International Journal of Research in Science & Engineering
ISSN: 2394-8299
Vol: 03, No. 03, April-May 2023
http://journal.hmjournals.com/index.php/IJRISE
DOI: https://doi.org/10.55529/ijrise.33.17.29

The Intersection of Cryptocurrencies with Securities Law

Rishab Kumar Jain. N[1*], Sarah John[2]

[1]Student, Bachelor of Business Administration, Dept. of Management St. Joseph's University Bangalore, India.*
[2]Assistant Professor, Bachelor of Business Administration, Dept. of Management St. Joseph's University Bangalore, India.

Corresponding Email: [1]rishabsehloth@gmail.com*

Received: 03 February 2023 **Accepted:** 19 April 2023 **Published:** 26 May 2023

Abstract: ***The Intersection of Cryptocurrency and Securities Law has been discussed in various legal contexts in the present scenario. The rise of cryptocurrencies has put forth fresh challenges for investors as well as regulators and there is a need for clear direction on how to interpret the transactions that include digital currencies. The advent of crypto exchanges has formed an entire ecosystem of services and participants, who are looking to provide liquidity, exploit price differences for profit, and support the investments. The focus of the study is to investigate the legal and regulatory steps taken to include cryptocurrencies within securities law.***
The paper will delve into the distinctive attributes of cryptocurrencies and analyse the different regulations in which they can be classified as securities. Moreover, it will inspect the fluctuating regulatory strategies adopted by various countries and entities, such as the United States Securities and Exchange Commission (SEC), United Kingdom's Financial Conduct Authority (FCA), The Australian Securities and Investments Commission (SIC), Securities and Exchange Board of India (SEBI) and others.

Keywords: Cryptocurrencies, Digital/Virtual/E-Currencies, Blockchain Technology, Securities Law, Global Acceptance, Illegal Transactions, Money Laundering.

1. INTRODUCTION

Cryptocurrency or a crypto is a digital currency intended to work as a medium of exchange through a computer network that is formed using encrypted algorithms. It is not reliant on any central authority such as government or bank to either defend or maintain it. Cryptocurrencies can be used to make quick payments and evade transaction fees. Some can also buy it as an investment hoping that its value will grow someday. These cryptocurrencies run on a

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distributed public ledger called blockchain, a record of all transactions updated and held by currency holders. They are created through a process of mining which uses computer power to solve complex mathematical problems and generate coins. These cryptocurrencies need to be stored in crypto wallets.

In the recent past it has caused many to ask whether the increased guidance or new regulations by the Securities and Exchange Commission and other regulatory bodies is necessary in order to facilitate the growth of such technology. Due to this, the Securities and Exchange Commission has taken steps to clarify the application of federal securities laws to cryptocurrencies. Securities law is a legal body of federal statutes that reports the ownership and trading of financial instruments and stocks. The Financial Action Task Force (FATF) has defined cryptocurrency associated services as 'virtual asset service provider' and has suggested that they need to be regulated with the same Money Laundering and Know Your Customer requirements as those of financial institutions.

Cryptocurrency i.e., Bitcoin officially became a legal tender in El Salvador on 7th September 2021 making it the first country to adopt this currency. Similarly, Germany, Japan, Switzerland etc. have accepted crypto as legal currency. However, this cryptocurrency is not a legal tender in India and the status of exchange remains dark. Though there is a lack of clarity over the tax status of cryptocurrency, the Exchange regulations have grown strict as Reserve Bank of India has banned banks and any regulatory financial institution from dealing with or setting virtual currency. There are debates for the consideration of cryptocurrency system, but still it would be a challenge for the state to devise a mechanism that would let cryptocurrency operate without losing its essence.

Review of Literature

1. The Growth of Cryptocurrency in India: Its Challenges and Potential Impacts on Legislation by Shailak Jani Parul University.

In this research paper, the author speaks about the absence of strict and clear regulations and policies that leads to increased risks and problems faced by the virtual currency (crypto) industry. And he also specifies about the key challenges and the issues faced by the implementation of laws that influence the use of virtual currency in India.

2. The Legal Nature of Cryptocurrency by O S Bolotaeva, A A Stepanova and S S Alekseeva N-E Federal University.

This research paper talks that if cryptocurrency is recognized as a security or other financial instrument, then the activity of its exchanges must be licensed by the state. The authors also state that the assignment of crypto to uncertified securities, while fixing a certain value certifies the owner's right to receive a certain amount of money.

3. Cryptocurrencies, Money and Law by Shuping Li and Shen Wei.

This paper studies the legal nature of cryptocurrency in view of property and money and introduces the possibility and necessity of incorporating crypto into the property system and

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reviews the nature and limitations of property rights crypto might have. These cryptocurrencies should be protected as property to avoid conflicts, align market expectations and establish a platform for other legal requirements.

4. Cryptocurrency regulations: Institutions and Financial openness by Jacinta Bernadette Rico Shirakawa and Upalat Korwatanasakul.

In this, the authors have investigated how effectively Governance institutions and 'de jure' (rightful/legal) financial openness have influenced the attitude of the policy makers in pursuing financial development by using cryptocurrency. And they also examine whether the presence or absence of credible observation and regulatory authority influences have allowed to take hands off approach to cryptocurrency.

Statement of the Problem
The motive of this study is to bring to light the worldwide status of cryptocurrency and how does it work on a global scale complying to the rules and norms set up by the exchange commissions. And, what are the rules that administer their trading and investment in different portions of the Earth.

Objectives of the study:
- To know about cryptocurrency and its acceptance in the world.
- To understand the securities law concerning crypto and other digital forms of currency across the globe.
- To study about cryptocurrency in the Indian subcontinent and the laws regulating it.

Need for the study
This study helps e-currency users to mainly emphasize on how crypto is accepted in the entire globe as a legal tender and to get to know about the laws and regulations put forward by the Securities and Exchange Commission towards the usage of it. It also seeks to help the people who want to know more about this form of currency and its trading instructions.

2. METHODOLOGY OF THE STUDY

The method of data collection for my study is secondary data which involves articles and news on cryptocurrency issued by various scholars, the official websites of certain securities commissions, few research papers related to cryptocurrencies and a short survey on cryptocurrencies.

Limitations of the study
- This method of study is very time consuming as there is no proper data available on this topic.
- As per the laws issued by SEBI, Cryptocurrencies are banned in India.
- These currencies are highly influential and are manipulative in nature.

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Objectives

1) Cryptocurrencies can be defined as any medium of exchange apart from real world money, that can be used in several financial transactions either they are virtual or real transactions. They signify valuable objects that are used electronically in different applications and networks such as online games, social networks, virtual worlds, and other peer-to-peer networks. These cryptocurrencies are cryptographically secured digital representation of value/contractual rights that use a distributed ledger technology and can be transferred, stored, and traded electronically. They run on a distributed public ledger called **'blockchain'**, a record of all the transactions updated and held by currency holders. These cryptocurrencies have different rules and regulations of approval across the globe. Some countries are embracing cryptocurrency and are actively promoting its usage, whereas others are taking a more cautious approach to implement strict regulations and some have banned their use.

The following is list of different laws and considerations of different countries regarding crypto.
Countries where cryptocurrency is banned or not regulated/ legalised as a mode of payment or legal tender are:

Afghanistan's central bank has stated that digital currency(crypto's) trading should be paused considering the problems and scams and **Bangladesh** is looking for a new alternative to introduce a Central Bank Digital Currency supported by Blockchain technology and has asked everyone to refrain from transacting and promoting cryptocurrency. These cryptocurrencies are currently banned under the **Algerian Financial** Law prohibiting the purchase/sale/use and ownership of such cryptocurrencies. The **People's Bank of China** has declared that crypto seriously threatens the safety of people's assets and has hence announced that all Virtual currency related business and transactions of cryptocurrencies are illegal, effectively banning 'Bitcoin'.

At present, **India** neither prohibits nor allows the use and investment in cryptocurrency as there was a ban on crypto by the Supreme Court imposed by Reserve Bank of India. There are considerations being taken to legalize crypto in India in compliance with specific laws and regulations. The Central Bank of the **Republic of Turkey** has banned the use of cryptocurrency and crypto assets as such payments may pose significant transaction risks. The **Pakistani Government** is taking considerations for introducing crypto, but because of their anonymous and speculative nature they are likely to be used for illicit activities.
The countries where the rules and regulations for cryptocurrencies are being developed or improvised are stated below:

Authorities in **Albania** are confirming rules and regulations that would start taxing the income and profits from investments in cryptocurrency from this year 2023. The **Brazilian** Securities and Exchange Commission is currently tightening changes in the legal framework with respect to regulating cryptocurrencies, a draft of which is currently waiting to be reviewed by the legislator's committee. **France** is an extremely crypto-friendly country with new rules and regulations taking shape for their transactions and obligations and does not tax

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inter crypto trades. The **Hungarian government** is washing out cryptocurrencies with a certain percentage of the tax going on after crypto, and will control the taxation of profits made in cryptocurrencies. The **Government of Japan** is deciding to implement new rules for remittances which would require operators to share their information that is directed to prevent criminals from using cryptocurrency exchanges to launder money.
The countries which have accepted cryptocurrencies or other digital forms of payments are:

At present, **Australia** is beginning an analysis of cryptocurrency assets in the country to provide better understanding and to regulate the digital industry and make 'token mapping' a priority. Though the **Central Bank of Bahrain** had put strict regulations for citizens to trade and invest in cryptocurrency, it became the first mid-east country to grant crypto exchange to operate within its borders. **Canada's** internet service provider Oxio has become the first network provider to propose a payment option in cryptocurrencies and accepts online bills in the form of e-currency. **Croatia** is open to payment in crypto instead of utilizing traditional form of money and making it a more standardized mode of payment. **El Salvador** was the first country in the world to legalise cryptocurrency and accepted it for all forms of transactions by launching a new digital wallet app.

Germany is one of the top countries for mining crypto and it allows its long-term domestic savings industry to use crypto investments, supported by its zero-tax policy on gains from crypto. Initially, **Malaysia** had warned that all the crypto payments were illegal, but now the Malaysian government is backing the adoption of cryptocurrencies and is regulating it. In **Panama's** National Assembly a bill was passed to open the doors to the public and private use of crypto assets and has enabled the people to pay their taxes in cryptocurrency. The **Central Bank of Russia** has approved Bitcoin and has taken a huge step towards legalising crypto as it moves for cross-border transactions, making Russia more open about its laws and regulations. The **United Kingdom's** government is aiming to make the country to be a global place for cryptocurrency technologies and also include the use of distributed ledger technology in its customs.

Similarly, there are many other countries where either cryptocurrency is fully approved and accepted as a means of investment/payment or where they are completely banned from being transacted or there are certain new rules and regulations being drafted for their use. **As these cryptocurrencies are not backed by any public or private entities, it is difficult to make a case for their legal status in different financial jurisdictions throughout the world.** Also, the legal status of these currencies has consequences for their use in the transactions and trading.

2) Securities law refers to the authoritative body that regulates the financial markets which involves the misunderstanding of stock brokers, investment advisers, stock exchanges, brokerage firms, sale of securities, mergers, and acquisitions. It also **refers to a group of laws and regulations that oversee the issuance of securities and decrees what a corporation must do in order to offer their investment to the public**. These are the laws which exist in order to make sure that public investments are safe and fair to everyone. They

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are generally planned to regulate investments in those assets that are considered as cryptocurrencies.

The securities law and other regulations for cryptocurrencies can vary depending up-on the jurisdictions and the specific characteristics around the world. In **United States**, the **Securities and Exchange Commission** stated that any cryptocurrency sold through ICO (Initial Coin Offerings) may be considered as securities but they must undertake a 'Howey Test' to determine whether that particular asset is a security or not. In **United Kingdom**, the **Financial Conduct Authority (FCA)** has stated that certain types of cryptocurrencies such as tokens that give specific rights to the investors can be considered as securities if they are regulated and authorised by FCA. There, crypto's are also subject to certain regulations such as the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017. The **German Securities Trading Act** governs the securities including crypto and other digital forms of currencies. According to the German Government, securities can be recorded in the registers based on blockchain networks and technology, that are sustained by banks or depositories. In Australia, cryptocurrencies are subject to securities law and regulations. **The Australian Securities and Investments Commission** is responsible for foreseeing the securities and has issued certain procedures and statements regarding crypto. It has also established a specific task force to examine the regulation of cryptocurrency and suggest reforms to address the unique risks related with these assets. The **Israeli Central Bank and Finance Ministry** considers currencies such as Bitcoin as financial assets and not as a currency. According to them, a license will be issued to a citizen or a resident who is a major and is not declared bankrupt to transact with crypto and has also warned about the risks associated with these virtual currencies. The **Russian law** states that digital currency is capable of being accepted as payment mode but they cannot be used at the same time to pay for goods and services.

There are many currency laws worldwide which are designed to regulate the usage and supply of cryptocurrencies. Firstly, they should be legally accepted as a mode of payment for debts and obligations by the monetary authority of that particular country and also to handle the interest rates in order to strengthen the prices. These laws require individuals or businesses to procure a license to exchange large amounts of currency and report their income and pay taxes on it. **As per the laws, the financial institutions are required to verify the identity of the customers and report suspicious and illegal transactions to the government bodies and prevent Money Laundering**. On the normal currency, many countries have restrictions on the movement of the currency across borders and hence, they must obtain prior and special permission to do so. In the use of normal currency, the individuals who are filed for bankruptcy are required to handover certain assets, cash, debtors etc. to their creditors and liabilities.

Similarly, these rules and laws can be formed for cryptocurrencies or e-currencies to legalize them and transact with them safe handily. It's very clear from the above-mentioned laws that there are many factors and aspects which will influence the ultimate future of

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cryptocurrencies and have already had a significant impact on the financial industry and world.

3) India is termed as the fastest growing economy by IMF in the world since 2012, when Bitcoin slowly developed in the Indian Subcontinent. The demonetisation policy also led to the largescale discontentment of the mainstream financial system in the country. Many people, especially those who had access to the internet began to take up Bitcoin and other cryptocurrency investments.
Due to the lack of instructions and black-market activities, tax evasions, volatility and manipulation, financial loss because of data loss and strict government restrictions, it is difficult to transact with many of the crypto exchange platforms. The Reserve Bank of India has been constantly warning the people about the risks and threats associated with cryptocurrencies. The Central Government has neither banned these cryptocurrencies nor have they supported its trade. There is some speculation that the **Credit Information Companies Regulation Act (CIRCA) 2005**, is likely to be functional on cryptocurrency due to its high growth. As per this act, the credit information of individuals must be obtained in compliance with the regulations laid down and the bodies that collect the financial information can be held accountable in case of illegitimate leak of user data.

At present there is neither a ban or the government allows investing in crypto as the Supreme Court of India had extracted the ban that was imposed by the RBI. Since then, transacting with crypto is considered legal. But still there is no proper clarification on the issues regarding the extent and payment of tax on the income earned from them. In India, crypto such as Bitcoin are believed to be capital assets if they are purchased for investing purpose and hence any gain arising on transfer of such will be taxable as a capital gain thereof. However, if the transactions are frequent and regular, the income would be taxable as business income as per the **IT Act 1961**.

Later, in the **Union Budget 2023-24, the Finance Ministry** declared that cryptocurrency would now come under the ambit of money laundering provisions. The ministry warned the investors against crypto currency stating that, 'any type of participation or involvement in transacting virtual digital assets would come under the concern of **Prevention of Money Laundering Act**.' This move by the central government is taken to stiffen the oversight of digital assets. The ministry also claimed that all the channels used for funding terrorists shall be cut down. As per a recent report, a committee of finance officials, Income Tax officials, NITI Aayog and RBI officials are moving forward to legalize virtual currencies in India.

In the recent times, as the crypto industry is spreading continuously, it has become very important for the businesses to prioritize and tighten the security and regulate the compliance of their transactions to avert any suspicious trading. According to the latest statement by the Finance Ministry of inclusion of crypto under the Prevention of Money Laundering Act 2002, any form of transaction between virtual digital assets and fiat currency, and transfer of digital assets will be subject the money-laundering norms and standards. The regulations regarding crypto with **Anti Money Laundering (AML)** and **Know Your customer (KYC)** guidelines

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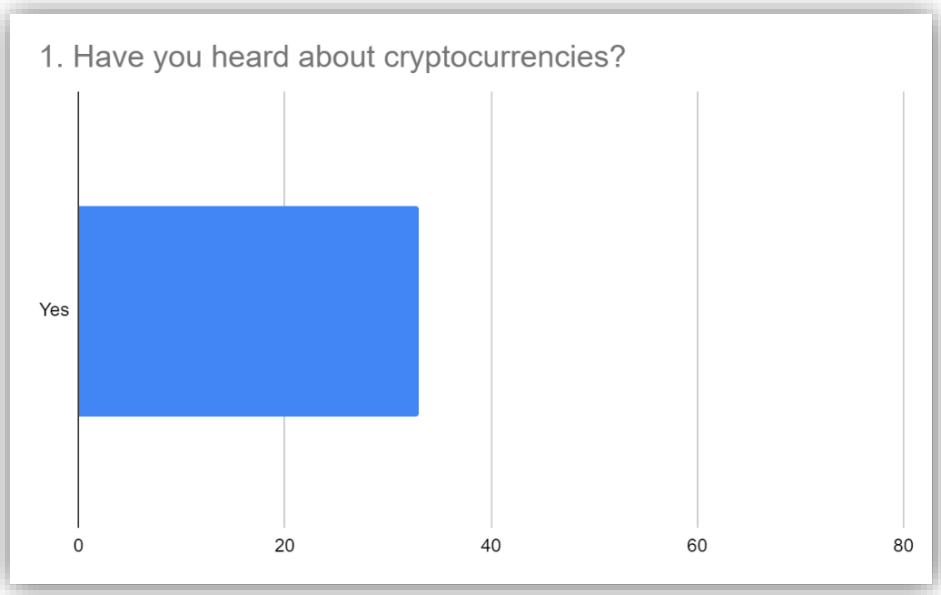
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will secure the crypto transactions and businesses so that they are liable for their activities and can adhere to these standards as other financial bodies. It is also possible that **Securities and Exchange Board of India (SEBI)** may issue some broad and comprehensive regulations on cryptocurrency in the upcoming days as the use and status of cryptocurrencies is continuously growing in India.

As of now there are no laws governing cryptocurrencies in India, but still there are considerations and laws being drafted to modulate the usage of cryptocurrencies. **The Indian government has started to form a bill to come up with cryptocurrencies law**. The future of these currencies is uncertain and the government is devising a middle path so that these cryptocurrencies may not be banned.

Analysis and Interpretation

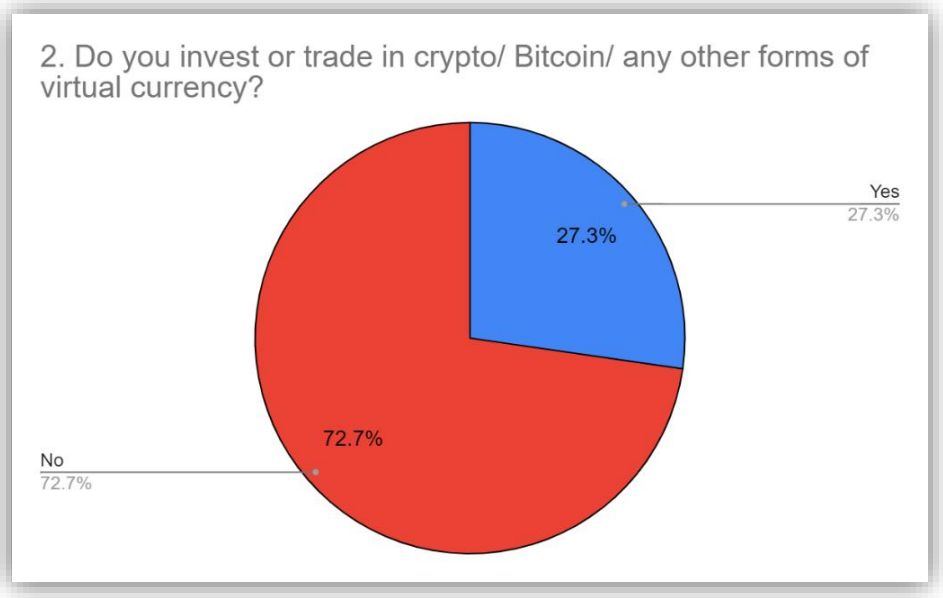
As a part of the research, a short survey was conducted for a sample group of 35 members to know about their thinking towards cryptocurrencies and its scope in the upcoming days, also they were asked about their opinions on whether cryptocurrencies should be included within the scope of Securities law. Efficient and precise answers were obtained from the respondents.



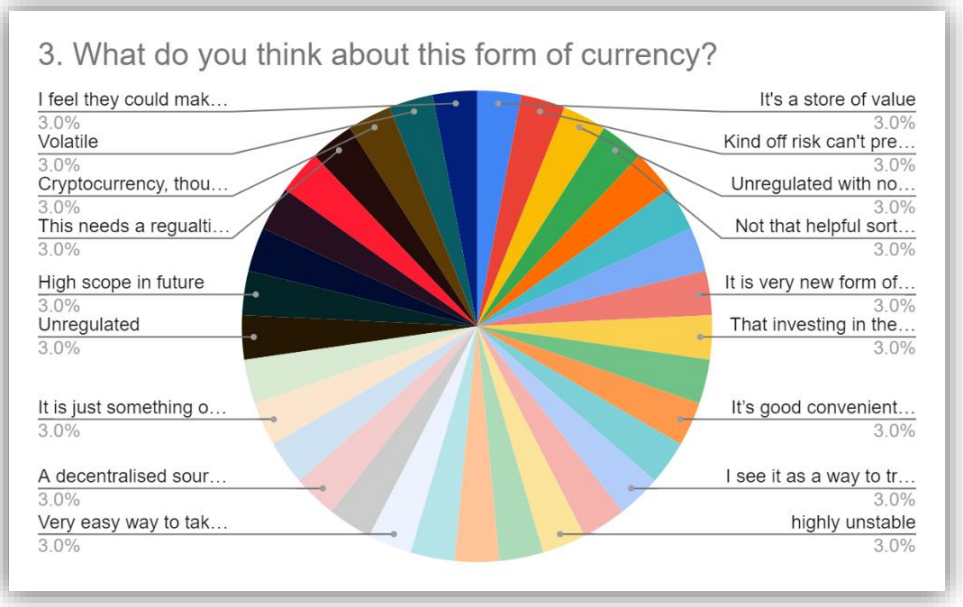
This tells that every individual in the society knows what is cryptocurrency and what are its features. they are aware of the risks and benefits associated with it, and hence the composed data was helpful for the further analysis of the e-currency.

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According to the survey report, it is found that majority of the respondents do not invest/ trade or have any sort of transactions with crypto and hence play safe with the risks. Whereas, there are a few who bear the risk of investing in crypto inspite of knowing that there are no formal regulations and laws governing this form of currency.



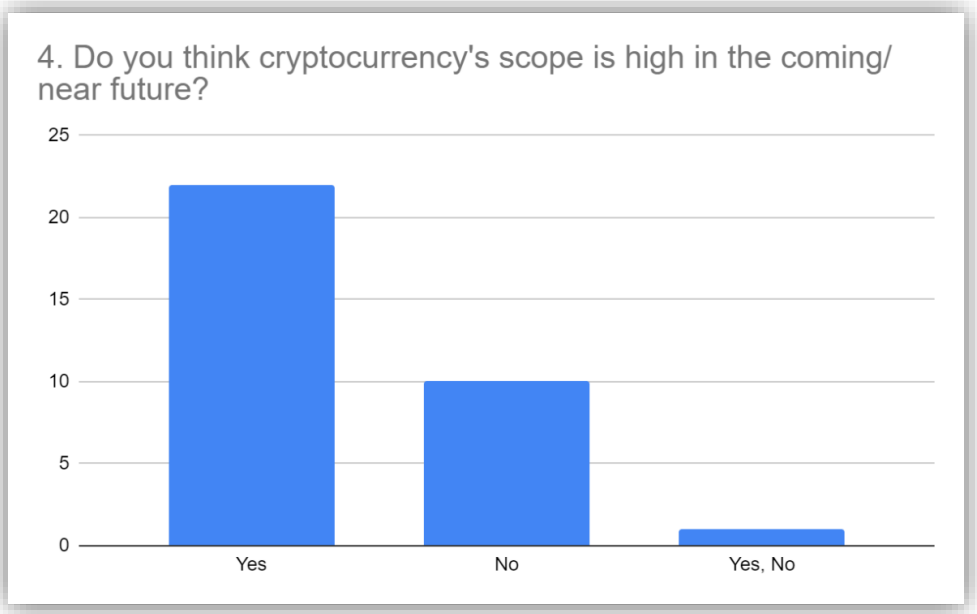
The trend of cryptocurrency is slowly increasing in the world and many individuals have started investing in it and are earing some percentage of profit. A large number of the respondents think that it is a new form of currency and as the values of crypto are increasing day-by-day, they have a high scope in the future and the capital will also not wipe out due to

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high returns. It is also considered as a store of value by which people put in their income or savings for a certain time period and earn profits, it is also easy to transfer value globally without any intermediary either bank or financial institution. As it is a decentralized source of investment, it helps to avoid authoritarian intervention protecting interests of all investors. People who have a hobby of investing in digital financial assets, invest in them and also crypto's are also used for faster, cheaper and easier payments as it provides an alternative for regular financial payment methods.

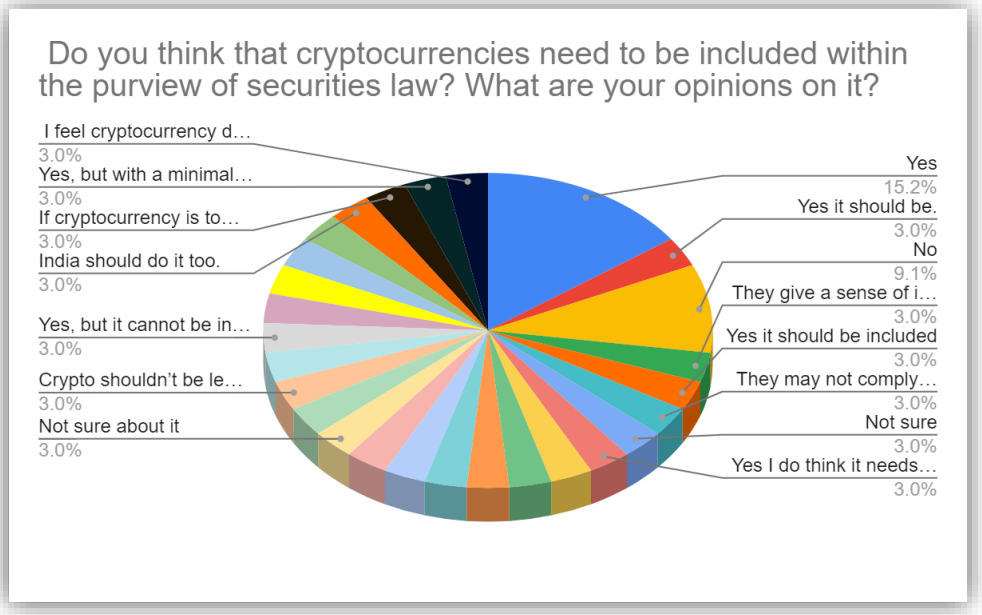
In contrast to which few respondents say that crypto are unregulated and are not a helpful source of investment. They are highly unstable and should not fully replace the regular currency as they will lead to shutting down of banks. They are volatile and require regulations and they are not meant for all. It has both pros and cons which reflect that cryptocurrency will grow in the future but it will also have some drawbacks which the government and regulatory bodies are trying to overcome and protect the investor and traders.



Cryptocurrency is a decentralized form of currency enabling people to access all the regular functions of normal currency i.e., issuance, transactions, processing etc on a distributed public ledger (blockchain). In the survey of 35 people, 69% of them have agreed to accept crypto as the future of the country where as 33% of them refuse that crypto will take over in the future due to the risks and the threats situated with it and the remaining 1% is unsure due to the non-stability whether crypto will be legalized or will it be banned. Experts have stated that "The future of cryptocurrency is the future of humankind" as far as things are done properly and precisely. The survey results point towards the fact that crypto will take over in the future and leave the traditional form of investing. But, the increase in this trend has also made people aware of its drawbacks and they have been warned by the financial regulators for the risks.

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Due to the decentralized anonymity, crypto's had paved way for hosting illegal activities such as money laundering, terror funding, smuggling and has increased the scrutinization of crypto to ensure consumer protection. However, as per the responses and reactions received from the survey majority of them agree that cryptocurrencies should come under the scope of Securities Law, whereas others are either against it or unsure about it. They state that it should definitely be regulated by the Laws because in case on a future date if crypto's crash the government wouldn't be able to intervene and save the people's money. When these currencies are accepted everywhere and comes under the government control, these can be included in the Securities Law as they will provide a greater clarity on these financial assets. People should get to know about crypto and its trading and should start to invest in them as cryptocurrency will take over in the future and the investors should be protected from the manipulations and scams of illegitimate trading activities.

On the flip side, as crypto's are decentralised, they shouldn't be included in the Laws as they don't have a physical or actual form and backup. They can be easily manipulated by and are influential in nature. At a future date they may not comply with the Federal Securities Law. Altogether, if cryptocurrency is accepted and legalised in India and is included within the scope of Securities Law, it may be subjected to various forms of risks such as scams, frauds, money laundering, terror funding etc.

Findings

From the above data and analysis, the following are the findings that can be extracted.

1. Cryptocurrencies are a form of long-term investments in the digital assets which are the future of the world.

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2. They are decentralized and influential and are the cause for the trends in the financial market.
3. Cryptocurrencies are legal in many countries whereas they are also banned in various countries. Some countries are deciding to regulate it while others are trying to improve the regulations that already exist.
4. They have high scope in the future tending to replace the normal paper and metal currency.
5. They are subject to many risks, scams, money laundering and terror funding and are not backed by any public or private body.
6. Serves as an alternative for the currency units for faster and easier payments and transfer of value.
7. In India, there are no set rules and regulations for trading and investing in crypto.
8. There is no amplification on the extent of payment of tax on the interest earned in cryptocurrency in India.

3. CONCLUSION

Cryptocurrency is a digital or virtual form of currency which uses cryptographic features for safety and functions self-reliantly from other financial institutions. They are decentralised which mean that they are not subject to governmental guidelines and its value is decided by its supply and demand in the market. There are various forms of cryptocurrencies, and they have gained widespread fame due to their potential of obscurity and safety. There are also concerns about the precariousness of their values, the latent for cons and hacking and lack of legal rules and regulations in various parts of the world. They also require high energy for mining, which have raised alarms about its effect on the nature.

In India, the scope if cryptocurrency is uncertain, although a new and independent form of cryptocurrency **"Lakshmi"** is being initiated by the Reserve Bank of India. Earlier there was a ban imposed on the financial entities not to support this form of currency but, this ban was withdrawn by the Supreme Court of India asking the government to legalize cryptocurrencies rather than banning them. Keeping this in mind, the Indian Government has decided to launch a Digital Rupee in the forthcoming fiscal years. Inspite of all this, the Central Bank and the Government, both are worried about adversative effects of cryptocurrency in the financial marketplace.

In the recent Indian Union Budget, Nirmala Sitharaman, the Finance Minister of India proposed a tax regime for cryptocurrencies which state that all those who invest in cryptocurrency should report their probable profits and losses as a part of their income, and also a **tax of 1%** will be deducted as **TDS** if the payment crosses its set parameters.

However, the future of cryptocurrencies is still unpredictable and while it is being said that they will stabilize in the future, people are being warned about its capable risks and threats. They have the latent ability to replace the existing functions of financial infrastructure. But they can tend to fund terror organisations in certain conditions. Despite all these, cryptocurrencies have gained a significant influence on the global financial system and will take over in the future.

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Overall, cryptocurrency is a new and rapidly involving technology with both potential benefits and contradictions. While many remain skeptical about its long-term feasibility and impressions on the economy, these currencies seem to progress and it is necessary to consider the hazards as well as the profits accurately and then move towards investing with thoughtfulness.

Annexure:

1. Have you heard of cryptocurrency?
2. Do you invest or trade in crypto/ Bitcoin/ any other forms of virtual currency?
3. What do you think about this form of currency? Is it beneficial?
4. Do you think cryptocurrency's scope is high in the coming future?
5. At last, do you think that Cryptocurrencies need to be included within the purview of Securities law of India?

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