

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

RAJYA SABHA
UNSTARRED QUESTION NO. 2467
TO BE ANSWERED ON 17.12.2024/ 26 Agrahayana, 1946 (Saka)

Impact of DeFi on traditional financial system

2467 **Shri Kartikeya Sharma:**

Will the Minister of *Finance* be pleased to state:

- (a) the Ministry's assessment of the emerging Decentralized Finance (DeFi) sector and its potential impact on the traditional financial system in the country;
- (b) the steps taken by the Ministry to develop a regulatory framework for DeFi that fosters innovation while addressing risks related to consumer protection, financial stability and antimoney laundering measures; and
- (c) whether any measures are being implemented to enhance financial literacy and consumer awareness around DeFi, particularly in terms of the risks and benefits associated with these decentralized financial products and services, if so, the details thereof?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI PANKAJ CHAUDHARY)

(a) to (c): At the request of India's G20 Presidency, the International Monetary Fund (IMF) and the Financial Stability Board (FSB) developed a Synthesis Paper on policies for crypto assets. This paper provides a coordinated and comprehensive policy framework addressing a wide range of risks, including those relevant to emerging markets and developing economies (EMDEs). The paper identifies the so-called Decentralised Finance (DeFi) as a component of the larger crypto asset ecosystem. It identifies significant risks to macroeconomic stability, financial stability, financial integrity, and consumer safety posed by the entire crypto asset ecosystem, including stablecoins and DeFi. The FSB's another report of 2023, *The Financial Stability Risks of Decentralised Finance*, delves deeper into vulnerabilities specific to the DeFi sector. The report highlights that the risks in the DeFi sector are further exacerbated by its unique characteristics. While the crypto asset ecosystem, including DeFi, is not regulated in India, the Reserve Bank of India (RBI) has from time-to-time cautioned users, holders, and traders of crypto assets / virtual currencies about the associated economic, financial, operational, legal, consumer protection, and

security-related risks. With the IMF-FSB Synthesis Paper as the basis, all jurisdictions, including India, are expected to evaluate their country specific risks and engage with standard-setting bodies to develop an appropriate regulatory framework for the crypto asset ecosystem. Effective regulatory measures can only be achieved through significant international collaboration in understanding and balancing the risks and innovation-related benefits. Globally, however, regulatory measures for DeFi are being considered as part of a second phase, as regulators and policymakers prioritize understanding of unbacked crypto assets and stablecoins. International organizations and standard-setting bodies have acknowledged that regulatory approaches to DeFi are still evolving.
