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Scathing comments on Crypto from Mr Rabi Shankar - Deputy Governor, RBI.

1) On crypto being treated as a currency:

"Currency always has an issuer, usually a trusted entity like the sovereign. Even when gold is used as a currency, the gold coins had to be issued by a sovereign."

Secondly, historically, a currency has always been either a commodity with intrinsic value or a debt instrument.

Cryptocurrencies do not conform

to this understanding as they do not have an issuer, they are not an instrument of debt/commodities nor do have any intrinsic value.

Currency needs trust, not everything that can be trusted is a currency. So even if technology (as in a blockchain) provides the trust for cryptocurrencies, they can at best perform the role of a currency within the private and closed environment of that cryptocurrency.

They do not, and should not, automatically become a currency for the larger society "

2) On crypto being treated as a financial asset : "This is also problematic because all financial assets have underlying cash flows and need to be some person's liability.

Cryptocurrencies are neither any person's liability nor do they have any underlying cash flows. They are not financial assets, by definition."

3) On crypto being treated as a commodity : "Commodities are tangible and have utility; cryptocurrencies have neither.

There is this somewhat

awkward attempt to equate some of them with gold, hence limiting their supply like natural resources, or creating them through mining.

Limiting supply by design is not same as limited supply in nature (like gold) because (a) design can be modified & hence such limitation is artificial, and (b) even if 1 cryptocurrency has limited supply, that limitation does not work for all cryptocurrencies taken together.

Further the fact that gold is mined does not in itself make it money, it has to be stamped and issued by a sovereign to make it money."

4) On crypto being treated as digital asset: "Even that is doubtful as cryptocurrencies do not have any underlying use, like for instance car hiring softwares or a core banking systems, or, for that matter, smartphones.

That basically leads to conclusion that it's an electronic code (with no practical use) which has created enough hype such that people are willing to pay money to buy ownership rights to that electronic code, seemingly on the hope that someone else would buy it at a higher price

What started off as a medium of exchange has appeal similar to that of a speculative asset.

As a store of value, cryptocurrencies like bitcoin have given impressive returns so far, but so did tulips in 17th century Netherlands. Cryptocurrencies are very much like a speculative or gambling contract working like a Ponzi scheme.

In fact, it has been argued that the original scheme devised by Charles Ponzi in 1920 is better than cryptocurrencies from a social perspective. Even Ponzi schemes invest in income earning assets.

A bitcoin is akin to a zero-coupon perpetual; it's like you paid money to buy a bond which pays no interest and which will never pay back the principal. A bond with similar cash flows would be valued at 0, which, in fact, can be argued as the fundamental value of a crypto"

Full speech can be read at :
<https://t.co/mX9n2ukCN8...>

Interestingly its second time in a week that tulip reference has been used by RBI ■