

Multi Commodity Exchange of India Ltd

Comments/Suggestions for the Existing Virtual Currencies Framework

We propose that Bitcoin be **accepted** as legal financial instrument in India and the regulations be governed under a separate 'Virtual Currency Act'. The adoption of virtual currency should be encouraged in India since Blockchain technologies are now considered to be the future of electronic financial transactions. A very strong impetus to legalize virtual currency is its potential to drastically reduce corruption, shrink transaction costs and eliminate third party involvement.

To **ensure consumer protection**, companies who wish to deal with Bitcoin must be subjected to stringent regulation to ensure that the virtual currencies are not being used for criminal purposes. Currently in Japan, a company wishing to use Bitcoins is required to have at least \$100,000 in reserve currency, report their activities to the government regularly and undergo routine audits by the National Tax Agency. Meanwhile in Philippines, Bitcoin is largely used for remittances and payments with transaction volumes reaching up to US\$6 million per month for certain major players and therefore Bitcoin companies are treated as remittance companies. That means that all requirements for remittance companies such as registration, minimum capital, internal controls, regulatory reports, and compliance with know-your-customer (KYC) and anti-money laundering (AML) policies applies to Bitcoin startups in Philippines.

Although counterfeiting of Bitcoin is not supposedly possible, extra caution should be improvised and special cyber law be drafted under Ministry of Information and Technology to protect against security breaches on the Bitcoin network. The following are some notable breaches in the past:

1. In 2013, about 850,000 Bitcoin valued at over \$400 million were stolen by hackers in a service attack against the most popular Bitcoin exchange Mt. Gox, following which they declared bankruptcy.
2. In April 3, 2013, Instawallet, a web-based wallet provider, was hacked, resulting in the theft of over 35,000 Bitcoins.

To promote orderly development of VCs we propose the following measures:

1. Allowing Bitcoin exchanges to operate in India. These companies perform KYC checks and can follow anti-money laundering provisions and suspicious transaction reporting.
2. Encourage Financial Institutions, government bodies and Tech companies to use blockchain technologies.
3. Allow e-commerce companies and to accept Bitcoin as a mode of payment

Finally institution(s) like the Indian Revenue Service , Ministry of Information and Technology and Reserve Bank of India should be allowed to should monitor/ regulate the VCs.

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