A cryptocurrency is a form of currency that exists only digitally that does not have a central issuing or regulating authority. To prevent fraudulent transactions a decentralized system relies on the blockchain system to record and oversee transactions. Blockchain technology is a type of system used to record transactions, which makes it difficult to hack. Each block within the chain contains a variety of transactions, and each time a replacement transaction occurs on the block chain, a record of that transaction is added to each participant’s ledger.

Blockchain transactions are recorded with an unchanging cryptographic signature called a hash. To corrupt the blockchain, a hacker would have to change every block of a chain, which is constantly growing increasing the system security.

In the year 2008, Satoshi Nakamoto posted a paper called Bitcoin – A Peer to Peer Electronic Cash System to a discussion on cryptography, whose real identity remains a mystery. This gave birth to the rise of cryptocurrencies. 

There are currently over 2,200 different cryptocurrencies traded publicly, according to CoinMarketCap.com. The total value of all cryptocurrencies on June 6, 2019, was about $246 billion and the total value of all bitcoins was about $136 billion.

**Legal aspect**

After the supreme court scrapped the RBI report regarding the functioning of cryptocurrencies in India, the Indian government is inching towards banning the transactions in Cryptocurrencies with a new law, they believe that this would cause some threats and pave a new currency within the country. The companies dealing with cryptocurrencies are involved in keeping the investors hesitant to invest. Though the study shows belief in virtual currencies, a good legal and regulatory framework is required for investors to trust this form of currency in India.

**Cryptography in India**

In India, during recent years, the utilization of technology, including blockchain, to fuel financial transactions has increased significantly. Such improvement has not gone unnoticed by most regulators, for example, the Reserve Bank Of India ("RBI") (Indian Central Bank).

While the current government has boosted advancement to develop a computerized or cashless economy, cryptocurrency despite everything stays an outlier. The RBI considered the utilization of cryptocurrency in open markets around 2013 and has since reacted by advising clients, holders, and brokers of the utilization of "virtual money" while staying quiet on the legitimacy of its utilization, including in 2017. So also, different controllers, for example, the enforcement directorate and income tax department, have been quick in their activities to close down organizations related to cryptographic money by leading strikes under the appearance that the utilization of digital money was infringing upon outside trade and against illegal tax avoidance guidelines.

**ABSTRACT**

A cryptocurrency is a form of currency that exists only digitally that does not have a central issuing or regulating authority. To prevent fraudulent transactions a decentralized system relies on the blockchain system to record and oversee transactions. Blockchain technology is a type of system used to record transactions, which makes it difficult to hack. Each block within the chain contains a variety of transactions, and each time a replacement transaction occurs on the block chain, a record of that transaction is added to each participant’s ledger. Blockchain transactions are recorded with an unchanging cryptographic signature called a hash. To corrupt the blockchain, a hacker would have to change every block of a chain, which is constantly growing increasing the system security.

**KEYWORDS :** Cryptocurrency, Bitcoin (BTC), India, Legalisation, The Reserve Bank of India (RBI), Digitalisation.

**INTRODUCTION**

From 1998–2009 the creation of online currencies with ledgers secured by encryption like B-Money and Bit Gold were tried and formulated but never fully developed.

In the year 2008, Satoshi Nakamoto posted a paper called Bitcoin – A Peer to Peer Electronic Cash System to a discussion on cryptography, whose real identity remains a mystery. This gave birth to the rise of cryptocurrencies.

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**REVIEW OF LITERATURE**

Rahman and Dawood(2019) in their Bitcoin and Future of Cryptocurrency focused on cryptocurrency focused on cryptocurrency as an imaginative and technically advanced alternative for globalization. It examined the possibility of an alternative for processing payments across geographical boundaries and if regulated effectively cryptocurrency could remove a lot of the financial challenges faced in the present.

C.A. (Dr.) Pramod Kumar Pandey(2017) in his Bitcoin As Emerging Virtual Currency and Its Related Impact on India focused on the high returns and the high risk that comes along. He believed bitcoins aren’t mature and investing in bitcoins would be like jumping in a dark well without knowing the depth, since bitcoin is not backed by anything. One of the challenges to be faced would be to establish it as a currency or commodity. If this is established as a currency, probably RBI will play a leading role in its regulation, while if this is a commodity, SEBI will initiate regulations.

Komal Dhande (2017)in his Bitcoin and Its Prospects in India study focuses on the remarkable growth in the acceptance of cryptocurrencies but does not see it replacing paper currencies anytime soon. The problem is to structure it for the law enforcement agencies and users to ensure safety in transactions and the problems to determine a way to charge cryptocurrency tax. The high growth on bitcoins has attracted a lot of interest but the high amount of risk involved in keeping the investors hesitant to invest. Though the study shows belief in virtual currencies, a good legal and regulatory framework is required for investors to trust this form of currency in India.

Dr. Vijeta Banwari(2017) CRYPTOCURRENCY-SCOPE IN INDIA discusses the change in finance and the world of money. Cryptocurrencies have a huge risk factor but are increasingly popular and it will be difficult for the government to control the transaction. According to the Blockchain Foundation of India, (lobby of around 45 crypto dealers,) claimed that more than 30 new exchanges have applied for membership in the recent two months. (The Print, 2018). Blockchain has huge potential to improve the way data is stored. Despite the ban on cryptocurrency, the blockchain is adopted in various government organizations (Andhra Pradesh, Maharashtra, and so on). Over the counter, markets could come up in the future instead of routing transactions through banks.

Shailak Jaini (2018) in his The Growth of Cryptocurrency in India focuses on aspects such as the impact of cryptocurrencies in India and the opportunities that come along with it. It also talks about the various aspects of other countries and their rules and legislature revolving around the Introduction of cryptocurrencies.
Rahul J. Nikam (2018) in his Model draft regulation on Cryptocurrencies In India focuses on aspects of India to start taking a firm decision on cryptocurrency trading and regulate it and also speaks about how the RBI should be more open to the idea of cryptocurrencies and understand the value and opportunities that come with it.

Gunjan Jindal and Sheza Azeen (2018) in their Legal acceptance of bitcoin in India discuss how bitcoin plays a pivotal role in aggregating the growth percentage of the economy and how it would not be possible unless the government pushes towards making the transactions legal and implies its regulations on it.

Neil Shroff and Padma Venkataraman(2017) in their paper, endeavor to set out an administrative system for Blockchain Protocol Tokens, today known as ICO Tokens and Cryptocurrency. They are two expansive classes of tokens, further partitioned in 5 kinds dependent on their inclination, and dangers for the two controllers and purchasers. At that point, they proposed one of two administrative methodologies: exacting consistency with existing laws or boosted reception of rules, contingent upon the capacity and reason for the token concerned. We have looked to safeguard the expected motivation behind various ICO Tokens while setting consistent necessities, as per existing laws, including Securities Regulations, Tax Laws, Companies Law, and KYC standards ("KYC/AML/CFT").

M Trivedi (2018), in his project, discusses the Strengths, Weaknesses, Opportunities, and Threats of Cryptocurrency also, its extension in India. Cryptographic forms of money have been viewed as productive interests for a long time. On account of its different points of interest, ease of accessibility, No contribution of any middle person, Fast installments, Low exchange charges, and Information security. Be that as it may, Cryptographic forms of money additionally experience certain ill effects of certain shortcomings. The security of information and digital currency has been a significant concern.

Rehman and AK Dawood (2013) in their project say that due to the rapid development of information and communication technologies, many activities in our daily life have been merged online and they become more flexible and more effective. The massive growth in the amount of virtual users has activated virtual word concepts and created a new business phenomenon which is a cryptocurrency to facilitate financial activities such as buying, selling, and trading. Cryptocurrency represents important and intangible assets which are used electronically in different applications and networks such as online social networks, online social games, virtual worlds, and peer to peer networks. The use of virtual currency has become widespread in many different systems in recent years. This paper aims at matching the user’s expectations of the future of cryptocurrency.

AIM OF THIS RESEARCH

The authors of this project have written this paper intending to throw light on the legality of cryptocurrency in India and its positive and negative effects. During this project, we came across various takes on the matter and how it would not be possible unless the government pushes towards making the transactions legal and implies its regulations on it.

RESEARCH METHODOLOGY

For the purpose of this study, the authors have utilized secondary data. The data was collected by several articles, journals and websites including the official website of the RBI and Forbes. A descriptive study was employed for this study. To meet the aim of this research project, the authors have made use of qualitative data to study and analyse the impact legalising cryptocurrency in India has on its people and economy. A comparison was made with other nations and the ramifications they have seen. This research study was conducted in Bangalore, Karnataka, India during the period of June 2020 to August 2020. The demographic limitation of this study is India. The authors have tried to cover the research gap by analysing the secondary information collected.

ANALYSIS AND INTERPRETATION

The Working of Bitcoins

The simple definition would be Bitcoin is an advanced currency. That is an idea that may be more intricate than one understands: it isn’t just an allotted estimation of cash put away in an advanced record, similar to a bank account or a credit line. Bitcoin doesn’t have any relating physical Cryptogens, similar to coins or paper bills. The worth, confirmation, and validation of individual Bitcoins are given by a worldwide distributed system.

Bitcoins are blocks of super secure information that are considered as currency. Moving this information starting with one individual or spot then onto the next and checking the exchange, for example spending the money, requires computer power. Clients called "diggers" permit their frameworks to be utilized by the strategy to securely check the individual exchanges. Those users gain new Bitcoins for their contributions.

The Bitcoin network creates, checks, and verifies blocks of data that are communicated as proprietary currency.

Bitcoin and its numerous varieties/deductions are known as Cryptocurrencies. The framework utilizes cryptography - an incredibly progressed bookkeeping framework called a blockchain - to produce new coins and validate the ones that are executed starting with one individual then onto the next. The cryptographic arrangements fill numerous needs, making the exchanges basically difficult to copy, making banks or wallets of coins just moved as data, and checking the exchange of Bitcoin system starting with one individual then onto the next.

Bitcoins are frameworks created or mined. A traditional cash should be stamped or printed by an economy, the mining viewpoint is intended to make the framework self-supporting: people remove Bitcoins by giving handling power from their frameworks to the circulated organization, which produces new squares of information that contain the worldwide record of all things considered. The encoding and depending measure for these squares needs a gigantic measure of handling power, and the person who effectively creates the new square (or all the more precisely, the person whose framework produced the randomized number that the PC acknowledges as the new square) is remunerated with a specific number of Bitcoins, or with a specific measure of exchange expenses.

The very cycle of moving Bitcoins starting with one client then onto the next makes the basic requirement for all the more handling power attributed to the shared system, which produces new Bitcoins that would then be able to be utilized. It's a self-scaling, self-copying framework that creates cryptographic portrayals of significant worth that relate to riches.

Positive ramifications in India

Growth in Jobs

According to the job search site, there has been a rapid growth in the crypto and blockchain market. The U.S. jobs related to blockchain technology, cryptocurrency, and bitcoin grew over 90%. It was also revealed that Bangalore and Pune have great potential for blockchain, crypto job opportunities.

Lately, there’s been a huge hike in the number of unemployment in almost all the sectors in the country.

The CEO (Nischal Shetty) of crypto exchange wazir believes that cryptocurrency can help the country with more job opportunities as well as help stabilize the employment rates of the country (Helms, 2020).

Wealth Creation

Initial coin offerings (ICO) could globally be a fundraising platform for startups. Globally ICOs this year raised over $3.46 million globally. This could attract foreign venture capital investments in Indian startups. (Chandrashekhar, Kar & Manikandan, 2020)

The cryptocurrency and blockchain sector has great potential for economic growth and With India’s current economic status, it would be a great loss of opportunity to not start with cryptocurrency. Globally blockchain startups raised over 5.6 billion American dollars and Indian companies are currently receiving below 0.2% of these investments. The fintech company in Singapore received over $744 million (Gupta, 2020).

Blockchain technology helping traditional financial institutions

Cryptocurrency in India does not necessarily need to compete with the fiat currency or any of the traditional financial institutions. They could both coexist parallely. Cryptocurrency and blockchain technology and traditional financial institutes could complement each other. Working together would attract more investors to the country, the blockchain technology would improve bank security and transactions and provide better traceability and accountability. (Gupta, 2020).
The increasing trend of Digital payments

There has been a huge increase in the trend of digital payments which has shown great potential for the future. Using cryptocurrency for transactions within a country would attract the public (Martucci, 2020). With the ease of availability of cryptocurrency since they are not attached to a country, investors could use this medium to invest more with the internet. With the blockchain technology, they would be safer and reduce the risk of theft. Intercountry businesses could use cryptocurrencies for faster and easier transactions with it being hassle-free and having low transaction fees. (Rahman & Dawood, 2020)

Negative ramifications in India

1. Scalability: While digital coins are getting adopted rapidly it is still outnumbered by the number of transactions that payment companies like Visa. Unless the infrastructure of delivering these technologies is massively scaled. Such an evolution to currency is rather more complex.

2. Cybersecurity concerns: Since this currency and its dependency revolves completely on the world wide web it will be subject to certain security breaches and might fall into the hands of non-state actors. Mitigating this will require continuous updates of the security infrastructure and keeping track of these individuals can be a long and tedious process.

3. Funding of non-state organizations: The mechanisms of how these transactions work knowing that end to end meet with no trace of the receiver or sender would make funding of non-state organizations simpler and untraceable.

4. Regulations: Even with the perfect technology and all problems that can be handled it will be a risky investment unless governments and federal organizations adopt this system. Which would in return require a huge amount of investment from these organizations and that will be a very tricky process.

5. Devaluation of Currency: With the introduction of cryptocurrencies there are chances that there will be a shift from currencies and that will affect the valuation of the nation’s existing currency. That might negatively impact the economy.

Now, when it comes to the legal aspects of cryptocurrencies, we have to keep in mind that there has to be a new body that would overlook the functioning of this currency and they would be in charge of forming the rules and regulations. With the introduction of this currency, many other amendments will have to be made in different aspects of the constitution. Keeping this in mind the following acts will need amendments:

1. The Securities Contracts (Regulation) Act 1956(T): The securities that fall under this only are tokens which are issued by an identifiable user and are backed by underlying assets of the issuer.

2. Companies Act, 2013: Each type of token would fall under the rules and regulations of this Act. Under the act, when it comes to the acceptance of deposit the receipt of money, the way of deposit by a company would be termed as a deposit and also provide certain exemptions from its applicability.

3. Payments and Settlements Systems Act 2007 (PPSA): If the crypto activity were to revolve around the payment system or any other regulated system, the issuer would need another payment method which falls under the acceptance of The RBI under PSA and it must also include the norms of KYC/AML.

4. Prevention of Money Laundering Act 2002 (PMLA): Under this Act, if any pretenses that fall under the notions and are not following what rules this act carries itself upon then 10 years of imprisonment is applicable. But it is unclear if the reporting commitments prescribed under chapter IV of the Prevention of Money Laundering act 2002 holds forth towards wallet operators, third-party bitcoin services, crypto-asset exchanges, etc.

Expected ramifications after the sanctioning of cryptocurrency in India

Reduction in Remittance

A few governments around the globe like India have actualized neutralist approaches that confine settlements produced using different nations or the other way around either by making the charges excessively high or by detailing new guidelines. This dread of not having the option to send cash to relatives and others is driving more individuals towards computerized Cryptocurrency, the most mainstream among them being Bitcoin.

Control Over Restricted Capital

Numerous sovereign monetary forms and their use outside our nation of origin are being directed and limited somewhat, consequently driving the interest for Bitcoin. For instance, the Chinese government as of late made it harder for individuals just as organizations to spend the country’s cash abroad, subsequently capturing liquidity. Accordingly, choices, for example, Bitcoin have increased colossal prominence in China. India considers this to be a chance to exploit it.

Improving Acceptance

More customers are utilizing Bitcoins than any time in recent memory, and that is on the grounds that more real organizations and corporates have begun tolerating them as a type of transaction. Today, online customers and financial specialists are utilizing bitcoins consistently, and 2016 saw 1.1 million bitcoin wallets being included and utilized all through the world. This can be an incredible stage for India to move to computerized money.

Crackdown of Corruption

Advanced Cryptocurrency, for example, Bitcoin can be utilized as a medium to encourage the crackdown on corruption in India. India recently demonetised their top currency and as yet flowing banknotes to make it harder to offer incentives and bring in collected dark cash pointless. That can likewise go about as a promoter in the interest for Bitcoins in India, empowering them to send and get money without offering an explanation to the specialists.

CONCLUSION

Cryptocurrency is an attractive model of payment methods that are effective and secure that could boost companies. They also act as an alternative method of payment apart from currency notes, which allows users to take part in financial activities such as transferring, exchange, buying, and selling easily with the blockchain technology adds on more security to your transaction. Various factors could bring positive changes to e-commerce or e-business and e-payment sectors which also carries several negative factors that affect this method of transactions. Cryptocurrency needs to be well regulated and controlled to gain more trust. But with the high growth of interest in cryptocurrency and blockchain around the world, banning it in India wouldn’t be an option and we shall look forward to what the RBI takes forward regarding cryptocurrency in India. The sooner, the better.

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