

Traders should be wary of dealing in cryptocurrencies

The sharp growth in the value of crypto currencies such as Ethereum and Bitcoin has caught the imagination of media and business entities. According to Wikipedia, a crypto currency is a “digital asset designed to work as a medium of exchange wherein individual coin ownership records are stored in a ledger existing in a form of a computerized database.” Since the beginning of 2021, the value of Ethereum has risen 400%, while that of bitcoin has grown 100%.

What is more interesting is that these digital currencies are viewed as a more cost-effective means for cross-border payment and settlement, compared to the conventional currencies, issued by the national central banks. This is because a cryptocurrency can be transferred from one digital wallet to another wallet compared to the transfer of a conventional currency, which involves banks and other intermediaries. According to a report by the World Economic Forum, cryptocurrencies are popular means of remitting money across borders among workers and families through local cryptocurrency exchanges. The report points out that cryptocurrencies are most popular in Nigeria, Vietnam, Philippines and Turkey.

Prohibitive Rule in India

At the same time, legal experts caution Indian exporters and importers from dealing in cryptocurrencies for settlement of their cross-border payment because of prohibitive rules of the Reserve Bank of India. Under the extant export regulation of RBI, an Indian resident can deal with only fiat currencies for cross border payment that too only through an authorized banking channel.

In India, bitcoin has not gained legal backing from the government or the monetary authority. For instance, Reserve Bank of India has not notified bitcoin or any other cryptocurrency in the list of the term “Currency” as defined under Sec. 2(h) of Foreign Exchange Management Act, 1999. Under this section, the term “Currency” includes all currency notes, postal notes, postal orders, money orders, cheques, drafts, travelers cheques, letters of credit, bills of exchange and promissory notes, credit cards or such other similar instruments, as may be notified by RBI.

Similarly, there may be limited takers for bitcoin or any other digital currency in international transaction because of its dubious legal sanctity. Also, the high volatility of digital currencies such as Ethereum and Bitcoin exposes the holder of these currencies to undue exchange rate risk for which there are limited options to hedge.

Notifications

PIB

Report on Connected Commerce

<https://pib.gov.in/PressReleaseDetail.aspx?PRID=1717538>

Production of horticulture has grown 14% since 2014–15

<https://pib.gov.in/PressReleaseDetail.aspx?PRID=1717447>

CBIC

Continuation of anti-dumping duty on imports of Seamless tubes, pipes and related products

<https://www.cbic.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2021/cs-add2021/csadd29-2021.pdf>

DGFT

Registration requirement for import of electronic integrated circuits

<https://content.dgft.gov.in/Website/dgftprod/3d0f7d70-c45c-4b90-bf3d-514968411693/Noti%20%20Eng%20Date%2010-05-2021.pdf>

Extension of validity of registration cum membership certificate

<https://content.dgft.gov.in/Website/dgftprod/13851a54-de6e-45f7-924a-97b274ef0277/TN%2004%20dt%2010-05-2021.pdf>

Issuance of Export Authorisation for Restricted Items (Non-SCOMET) from new online

<https://content.dgft.gov.in/Website/dgftprod/b1cc5368-72c8-422f-bef4-1fb6c626ef75/Trade%20Notice%20No.%203%20Export%20Cell.pdf>