

BJP's Kirit Somaiya terms bitcoin a 'pyramid ponzi scheme'. Is he right?

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Moneycontrol News

BJP MP Kirit Somaiya hit out at the increasing use of bitcoin in India, raising the issue in the Parliament, terming the digital currency as "hypothetical" and a "pyramid ponzi scheme".

"The use of bitcoin, a hypothetical currency, is increasing at a rapid speed in India as well as in the world. Experts have expressed concern that bitcoin is a pyramid ponzi type scheme," he said.

He urged regulators RBI and SEBI, besides the Finance Ministry, to look into its regulation and take

steps to "save people from another big ponzi fraud".

Somaiya's concern over the digital currency is not surprising: the stellar rise of bitcoin as an instrument of speculation or investment, if not a currency, has given rise to plenty of hype, and even confusion, surrounding it.

Over the last one year, bitcoin price has rallied 214 percent to all-time highs of USD 1,300.

So while the currency itself does not offer any promises of return on investment, except for capital appreciation, the lack of regulation around it has given rise to a host of multi-level marketing (MLM) companies who are looking to cash in on the increasing popularity, and mystery, over the novel financial instrument.

"The problem lies with MLM companies who have picked on its popularity and used it to sell unsustainable financial schemes to people," Vishal Gupta, CEO and founder of Searchtrade, told Moneycontrol.

What is a ponzi scheme?

"A Ponzi scheme is an investment scam that involves the payment of purported returns to existing investors from funds contributed by new investors," says While alerting investors about the risks involved with virtual currencies the US SEC had said,

"Such schemes have been going on for years. The most prominent one is the Saradha scam, that happened in West Bengal and there have been several other scams on a weekly or monthly basis, you'll see people doing these scams with traditional money," says Jaideep Reddy, Technology Lawyer at legal and tax consulting firm Nishith Desai.

"While there may be a few bitcoin schemes that may resemble a ponzi scheme it is not something unique to bitcoin and can happen with traditional money as well," he added.

What is bitcoin?

Bitcoin is the world's first digital, decentralized currency and payment network. Unlike fiat currencies, it is not regulated by any central bank and works on a peer-to-peer basis. That means that users can transact directly without an intermediary like a bank, a credit card company or a clearing house.

It is an open source software which means that no person, company or country owns this network just like no one owns the Internet.

Reddy says that bitcoin itself does not fit the legal definition of a fraudulent scheme. "There are several legitimate uses of bitcoin and the underlying technology which powers it --blockchain."

"The technology itself is considered to be robust and it's only the particular implementation of the technology that can be considered fraudulent in certain cases," he added.

Earlier this year the Reserve Bank of India's research arm, IDRBT released a report which said that the time is ripe for blockchain technology adoption in India and it has tested the technology for core banking processes in the country and was also keen on the idea of a digital rupee. ([Read more](#))

Speaking to Moneycontrol, Gupta said that in order to counter dubious schemes purportedly built around bitcoin, bitcoin-based startups and exchanges have launched Digital Asset and Blockchain Foundation of India (DABFI) to self regulate the virtual currency industry and spread awareness about bitcoin and other blockchain based digital assets.

He further said that there are no promises made on returns over bitcoin exchanges who are part of DABFI and one can only buy and sell bitcoins at their own discretion.

On the scrutiny faced by bitcoin, Gupta said that some ponzi schemes which got popular in cities like Delhi were able to dupe many people.

Bitcoin represents the characteristics of both a currency and a commodity and is yet to be defined as one of them by the Indian regulatory authorities.

If bitcoin is declared as currency, it will come under the purview of RBI and if it is declared as a

commodity it will be under the ministry of finance, in both the instances there will be more clarity on how it should be taxed and regulated, Gupta said.

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