

RBI crackdown on cryptocurrencies: Exchanges, investors take a hard knock

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Rajesh Bhayani & Sanjay Kumar Singh | Mumbai/New Delhi April 07, 2018 Last Updated at 02:06 IST



Ashrith Govind, a 23 Bengaluru-based software professional and a regular investor in cryptocurrencies, is devastated with the Reserve Bank of India's instruction to financial institutions to sever business ties with entities dealing in crypto currencies in the next three months. The move will cover all banks, non-banking finance companies, payment wallets, etc.

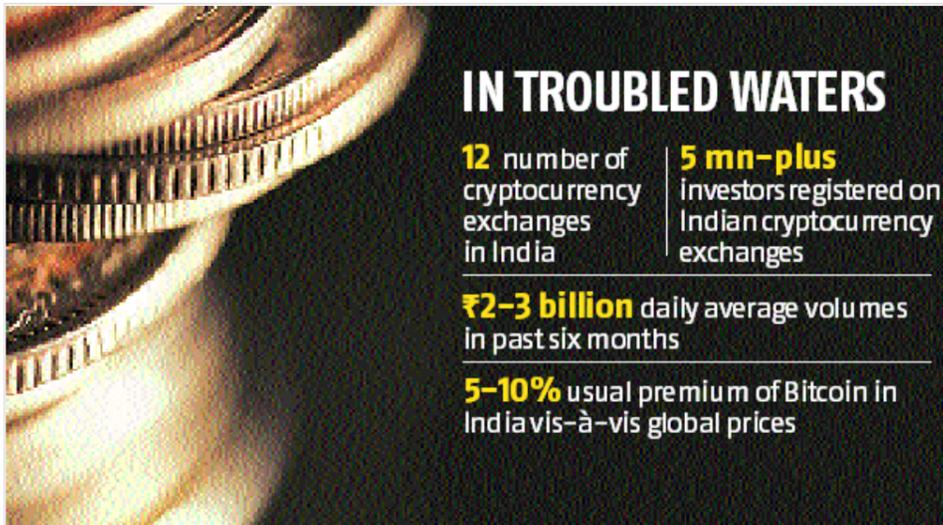
"As an investor, I either have to exit my investments in the next three months or use dark pools or cash to transact. For a normal investor, it will be almost impossible to transact in bitcoin and other digital currencies," Govind said. Dark pools are private securities exchanges where investors, typically large financial institutions, trade anonymously.

Govind has been investing in cryptocurrencies for the past three years. He also accepts them as fee from clients. With prices of bitcoin and other cryptocurrencies crashing 25 per cent after the central bank's decision, Govind is not alone in his grief.

Vishal Gupta, founder, binex.trade, a bitcoin exchange, said: "The understanding in the market was that the government has set up the Subhash Garg committee to regulate crypto currencies. But now, the RBI has gone ahead and said that all banking transactions will cease after three months. You cannot ban something when so many people have invested in it. This is tantamount to demonetisation of crypto currencies."

In India, there are over five million investors who have bought or trade in bitcoins and other major crypto currencies. The numbers may shrink by over 50 per cent. Some started exiting yesterday itself. A Mumbai-based employee of a private company sold his bitcoins, purchased a year ago, in a distress sale on Thursday night. "I have no other recourse if banks don't allow sale proceeds from bitcoin exchanges to get transferred to my account in the future," he said. While there are options of trading in dark pools, it will be unviable for most.

Prices recovered sharply on Friday with arbitrageurs entering the market to take advantage of the difference in prices between India and global markets. Consequently, the discount in the Indian market narrowed to 12 per cent. "Some arbitrageurs entered the Indian market due to huge discounts. They are selling abroad and making huge gains," said a bitcoin trader.



Bitcoins are trading globally at \$6,650, or Rs 430,000, a unit. In India, the price is around Rs 375,000. Similar discounts are being seen in other cryptocurrencies such as Ethereum, Ripple, Litecoin, etc, which are also traded on Indian exchanges.

Shivam Thakral, co-founder and CEO of BuyUcoin, a crypto currency exchange, said: "Investors need not go into panic mode as the RBI has given three months to banks to wind up operations. Anyone who wants to sell can do so at Indian exchanges and get the money in their bank accounts till then." But there is a word of caution as well. If your crypto currency is in a wallet held by an exchange, do take possession of your private keys immediately, in case the exchange shuts down.

In case you do not sell within three months because you could sustain losses, exiting will become harder but not impossible. One option will be to transfer holdings to a family member or a friend settled abroad at the going price. This person could sell and transfer the money from his account to yours. The other option will be to sell to another investor (or arbitrageur), but you may have to sell at a discount.

According to market players, this move will result in India's crypto currency market moving overseas. Vaibhav Parikh, partner, Nishith Desai Associates, said: "There are various ways for investors to buy and sell crypto currencies. The whole purpose of RBI putting restriction may

get defeated and the crypto currency market may shift overseas."