Regulatory Challenges in Cryptocurrency: An India Perspective

S. Rangapriya
Research Scholar
International School of Management Excellence
Research Centre, Affiliated to University of Mysore

Dr. Madhavi Lokhande
Research Supervisor
International School of Management Excellence
Research Centre, Affiliated to University of Mysore

Abstract
Cryptocurrencies are emerging as a prominent investment avenue among investors, they have been in the limelight in recent times due to ongoing debate on the regulation of these assets. Governing bodies across the world are facing the dilemma of acknowledging and regulating these instruments. This paper traces the current regulatory framework across the world and identifies the India specific challenges in regulating cryptocurrency. Some of the key challenges that the regulatory authorities face concerning crypto assets are: classifying cryptos as a mere asset class due to their complex features and intended purpose of creating an alternate means for barter, financial transactions and investments; decentralised nature of the assets which complicates levying of laws; money laundering, terrorist financing is rampant with digital currencies; cryptocurrency has been able to radically democratize the ability of start-ups to raise funds, regulation should continue to empower small businesses to borrow from a wide variety of funding community but monitor and curb activities which are not conducive for the business ecosystem.

This paper ascertains the key challenges in regulating cryptocurrency by studying various documents, reports, journals across nations, aligning the challenges with an Indian context and tracing the changes in regulatory norms concerning crypto assets over the past decade, to assess the future of cryptocurrencies in India. This study is particularly important due to the lower rate of financial literacy, the constraints within which regulatory authorities continue to operate and the unique financial ecosystem of India. This bird’s eye view of regulatory norms and the existing challenges will enable regulators to build a framework that is conducive for growth and aligns with the existing financial ecosystem.

Keywords: Cryptocurrency, Regulation, Digital Assets, Virtual Assets, DeFi

Introduction
Cryptocurrency is one of the most prominent disruptive financial innovations which intends to redefine the existing financial setup. It is different from the traditional asset classes in more than one way – it offers the benefit of lower transaction costs, decentralised/virtual storage, immediate settlement, low chances of theft/
fraudulent transactions, equitable access and universal uniform valuation (Zameni & Alam, 2021). Cryptocurrencies, albeit their ability to generate abnormal returns and conduct transactions within a watertight, decentralised framework, continue to elude the regulators and market participants alike due to their inability to provide a comprehensive understanding of the theories, risks and the ecosystem in which they operate. The evolution of the cryptocurrency market has not only been erratic but has also been at an unprecedented speed (Chohan, 2017). This phenomenon is likely to be the subject for substantial enquiry by regulatory bodies, academicians and industry participants, in the coming years.

Cryptocurrency is a digital asset designed as a medium for financial transactions, which are carried out upon the technology platform enabled by blockchain, it provides a secured flow of transactions, the creation of this instrument is capped and controlled based on certain protocols. The protocols are based on the theory of solving encryption algorithms to enable the creation of unique blocks or hashes, which are finite in number (DeVries, 2016). There are over 8000 cryptocurrencies as of December 2021, the first cryptocurrency to be launched was Bitcoin in the year 2009, which continues to enjoy immense popularity. Bitcoin’s hard limit is adjudged at 21 million coins of this, 18.7 million has already been mined. Over the past decade, Bitcoin has emerged as the most profitable asset by surpassing the returns generated by other assets by at least a factor of 10 in many instances. Every Bitcoin mined is associated with a unique key that remains non-replicable, a transaction is considered to have occurred when one bitcoin moves from one place to another in the digital blocks. These transactions are recorded on a public database which provides equitable access for everyone. The database is powered by blockchain technology, the database resembles a continuous chain of blocks and hence, the name (Nakamoto, 2008) (Coin Telegraph, 2021) (Investing.com, 2021). These digital currencies are driven by economic dynamics, there is no intervention by the Government or regulatory authorities to moderate the value of these currencies (Dwyer, 2014). Many nations have started recognising cryptocurrency as a valid means to conduct financial transactions, while it has been elevated to the status of a legal alternate to fiat currency in a few nations, other countries remain sceptical about the risks inherent in these instruments. The volatility of cryptocurrency is quite high, there is evidence of laundering and their usage to fund terrorism / illegal activities (Bunjaku, Gjorgieva-Trajkovska, & Miteva-Kacarski, 2017). Despite these controversies surrounding crypto assets, there are some advantages of this avenue.

Hedge against inflation: The fiat currency is vulnerable to macroeconomic factors, especially inflation. The value of currency erodes with the rise in inflation, cryptocurrency comes with a hard limit on the number of coins that can be mined, this ensures that demand sustains and increases the value of cryptocurrency. Gold has been the traditional hedge against inflation, over the years, cryptocurrency has been christened ‘digital gold’, it is fast emerging as an asset class that offers a unique diversification to the portfolio (Conlon, Corbet, & McGee, 2021).

Secure and decentralised transactions: The transactions are stored in a public ledger that remains accessible to the market participants. The price fluctuations are purely based on the demand-supply dynamics. These features of cryptocurrency ensure that the asset remains secure and stable. Crypto transactions are lodged in blockchain ledgers, they are based on complex algorithms and public/private unique keys which are difficult to decode. Blockchain technology offers better security as compared to all other forms of digital transactions. It uses pseudonyms that conceal the real identity of the user, account, the transactions conducted by the user are interconnected using unique keys. These systems operate on decentralised networks; there is no requirement of a centralised server, there is no single point of failure. The public blockchain is inherently transparent, high on integrity and resilient (Treleaven, Brown, & Yang, 2017) (Alfa, Alhassan, Olaniyi, & Olalere, 2020).
Low processing fee and flexibility: It is possible to acquire cryptocurrency with any fiat currency, these assets also allow the exchange of one crypto asset with another, it can be easily exchanged with counterparty across borders. The elimination of intermediaries including an entity like a bank ensures that the transaction costs are minimal as compared to financial transactions using fiat currency. Given the fewer barriers to cross, the transactions are executed within a short period (Derrick, 2020).

**Review of Current Regulatory Efforts Towards Cryptocurrency Across the World**

A review conducted across 54 articles published in reputed journals revealed among 5 themes, regulation was the most popular theme with over 33% of the articles dedicated to this topic. Germany, US and Japan have been pioneers in streamlining the regulatory effort to include cryptocurrency within their tax regimen. There have been selective bans and penalties on cryptocurrencies in many countries due to their increasing popularity and use in illicit transactions (Adeleke, et al., 2019) (Afzal & Asif, 2019).

**European Union Members**

Among EU members Belgium, Cyprus, Croatia, Denmark, Greece, Hungary, Sweden do not recognise these virtual currencies as legal tender and have no firm regulatory policy surrounding cryptocurrency/digital assets. Many of them have officially issued a warning against the indulgence of users in transactions involving crypto assets due to their extreme volatility and the probability of losing funds. Although Bulgaria, Ireland, Poland, Finland and Romania do not encourage trade in digital assets, the tax authorities issued the notification that individuals trading in crypto assets will be subject to taxes on gains similar to the sale of other financial assets. The French Government is actively moving towards adopting a regulatory approach towards blockchain technology and crypto-assets. France has become one of the few jurisdictions which neutralise the tax effects on gains from digital assets, they no longer qualify as a taxable event. The virtual currency was actively added within the scope of anti-money laundering (AML) legislation in France (Vauplane & Charpiat, 2019). Many other EU nations followed suit, such as Estonia, Latvia, the Netherlands that extended their AML law to include any activities which involve illicit transactions conducted involving crypto / digital assets. Luxembourg, Malta has been more welcoming about these virtual currencies, they see the growth of these alternate currencies in a more positive light. They are in the early stages of regulating these currencies, they continue to warn the public about the risks involved in transacting in these currencies. The German Federal Financial Supervisory Authority identifies digital assets or cryptocurrencies as financial instruments. They are subject to financial legislation as applicable, the German Federal MoF (Ministry of Finance) published the specific guidelines of VAT (Value Added Tax) treatment of digital or virtual currencies. The use of cryptocurrencies towards payment is allowed and is not taxable, these currencies are treated on par with the fiat currency. The German Government recognises the potential of blockchain technology and intends to implement it in German Stock exchanges, the performance of blockchain technology will be assessed in terms of executing securities settlement transactions and transfers between banks. The Austrian MoF recognises crypto assets as commodities for income tax purposes. These virtual currencies and the corresponding platforms are not entirely regulated by FMA (Financial Market Authority) and there are continuous warnings issued in the public interest on the volatility and lack of regulation in these asset classes. The UK (United Kingdom) does not have laws that govern cryptocurrencies, however, the Bank of England recognises the need for regulation of these assets to combat illegal activities, promote integrity and stability of the financial system, safeguard the interests of the market participants and stakeholders (Afzal & Asif, 2019) (Global Legal Research Directorate, 2018).
Non-European Union Members

Zug, popularly known as ‘crypto valley’ is a small town in Switzerland that has embraced cryptocurrency in the most comprehensive manner. It operates with over 20 virtual crypto companies and about 16 bitcoin ATMs, the utility bills and taxes are paid using these virtual currencies. The FINMA (Financial Market Supervisory Authority) is in the process of extending licenses to businesses to enable the regulation of digital assets in Switzerland. This is indicative of how virtual currency can transform into a parallel currency within the economy and operate alongside fiat currency. Cryptocurrencies in Switzerland are considered as foreign currency and buy/sell transactions of this currency are taxable accordingly (Jackson, 2018). Norway issued warnings against the use of cryptocurrencies, however, does not prohibit the use of them within ethical guidelines. The Norwegian Tax regulatory body considers gains from these assets in line with the capital gains and is exempt from VAT (value-added tax) (Kravchenko, 2019).

Nations like Albania, Armenia, Azerbaijan, Kosovo, Moldova, Montenegro, Serbia, Ukraine, Jordan, Morocco, Ghana, Kenya, Namibia, South Africa, Zambia and Zimbabwe recognise the risks related to these virtual assets and the limitations of the existing legal and regulatory framework, hence continue to warn the public regarding indulgence in these high-risk assets, they are, however, not banned or prohibited in these provinces. Jersey has extended its AML regulation to cover virtual currencies, with a few exceptions, businesses in the money service trade involving digital currencies are required to register with Jersey Financial Services Commission and comply with AML and counter-terrorism regulatory obligations. Jersey has been a pioneer in embracing fintech, it recognised cryptocurrency as a separate asset class long before the onset of the rush around ICOs (Initial Coin Offerings). The island has seen a surge in the number of exchanges, tokens; it is also the talent hub of blockchain technology. They have developed a sophisticated regulatory regime that focuses on the economic purpose of the crypto asset proposed to be issued, their ability to be traded and their transferability (Olsen, 2020). Bosnia and Herzegovina, Georgia do not recognize virtual currencies as legal tender, however, does not restrict the exchange or trade of cryptocurrencies. Belarus endorses the development of a digital economy, it permits the purchase, sale, exchange and mining of cryptocurrencies. However, the exchange of crypto assets against fiat currency has to be approved by the National Bank. The income generated from virtual currencies are exempt from taxes up to 2023, they are subject to self-regulation, hence, there is no centralised regulation that has been established. They are a part of High Technologies Park (HTP) that fall within the Special Economic zone, which enjoys tax – breaks. Belarusians who reside in HTP are allowed to legally launch ICOs, buy/sell tokens and hold coins in wallets (Charltons Quantum, 2018) (Freeman Law, 2017). Gibraltar introduced regulations to govern Distributed Ledger Technology (DLT) and ICO. It has consistently focussed on refining the regulatory norms concerning virtual currencies, the firms/individuals dealing with digital currencies are required to acquire a license from the Gibraltar Financial Services Commission. It has approved 14 crypto and blockchain companies under its licensing scheme, it also has plans to launch an enclave that could potentially become the world’s first crypto-hub (Makortoff, 2021). In contrast, some of the members like Iran, Iraq, Egypt, Algeria, Bahrain, Saudi Arabia, Qatar, UAE have prohibited the use of crypto assets within their borders, any transaction conducted involving digital assets is considered a violation of existing law and hence, will be a punishable offence. The members who implement Islamic Law have a religious order that commercial transactions with digital currencies are haram (prohibited). Kuwait MoF created its infrastructure for issuance of e-currency, which is regulated by Kuwait’s MoF, this e-currency enjoys the status of fiat currency, unlike other virtual currencies which are not considered legal fiat to conduct commercial transactions (Global Legal Research Directorate, 2018).
America

Many of the countries in America such as Argentina, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Honduras do not recognise virtual currency as legal tender and hence, are not regulated. Those indulging in transactions involving these assets are doing so at their own risk, most of these countries have expanded their AML law to encompass digital assets. Bolivia prohibits the use of digital currency, while Belize, Brazil does not have any regulatory regimen to administer cryptocurrencies and continue to warn citizens about the perils of transacting in high-risk assets such as digital currencies. In contrast, El Salvador is the first country to accept Bitcoin as legal tender, it now allows acceptance of cryptocurrency for all products and services. The Government encourages the use of cryptocurrency and intends to install 200 Bitcoin ATMs, it hopes that the adoption of cryptocurrency can help in better penetration of banking services among its populace and increase economic activity as transacting in cryptocurrency requires only internet-enabled devices. A Bitcoin City is being planned at the base of the volcano to leverage the geothermal energy to power the mining activity (Dogra, 2021) (BBC, 2021). Bermuda is in the process of establishing regulations for virtual and digital assets to channelize their development for the betterment of their economy and curtail illicit transactions. The Government introduced the DABA (Digital Asset Business Act, 2018 which promulgates the regulatory norms and licensing requirements of digital asset businesses/transactions. No tax implications arise from the sale of digital assets, however, the AML and anti-terrorist financing (ATF) have been modified to be included in DABA to ensure that they expressly apply to the digital currency business. Canada has a liberated regime concerning digital currencies, they are allowed for commercial purposes, they can be used like fiat currency across physical and online outlets which allow settlement of transactions using cryptocurrencies. The Currency Act applies to digital currency transactions, they are subject to Income tax laws as applicable for currency transactions. To counter the possibility of usage of crypto assets for illegal transactions, they have been brought under the purview of the AML Act. The Canadian Government is one of the earliest countries to chalk out the regulations for ICOs and ITOs, crypto funds, exchanges and blockchain technologies ETFs. The Canadian Government intends to leverage Blockchain Technology to integrate its current foreign exchange and securities to enable seamless transactions and high-security levels. Mexico allows the use of virtual currency for online transactions, they are subject to AML laws and are regulated by Mexico’s Central Bank. These virtual assets are, however, not considered on par with legal fiat and are hence, not backed by the Government. Venezuela has created its virtual currency called Petro which is backed by Venezuelan oil and other precious commodities, they are issued by the Government and are regulated under the Civil Code. The other virtual assets are neither recognized nor regulated by the Government.

Blockchain technology has garnered a lot of attention and many Federal agencies across the USA have acknowledged that the technology can become an integral part of the US’s tech infrastructure and acknowledged the need for the USA to stay ahead of the curve in terms of tech innovation. New York, recently eased restrictions of virtual currencies and now issues BitLicense which will allow the cryptocurrency companies to operate within the realm of this license, this is seen as an attempt to lure back the companies which made an exit from New York to States which were more conducive for conducting digital asset businesses (Cryptopedia, 2021) (Lipton, Livni, & Smialek, 2021). Ohio, in the US, has become the first state to start accepting cryptocurrency as taxes, Oklahoma authorizes the use of Cryptocurrency as legal tender for transactions within the Government agencies. On the contrary, more than 10 states including Iowa, Hawaii, Maryland have issued warnings in the public interest against investment in cryptocurrencies citing their high volatility and probability of loss of capital (Dewey, 2021) (Global Legal Research Directorate, 2018). The regimen across the USA
varies significantly, with some States being open to technological advancements and others being wary of these assets where the uncertainties are still unknown. However, most of the States are aware of the perils attached to these digital assets and thus, the AML act encompasses these digital assets as well.

Asia

Provinces of Central Asia (Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan) do not recognize virtual assets as legal tender. They continue to issue warnings to the public about the risks involved in digital asset transactions, however, they have not undertaken any measures to prohibit the trading of virtual currencies. Bangladesh, Nepal, Pakistan, Brunei, Indonesia, Vietnam do not recognize cryptocurrency as fiat currency and are not regulated under any of the laws of the land, it does not encourage its citizens to engage in digital asset transactions/businesses. Indulging in virtual currencies is considered a punishable offence (Berg, Guadamillas, Natarajan, & Sarkar, 2020). While the Philippines does not recognise these assets as fiat currency and are not regulated, they are not prohibited from being used as a conduit for certain financial services, any entities indulging in transactions involving virtual currencies are required to gain authorization from the Philippines Central Bank. The Philippines proposes to bring cryptocurrencies under the purview of the Philippines stock exchange and regulate these assets as other financial securities are regulated, Vietnam plans to run its pilot program for cryptocurrencies for a well-planned induction into the existing financial system. Both these countries are open to developing a conducive regulatory framework for the inclusion of crypto assets as part of their mainstream asset classes (Business Insider, 2021) (Roxas-Rivera & Tamase, 2018). Australia published the tax treatment of crypto / digital assets and gains from these assets are considered capital gains. The digital assets have also been brought under the realm of AML and ATF, further, the Australian Securities and Investment Commission (ASIC) clearly states that transacting in digital assets are subject to high risks and that they are not regulated/backed by Government. However, in a recent development, Australia is considering the creation of licensing framework to make crypto exchanges accessible to participants, it is also considering launching a home-grown central bank digital currency. This is likely to be the biggest payment reform undertaken by the Australian Government in over two decades (Jose & Kaye, 2021). As per the Chinese Central Bank, all activities involving cryptocurrencies are considered illegal and hence, are strictly prohibited. The prohibition was put in place after a deep study of the digital currency and a consequent conclusion that the risks outweigh the benefits for an economy like that of China (Xin, 2021). Japan regulates the business activities of Cryptocurrencies, the businesses which are registered under the Payment Services Act are allowed to operate cryptocurrency exchange businesses. The crypto assets are also brought under the AML Act to ensure that the illicit activities of these asset classes are monitored (Kawai, Nagase, & Tan, 2021). Malaysia allows transacting in digital assets only if it is carried out on an approved DAX platform. Pursuant to Covid-19, which emphasised the need to provide consumers with digital experiences, instant and continuous banking services, the Central Bank of Malaysia has recognised the potential of Blockchain Technology, thereby adopting them in various business sphere.

However, cryptocurrency does not enjoy the status of being a legal tender, they are considered securities and are subject to Malaysia’s securities laws (Shairi, 2021) (D’Cruz & Surin, 2021). Thailand and New Zealand do not recognise Cryptocurrency as legal tender, the public is forewarned about these high-risk speculative assets. Although virtual currency is not regulated in New Zealand, it does not ban transactions, it in fact encourages usage of New Zealand based trading channels which offer at least a minimum level of protection (Financial Markets Authority, 2021) (Gkritsi, 2021). Singapore’s Monetary Authority (MAS) regulates activities of cryptocurrencies and ICOs, this regulatory ambit
also ensures AML and ATF (Anti-Terrorist Financing) are adhered to, it is also mandatory to obtain a license to conduct crypto-related business. Singapore continues to express interest in the development of crypto activities and intends to become the hub of digital securities. Depending on the nature of gains generated by trading in digital assets, they are categorised as either revenue or capital and subject to taxes or otherwise as applicable under the IRAS’ e-tax Guide for Income Tax treatment of digital tokens (Teo, 2021) (Parashar, 2021) (Ang, Yap, Shergill, & Kwek, 2019).

South Korea legitimised the business activities involving cryptocurrencies, their new law now provides guidance and regulates virtual asset service providers, all crypto providers are required to be registered with Korean regulators to initiate activities of digital assets. The income from these assets are considered to be either capital gains or miscellaneous income and are taxed accordingly (Shanaev, Sharma, Ghimire, & Shuraeva, 2020).

Indian Government does not recognise cryptocurrency as legal tender and the Reserve Bank of India continues to warn individuals about the perils of these high–risk assets. There have been repeated attempts by RBI to ban all forms of crypto assets, the cryptocurrency bill which is yet to be tabled for approval proposes to facilitate a framework for digital currency issued by RBI which will be held on par with fiat currency, the Government acknowledges the merits of Blockchain Technologies and proposes to extend the platform to other banking and securities transactions (Vishwakarma, Khan, & Jain, 2018) (The Hindu Business Line, 2021).

**Regulatory Challenges in Crypto Assets**

From the above review, it is apparent that the regulatory bodies specifically vary of the volatility and risk of the asset class, there have been literary evidence of crypto assets (Bitcoin) being market inefficient, the dynamics generating the prices and volatility in crypto assets are starkly different from those that of the other financial securities (F.Bariviera, 2017) (Urquhart, 2016). Regulatory authorities have to fend multiple challenges, the key issues which need to be tackled within the framework have been identified thus.

Definition of crypto assets: Classification of cryptos has become tough due to the complex structure of these instruments, they combine the characteristics of currencies, commodities, securities and their ability to become alternate financial systems enables them to have similar power as that of fiat currency. Regulating these assets will require amendment of many of the existing laws, further, based on the policy priorities of the particular regulation, the jurisdiction may define crypto assets in a manner such that it encompasses the asset within its existing realm. In the USA, from the perspective of AML/ATF regulation, the virtual currencies are considered to be ‘value’, however, from a taxation perspective, they are treated as “property”, from a futures and options trading perspective, the commodities futures trading commission classifies virtual assets as ‘commodities’ (Leckow, 2016).

Money laundering and financing of terrorism: While many nations have already undertaken the initiative to extend their current AML / ATF regime to include digital assets / virtual currencies, others are in the process of bringing virtual currencies within the current realm to keep a check on illicit usage of these assets. In India, eight crypto-fraud cases are being investigated by the enforcement directorate. It has been evidenced that cryptocurrency is relatively convenient for money laundering and financing terrorism due to its ability to protect the anonymity of the owner, this feature remains the key impediment for enforcement authorities to back-track these illicit transactions. Pseudo-anonymity makes it difficult to establish the identity of the person and their use of cryptocurrency in the current framework (The Hindu Business Line, 2021) (Dyntu & Dykyi, 2018).
Decentralised operations and cross-border transactions: The existing financial ecosystem runs on a centralised system, there is a clear demarcation of the transactions that fall within the purview of a particular jurisdiction. Legal entities have been amending existing laws to regulate transactions and currencies beyond borders. The decentralised operations and cross-border transactions do not align seamlessly with the current regulatory framework. Decentralised Finance (DeFi) is emerging as the intermediation in the virtual assets market for effective, automated protocols which facilitate seamless transactions with digital assets on blockchain technology. This ecosystem proposes to eliminate the intermediaries and build a self-regulated system, the intermediaries are the focal point of the traditional regulatory framework. In the current model, banks, financial intermediaries play a significant role in enabling uniform and stringent regulation. The structural set-up of DeFi leads to a concentration of power, which is against the grain of the existing regulatory framework; there is a need for governance that insists on some level of centralisation. The spread of DeFi could camouflage underlying financial fragility, that are inherent in the system, which could lead to severe financial crises (Whitby, 2021) (Crenshaw, 2021) (Nabilou, 2019).

Leveraging technology, regulating activities: The benefits of blockchain technology can be extended to multiple disciplines within the existing system, it could enable an optimised flow of transactions. There is a need to draw the line between the technology and the activities, the demarcation will lead to building a regulatory framework that will focus on controlling and monitoring the crypto-asset based activities. Enabling the technology to be accessible to a wider range of participants including public companies, regulated institutions could benefit the economy. Cryptocurrency has also been able to help start-ups raise funds, the regulators should also design a framework that enables the empowerment of these small businesses which may find it tough to raise funds through conventional means (Mølbjerg, Søgaard, & Kearney, 2020) (Valladares, 2021).

Future of Cryptocurrency in India
The future of cryptocurrency remains uncertain in India, the RBI remains unconvinced about the benefits of the inclusion of cryptocurrency as an asset class, let alone as an alternative payment system. The Government, however, remains positive about the impact of Blockchain Technology and proposes to extend the technology to other areas including banking transactions and securities management. The new bill to be tabled is likely to have severe limits on the activities of cryptocurrency, the reassurance by the finance ministry that there will be a ‘calibrated’ approach is the only sliver of hope that the industry seems to have at this point. Their probability of cryptocurrency being recognised as legal tender is almost non-existent, however, the authorities recognise that a complete blanket ban on cryptocurrency could be counter-productive. There is a humungous amount of wealth invested in Cryptocurrencies, by the criminalisation of crypto transactions, the existing crypto-exchanges will become illegal and may be driven underground, the existing chunk of wealth will be moved offshore. A concrete taxation framework may come into being to bring the transactions within the formal fold of the existing financial infrastructure. The RBI in the cryptocurrency bill proposes to introduce Central Bank Digital Currency (CBDC) or the digital rupee, this does not require a ban on other virtual currencies. These currencies will be built upon the blockchain technology and will be backed by a regulatory authority and will provide security and transparency, they are different from the cryptocurrencies as they will be controlled by central bodies, whereas crypto-assets are designed to decentralise the monetary system.

Conclusion
The growing popularity of cryptocurrencies and their evolution as an alternate asset class indicates the possibility of DeFi emerging as an alternate payment system. There is a need for a
collaborative effort by the international regulatory community to create a framework that addresses the challenges effectively. It is pertinent to build a regulatory framework that fosters the growth of technological innovation and keeps a check on the illicit activities being carried out with the existing crypto-ecosystem. Many Governments are already exploring the option of extending blockchain technology across other platforms, they have also extended the AML /ATF regulations to bring virtual assets within the formal fold to curb illicit activities. There is a lot more to be done and many of the current regimes may have to be redone as virtual assets continue to evolve. Although cryptocurrencies project severe threats to the stability of the existing financial system, it has the potential to optimise efficiency and build a comprehensive global financial system that harbours inclusiveness. Regulation should be such that it offers protection against potential risks, it should also be flexible enough to adapt to the evolving ecosystem of digital assets. The regulatory framework should draw an ideal balance between regulation and innovation, the focus should be to regulate the activities and not the technology.

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