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SEBI's Concerns around Crypto Assets

What is the issue?

The SEBI has reportedly told the Parliamentary Standing Committee on Finance that regulation of crypto assets would be difficult given the nature of technology that sustains them.

What are crypto assets?

- Crypto assets are purely digital assets that use public ledgers over the internet to prove ownership.
- They use cryptography, peer-to-peer networks and a distributed ledger technology (DLT) such as blockchain to create, verify and secure transactions.
- It encompasses cryptocurrencies, non-currency tokens such as utility tokens and non-fungible tokens among others.
- Crypto assets generally operate independently of a central bank, central authority or government.
- Functions- They may be used as a medium of exchange, a way to store value or for other business purposes.

What are SEBI's concerns around crypto assets?

- **Need for different regulators-** SEBI has elaborated upon the possible need for different regulators to deal with different aspects of a crypto asset market.
- **Interest of consumers-** SEBI has suggested that the Consumer Protection Act of 2019 be invoked to make sure the interests of subscribers or customers of crypto assets are safeguarded.
- **Classification of cryptos-** It has also sought clarity on whether cryptocurrencies can be legally classified as securities which is currently not.
- SEBI has said that crypto assets are not part of the definition of what constitutes as securities under the Securities Contracts (Regulation) Act of 1956.
- **Celebrity endorsements-** It has proposed that celebrities should not be allowed to endorse cryptocurrencies.
- It was also mentioned in that report that they must be held responsible for making any endorsement of crypto products.

What did the RBI tell the committee?

- RBI has told the committee that since almost all cryptocurrencies are dollar-denominated and issued by foreign private entities, it can lead to dollarisation of a part of the economy.
- This will be against the country's sovereign interest.

- The term “dollarisation” means that one country officially adopting the currency of another for all financial transactions, except perhaps the need for coins.

What has been the stance of the government?

- A Bill that was sought to be introduced last year signalled the government’s intention to ban cryptocurrencies outright.
- The idea that the administration doesn’t consider cryptocurrencies desirable started as statements in the Budget but then an inter-ministerial report recommended an outright ban.
- The cryptocurrencies are considered problematic as they can easily evade official scrutiny, bypass and weaken the monetary system, and fuel illegal trade.
- Also, an RBI circular sought to bar banks from dealing in such currencies but later the [Supreme Court struck](#) it down.
- Earlier this year Finance Minister Nirmala Sitharaman imposed a [tax for the first time on crypto assets](#) but legislative clarity is still awaited.
- The Sinha-led committee has in recent months been holding extensive conversations with the financial regulators, who report to Parliament.

References

1. <https://www.thehindu.com/business/Economy/explained-what-are-sebis-concerns-around-crypto-assets/article6551762ece?homepage=true>
2. <https://www.fcnb.ca/en/investing/high-risk-investments/crypto-assets-and-cryptocurrency#:~:text=Crypto%20assets%20are%20purely%20digital,create%2C%20verify%20and%20secure%20transactions.>



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