



THE SURGE IN BITCOIN'S PRICE AND POPULARITY: LOOKING BEYOND THE HYPE

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On March 03, 2017 the price of Bitcoin¹ peaked at US \$ 1,293, an all-time record high after rallying to new highs for four consecutive days.² With gold trading at US \$1,230 an ounce, this was the first time when one bitcoin had more monetary worth than one ounce of gold.³ The remarkable resurgence in the price of Bitcoin is attributable to many factors, including monetary and political factors. A strong demand for Bitcoin in China, fluctuations and deepening uncertainties in currency markets worldwide-coupled with a series of major global political events, from the Brexit to election of Donald Trump as president of the United States – all these factors have contributed to the surge in Bitcoin price.⁴ This speculative run is also fuelled by the possibility of coming up of a new bitcoin-based exchange traded fund (ETF), the fate of which will be decided by the U.S. Securities and Exchange Commission on March 11, 2017.⁵ The proposal was put up by 35-year-old twins, Tyler and Cameron Winklevoss, and once approved would make investing simple and

hassle free for small investors, traders and institutions, while potentially boosting its popularity.⁶

The world was introduced to the Bitcoin, when, on October 31, 2008 several hundred members of a mailing list comprising cryptography experts and enthusiasts received an e-mail from somebody under the nom de plume 'Satoshi Nakamoto'. Satoshi introduced a new electronic currency system- christened as the 'Bitcoin'- which was fully peer-to-peer with no trusted third party and directed the mail recipients to a nine-page white paper posted at a new Web site. The white paper, by a number of illustrations, equations and codes tried to explain the newly conceived system of digital "currency."⁷ This system was a non sequitur from classical currency system as used and understood by the mainstream society and financial institutions. In a clever way, Nakamoto was conceptualising a system of online exchange that uses encryption allowing two willing parties to exchange 'tokens



of value' without sharing any information about themselves or their financial accounts. The transaction of 'tokens' was intended to take place outside the traditional banking structure, facilitating transfer of digital money directly to each other—peer to peer. The idea of the Bitcoin as cash is not, strictly speaking a metaphor. It is literal representation of what Bitcoin can do, which till some time back was largely possible only with cash currency. Satoshi Nakamoto has unwittingly unleashed a veritable 'digital currency revolution' and we, currently are witnessing its consolidation phase.

As all the preceding attempts to perpetuate decentralised digital monetary systems were wrought with failures and shortcomings, the sceptics were quick to point out that Nakamoto's system would fail to gain mainstream acceptance. But Nakamoto doggedly propagated his version of digital currency ensconced in the belief that his proposed system contains two major breakthroughs which would ensure its security, popularity and proliferation. The first was the introduction of an inviolable universal ledger, which he christened as 'block chain', against which anyone could verify the validity of transactions. The second breakthrough was a unique set of monetary incentives in return for keeping the ledger up-to-date which incentivised many to do so.⁸ These two ground-breaking breakthroughs ensured accountability, participation and auditability of his proposed system. Perhaps the most defining

and impactful feature of Bitcoin is its completely decentralised authority. In other words, Bitcoin ecosystem does not tether to a central point and that, to a very large extent ensures its survivability. Every bitcoin user is an integral part of Bitcoin ecosystem and it would amount to almost a cleaning of Augean stables to shut down everyone at the same time.

In November 2013, the US-dollar exchange rate for one unit of Bitcoin increased more than fivefold. Bitcoins had begun trading for less than a nickel in 2010; by November 2013, the exchange rate exceeded US \$ 1,100. During 2014, however, the exchange rate quickly lost ground again, settling at around US \$ 250 in March 2015, after which its value rose to US \$ 706 per bitcoin in November 2016.⁹ As of March 06, 2017 with a total market capitalisation of US \$ 20.6 billion (at an exchange rate of about US \$ 1275.90 per bitcoin), there are about 17.87 million bitcoins in circulation and currently over 279,015 Bitcoin transactions take place per day.¹⁰

Legal and Regulatory Aspects of Bitcoin

On the issue of legal status of bitcoin, there is no global consensus on the specific set of laws or regulations that govern Bitcoins' transactions, investment, or remittances. The law on Bitcoin varies from country to country and the regulatory framework on Bitcoin in different countries is either fragmented or non-existent and in most cases still evolving. In some

countries, Bitcoin can be used for trading and purchasing while in some the use of Bitcoin is either banned or restricted. Some countries have tried to extend existing statutes and regulatory regimes to cryptocurrencies but failed to explicitly regulate these due to one major lacuna: most of the cryptocurrencies are not issued by a government decree. Some existing rules have limited applicability in the context of Bitcoin, but most of these are woefully short of what is required to tackle the challenge of regulating Bitcoin.

In India, the regulatory environment for Bitcoins is still fragmented which is inhibiting the emergence of an explicit legal framework capable of addressing and resolving the full gamut of issues related to Bitcoin. On December 24, 2013, The Reserve Bank of India issued a cautionary circular on the risks of using, holding and trading in Virtual currencies (VCs), including Bitcoins regarding the potential “financial, operational, legal, customer protection and security related risks that they are exposing themselves to”.¹¹

On February 1, 2017 the RBI again reiterated cautionary message to potential users of bitcoins and other virtual currencies that it (the RBI) does not regulate and has not licensed any virtual currencies in India.¹² On March 1, 2017 RBI Deputy Governor R. Gandhi voiced concerns over financial, legal and security-related risks associated with the use of virtual

currencies.¹³ It is estimated that as on August 2016, the number of Bitcoin users in India stood at 50,000 and growing. New Bitcoin exchanges have cropped up in India such as BTCXIndia, Coinsecure, Unocoin and Zebpay and this can be seen as an assertion of growing popularity of Bitcoin in India.¹⁴

The lack of regulatory structure and oversight is causing uncertainties and perplexities for both: the users and law enforcement agencies. The Income Tax department in India is in the midst of serious contemplation over how to impose tax on Bitcoin miners in India in the long run. However, until RBI comes out with clear guidelines, Bitcoin regulatory mechanism will not be fully aligned with the overall goal of regulating its exchange, transfer and trading and protection of individual's interests.

(Disclaimer: The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of the Centre for Air Power Studies [CAPS])

NOTES

¹ Bitcoin' refers to the entire currency system and bitcoins are the basic units of the currency in Bitcoin system.

² Anthony Cuthbertson, “Bitcoin just became more valuable than Gold. Why does the price keep rising?”, *Newsweek*, March 03, 2017. <http://europe.newsweek.com/bitcoin-price-explained-gold-china-value-currency-563277?rm=eu>, accessed March 05, 2017.

³ Ibid.

⁴ Ibid.

⁵ Olga Kharif, "Winklevoss Twins Await Imminent SEC Decision on Bitcoin ETF", *Bloomberg*, March 02, 2017, <https://www.bloomberg.com/news/articles/2017-03-02/winklevoss-twins-await-imminent-sec-decision-on-bitcoin-etf>, accessed March 05, 2017.

⁶ Ibid.

⁷ Paul Vigna and Michael Casey, *The age of cryptocurrency: how bitcoin and digital money are challenging the global economic order*, (St. Martin's Press: New York, 2015), p. 35.

⁸ Ibid.

⁹ Wilko Bolt and Maarten R.C. van Oordt, "On the Value of Virtual Currencies", Bank Of Canada Staff Working Paper/Document de travail du personnel 2016-42

¹⁰ Blockchain info, "Bitcoin Stats Bitcoin currency statistics", <https://blockchain.info/stats>,

¹¹ Reserve Bank of India, RBI cautions users of Virtual Currencies against Risks, https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=30247

¹² Arnav Joshi, "Bitcoin: Can RBI ignore the elephant in the room?", *The Economic Times*, March 03, 2017, <http://economictimes.indiatimes.com/small-biz/money/bitcoin-can-rbi-ignore-the-elephant-in-the-room/articleshow/57446968.cms>, accessed March 05, 2017.

¹³ Ibid.

¹⁴ Ibid.