BANKING ON KNOWLEDGE

Banker's Take

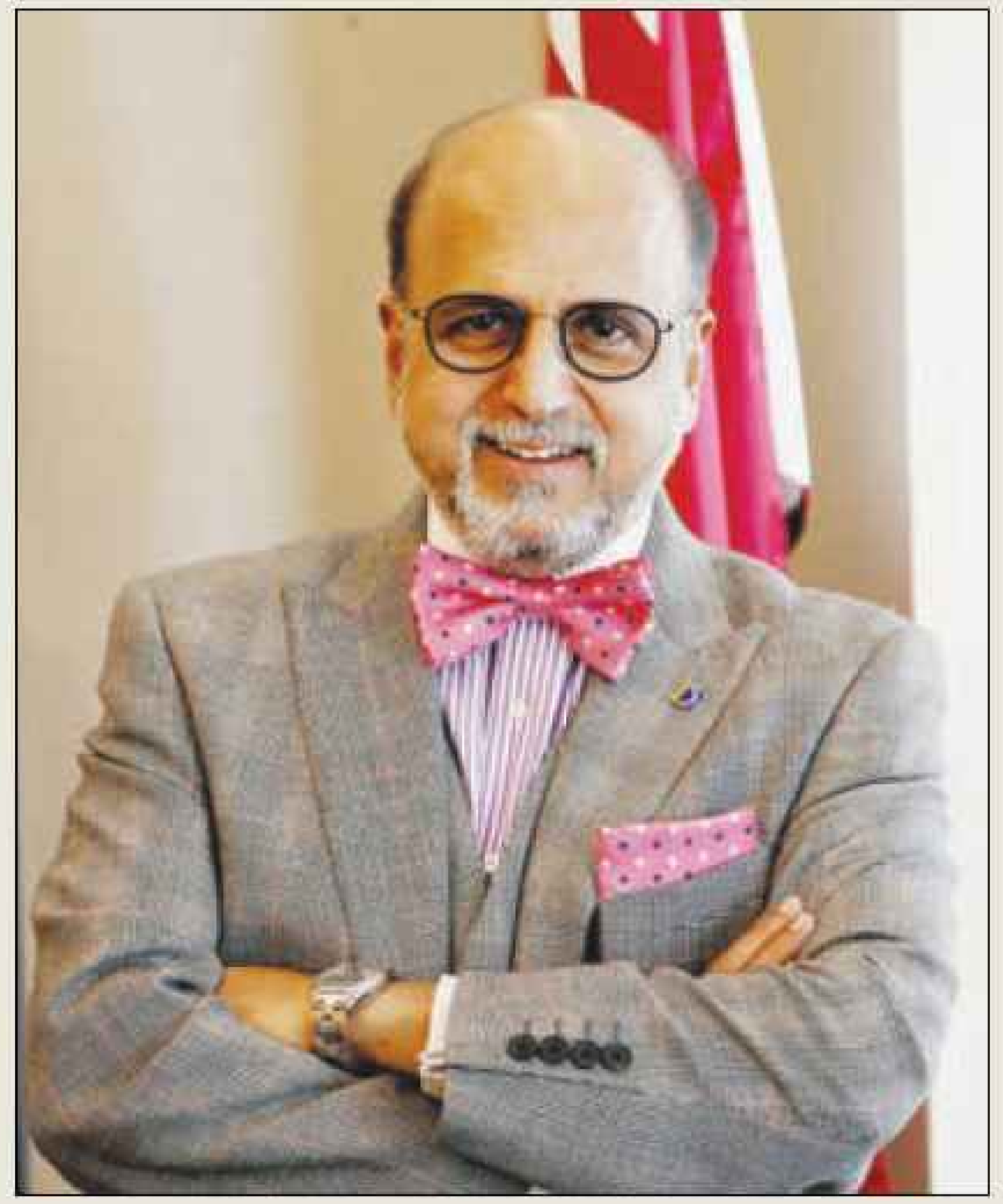
Cryptocurrency collapse is justified

By Dr R Seetharaman

The cryptocurrency Bitcoin recently resumed its sell off after China reiterated a warning that it intends to crack down on cryptocurrency mining as part of an effort to control financial risks. It had touched a yearly high of above 63k by mid of April 2021 and has fallen below 35k levels.

Other cryptocurrencies have experienced similar volatility. The fall in the bitcoin has once again brought the regulatory dimension into this. US Securities and Exchange Commission chair Gary Gensler has said recently he would like to see more regulation around cryptocurrency exchanges, including those that solely trade bitcoin and do not currently have to register with his agency.

The SEC also needs to refresh its rules around crypto currency marketing and how it is being used in the 2020s,



including through game-like features on mobile applications offered by retail brokerages, robo-advisers and wealth management firms. The UK Treasury and Bank of England have launched a joint taskforce to explore a potential central bank digital currency.

In the GCC, Saudi Authority Monetary Agency (Sama) has banned cryptocurrency trading in Saudi Arabia since 2018.

The Central Bank of Kuwait (CBK) has recently warned against dealing or investing in the so-called cryptocurrencies, amid the continued increasing calls for investment in these digital assets. In its statement it noted that digital assets such as Bitcoin cannot be compared to monetary currencies, as it is not subjected to regulatory authorities such as central banks. It also referred to other international institutions' reports in this regard, including the Bank for International Settlements and the global central banks, warning of the dangers of using cryptocurrencies due to the large fluctuations in their value. The Central Bank of the UAE (CBUAE) clarified in 2020 that it has not legalised cryptocurrencies by issuing the recent Stored Value Facilities (SVF) Regulation. The bank has stated that it has not acknowledged crypto assets or virtual assets as a legal tender but only acknowledges UAE Dirham.

Crypto assets are only considered as assets for investments with a potential high risk.

In 2020 The Central Bank of Oman (CBO) warned citizens and residents of the "high risks" of using cryptocurrencies. The Oman central bank further clarified that it has not issued any licences for the trading in cryptocurrencies and that cryptocurrencies are not guaranteed in the Gulf state as money. Anyone who deals in these cryptocurrencies does so on his own responsibility.

The Qatar Central Bank prohibits trading of virtual currency Bitcoin in the country. In its statement, it has mentioned, active trading in Bitcoin have been noticed in some countries, but it is an illegal currency because there is no commitment from any central bank or a government in the world to exchange their value for money issued and cleared for payment for the goods traded globally or for gold.

This cryptocurrency is highly volatile and can be used for financial crimes and electronic hacking as well as risk loss of value because there are no guarantors or assets.

The price of most of the cryptocurrencies is highly volatile which puts customer's financial well-being at risk. The transaction mechanism is ambiguous hence masses do not understand the overall transaction cycle which makes them vulnerable and may expose them to unnecessary risk. There is no central issuing authority, control and governance on cryptocurrencies which goes against the fundamental definition of currency.

Security and valuations of cryptocurrencies are concerns.

Crypto currencies could be used for illegal or money laundering transactions. Mining cryptocurrencies require a lot of computational power and electricity input, making it highly energy-intensive.

The biggest culprit in this is Bitcoin. Mining Bitcoin requires advanced computers and a lot of energy.

It cannot be done on ordinary computers.

Bitcoin increase carbon dioxide emissions and contribute to large carbon footprint. Taking into consideration various challenges pertaining to cryptocurrencies the recent cryptocurrency collapse is justified.

■ *The author is Group CEO of Doha Bank.*