

## LEGAL STATUS OF CRYPTOCURRENCY IN INDIA AND OTHER COUNTRIES

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### Abstract

Cryptocurrency has emerged as one of the most significant technological and financial innovations of the modern era, fundamentally transforming global financial systems through decentralized blockchain technology. Unlike traditional fiat currencies regulated by central banks, cryptocurrencies operate through peer-to-peer networks without centralized control. While they provide advantages such as transparency, efficiency, global accessibility, and secure transactions, they also raise serious concerns relating to money laundering, cybercrime, tax evasion, financial instability, investor protection, and monetary sovereignty.

This paper examines the legal status of cryptocurrency in India and compares it with regulatory approaches adopted by other countries including the United States, China, Canada, the United Kingdom, Japan, Australia, Singapore, South Korea, Brazil, and the European Union. It analyses the role of the Reserve Bank of India in regulating financial systems and addressing risks posed by private cryptocurrencies. The study highlights the RBI's cautious approach, including its 2018 circular restricting banking support for cryptocurrency businesses and the landmark decision in *Internet and Mobile Association of India v. Reserve Bank of India*, where the Supreme Court struck down the circular on grounds of proportionality.

The paper further discusses India's taxation framework under the Finance Act, 2022, including the 30% tax on crypto gains and 1% TDS provisions, reflecting partial recognition of cryptocurrencies as virtual digital assets without granting them legal tender status. It also examines the RBI's support for the Central Bank Digital Currency (CBDC), namely the Digital Rupee, as a sovereign alternative to decentralized cryptocurrencies.

Through comparative analysis, the paper identifies major challenges in cryptocurrency regulation such as jurisdictional complexity, cybersecurity risks, market volatility, and regulatory uncertainty. It concludes that India requires a comprehensive and balanced legal framework that promotes innovation while ensuring financial stability, investor protection, anti-money laundering compliance, and effective regulatory coordination among national and international institutions.

### Introduction

The evolution of digital technology has fundamentally transformed the global financial landscape. Among the most significant innovations in recent decades is cryptocurrency, a decentralized digital asset based upon blockchain technology. The introduction of Bitcoin in 2008 by the pseudonymous Satoshi

Nakamoto marked the beginning of a new era in digital finance. Unlike conventional fiat currencies issued by sovereign governments and regulated by central banks, cryptocurrencies operate through decentralized peer-to-peer networks without the involvement of intermediaries such as banks or financial institutions.

The growth of cryptocurrency markets has been extraordinary. Cryptocurrencies are increasingly used for investment, international transactions, decentralized finance, and digital asset trading. The global cryptocurrency market has attracted institutional investors, multinational corporations, and millions of retail participants. Blockchain technology, which underlies cryptocurrency systems, offers benefits such as transparency, immutability, efficiency, and decentralized record maintenance.

Despite these advantages, cryptocurrencies present serious legal and regulatory concerns. Their anonymous and decentralized structure creates opportunities for money laundering, tax evasion, cybercrime, terrorist financing, fraud, and market manipulation. Furthermore, cryptocurrencies challenge the traditional authority of central banks over currency issuance and monetary policy implementation. Consequently, governments and regulatory authorities worldwide have adopted diverse approaches toward cryptocurrency regulation.

Certain countries such as Singapore and the United Kingdom permit cryptocurrency activities subject to licensing and compliance obligations. The United States regulates cryptocurrencies through multiple agencies including the Securities and Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC). Conversely, China has adopted a prohibitory approach by banning cryptocurrency trading and mining while promoting its sovereign Central Bank Digital Currency.

India's approach toward cryptocurrency regulation has remained cautious and uncertain. The Reserve Bank of India has consistently expressed concerns regarding private cryptocurrencies and their implications for financial stability and monetary sovereignty. In 2018, RBI issued a circular prohibiting regulated entities from providing banking services to cryptocurrency businesses. The circular was

subsequently invalidated by the Supreme Court in *Internet and Mobile Association of India v. Reserve Bank of India*<sup>1201</sup>. Although cryptocurrency trading continues in India, the country lacks comprehensive legislation governing digital assets. Nevertheless, the government introduced taxation measures through the Finance Act, 2022, thereby recognizing cryptocurrencies as taxable virtual digital assets without granting them legal tender status.

**Research Methodology** "This research adopts a doctrinal and comparative legal research methodology. The study relies upon primary sources such as statutes, judicial decisions, RBI circulars, and government reports, along with secondary sources including journal articles, books, research papers, and international regulatory materials relating to cryptocurrency regulation."

### Meaning of Cryptocurrency

Cryptocurrency refers to a form of digital or virtual asset that operates through cryptographic technology and decentralized blockchain networks. Unlike traditional currencies issued and regulated by central banks or governments, cryptocurrencies function independently through peer-to-peer systems without the involvement of intermediaries such as banks or financial institutions. These digital assets exist only in electronic form and do not possess any physical or tangible characteristics. Transactions involving cryptocurrencies are recorded on a decentralized public ledger known as blockchain technology, which ensures transparency, permanence, and security of transactional data. One of the distinctive features of cryptocurrency is decentralization. The control and management of cryptocurrency networks are distributed among participants within the network rather than being vested in a single regulatory authority. Certain cryptocurrencies are created and managed through

<sup>1201</sup> *Internet and Mobile Association of India v. Reserve Bank of India* AIR 2021 SUPREME COURT 2720

predetermined algorithms and consensus mechanisms.

Further, cryptocurrencies rely upon advanced cryptographic encryption techniques to authenticate transactions and secure digital records from unauthorized alteration, fraud, or counterfeiting. The blockchain mechanism ensures that once a transaction is recorded, it becomes substantially immutable and difficult to manipulate. Due to these characteristics, cryptocurrencies have emerged as an alternative digital financial system that challenges conventional concepts of currency, banking regulation, and monetary control.

### Characteristics of Cryptocurrency

One of the primary characteristics of cryptocurrency is decentralization. Unlike traditional financial systems that operate under the supervision of central banks and governmental authorities, cryptocurrencies function through distributed digital networks. The control of such systems is shared among network participants rather than concentrated in a single institution. Another important feature is the use of blockchain technology. Blockchain acts as a decentralized digital ledger that permanently records all cryptocurrency transactions in a transparent and immutable manner. Once information is entered into the blockchain, alteration or deletion becomes extremely difficult, thereby enhancing reliability and trust within the system. Cryptocurrencies also rely upon cryptographic security mechanisms. Advanced encryption techniques are used to verify transactions, protect user identities, and prevent unauthorized access, fraud, or duplication of digital assets.

Further, cryptocurrency transactions are generally conducted through peer-to-peer networks. This enables users to transfer digital assets directly to one another without requiring intermediaries such as banks or payment institutions, thereby reducing transaction delays and operational costs. Volatility constitutes another major characteristic of cryptocurrencies. The value of digital currencies

fluctuates rapidly due to market speculation, investor sentiment, regulatory developments, and technological changes. Such instability creates significant financial risks for investors and traders.

Additionally, cryptocurrencies possess global accessibility. Digital assets may be transferred across borders with comparatively fewer geographical and institutional restrictions than conventional banking systems, thereby facilitating international transactions and financial inclusion. However, the decentralized nature of cryptocurrency creates substantial challenges for traditional financial regulation. Existing regulatory frameworks are primarily structured around centralized financial institutions, whereas cryptocurrency systems operate beyond conventional governmental and banking control mechanisms.

### Legal Nature of Cryptocurrency

The legal classification of cryptocurrency remains uncertain across jurisdictions. Different countries classify cryptocurrencies differently based upon regulatory objectives and legal frameworks.

Cryptocurrencies may be treated as:

- currency
- commodity
- security
- property
- virtual digital asset.

The classification determines taxation mechanisms, regulatory oversight, compliance obligations, and investor protection standards.

For example:

- the United States treats certain cryptocurrencies as securities or commodities;
- India classifies them as Virtual Digital Assets for taxation;
- China prohibits cryptocurrency activities;

- Singapore regulates crypto service providers through licensing frameworks.

The absence of uniform international classification creates jurisdictional inconsistency and regulatory complexity.

### Is Cryptocurrency a Form of Money?

Cryptocurrency is often described as a form of digital currency because it can be used for online financial transactions. However, despite being termed “currency,” cryptocurrencies have not yet achieved universal acceptance as a regular medium of exchange in most countries. Unlike traditional money issued by governments, cryptocurrencies are not commonly accepted by businesses, retailers, or consumers for everyday commercial transactions.

Among various digital currencies, Bitcoin remains the most widely recognized and is accepted as payment by certain businesses and service providers across different jurisdictions. Nevertheless, the primary use of cryptocurrency today is largely associated with investment and speculative trading rather than ordinary monetary exchange. Many individuals purchase cryptocurrencies as an alternative investment asset with the expectation that their value may appreciate over time. Due to rapid price fluctuations and growing market demand, cryptocurrencies are frequently treated as speculative financial assets rather than stable currency substitutes.

In addition, cryptocurrency has attracted investors interested in blockchain technology, which forms the underlying technological foundation of digital assets. Consequently, investment in cryptocurrency is often viewed not only as participation in digital finance but also as indirect investment in emerging blockchain innovation and decentralized technological systems.

### Legal Status of Cryptocurrency in India

#### Cryptocurrency Not Recognized as Legal Tender

In India, cryptocurrency is not recognized as legal tender. Under the existing legal framework, only currency issued by the Reserve Bank of India possesses official legal tender status. The Government of India has repeatedly clarified that private cryptocurrencies such as Bitcoin and Ethereum do not constitute sovereign currency or officially recognized money within the Indian financial system. Although cryptocurrency trading and investment activities are not completely prohibited, digital assets continue to operate in a legally uncertain environment due to the absence of comprehensive cryptocurrency legislation.

#### RBI's Initial Warnings Regarding Cryptocurrency

The Reserve Bank of India began expressing concerns regarding cryptocurrency activities as early as 2013. Through a series of public notifications and advisories, the RBI cautioned investors, traders, and financial institutions about the potential risks associated with virtual currencies and decentralized digital assets. The central bank identified several major concerns relating to cryptocurrency transactions, including extreme market volatility, cyber-security threats, lack of consumer protection mechanisms, money laundering, terrorist financing, and the possibility of financial fraud. The RBI warned that the anonymous and decentralized nature of cryptocurrency transactions could facilitate unlawful financial activities and weaken regulatory supervision.

Further, the RBI emphasized that privately issued cryptocurrencies may adversely affect India's monetary and financial stability. Since cryptocurrencies operate independently of governmental and central banking control, the RBI viewed them as a potential threat to sovereign authority over currency regulation and

payment systems<sup>1202</sup>. The absence of centralized oversight and legal accountability also created concerns regarding investor safety and systemic financial risks. Consequently, the RBI adopted a cautious and restrictive approach toward cryptocurrency regulation in order to safeguard the integrity and stability of the Indian financial system.

RBI Circular of 2018

On April 6, 2018, RBI issued a circular directing regulated entities not to provide banking services to cryptocurrency businesses or individuals dealing in virtual currencies.

The circular prohibited:

- maintaining accounts;
- providing loans;
- facilitating payments;
- offering settlement services related to cryptocurrency transactions.

The circular effectively disrupted cryptocurrency exchanges in India because they lost access to banking facilities.<sup>1203</sup>

RBI justified the circular on grounds of:

- public interest;
- financial stability;
- systemic risk prevention;
- consumer protection.

*Internet and Mobile Association of India v. Reserve Bank of India*

The RBI circular was challenged before the Supreme Court in *Internet and Mobile Association of India v. Reserve Bank of India*, (2020) 10 SCC 274.

The petitioners argued that the circular violated the fundamental right to carry on trade under Article 19(1)(g) of the Constitution of India.

The Supreme Court held that:

1. RBI possessed authority to regulate cryptocurrency activities;
2. however, the restrictions imposed were disproportionate;
3. RBI failed to demonstrate actual damage caused by cryptocurrency exchanges.

The Court applied the doctrine of proportionality and struck down the RBI circular.

The judgment became a landmark precedent concerning constitutional limitations upon financial regulation.

### Cryptocurrency Taxation in India

Taxation and Regulatory Compliance Framework

India has implemented a stringent taxation framework for cryptocurrencies and other virtual digital assets.

Although cryptocurrencies are not considered legal tender, the Government of India. This taxation system reflects the government's intent to include cryptocurrency activities within the formal financial and tax reporting system.

**1.30% Tax on Cryptocurrency Gains**  
According to Section 115BBH of the Income Tax Act, introduced through the Finance Act, 2022, income generated from the transfer of virtual digital assets is taxed at a flat rate of 30%, along with applicable surcharge and health and education cess.

The taxation rules do not differentiate between short-term and long-term capital gains, thus applying the same tax rate to all profits from cryptocurrency transactions. Moreover, the law allows for a deduction only for the cost of acquiring the digital asset. Other expenses, such as transaction fees, platform charges, or mining costs, are typically not eligible for deduction. Addition

<sup>1202</sup> Reserve Bank of India, Statement on Developmental and Regulatory Policies

<sup>1203</sup> Reserve Bank of India, on Central Bank Digital Currency (2022)

ally, any losses from cryptocurrency transactions cannot be offset against other income sources or carried forward to future tax years. This tight taxation structure indicates the government's cautious stance toward speculative trading in digital assets.

#### II. 1% Tax Deducted at Source (TDS)

The Government of India has also introduced a 1% Tax Deducted at Source (TDS) on cryptocurrency transactions, effective from July 1, 2022.<sup>1204</sup> The purpose of this provision is to enhance transparency and enable tracking of virtual digital asset transactions within the economy.

TDS requirement applies when cryptocurrency transactions exceed the specified monetary limits under the Income Tax Act. In most cases, cryptocurrency exchanges automatically deduct the TDS at the time of the transaction. However, in peer-to-peer transactions or those conducted through foreign exchanges, the responsibility for deducting and depositing TDS may lie with the purchaser.

#### III. PAN-Aadhaar Compliance Requirements

To improve regulatory compliance and ensure financial transparency, cryptocurrency investors are required to link their Permanent Account Number (PAN) with Aadhaar under Section 139AA of the Income Tax Act. Non-compliance with this requirement may result in the PAN becoming invalid, leading to higher TDS rates and restricted access to certain financial services.

#### IV. No Set-Off of Cryptocurrency Losses

A key feature of India's cryptocurrency taxation regime is the restriction on using losses for tax adjustments.

Losses from cryptocurrency trading cannot be set off

against profits from other investments or income sources. These losses also cannot be carried forward for use in future tax years. Overall, India's taxation framework partially acknowledges cryptocurrencies as taxable digital assets while not granting them the status of legal currency or legal tender within the Indian financial system.

#### RBI and Central Bank Digital Currency

The Reserve Bank of India strongly supports the development of a Central Bank Digital Currency (CBDC), known as the Digital Rupee or ₹.

CBDC refers to sovereign digital currency issued and regulated by the central bank. Unlike decentralized cryptocurrencies, CBDCs remain under governmental and central bank control.

RBI believes CBDCs may:

- improve payment efficiency;
- reduce transaction costs;
- strengthen financial inclusion;
- preserve monetary sovereignty.

The RBI's preference for CBDC reflects its opposition toward privately issued decentralized cryptocurrencies.

#### Role of RBI in Financial Regulation

The Reserve Bank of India is India's central banking institution responsible for maintaining financial and monetary stability.<sup>1205</sup>

#### Statutory Authority of RBI

RBI derives regulatory authority from:

- Reserve Bank of India Act, 1934;
- Banking Regulation Act, 1949;
- Foreign Exchange Management Act, 1999;
- Payment and Settlement Systems Act, 2007.

#### Regulatory Objectives

RBI seeks to:

<sup>1204</sup> Finance Act, 6<sup>th</sup> Act of 2022, India Code.

<sup>1205</sup> Reserve Bank of India Act, 2<sup>nd</sup> act of 1934, India Code.

- maintain monetary stability;
- regulate banking institutions;
- supervise payment systems;
- prevent systemic financial risks;
- protect consumers.

Cryptocurrencies create challenges because decentralized financial systems operate outside conventional banking structures.<sup>1206</sup>

### Legal status of cryptocurrency in other countries:

#### The United States.

The United States follows a fragmented and enforcement-oriented regulatory framework. Securities and Exchange Commission (SEC)

The SEC regulates cryptocurrencies qualifying as securities under the *Howey Test* established in *SEC v. W.J. Howey Co.*, 328 U.S. 293 (1946).

The SEC has initiated several enforcement actions against crypto exchanges and token issuers.

Commodity Futures Trading Commission classifies Bitcoin and certain cryptocurrencies as commodities.

Financial Crimes Enforcement Network (FinCEN) imposes Anti-Money Laundering and Know Your Customer obligations upon cryptocurrency businesses.<sup>1207</sup>

Legal Position of Cryptocurrency is legal in the United States but subject to substantial regulatory scrutiny and enforcement.

#### China

China maintains one of the most restrictive approaches to cryptocurrency regulation. The people's bank of india prohibits crypto-related business activity, citing concerns about financial stability and unauthorized public fundraising. China banned bitcoin minning in 2021, forcing many operators to shut down or

relocate, and later imposed an outright ban on cryptocurrency trading. Enforcement has remained strict. Rather than easing these restrictions, China has focused on promoting its own central bank digital currency, the digital yuan, as a state-controlled alternative to decentralized cryptocurrencies.

### Canada's Proactive Approach to Crypto Regulation

Canada has adopted a comparatively progressive and structured approach toward cryptocurrency regulation. Although cryptocurrencies are not recognized as legal tender in the country, Canada has taken significant steps to integrate digital assets within its financial regulatory framework. The country was among the first jurisdictions to formally recognize and regulate cryptocurrency-related financial products, including the approval of Bitcoin Exchange-Traded Funds (ETFs) traded on the Toronto Stock Exchange.

Further, Canada classifies cryptocurrency investment businesses as Money Service Businesses (MSBs). Such entities are required to register with the Financial Transactions and Reports Analysis Centre of Canada and comply with Anti-Money Laundering (AML) and Know Your Customer (KYC) obligations.

From a taxation perspective, Canadian authorities generally treat cryptocurrencies as commodities rather than official currency. Consequently, profits arising from cryptocurrency transactions are subject to taxation in accordance with applicable income tax and capital gains provisions.

**The U.K.** formally brought crypto assets under existing financial services law through the Financial Services and Markets Act, which took effect in 2023.

Crypto firms must comply with Know Your Customer, anti money laundering and counter terrorism financing requirements. In the U.K., crypto exchanges and custodial wallet providers

<sup>1206</sup> Banking Regulation Act, Act No. 10 of 1949, India Code.

<sup>1207</sup> U.S. Securities and Exchange Commission, Crypto Assets and Cyber Enforcement Actions.

are subject to financial sanctions laws and must comply with reporting requirements enforced by the Office of Financial Sanctions Implementation (OFSI). Firms must notify OFSI as soon as practicable if they know or reasonably suspect that a customer is a sanctioned person or that a financial sanctions breach has occurred.<sup>14</sup>

Capital gain tax generally applies to profits from crypto trading.

The U.K. has continued to refine implementation guidance, positioning itself as a regulated alternative to the EU's MiCA framework<sup>1208</sup>

### Japan's Progressive Crypto Policies

Japan has adopted a progressive approach toward cryptocurrency regulation. Under the Payment Services Act, cryptocurrencies are recognized as legal property, and crypto exchanges must register with the Financial Services Agency and comply with strict consumer protection and security standards.

Japanese authorities have also considered tax reforms to support cryptocurrency businesses while maintaining investor protection and financial stability. In 2025, the Financial Services Agency proposed additional rules requiring crypto exchanges to maintain liability reserves to compensate users in cases of hacking or operational failures.

### Australia's Approach to Cryptocurrency Regulation

Australia treats cryptocurrencies as legal property and subjects them to capital gains taxation. Cryptocurrency exchanges are permitted to operate provided they register with the Australian Transaction Reports and Analysis Centre and comply with Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF) obligations. In recent years, Australia has moved toward stricter regulation by introducing licensing requirements for cryptocurrency exchanges and custody service providers.

### Singapore's Cryptocurrency Regulatory Framework

Singapore classifies cryptocurrency as property rather than legal tender. The Monetary Authority of Singapore regulates cryptocurrency exchanges under the Payment Services Act and imposes compliance obligations relating to financial transparency and consumer protection.

Singapore has also introduced a regulatory framework for stablecoins requiring issuers to maintain reserve assets and comply with disclosure standards. Although Singapore maintains strict regulatory oversight, it continues to function as a major global hub for digital asset innovation and cryptocurrency businesses.<sup>1209</sup>

### South Korea's Cryptocurrency Regulation

South Korea has established a structured legal framework for cryptocurrency regulation. Cryptocurrency exchanges and virtual asset service providers are required to register with the Korea Financial Intelligence Unit under the supervision of the Financial Services Commission.

The country introduced the Act on the Protection of Virtual Asset Users to strengthen consumer protection and market oversight. South Korean authorities have increasingly focused on regulatory enforcement, surveillance of high-risk digital assets, and supervision of cryptocurrency exchange activities.

### India's Cautious Regulatory Approach

India has not imposed a complete prohibition on cryptocurrencies but has adopted a cautious regulatory approach. The Government of India introduced significant taxation measures, including a 30% tax on cryptocurrency gains and a 1% Tax Deducted at Source (TDS) on specified transactions.

Rather than formally legalizing cryptocurrencies, India has adopted a tax-oriented regulatory model that permits cryptocurrency trading while discouraging speculative investment activities

<sup>1208</sup> Financial Conduct Authority, Guidance on Cryptoassets

<sup>1209</sup> Payment Services Act 2019

through strict compliance and taxation requirements.

### **Brazil's Cryptocurrency Regulatory Framework**

Brazil does not recognize cryptocurrency as legal tender; however, it has legalized cryptocurrency payments and established a regulatory framework governing digital asset transactions. Under Brazilian law, the Central Bank of Brazil is responsible for licensing and supervising cryptocurrency exchanges and related service providers. Brazil's approach reflects an attempt to integrate cryptocurrency activities into the formal financial system while maintaining governmental oversight and regulatory accountability.

### **European Union's Cryptocurrency Regulatory Framework**

Cryptocurrency is legal in most European Union member states, although taxation and regulatory policies differ between countries. To create a uniform regulatory framework, the European Union introduced the Markets in Crypto-Assets Regulation, which establishes common rules relating to licensing, consumer protection, and disclosure requirements for cryptocurrency service providers.<sup>1210</sup>

MiCA also permits authorized crypto businesses to operate across EU member states through a single approval mechanism and imposes specific regulations on stablecoin issuers. Additionally, Anti-Money Laundering (AML) regulations continue to apply alongside the MiCA framework to ensure financial transparency and prevent illegal activities.

### **Is There Any Regulation on Crypto?**

Yes. Cryptocurrency regulation exists in many countries, though approaches vary. Some jurisdictions have comprehensive licensing and enforcement frameworks, while others rely on evolving legal interpretations or partial oversight. Many states are crypto-friendly, such as California, Florida, and Texas.

### **Challenges in Cryptocurrency Regulation**

The regulation of cryptocurrency presents significant legal and financial challenges for governments and regulatory authorities across the world. One of the major concerns is the possibility of money laundering and terrorist financing, as the anonymous nature of certain cryptocurrency transactions may facilitate illegal financial activities beyond effective governmental supervision.

Investor protection also remains a serious issue within cryptocurrency markets. Digital asset trading platforms are often vulnerable to fraud, hacking, scams, and market manipulation, resulting in substantial financial losses for investors. The absence of centralized regulatory control further complicates consumer grievance mechanisms and accountability.

Another important challenge is jurisdictional complexity. Cryptocurrency transactions frequently occur across national borders, making it difficult for individual states to enforce domestic financial regulations and taxation laws effectively. The decentralized structure of cryptocurrencies often creates uncertainty regarding applicable legal jurisdiction and regulatory authority.<sup>1211</sup>

Cryptocurrencies also raise concerns relating to financial and monetary stability. Unregulated digital asset systems may weaken governmental control over monetary policy and potentially affect the stability of traditional banking and payment systems. Further, the absence of comprehensive and uniform legislation in many countries has created regulatory uncertainty for businesses, investors, and financial institutions. The lack of clear legal standards complicates compliance obligations and discourages responsible innovation within the cryptocurrency sector.

<sup>1210</sup> European Union Markets in Crypto-Assets Regulation (MiCA), Regulation (EU) 2023/1114

<sup>1211</sup> Financial Action Task Force, Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers (2021).

## Risks Associated with Cryptocurrency Investment

Investment in cryptocurrencies involves considerable financial risks due to the highly volatile nature of digital asset markets. Cryptocurrency prices frequently experience extreme fluctuations influenced by market speculation, economic conditions, and regulatory developments.

Certain cryptocurrencies also face liquidity-related risks, as low trading volumes may enable price manipulation by large investors or market participants possessing substantial holdings. Cybersecurity risks are equally significant because unauthorized access to private keys or digital wallets may result in theft or permanent loss of cryptocurrency assets.

Additionally, cryptocurrency markets operate continuously without interruption, exposing investors to sudden overnight price fluctuations and unpredictable market movements. Some digital currencies may also become inactive or disappear entirely due to technological failures, lack of investor confidence, or abandonment by developers, thereby creating the risk of complete financial loss for investors.

## Need for Comprehensive Cryptocurrency Regulation in India

India requires a dedicated legal framework governing cryptocurrency activities.

Comprehensive regulation should:

- define legal status;
- establish licensing mechanisms;
- impose AML and KYC standards;
- ensure investor protection;
- promote responsible innovation.

An outright prohibition may encourage underground markets and hinder technological development.

## Recommendations

Enact Dedicated Cryptocurrency Legislation

India should enact comprehensive legislation governing digital assets and cryptocurrency transactions.

Strengthen Regulatory Coordination

Coordination between RBI, SEBI, Ministry of Finance, and FIU should be improved.

Implement Licensing Frameworks

Cryptocurrency exchanges should function under licensing and regulatory supervision.

Consumer Awareness Programs

Public awareness initiatives should educate investors regarding cryptocurrency risks.

International Cooperation

India should collaborate with FATF and international institutions to harmonize cryptocurrency regulation.

Encourage Blockchain Innovation

Regulatory policies should distinguish between blockchain technology and speculative cryptocurrency activities.

## Conclusion

Cryptocurrency has significantly transformed the modern financial system by introducing decentralized digital assets operating beyond traditional banking structures. While cryptocurrencies offer advantages such as transparency, efficiency, and global accessibility, they also create challenges relating to money laundering, cybercrime, investor protection, and financial stability.

India has adopted a cautious approach toward cryptocurrency regulation through taxation measures, regulatory oversight, and the development of the Digital Rupee under the supervision of the Reserve Bank of India. Comparative analysis shows that countries across the world are attempting to balance technological innovation with effective financial regulation. In the absence of comprehensive legislation, India requires a clear and balanced legal framework that promotes responsible innovation while ensuring investor protection,

financial transparency, and monetary stability in the evolving digital economy.

### Statutes and Legislations

1. Banking Regulation Act, No. 10 of 1949, India Code.
2. Finance Act, No. 6 of 2022, India Code.
3. Income Tax Act, 1961, India Code.
4. Payment and Settlement Systems Act, No. 51 of 2007, India Code.
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