBI is also said to have constituted a committee to look into the merits and demerits of it issuing a Rupee backed digital currency.
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- Hence, some see that the current crackdown is ring-fencing of non-state crypto-currencies as a first step to make way for RBI’s virtual currency.
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### How have various crypto-dealers reacted?

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- Several crypto-currency exchanges have said that though harsh, the RBI’s stance does not explicitly outlaw trade in crypto-currencies in India.
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- They believe that this move only segregates crypto-currencies from fiat ones.
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- Nevertheless, writ petitions challenging the RBI’s order have already been filed on the grounds that it violates Article 19 of the Constitution.
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### Quick Fact:

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### Ponzi Scam

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- This is an investment bubble, which is beneficial for investors till a tip off point is reached, when the bubble crashes and results in huge losses for investors.
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- Here, investments (shares, bonds, property etc…) are sold to interested investors and they earn by reselling these for higher prices.
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- In this model, value of investments increases only due to the availability of newer willing investors in the market.
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- As there is no real revenue generation from the investments, once the new investors are exhausted, then the prices of investments crash.
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**Source: The Hindu**

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