

# INTERNATIONAL JOURNAL FOR LEGAL RESEARCH AND ANALYSIS



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Peer Reviewed

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# **FROM FRAGMENTATION TO FRAMEWORK: TOWARDS A COMPREHENSIVE LEGISLATIVE FRAMEWORK FOR CRYPTOCURRENCY REGULATION IN INDIA**

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## **ABSTRACT**

The rapid growth of cryptocurrencies has significantly reshaped the global financial landscape, creating new opportunities for innovation, investment and digital commerce. At the same time, it has raised complex legal and regulatory concerns that governments across the world continue to address. Although the use of crypto-assets has grown steadily in India, the country still regulates them through a combination of constitutional principles, taxation provisions, anti-money laundering measures, executive actions and judicial decisions rather than a dedicated legislative framework. As a result, the existing regulatory approach remains fragmented, leading to legal uncertainty, overlapping institutional responsibilities and limited protection for investors.

The present study examines India's existing cryptocurrency regulatory framework by analysing constitutional provisions, regulatory measures adopted by the Reserve Bank of India, taxation under the Income-tax Act, 1961, anti-money laundering obligations under the Prevention of Money Laundering Act, 2002 and significant judicial developments. To place India's regulatory approach in a broader perspective, the study also compares the legal frameworks of the European Union, Singapore and the United Kingdom to identify regulatory principles and legislative models that may assist in the development of a comprehensive cryptocurrency regulatory framework in India.

The analysis shows that India's current approach largely focuses on taxation and regulatory compliance, without creating a comprehensive framework for governing cryptocurrency markets. It further suggests that a dedicated, technology-neutral, and risk-based

Cryptocurrency Regulation Act, supported by effective institutional coordination, clear licensing standards and strong investor protection measures, is necessary to provide legal certainty, encourage responsible innovation, safeguard financial stability and strengthen India's role in the rapidly evolving global digital asset ecosystem.

**Keywords:** Cryptocurrency Law, Virtual Digital Assets, Regulatory Framework, Financial Technology (FinTech), Investor Protection, Comparative Law, Digital Asset Regulation, Prevention of Money Laundering Act (PMLA), Reserve Bank of India (RBI), India.

## 1. INTRODUCTION

Cryptocurrencies have become an important part of the global digital economy, changing the way financial transactions and digital assets are created, exchanged and managed through blockchain technology. Their growing adoption has created new opportunities for investment, digital payments and financial innovation. At the same time, it has raised important legal and regulatory concerns relating to investor protection, financial stability, taxation, cybersecurity and money laundering. India has also witnessed a rapid increase in cryptocurrency adoption, highlighting the need for a clear and effective legal framework to regulate this evolving sector.

### 1.1 Research Problem

Despite the increasing use of cryptocurrencies, India still does not have a dedicated law governing digital assets. Instead, the existing regulatory framework has developed through taxation provisions, anti-money laundering measures, judicial decisions, executive notifications and the involvement of multiple regulatory authorities. While these measures address certain aspects of cryptocurrency regulation, they do not form a unified legal framework. As a result, regulatory uncertainty continues to persist, institutional responsibilities often overlap and both businesses and investors face limited legal protection.

### 1.2 Research Objectives

This study examines India's existing legal and regulatory framework governing cryptocurrencies and identifies the key legal and institutional gaps in the current system. It also compares the regulatory approaches adopted by the European Union, Singapore, the United Kingdom and the United States to understand how different jurisdictions regulate digital assets. Based on this analysis, the study proposes recommendations for developing a comprehensive, technology-neutral and effective cryptocurrency regulatory framework in India.

### 1.3 Research Methodology

This study follows a doctrinal research methodology based on qualitative legal analysis. The research primarily relies on primary sources, including constitutional provisions, statutes, judicial decisions, government notifications and regulatory guidelines, together with secondary sources such as books, journal articles, research reports and official publications. In addition, a comparative legal approach has been used to examine international regulatory frameworks and provide insights that may assist in strengthening India's cryptocurrency regulatory framework.

## 2. UNDERSTANDING CRYPTOCURRENCY

Cryptocurrency is a digital or virtual asset that uses cryptographic techniques to secure transactions and operates on blockchain technology, a decentralised digital ledger that records transactions across a network of computers without the involvement of a central authority such as a bank or government. Unlike traditional currencies, cryptocurrencies allow users to transfer value directly between parties, making transactions faster, more transparent and less dependent on financial intermediaries. As a result, cryptocurrencies have emerged as an important driver of financial innovation and the growing digital economy.

Cryptocurrencies are characterised by features such as decentralisation, transparency, immutability, security, pseudonymity and the ability to facilitate cross-border transactions without relying on a central authority. Depending on their purpose, they can be broadly classified into payment tokens, such as Bitcoin, utility tokens, security tokens, stablecoins and Non-Fungible Tokens (NFTs), each serving a distinct role within the digital asset ecosystem. Blockchain technology is the core technology behind cryptocurrencies. It enables transactions to be securely verified, permanently recorded and protected from unauthorised alteration through a decentralised network of computers. Although blockchain first gained recognition through cryptocurrencies, its applications now extend to sectors such as finance, supply chain management, healthcare, digital identity and several other areas that rely on secure and transparent record-keeping.

While cryptocurrencies offer significant opportunities for innovation and economic growth, they also give rise to important legal and regulatory challenges. Issues such as price volatility, cyber fraud, money laundering, terrorist financing, taxation and consumer protection continue to raise concerns for policymakers and regulators. In response, many countries have introduced

regulatory frameworks that seek to encourage technological innovation while ensuring financial stability, protecting investors and safeguarding national security.

### **3. EXISTING LEGAL AND REGULATORY FRAMEWORK IN INDIA**

#### **3.1 Constitutional Foundation**

The Constitution of India does not expressly recognise or regulate cryptocurrencies. Even so, it provides the constitutional foundation for any future legislation governing digital assets. Article 19(1)(g) guarantees the freedom to practise any profession or carry on any trade or business, which may extend protection to legitimate cryptocurrency businesses. However, this right is subject to Article 19(6), allowing the State to impose reasonable restrictions in the interest of the general public. Similarly, Articles 14 and 21 require that any regulatory action affecting cryptocurrency businesses or investors must be fair, non-arbitrary and consistent with due process. Further, Article 246, read with the Seventh Schedule<sup>1</sup>, empowers Parliament to legislate on matters relating to currency, banking and financial institutions, providing the constitutional basis for enacting a dedicated legal framework for cryptocurrency regulation in India.

#### **3.2 Reserve Bank of India (RBI)**

The Reserve Bank of India (RBI) has been one of the key institutions influencing India's approach to cryptocurrency regulation, primarily through regulatory measures rather than dedicated legislation. In 2013<sup>2</sup> and 2017<sup>3</sup>, the RBI issued public advisories cautioning users and financial institutions about the risks associated with virtual currencies, including price volatility, cyber fraud, money laundering, terrorist financing, consumer protection issues and potential threats to financial stability. These advisories reflected the RBI's cautious approach towards privately issued cryptocurrencies and highlighted the need for greater regulatory oversight.

A significant development in India's cryptocurrency regulation came with the RBI Circular dated 6 April 2018<sup>4</sup>, which directed banks and other regulated financial institutions to stop providing banking services to cryptocurrency businesses. Although the Supreme Court later set

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<sup>1</sup> Constitution of India, Seventh Schedule, List I, Entries 36, 45 and 46.

<sup>2</sup> 'RBI Cautions Users of Virtual Currencies against Risks' (Press Release No 2013-2014/1261, 24 December 2013) <https://www.rbi.org.in/CommonPerson/english/scripts/PressReleases.aspx?Id=2522> accessed [date].

<sup>3</sup> 'RBI Cautions Users of Virtual Currencies' (Press Release No 2016-2017/2054, 1 February 2017) <https://www.rbi.org.in/commonman/english/scripts/PressReleases.aspx?Id=2152>

<sup>4</sup> 'Prohibition on Dealing in Virtual Currencies (VCs)' (Circular DBR.No.BP.BC.104/08.13.102/2017-18, 6 April 2018) <https://www.rbi.org.in/commonperson/English/Scripts/Notification.aspx?Id=2632>

aside the circular in the case of *Internet and Mobile Association of India v. Reserve Bank of India* (2020)<sup>5</sup>, it remains an important turning point in India's regulatory approach to cryptocurrencies and sparked wider discussions on the need for a clear legal framework.

After the Supreme Court's judgment, the RBI issued another circular on 31 May 2021<sup>6</sup>, clarifying that regulated entities could no longer rely on the 2018 circular, as it had been set aside by the Court. At the same time, the RBI emphasised that banks and other regulated entities must continue to comply with existing Know Your Customer (KYC), Anti-Money Laundering (AML) and risk management requirements.

In recent years, the RBI has repeatedly expressed concerns about the potential impact of privately issued cryptocurrencies on financial stability, investor protection and the broader economy. At the same time, it has actively promoted the Digital Rupee (Central Bank Digital Currency - CBDC)<sup>7</sup> as a regulated digital alternative issued by the central bank. This approach indicates the RBI's preference for digital innovation within a regulated financial system rather than the widespread use of privately issued crypto-assets.

### 3.3 Government Committees and Policy Development

The Government of India took its first major step towards developing a cryptocurrency policy by constituting the Inter-Ministerial Committee (IMC) in 2017 under the chairmanship of Subhash Chandra Garg. The Committee was tasked with examining the legal, technological, financial and economic implications of virtual currencies and submitted its report to the Government in 2019<sup>8</sup>.

The IMC recommended prohibiting private cryptocurrencies while supporting the use of blockchain technology and the introduction of an RBI-issued Central Bank Digital Currency (CBDC). It also proposed the Draft Banning of Cryptocurrency and Regulation of Official Digital Currency Bill, 2019<sup>9</sup>. Although neither the Committee's recommendations nor the

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<sup>5</sup> *Internet and Mobile Association of India v Reserve Bank of India* (2020) 10 SCC 274 (SC).

<sup>6</sup> 'Customer Due Diligence for Transactions in Virtual Currencies (VC)' (Circular RBI/2021-22/45, DOR.AML.REC.18/14.01.001/2021-22, 31 May 2021) <https://www.rbi.org.in/commonman/English/scripts/Notification.aspx?Id=12103> accessed 27 June 2026.

<sup>7</sup> Reserve Bank of India, Concept Note on Central Bank Digital Currency (7 October 2022) <https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=1218>

<sup>8</sup> Ministry of Finance, Government of India, Report of the Committee to Propose Specific Actions to be Taken in Relation to Virtual Currencies (Department of Economic Affairs, February 2019) [https://prsindia.org/files/bills\\_acts/bills\\_parliament/1970/Report%20of%20the%20Inter-Ministerial%20Committee%20on%20Virtual%20Currencies.pdf](https://prsindia.org/files/bills_acts/bills_parliament/1970/Report%20of%20the%20Inter-Ministerial%20Committee%20on%20Virtual%20Currencies.pdf)

<sup>9</sup> Draft Banning of Cryptocurrency and Regulation of Official Digital Currency Bill, 2019 (Department of Economic Affairs, 2019) [https://prsindia.org/files/bills\\_acts/bills\\_parliament/1970/Draft%20Banning%20of%20Cryptocurrency%20%26%20Regulation%20of%20Official%20Digital%20Currency%20Bill%2C%202019.pdf](https://prsindia.org/files/bills_acts/bills_parliament/1970/Draft%20Banning%20of%20Cryptocurrency%20%26%20Regulation%20of%20Official%20Digital%20Currency%20Bill%2C%202019.pdf)

proposed Bill were enacted into law, they significantly shaped the Government's approach to cryptocurrency regulation and continue to serve as important reference points in subsequent policy discussions.

### 3.4 Legislative and Parliamentary Developments

Although cryptocurrency regulation has been discussed for several years, India has yet to enact a dedicated law governing digital assets. One of the most significant legislative proposals was the Cryptocurrency and Regulation of Official Digital Currency Bill, 2021<sup>10</sup>, which sought to provide a legal framework for the Digital Rupee (CBDC) while addressing the regulation of private cryptocurrencies. However, the Bill was not introduced in Parliament, leaving India without a dedicated statutory framework for cryptocurrency regulation.

The Government has adopted a cautious approach towards cryptocurrency regulation, recognising that the borderless nature of digital assets requires greater international cooperation. As a result, India continues to rely on executive notifications, regulatory measures, taxation provisions and existing financial laws instead of a dedicated law enacted by Parliament. While this approach has addressed some immediate regulatory concerns, it has not provided a clear and unified legal framework for governing cryptocurrencies.

### 3.5 Taxation Framework

The Finance Act, 2022<sup>11</sup> marked an important development in India's approach to cryptocurrency taxation by introducing the concept of Virtual Digital Assets (VDAs) under the Income-tax Act, 1961. Under Section 115BBH, income earned from the transfer of cryptocurrencies and other Virtual Digital Assets is taxed at a flat rate of 30%, irrespective of the holding period or the taxpayer's income slab. In addition, Section 194S requires the deduction of 1% Tax Deducted at Source (TDS) on specified cryptocurrency transactions.

The Act allows taxpayers to deduct only the cost of acquisition. In addition, Section 115BBH(2)(b) does not permit the set-off or carry forward of losses arising from cryptocurrency transactions.

Although these provisions recognise cryptocurrencies for taxation purposes, they do not determine their legal status or regulate important aspects such as cryptocurrency exchanges and investor protection. As a result, the existing taxation framework primarily serves the purpose

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<sup>10</sup> Lok Sabha Secretariat, 'List of Business – Winter Session 2021' (Lok Sabha Bulletin Part II, No 402, 23 November 2021) <https://loksabhadocs.nic.in/bull2mk/2021/23.11.21.pdf>

<sup>11</sup> Finance Act 2022 (Act No 6 of 2022), ss 2(47A), 115BBH and 194S.

of revenue collection and cannot be regarded as a complete regulatory framework for cryptocurrencies.

### 3.6 Anti-Money Laundering Framework

In 2023, the Ministry of Finance issued a notification<sup>12</sup> bringing specified cryptocurrency activities within the scope of the Prevention of Money Laundering Act, 2002 (PMLA)<sup>13</sup>. This marked an important step towards strengthening India's anti-money laundering framework for digital assets.

Under this notification, Virtual Asset Service Providers (VASPs) were recognised as reporting entities and are required to comply with key obligations under the PMLA. These include conducting Know Your Customer (KYC) verification, implementing Customer Due Diligence (CDD) measures, maintaining transaction records and reporting suspicious transactions.

These obligations bring India's anti-money laundering framework in line with the recommendations of the Financial Action Task Force (FATF)<sup>14</sup> and strengthen measures to prevent money laundering and terrorist financing. Despite this, the scope of the PMLA remains limited to financial compliance. It does not deal with broader regulatory issues such as the regulation of cryptocurrency exchanges, classification of crypto-assets, licensing of Virtual Asset Service Providers or investor protection. As a result, the PMLA cannot by itself serve as a complete legal framework for regulating cryptocurrencies in India.

### 3.7 Financial Intelligence Unit - India (FIU-IND)

The Financial Intelligence Unit-India (FIU-IND)<sup>15</sup> plays a central role in monitoring suspicious cryptocurrency transactions and enforcing anti-money laundering compliance. All eligible Virtual Digital Asset Service Providers (VDASPs) operating in India are required to register with FIU-IND and comply with the obligations prescribed under the Prevention of Money Laundering Act, 2002 (PMLA). These include Know Your Customer (KYC) verification, Customer Due Diligence (CDD), record-keeping, and the reporting of suspicious transactions. FIU-IND further strengthened India's anti-money laundering framework by issuing updated **Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) Guidelines in**

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<sup>12</sup> Ministry of Finance, Department of Revenue, Notification No S.O. 1072(E), Gazette of India, 7 March 2023 <https://egazette.gov.in/WriteReadData/2023/244184.pdf>

<sup>13</sup> Prevention of Money Laundering Act 2002 (Act No 15 of 2003).

<sup>14</sup> Financial Action Task Force, Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers (FATF, October 2021) <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Guidance-rba-virtual-assets-2021.html>

<sup>15</sup> Financial Intelligence Unit-India, 'About FIU-IND' <https://fiuindia.gov.in/about-us>

**January 2026**<sup>16</sup>. These guidelines introduced enhanced compliance standards for Virtual Digital Asset Service Providers. During 2025-2026, the Government also strengthened enforcement against several non-compliant offshore cryptocurrency exchanges by issuing notices and taking action against platforms operating without mandatory registration under the PMLA.

These developments show that India's anti-money laundering compliance framework is continuing to evolve. Even so, FIU-IND's role is largely confined to financial intelligence and anti-money laundering enforcement. It does not extend to broader regulatory functions such as supervising cryptocurrency markets, licensing service providers or protecting investors.

### 3.8 Other Applicable Laws

Several existing laws indirectly regulate different aspects of cryptocurrency in India. For instance, the Foreign Exchange Management Act, 1999 (FEMA)<sup>17</sup> applies to cross-border cryptocurrency transactions, although it does not specifically regulate Virtual Digital Assets. The Information Technology Act, 2000<sup>18</sup> addresses issues relating to cyber offences, electronic records, hacking and digital platforms used by cryptocurrency exchanges. Consumer interests receive limited protection under the Consumer Protection Act, 2019<sup>19</sup>, particularly in cases involving unfair trade practices or misleading advertisements by crypto service providers. Likewise, the Indian Contract Act, 1872<sup>20</sup> governs contractual relationships between exchanges and users, while the Companies Act, 2013<sup>21</sup> becomes relevant where companies hold or disclose cryptocurrency assets. The Insolvency and Bankruptcy Code, 2016 (IBC)<sup>22</sup> may also apply where digital assets form part of insolvency proceedings.

While these statutes address certain legal issues relating to cryptocurrencies, none of them were enacted specifically to regulate digital assets. As a result, they provide only limited and fragmented regulation, leaving several important aspects of the cryptocurrency ecosystem outside the scope of existing laws.

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<sup>16</sup> AML & CFT Guidelines for Reporting Entities Providing Services Related to Virtual Digital Assets (updated 8 January 2026) <https://fiuindia.gov.in/pdfs/downloads/VDA08012026.pdf>

<sup>17</sup> Foreign Exchange Management Act 1999 (Act No 42 of 1999).

<sup>18</sup> Information Technology Act 2000 (Act No 21 of 2000).

<sup>19</sup> Consumer Protection Act 2019 (Act No 35 of 2019).

<sup>20</sup> Indian Contract Act 1872 (Act No 9 of 1872).

<sup>21</sup> Companies Act 2013 (Act No 18 of 2013).

<sup>22</sup> Insolvency and Bankruptcy Code 2016 (Act No 31 of 2016).

### 3.9 Central Bank Digital Currency (CBDC)

While maintaining a cautious approach towards privately issued cryptocurrencies, India has also introduced the Digital Rupee (e₹), a Central Bank Digital Currency (CBDC)<sup>23</sup> issued by the Reserve Bank of India (RBI).

Unlike decentralised cryptocurrencies such as Bitcoin and Ethereum, the Digital Rupee is a sovereign currency issued and backed by the RBI. Its introduction reflects India's broader approach to digital finance, supporting innovation within a regulated environment while remaining cautious about privately issued crypto-assets.

### 3.10 Institutional Framework

Cryptocurrency regulation in India is currently shared among several authorities, each responsible for different aspects of the regulatory framework.

The **Reserve Bank of India (RBI)** supervises banking and payment systems.

The **Income Tax Department** administers taxation under the Income-tax Act, 1961<sup>24</sup>.

The **Financial Intelligence Unit–India (FIU-IND)** oversees anti-money laundering compliance under the Prevention of Money Laundering Act, 2002<sup>25</sup>.

The **Directorate of Enforcement (ED)** investigates offences involving money laundering.

**Cyber Crime Cells** investigate cyber fraud and other digital offences involving cryptocurrencies.

At present, **SEBI** does not regulate cryptocurrencies as a separate asset class. However, it continues to examine crypto-assets that display characteristics of securities and may play a significant regulatory role if India introduces a dedicated legal framework for cryptocurrencies. The involvement of multiple authorities has created a fragmented regulatory structure, with no single institution responsible for overseeing the cryptocurrency ecosystem. This division of responsibilities often leads to overlapping functions and a lack of regulatory clarity.

### 3.11 Regulatory Assessment

India's existing legal framework shows that cryptocurrencies do not operate in a legal vacuum. Rather than being governed by a single statute, different aspects of cryptocurrency regulation are addressed through constitutional principles, taxation laws, banking regulations, anti-money laundering provisions, executive notifications, committee reports, judicial decisions and

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<sup>23</sup> Reserve Bank of India, Concept Note on Central Bank Digital Currency (7 October 2022) <https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?ID=1218>

<sup>24</sup> Income-tax Act 1961 (Act No 43 of 1961).

<sup>25</sup> Prevention of Money Laundering Act 2002 (Act No 15 of 2003).

institutional oversight together, these measures form the current regulatory landscape, although they remain fragmented across multiple legal and regulatory instruments.

Recent developments, such as the expansion of PMLA compliance, the issuance of the FIU-IND AML/CFT Guidelines (2026)<sup>26</sup> and stricter action against non-compliant offshore cryptocurrency platforms, reflect India's continuing efforts to strengthen its compliance framework. Even so, these measures remain largely confined to taxation and anti-money laundering and do not address broader aspects of cryptocurrency market regulation, such as licensing, market conduct and investor protection.

Several important areas of cryptocurrency regulation still remain unaddressed under Indian law. These include the licensing of exchanges, classification of crypto-assets, regulation of stablecoins, decentralised finance (DeFi), Non-Fungible Tokens (NFTs), smart contracts, custody standards, market abuse, exchange insolvency, investor protection and consumer grievance redressal. The absence of clear statutory provisions in these areas continues to leave significant regulatory gaps within India's digital asset ecosystem.

Overall, India's existing regulatory framework reflects an evolving but incomplete approach to cryptocurrency regulation. While different authorities oversee specific aspects of the ecosystem, the absence of a unified statutory framework continues to create gaps in regulation and coordination. A dedicated Cryptocurrency Regulation Act would provide greater legal clarity, strengthen investor confidence, improve regulatory coordination and support the responsible growth of India's digital asset ecosystem.

#### **4. JUDICIAL DEVELOPMENTS SHAPING CRYPTOCURRENCY REGULATION IN INDIA**

Judicial decisions have played a significant role in shaping India's approach to cryptocurrency regulation. As there is no dedicated legislation governing digital assets, courts have relied on constitutional principles and established legal doctrines to resolve disputes involving cryptocurrencies. In doing so, they have clarified important legal issues while also highlighting areas where legislative intervention is necessary to provide greater legal clarity and consistency.

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<sup>26</sup> AML & CFT Guidelines for Reporting Entities Providing Services Related to Virtual Digital Assets (updated 8 January 2026) <https://fiuindia.gov.in/pdfs/downloads/VDA08012026.pdf>

#### 4.1 Internet and Mobile Association of India v. Reserve Bank of India, (2020)<sup>27</sup>

The case arose from the RBI Circular dated 6 April 2018<sup>28</sup>, which directed banks and other regulated financial institutions to stop providing banking services to cryptocurrency businesses. The Internet and Mobile Association of India (IAMAI) challenged the circular before the Supreme Court, arguing that it placed a disproportionate restriction on the fundamental right to carry on trade or business under Article 19(1)(g) of the Constitution.

The Supreme Court recognised the RBI's authority to regulate the financial system but found that the 2018 circular did not satisfy the test of proportionality. The Court observed that the RBI had not demonstrated any actual harm caused by cryptocurrency businesses to the banking system. On this basis, it set aside the circular.

This judgment reaffirmed that executive measures affecting an emerging industry must be proportionate and supported by evidence. It also made clear that lasting regulation of cryptocurrencies cannot depend solely on regulatory circulars and instead requires a clear legislative framework enacted by Parliament.

#### 4.2 Kali Digital Eco-Systems Pvt. Ltd. V. Union of India<sup>29</sup>

The petitioners approached the Supreme Court seeking directions to the Government to formulate a legal framework for cryptocurrencies and clarify their legal status in India. The case highlighted the practical challenges faced by cryptocurrency businesses and investors due to the absence of a clear and consistent regulatory framework.

The Supreme Court declined to issue the requested directions, holding that the regulation of cryptocurrencies falls within the responsibility of the executive and Parliament rather than the judiciary. It emphasised that courts may interpret and apply the law but cannot assume legislative or policy-making functions in matters involving economic regulation.

The judgment reinforces the **principle of judicial restraint** by making it clear that, although courts can interpret and apply existing laws, the responsibility for designing an effective regulatory framework for cryptocurrencies rests with the executive and Parliament. This recognises that policy decisions in a rapidly evolving sector require legislative action supported by appropriate technical and regulatory expertise.

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<sup>27</sup> Internet and Mobile Association of India v Reserve Bank of India (2020) 10 SCC 274 (SC).

<sup>28</sup> Reserve Bank of India, 'Prohibition on Dealing in Virtual Currencies (VCs)' (Circular RBI/2017-18/154, DBR.No.BP.BC.104/08.13.102/2017-18, 6 April 2018) <https://www.rbi.org.in/commonman/english/scripts/Notification.aspx?Id=2632>

<sup>29</sup> Kali Digital Eco-Systems Pvt Ltd v Union of India, WPA 23512 of 2022 (Calcutta High Court, decided on 19 May 2022).

### 4.3 *Rhutikumari v. Zanmai Labs Pvt. Ltd. (Madras High Court)*<sup>30</sup>

The case arose after the 2024 WazirX cyberattack<sup>31</sup>, when the exchange froze certain user accounts and proposed sharing the resulting losses among its users. The petitioner argued that her XRP holdings had not been affected by the cyberattack and sought protection of her digital assets before the Madras High Court.

The Madras High Court recognised cryptocurrency as property that is capable of ownership, possession, beneficial enjoyment and being held in trust. It also held that cryptocurrency exchanges holding users assets owe fiduciary duties and are required to exercise due care in protecting those assets. On this basis, the Court granted interim protection to the petitioner.

This judgment marks an important development in the legal recognition of digital assets under Indian law by applying established principles of property and fiduciary law to cryptocurrencies. It also highlights the need for clear statutory rules governing the ownership, custody and protection of investors digital assets.

### 4.4 *Zanmai Labs Pvt. Ltd. v. Bitcipher Labs LLP (Bombay High Court)*<sup>32</sup>

The case examined the responsibilities of a cryptocurrency exchange in relation to digital assets held on behalf of its users. A key issue before the Bombay High Court was whether an exchange acts merely as an intermediary for cryptocurrency transactions or also assumes custodial responsibilities over users digital assets.

The Bombay High Court held that cryptocurrency exchanges perform important custodial functions and cannot exercise unrestricted control over users digital assets. It clarified that beneficial ownership remains with the user, while exchanges are responsible for safeguarding assets held in their custody. The principles laid down in this decision were later relied upon by the Madras High Court in *Rhutikumari v. Zanmai Labs Pvt. Ltd.*

This judgment clarifies the legal relationship between cryptocurrency exchanges and their users by recognising the custodial responsibilities of exchanges over assets held on behalf of investors. It also highlights the need for clear statutory standards governing custody, accountability, and the protection of digital assets in India.

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<sup>30</sup> *Rhutikumari v Zanmai Labs Pvt Ltd and Others*, OA No 194 of 2025, 2025:MHC:2437 (Mad HC, 25 October 2025).

<sup>31</sup> 'WazirX Cyber Attack Incident' (28 July 2024) <https://wazirx.com/blog/wazirx-cyber-attack-day-wise-report/>

<sup>32</sup> *Zanmai Labs Pvt Ltd v Bitcipher Labs LLP*, Commercial Arbitration Petition (L) No 11646 of 2025 (Bombay High Court, 7 October 2025).

#### 4.5 Judicial Significance

Taken together, these judicial decisions reflect the Indian judiciary's balanced approach to cryptocurrency regulation. The courts have protected constitutional rights, recognised ownership and custodial interests in digital assets and clarified important legal principles, while consistently leaving questions of regulatory policy to the executive and Parliament. Although these decisions have provided valuable judicial guidance, they cannot by themselves establish a complete regulatory regime. The continued growth of India's digital asset market ultimately calls for a dedicated legislative framework that brings together clear regulatory standards, effective institutional coordination and adequate safeguards for investors and market participants.

## 5. COMPARATIVE ANALYSIS OF INTERNATIONAL REGULATORY FRAMEWORKS

### 5.1 International Regulatory Standards

The cross-border nature of cryptocurrency transactions makes international regulatory cooperation essential, as domestic measures alone cannot effectively address the risks associated with digital assets. In response, several international organisations have developed widely recognised standards that guide national approaches to cryptocurrency regulation. Although these standards are not legally binding, they provide an important reference point for promoting financial integrity, consumer protection, tax transparency and regulatory cooperation.

Financial Action Task Force (FATF)<sup>33</sup>. The Financial Action Task Force (FATF) is the leading international body responsible for setting standards to combat money laundering, terrorist financing and proliferation financing. In 2019, FATF extended its Recommendations to cover Virtual Assets (VAs) and Virtual Asset Service Providers (VASPs), bringing cryptocurrencies within the scope of global anti-money laundering standards. The revised Recommendations require jurisdictions to implement Know Your Customer (KYC) and Customer Due Diligence (CDD) measures, maintain transaction records, report suspicious transactions, license or register VASPs, adopt a risk-based supervisory approach and comply with the Travel Rule, which requires specified originator and beneficiary information to accompany qualifying virtual asset transfers. Today, these Recommendations serve as the principal international

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<sup>33</sup> International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation (The FATF Recommendations) (updated June 2019) <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Fatf-recommendations.html>

standard for regulating cryptocurrency-related financial risks while allowing individual jurisdictions to develop regulatory frameworks suited to their domestic legal systems.

International Monetary Fund (IMF)<sup>34</sup>. The International Monetary Fund (IMF) supports a coordinated approach to cryptocurrency regulation that seeks to balance financial innovation with financial stability. Instead of advocating an outright ban on cryptocurrencies, the IMF encourages countries to develop regulatory frameworks that strengthen consumer protection, financial oversight, and cross-border cooperation. It also emphasises that inconsistent national regulations can create opportunities for regulatory arbitrage and create risks to the stability of the global financial system.

International Organization of Securities Commissions (IOSCO)<sup>35</sup>. The International Organization of Securities Commissions (IOSCO) has developed policy recommendations for crypto-assets that exhibit characteristics similar to securities. These recommendations focus on investor protection, disclosure standards, custody arrangements, trading platforms and measures to prevent market abuse. By adapting established principles of securities regulation to digital assets, IOSCO illustrates how existing regulatory frameworks can effectively respond to technological developments.

Organisation for Economic Co-operation and Development (OECD)<sup>36</sup>. The Organisation for Economic Co-operation and Development (OECD) has promoted greater international tax transparency through the Crypto-Asset Reporting Framework (CARF), which enables the automatic exchange of tax information relating to crypto-assets among participating jurisdictions. CARF complements existing international tax standards by strengthening cross-border information sharing and reducing opportunities for tax evasion involving digital assets. Together, these international initiatives reflect the growing recognition that effective cryptocurrency regulation depends not only on domestic legislation but also on coordinated international cooperation.

## 5.2 European Union

The European Union has established a comprehensive legal framework for crypto-assets

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<sup>34</sup> International Monetary Fund, Global Financial Stability Report: The Last Mile—Financial Vulnerabilities and Risks (October 2023) ch 2 <https://www.imf.org/en/Publications/GFSR/Issues/2023/10/10/global-financial-stability-report-october-2023>

<sup>35</sup> International Organization of Securities Commissions, Policy Recommendations for Crypto and Digital Asset Markets (November 2023) <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD749.pdf>

<sup>36</sup> Organisation for Economic Co-operation and Development, Crypto-Asset Reporting Framework and Amendments to the Common Reporting Standard (OECD, 2022) [https://www.oecd.org/en/publications/crypto-asset-reporting-framework-and-amendments-to-the-common-reporting-standard\\_603e3392-en.html](https://www.oecd.org/en/publications/crypto-asset-reporting-framework-and-amendments-to-the-common-reporting-standard_603e3392-en.html)

through the Markets in Crypto-Assets Regulation (MiCA)<sup>37</sup>, adopted in 2023 and brought into effect in phases from 2024. Before MiCA, Member States regulated crypto-assets under different national laws, leading to inconsistent regulatory approaches across the European Union. By introducing a harmonised framework applicable to all Member States, MiCA has improved legal clarity and created a more consistent regulatory environment for crypto-assets. MiCA regulates Crypto-Asset Service Providers (CASPs), utility tokens, asset-referenced tokens, e-money tokens, stablecoins, cryptocurrency exchanges and wallet providers. Before commencing operations, CASPs must obtain regulatory authorisation from the competent authority of a Member State. Once authorised, they can generally offer services across the European Union without obtaining separate licences in each Member State through the passporting mechanism. This approach supports cross-border business while maintaining consistent regulatory oversight throughout the European Union.

MiCA also requires issuers to publish a Crypto-Asset White Paper containing key information about the project, the underlying technology, associated risks and the rights attached to the crypto-asset. In addition, it establishes safeguards for customer asset protection, transparency, complaint-handling and the prevention of market abuse, including insider dealing and market manipulation. Stablecoin issuers must comply with financial stability requirements relating to reserve assets, governance, and redemption rights. Supervision is carried out by national competent authorities in coordination with the European Securities and Markets Authority (ESMA)<sup>38</sup> and the European Banking Authority (EBA)<sup>39</sup>.

MiCA brings together licensing, disclosure requirements, financial oversight, market integrity rules, and passporting within a single legal framework. This integrated approach balances innovation with effective regulatory oversight and ensures consistent standards across the European Union. It provides a useful legislative model for jurisdictions, including India, that are considering comprehensive regulation of cryptocurrencies.

### 5.3 Singapore

Singapore has established a well-developed regulatory framework for cryptocurrencies that balances financial innovation with effective regulatory oversight. Instead of introducing a

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<sup>37</sup> Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on Markets in Crypto-assets [2023] OJ L150/40 <https://eur-lex.europa.eu/eli/reg/2023/1114/oj>

<sup>38</sup> For ESMA

European Securities and Markets Authority, Markets in Crypto-Assets Regulation (MiCA) <https://www.esma.europa.eu/esmas-activities/markets-and-infrastructure/markets-crypto-assets-mica>

<sup>39</sup> European Banking Authority, MiCA – Markets in Crypto-Assets Regulation <https://www.eba.europa.eu/regulation-and-policy/markets-crypto-assets-mica>

standalone law for cryptocurrencies, Singapore regulates crypto-related activities under the Payment Services Act, 2019 (PSA)<sup>40</sup>, which is administered by the Monetary Authority of Singapore (MAS)<sup>41</sup>.

The Payment Services Act (PSA) regulates Digital Payment Token (DPT) services, including cryptocurrency exchanges, wallet providers, transfer services and payment intermediaries. Service providers must obtain a licence from the Monetary Authority of Singapore (MAS) before commencing operations. They are also required to comply with regulatory obligations relating to Know Your Customer (KYC), Anti-Money Laundering (AML), Counter Financing of Terrorism (CFT), cybersecurity, operational resilience and risk management.

As the use of stablecoins increased, the Monetary Authority of Singapore (MAS) introduced a dedicated Stablecoin Regulatory Framework. Under this framework, eligible issuers must maintain high-quality reserve assets, provide redemption at par value and comply with governance and capital requirements. MAS has also restricted the public advertising of cryptocurrency services to discourage speculative retail trading while allowing legitimate cryptocurrency businesses to operate.

One of the key strengths of Singapore's regulatory model is its technology-neutral and proportionate approach. Regulatory obligations are determined by the nature and level of risk associated with different crypto-related activities rather than the technology itself. This allows the framework to adapt to developments in digital finance without requiring frequent legislative changes. As a result, Singapore illustrates how a risk-based regulatory approach can encourage innovation while maintaining financial integrity, consumer confidence and market discipline.

#### 5.4 United Kingdom

The United Kingdom regulates cryptocurrencies by integrating digital assets into its existing financial regulatory system rather than creating a separate legislative framework. The main regulatory framework consists of the Financial Services and Markets Act 2023<sup>42</sup>, the Money Laundering Regulations<sup>43</sup> and the Financial Promotions Regime, all of which are administered by the Financial Conduct Authority (FCA).

Crypto-asset businesses carrying on regulated activities must register with the Financial

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<sup>40</sup> Payment Services Act 2019 (No 2 of 2019) (Singapore) <https://sso.agc.gov.sg/Act/PSA2019>

<sup>41</sup> Monetary Authority of Singapore, Payment Services Act <https://www.mas.gov.sg/regulation/acts/payment-services-act>

<sup>42</sup> Financial Services and Markets Act 2023 (c 29) <https://www.legislation.gov.uk/ukpga/2023/29/contents>

<sup>43</sup> The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, SI 2017/692 <https://www.legislation.gov.uk/uksi/2017/692/contents>

Conduct Authority (FCA) and comply with Anti-Money Laundering (AML) and Counter Financing of Terrorism (CFT)<sup>44</sup> requirements. The Financial Promotions Regime also requires cryptocurrency advertisements to be clear, fair and not misleading, helping to reduce misleading promotional practices and improve consumer confidence. In addition, the FCA exercises ongoing supervisory and enforcement powers to ensure that regulated firms continue to comply with applicable legal and regulatory requirements.

The United Kingdom has also enhanced legal certainty through judicial decisions recognising cryptocurrencies as a form of property. This has enabled their treatment as property in commercial transactions, insolvency proceedings, and proprietary disputes. At the same time, the Government continues to develop a regulatory framework for stablecoins, reflecting its gradual integration of digital assets into the wider financial system.

Instead of replacing its existing financial laws, the United Kingdom has adapted its regulatory framework to address emerging digital technologies. This approach shows how established legal principles and financial institutions can respond to the challenges posed by crypto-assets while maintaining a clear and consistent regulatory system.

### **5.5 Comparative Analysis**

Although the European Union, Singapore and the United Kingdom have adopted different regulatory models, they share several common features. Each jurisdiction provides a clear legal basis for regulating cryptocurrency-related activities through legislation rather than relying solely on executive or administrative measures. They also require cryptocurrency service providers to obtain licences or register with the relevant regulatory authority before commencing operations. In addition, regulatory oversight is entrusted to specialised authorities with clearly defined responsibilities, promoting accountability and reducing regulatory overlap. A further similarity among these jurisdictions is their technology-neutral and risk-based approach to regulation. Similar financial activities are regulated according to the risks they pose rather than the technology used to carry them out. These jurisdictions also place strong emphasis on transparency, disclosure requirements, prudential safeguards for stablecoins, anti-money laundering compliance, consumer protection and measures to maintain market integrity. Together, these features show that effective cryptocurrency regulation depends on a clear legislative framework, proportionate regulatory oversight and effective institutional coordination.

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<sup>44</sup> Financial Conduct Authority, Cryptoasset Businesses: Anti-Money Laundering and Counter-Terrorist Financing Supervision <https://www.fca.org.uk/firms/financial-crime/cryptoasset-businesses>

## 5.6 Lessons for India

The comparative analysis shows that effective cryptocurrency regulation involves much more than taxation and anti-money laundering compliance. The regulatory frameworks examined in this study place equal emphasis on clear legislation, effective institutional coordination and proportionate regulatory oversight while continuing to support responsible innovation in the digital asset sector.

For India, the comparative experience highlights the need for a comprehensive and technology-neutral legislative framework that clearly defines the legal status and classification of crypto-assets, establishes licensing requirements for Virtual Asset Service Providers and clearly allocates regulatory responsibilities among competent authorities. The framework should also incorporate effective disclosure requirements, stablecoin governance standards, consumer protection measures and market integrity safeguards to strengthen public confidence while continuing to support innovation.

The experiences of the European Union, Singapore and the United Kingdom show that effective cryptocurrency regulation depends on a balanced legal framework, specialised regulatory oversight and adherence to internationally recognised standards. Adapting these approaches to India's constitutional, financial and technological context would help create a more coherent regulatory framework while supporting the sustainable growth of the country's digital asset ecosystem.

## 6. FINDINGS AND CRITICAL ANALYSIS

The study shows that India's approach to cryptocurrency regulation has developed gradually through executive measures, judicial decisions, taxation policies and anti-money laundering requirements instead of a comprehensive legislative framework. Although cryptocurrencies are recognised for taxation under the Income-tax Act, 1961<sup>45</sup> and brought within the scope of the Prevention of Money Laundering Act, 2002 for AML/CFT compliance<sup>46</sup>, these measures mainly focus on revenue collection and financial compliance rather than establishing a comprehensive regulatory framework.

The study also shows that responsibility for cryptocurrency regulation is currently shared

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<sup>45</sup> Income-tax Act 1961 (Act No 43 of 1961), ss 2(47A), 115BBH and 194S (as inserted by the Finance Act 2022 (Act No 6 of 2022)).

<sup>46</sup> Prevention of Money Laundering Act 2002 (Act No 15 of 2003); Ministry of Finance, Department of Revenue, Notification No S.O. 1072(E), Gazette of India, 7 March 2023 <https://egazette.gov.in/WriteReadData/2023/244184.pdf>

among several authorities, including the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Financial Intelligence Unit–India (FIU-IND), Directorate of Enforcement (ED) and the Income Tax Department. Although each institution performs a distinct regulatory role, the absence of a designated lead regulator has led to fragmented oversight, overlapping responsibilities and a lack of regulatory coordination.

The judicial decisions examined in this study have clarified important constitutional, proprietary and custodial issues relating to cryptocurrencies. At the same time, the courts have consistently maintained that the responsibility for framing a comprehensive regulatory framework lies with Parliament. As a result, judicial intervention has helped resolve important legal issues without extending into the domain of legislative policy.

The comparative analysis also shows that many jurisdictions have moved away from prohibition towards technology-neutral and risk-based regulation supported by licensing, investor protection and specialised regulatory oversight. By comparison, India's existing framework remains largely centred on taxation and enforcement, with comparatively limited emphasis on market development, regulatory clarity and responsible innovation.

The findings of this study suggest that the key issue is no longer whether cryptocurrencies should be regulated, but how India can develop a clear and coherent statutory framework for their regulation. Such a framework should balance innovation, financial stability, investor protection and regulatory accountability. A comprehensive legislative framework would improve legal clarity, strengthen institutional coordination and support the sustainable growth of India's digital asset ecosystem.

## **7. RECOMMENDATIONS FOR A COMPREHENSIVE CRYPTOCURRENCY REGULATORY FRAMEWORK IN INDIA**

The comparative analysis shows that an effective cryptocurrency regulatory framework should balance technological innovation with financial stability, investor protection and regulatory accountability. In light of these findings and India's existing legal framework, the following recommendations are suggested to support the development of a clear, comprehensive and adaptable cryptocurrency regulatory framework.

### **7.1 Enact a Comprehensive Cryptocurrency Regulation Act**

India should enact a dedicated Cryptocurrency Regulation Act to replace the existing framework, which currently relies on taxation laws, anti-money laundering provisions, executive notifications and regulatory circulars. The proposed legislation should clearly define the legal status of cryptocurrencies, set out the rights and responsibilities of all stakeholders, allocate regulatory responsibilities among competent authorities and establish a uniform legal framework for the regulation of digital assets.

### **7.2 Introduce a Clear Classification of Crypto-assets**

The proposed legislation should classify crypto-assets based on their functions and the risks they present, including payment tokens, utility tokens, security tokens, stablecoins, Non-Fungible Tokens (NFTs) and other digital assets. A clear classification system would help ensure that each category of crypto-asset is subject to regulatory requirements appropriate to its nature and level of risk, while also reducing legal uncertainty.

### **7.3 Establish a Licensing Framework for Virtual Asset Service Providers**

All Virtual Asset Service Providers (VASPs), including cryptocurrency exchanges, wallet providers, custodians, brokers and other intermediaries, should be required to obtain a licence and remain subject to ongoing regulatory supervision. A licensing framework would improve transparency, strengthen regulatory compliance, enhance accountability and reduce the risk of fraud and other market abuses within the cryptocurrency sector.

### **7.4 Strengthen Investor Protection and Market Integrity**

The regulatory framework should include strong investor protection measures, such as mandatory risk disclosures, segregation of customer assets, secure custody standards, effective grievance redress mechanisms and transparent operational practices. It should also prohibit insider trading, market manipulation, pump-and-dump schemes and misleading disclosures to protect market integrity and enhance public confidence in the digital asset market.

### **7.5 Develop a Technology-Neutral Framework for Stablecoins and Emerging Technologies**

The legislation should adopt a technology-neutral and risk-based approach, regulating activities according to the risks they present rather than the technology used. It should establish a dedicated regulatory framework for stablecoins, including reserve requirements, independent

audits, governance standards and redemption rights. The legislation should also recognise emerging technologies such as Decentralised Finance (DeFi), Decentralised Autonomous Organisations (DAOs), smart contracts and Non-Fungible Tokens (NFTs), allowing the regulatory framework to adapt to technological developments without the need for frequent legislative amendments.

### **7.6 Strengthen Anti-Money Laundering and Financial Compliance**

India should continue to strengthen its cryptocurrency compliance framework by implementing the Financial Action Task Force (FATF) standards, including enhanced Know Your Customer (KYC) procedures, Customer Due Diligence (CDD), transaction monitoring, suspicious transaction reporting and compliance with the Travel Rule. At the same time, AML/CFT compliance should complement, rather than replace, a comprehensive statutory framework for cryptocurrency regulation.

### **7.7 Encourage Innovation through Regulatory Sandboxes**

The Government should expand the use of regulatory sandboxes to allow blockchain and cryptocurrency businesses to test innovative products and services under regulatory supervision before they are introduced into the market. Regulatory sandboxes encourage responsible innovation while enabling regulators to assess emerging technologies, identify potential risks and develop appropriate regulatory responses.

### **7.8 Strengthen International Regulatory Cooperation**

India should strengthen cooperation with international organisations and foreign regulatory authorities to address the cross-border nature of cryptocurrency transactions. This may be achieved through information sharing, mutual regulatory assistance and closer alignment with internationally recognised regulatory standards and best practices. Stronger international cooperation would improve regulatory effectiveness and support the supervision of cross-border digital asset activities.

### **7.9 Establish Specialised Dispute Resolution Mechanisms**

The proposed legislation should establish specialised mechanisms for resolving cryptocurrency-related disputes, such as dedicated tribunals, arbitration frameworks or designated judicial benches with expertise in blockchain technology and digital assets. These mechanisms would promote consistent decision-making, improve the timely resolution of

disputes and strengthen confidence in the enforcement of rights arising from cryptocurrency transactions.

### **7.10 Establish an Indian Digital Assets and Cryptocurrency Regulatory Authority (IDACRA)**

To support the effective implementation of the proposed regulatory framework, Parliament should establish an independent **Indian Digital Assets and Cryptocurrency Regulatory Authority (IDACRA)** through dedicated legislation. The Authority should serve as the central regulatory body responsible for licensing Virtual Asset Service Providers (VASPs), supervising cryptocurrency exchanges and custodians, regulating stablecoins and token issuance, issuing technical and compliance standards, protecting investor interests and coordinating with the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Financial Intelligence Unit–India (FIU-IND), Directorate of Enforcement (ED) and relevant international regulatory authorities. A dedicated regulator would reduce overlapping responsibilities, improve coordination among regulatory institutions and provide a unified framework for overseeing India's evolving cryptocurrency market.

## **8. CONCLUSION**

Cryptocurrencies have become an important part of the global digital economy, creating new opportunities for financial innovation while also raising significant legal and regulatory challenges. This study finds that, although India has gradually addressed cryptocurrency through constitutional principles, taxation laws, anti-money laundering measures, judicial decisions and institutional oversight, these measures remain fragmented and do not form a comprehensive regulatory framework.

The study also finds that India's existing approach remains largely compliance-driven, with greater emphasis on taxation and financial enforcement than on market regulation, investor protection and responsible innovation. Judicial decisions have clarified important constitutional, proprietary and custodial issues, while the experiences of the European Union, Singapore and the United Kingdom show that a comprehensive, technology-neutral regulatory framework can balance innovation with financial stability and consumer protection.

The findings of this study highlight that a dedicated Cryptocurrency Regulation Act is no longer merely a policy choice but a legal and economic necessity. Such legislation should provide

legal certainty, clearly define the status and classification of crypto-assets, strengthen coordination among regulatory authorities, enhance investor protection and establish a transparent regulatory framework that supports responsible innovation while addressing financial crime and systemic risks.

As digital assets become an increasingly important part of the global financial system, India has an opportunity to move from its existing fragmented approach towards a clear and comprehensive regulatory framework. Such a framework would strengthen legal certainty, encourage responsible innovation and reinforce investor confidence while enabling India to play a more active role in the global digital asset market.

