

## India's cryptocurrency traders scramble after RBI crackdown

Some exchanges are repurposing their business to avoid central bank rules

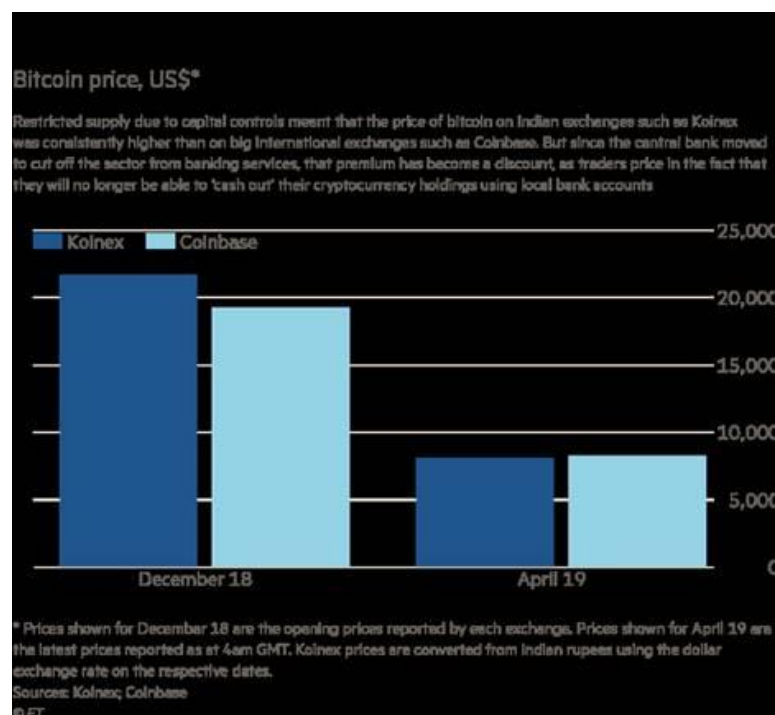


India has severely restricted trade in bitcoin at the same time as it has imposed capital controls © FT montage; Bloomberg

When the elusive Satoshi Nakamoto gave birth to bitcoin in 2009, Nischal Shetty was briefly intrigued. Using his home computer, the young Indian computer scientist mined a small number of the virtual coins — then worth less than a dollar apiece — before losing interest. But last year, Mr Shetty — now a successful social media entrepreneur — was drawn back to cryptocurrencies, amid a surge in global activity that would send the bitcoin price above \$19,700 by December. As excitement grew in India, he built WazirX, a local cryptocurrency exchange that finally went live on March 8. “I knew this was the right time,” he said. Others might question that assessment. Four weeks after WazirX’s launch, the Reserve Bank of India made a draconian move to halt the flow of funds into this burgeoning sector. All regulated financial companies, it said this month, must within 90 days end services to individuals or businesses dealing with bitcoin and other cryptocurrencies using blockchain technology — barring traders from using the bank system to buy or sell virtual currencies for rupees online. Even as Indian

authorities pledge to foster financial technology to accelerate national development, the fierce clampdown on cryptocurrencies is prompting protests that India could be left behind in a crucial area of innovation. “Time and again we’ve seen this,” said Raj Chowdhury, managing director of HashCash Consultants, a California-based company whose blockchain technology is used by customers in 26 countries, including India. “The approach to new industries has left the country playing catch-up.” From the start, India’s cryptocurrency market was shaped by the country’s tough regulations — notably its system of capital controls, which effectively blocked Indians from using local bank accounts to trade in cryptocurrencies on international exchanges. This meant a chronic squeeze on the onshore supply of cryptocurrency. Some were brought in by traders who managed to sidestep the capital controls — for example, dual nationals with bank accounts in India and overseas. There was also bitcoin on the market that had been mined by local residents — typically in the early days of the technology, before mining became dominated by huge, energy-intensive computer farms. With the Indian cryptocurrency market largely cut off from those abroad, the bitcoin price on Indian exchanges was consistently about 10 per cent higher than that seen on large global peers. Similar premiums have been seen in other countries with strict capital controls, such as South Africa and Brazil.

But while India’s capital controls succeeded in pushing up the price of bitcoin, the authorities grew increasingly concerned that cryptocurrencies could still provide a means of illicitly moving capital offshore. While banks are required to enforce an annual limit on international financial transfers of more than \$250,000 per person, there were no safeguards to prevent Indian traders from moving any amount of bitcoin overseas. KV Karthik, a financial crime specialist at Deloitte, said the RBI’s latest action is in line with a broader push — including the shock “demonetisation” of high-value banknotes in November



2016 — to crack down on money laundering and other illicit financial flows. “These are all dots getting connected to a common objective,” he said. India is not alone in taking action against virtual currencies. Nations from Algeria to Bangladesh have prohibited their use, while China moved to shut down cryptocurrency exchanges last September. But the tactic pursued by New Delhi — cutting off bitcoin exchanges from the formal financial system, even while they are not deemed to have breached any laws — may violate constitutional guarantees of the right to do business, said Vaibhav Parikh, a partner at Indian law firm Nishith Desai Associates. “There is definitely inconsistency,” he said. This

argument is being tested by the virtual currency exchange CoinRecoil, which has gone to court to fight the RBI’s decision. Other exchanges are racing to repurpose their businesses in the weeks before banks cut off services. WazirX may repurpose itself as an exchange for trading between different

cryptocurrencies, Mr Shetty said. Unocoin, another exchange, is considering moving to a different country and trying to woo foreign customers, said its founder, Sathvik Vishwanath. "If this decision is not reversed, Indian exchanges won't continue to exist in the format they do today," said Rahul Raj, co-founder of cryptocurrency exchange Koinex. "Digital assets will become a dead asset in India — there's just no mechanism to get in or out." Even as it announced its action against bitcoin and its peers, the RBI said it was exploring the potential to create a digital currency of its own. This follows government efforts to show a supportive approach towards other applications of the blockchain technology underpinning bitcoin, with data stored in an encrypted series of "blocks" that is stored and updated in many digital locations simultaneously. Indian state entities have shown interest in using this technology to tackle challenges ranging from land registration to healthcare records, said Kavita Gupta, managing partner of US-based Consensus Ventures, which invests in blockchain-focused start-ups. But the attack on cryptocurrencies will have a chilling effect on the broader environment for blockchain technology development in India, said Mr Chowdhury. Although the bulk of its business is not focused on cryptocurrencies, HashCash plans to "deprioritise" India as a target market, he said.

Amid all the discontent in technology circles, however, Indian bitcoin investors have stayed sanguine in the face of the RBI's move. Having fallen 22 per cent on the day of the announcement, the traded price on Koinex has more than regained all those losses — although on Thursday it showed a 2 per cent discount to the price on US-based Coinbase, rather than the premium that it had once enjoyed. The willingness of many Indian traders to retain bitcoin reflects a widespread hope that the central bank's harsh measures will prove temporary, said Ajeet Khurana, chief executive of Zebpay, one of the largest Indian cryptocurrency exchanges. Zebpay would be "very happy" to eliminate the anonymity enjoyed by its users if asked to do so by regulators, he said, adding that bitcoin should be seen as a store of value similar to gold, rather than as a potential replacement for state-issued fiat currency. "Cryptocurrency is an idea whose time has come, and not a threat to the current system," Mr Khurana said. "What we want is coexistence."