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Internet and Mobile Association of India v. Reserve Bank of India, (2020) 10 SCC 274

~ Trupti Hogade

Abstract

The decision of the Internet and Mobile Association of India vs. Reserve Bank of India case is one of the milestones in the process of development of cryptocurrency regulations in India. The case was initiated due to the disagreement concerning the circular of 6 April 2018, issued by the Reserve Bank of India and banning any banks and financial institutions supervised by the RBI to render services to firms working with virtual currency. The court evaluated the limits of the power of the RBI and the constitutionality of the circular. Following the doctrine of proportionality, the court found out that despite the fact that RBI had the right to regulate virtual currencies, the limit provided for in the disputed circular was too restrictive as there was no proof of the damage caused to regulated firms by virtual currency transactions.

Introduction

Cryptocurrencies have thrown a new challenge for the existing legal framework across the world. Cryptocurrencies make use of decentralizing blockchain technology and operate independently of the traditional banking system. While the proponents of cryptocurrencies believe that they are revolutionary financial instruments, there have been regulatory concerns regarding money laundering, fraudulent activities, safety of the consumers, and financial stability.

In India, in view of these concerns, the Reserve Bank of India came out with an advisory dated 6 April 2018, directing all regulated entities not to deal or provide services to entities dealing with virtual currencies. The advisory was effectively blocking the operations of cryptocurrency exchanges by cutting off their access to the formal banking system. The various cryptocurrency exchanges and participants of the industry approached the Supreme Court against the circular through IMAI.

Facts of the Case

The RBI has always issued warnings regarding the threats associated with the use of virtual currencies. In its circular dated 6th April 2018, the RBI instructed all banks and other financial organizations regulated by it to withdraw from providing services to the virtual currency businesses and terminate existing associations within three months.

The petitioners contended that the circular was capable of eliminating the entire cryptocurrency industry in India since exchanges would not be able to gain access to banking facilities. The petitioners alleged

that the circular violated the fundamental right to carry on business as guaranteed by Article 19(1)(g) of the Constitution.

According to the RBI, the circular was necessary for ensuring the protection of the financial system and the consumers from the threats posed by virtual currencies.

Issues Before the Court

- 1.Had the RBI had the legal jurisdiction to regulate virtual currency.
- 2.Had the RBI circular dated 6 April 2018 been within its jurisdictional ambit.
- 3.Had the RBI circular contravened Article 19(1)(g) of the Constitution.
- 4.Whether the restriction imposed was within the ambit of the doctrine of proportionality.

Arguments of the Parties

Petitioners

The claimants argued that:

- 1.Cryptocurrency was not illegal under the laws of India.
- 2.The RBI lacked sufficient evidence to prove the actual harm caused by the cryptocurrency exchanges.
- 3.The circular created an absolute prohibition against any business activity dealing with virtual currencies.
- 4.The restriction violated Article 19(1)(g) and failed to satisfy the proportionality test.

RBI

The RBI argued that:

- 1.It was endowed with vast regulatory powers in terms of the RBI Act 1934, the Banking Regulation Act 1949, and the Payment and Settlement Systems Act 2007.
- 2.Virtual currencies posed grave threats to the stability of the financial system and monetary security.
- 3.There was need for preemptive action before any harm was done.
- 4.The circular was very necessary in protecting the banking system and public interest.

Judgment

The core principle established by the Court is that even when there is the statutory power, its use has to fulfill the constitutional tests of reasonableness and proportionality.

The Court emphasized that any restriction imposed on the right to carry out business should be supported by the evidence of necessity and proportionality. The mere fear of potential danger is not sufficient ground for imposing harsh restrictions that practically amount to destruction of an entire industry.

Critical Analysis

Importantly, this judgment enhances the principle of proportionality within Indian administrative law. In this case, the Court focused more on the legality of how the authority was used rather than questioning the legitimacy of the authority of RBI.

One of the strong points of this judgment is that it was quite fair. The Court did not entirely approve of cryptocurrencies; however, the Court recognized the RBI's concerns regarding financial stability, but it underlined that regulatory actions should have a basis and should not impose strict limitations.

Also, this decision is an example of understanding of technological progress by the Court. Technological advances develop faster than the regulatory mechanisms. The Court's approach ensured that innovation was not hindered just because the regulatory mechanisms could not cope with new technology yet.

On the other hand, some people claim that this judgment limited the ability of financial regulators to use preemptive approaches in rapidly changing industries. Financial regulators tend to take action even before any real harm occurs, and requesting evidence of present harm could limit this process.

Nevertheless, despite these concerns, this decision remains an important recognition of constitutional protection from unreasonable regulatory action.

Significance of the Judgment

- 1.The decision has important implications:
- 2.It revived the cryptocurrency exchanges in India.
- 3.It confirmed the principle of proportionality in administrative law.
- 4.It defined the scope of the regulatory powers of RBI.
- 5.It emphasized legislative measures rather than regulatory measures for new technologies.
- 6.It affected the subsequent debate on cryptocurrency regulations in India.

Conclusion

The judgment in Internet and Mobile Association of India v. Reserve Bank of India is a critical crossroad of constitutional law, financial regulation, and technology. The Supreme Court skillfully struck a balance between the necessity of financial regulation and constitutional protection of economic freedom. While the decision does not address all questions relating to regulation of cryptocurrencies, it lays down an important guideline that any regulations must be proportionate, evidence-based, and constitutionally sound.