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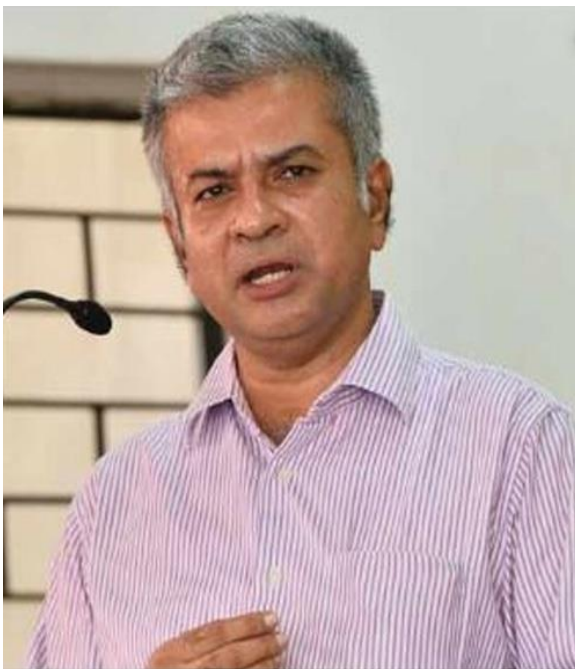
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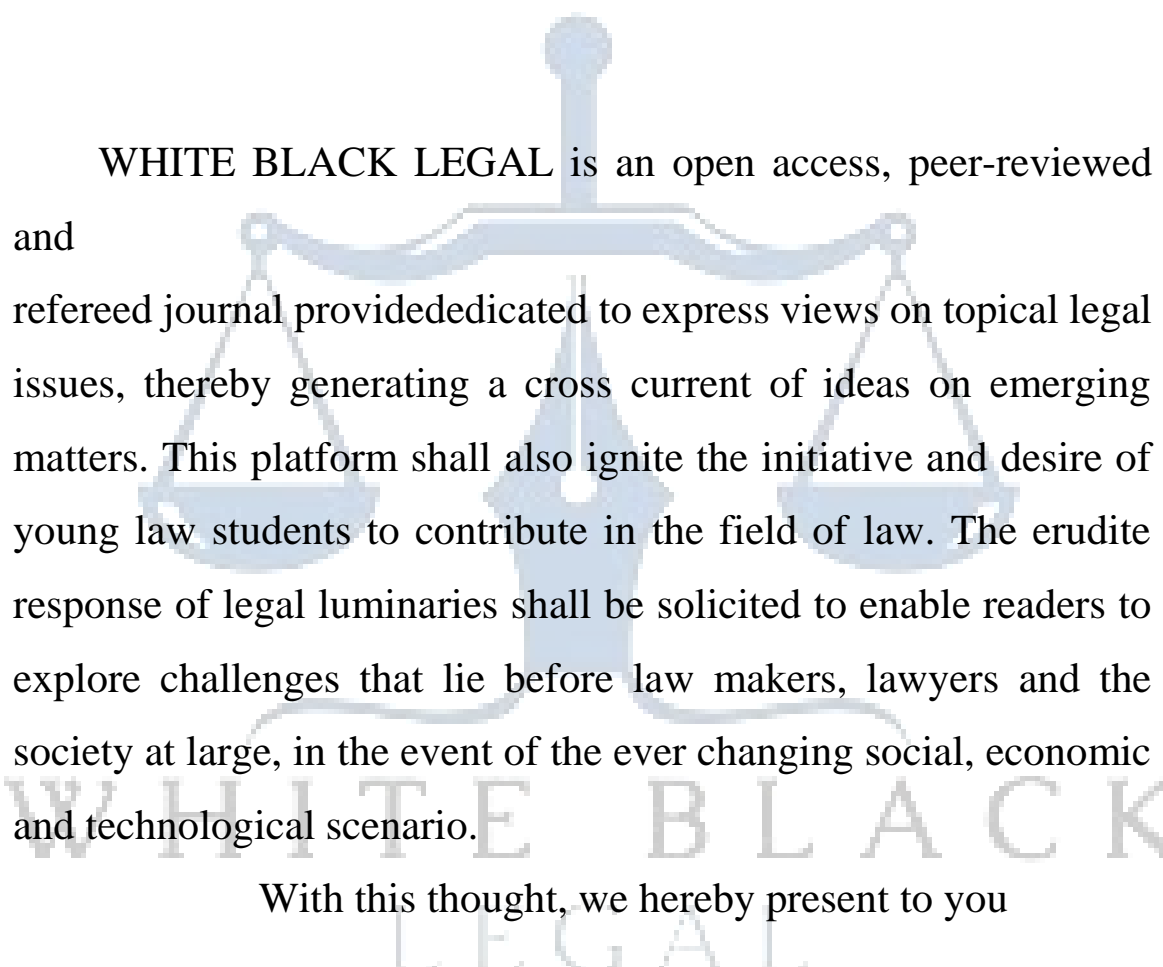


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BBA. LL.B. (Hons.) (Amity University, Rajasthan); LL. M. (UPES, Dehradun) (Nottingham Trent University, UK); Ph.D. Candidate (G.D. Goenka University)

Subhrajit did his LL.M. in Sports Law, from Nottingham Trent University of United Kingdoms, with international scholarship provided by university; he has also completed another LL.M. in Energy Law from University of Petroleum and Energy Studies, India. He did his B.B.A.LL.B. (Hons.) focussing on International Trade Law.

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With this thought, we hereby present to you

# **THE NEED FOR COMPREHENSIVE CRYPTOCURRENCY REGULATION IN INDIA: CONSUMER PROTECTION, ANTI MONEY LAUNDERING MEASURES, AND MARKET INTEGRITY.**

AUTHORED BY - SONALI SINGH & MISHBAH MASOOD

## **ABSTRACT**

The recent surge in the usage of cryptocurrencies among Indians due to digitalization makes it necessary for the country to work on creating a legal framework for cryptocurrencies. With cryptocurrencies being relatively decentralized and its potential to disrupt the economy and harm to the consumers, this article looks at the risks and how to bring consumer protection measures, Anti- money laundering (AML) measures and market integrity. The lack of sufficient legal frameworks and cover has in recent years exposed cryptocurrencies to, fraud, exploitation as well as use in illicit activities such as money laundering. This article highlights incidents like WazirX and CoinDCX, exposing the vulnerabilities in India's existing cryptocurrency regulations. The proposed framework emphasizes effective oversight, stringent Know Your Customer (KYC) measures, robust transaction monitoring, international collaboration, and consumer protection to mitigate risks while fostering innovation. The focus of this research is to give some guidelines to policymakers regarding how they can develop an environment in which cryptocurrencies can genuinely help India's economy to grow fairly and securely.

**Keywords:** - Cryptocurrencies in India, Digitalization, Decentralization, Consumer protection, Anti-Money Laundering (AML), Cryptocurrency fraud, Money laundering.

## **INTRODUCTION**

India's progress in financial and technological sectors has driven the adoption of digital currencies and crypto assets. With the development of cryptocurrencies, issues over their supervision, safeguarding, and capability in Anti Money Laundering regimes emerge. India's approach has flip-flopped on the cryptocurrency throughout the year, with the government sharing mixed views. At the same time, the lack of a robust legal framework chases deficiencies in investor protection and market control. The present article describes the need for the Indian

government to pass an omnibus crypto regulation bill concerning principally significant issues such as customer protection, controls and market reliability.<sup>1</sup>

Regulation of cryptocurrency in India has been somewhat of a grey area. The RBI banned banking services on cryptocurrencies in 2018, but this was overturned by the Supreme Court in 2020, however, due to a lack of proper and clear regulations investors, businesses and government authorities are in a state of confusion.

As helpful as decentralized finance (DeFi) makes it easy to get funds and access other investment methods, it also introduces greater vulnerability to gimmicks, embezzlement, and scams. It seems more important than ever that India needs a wholesome crypto regulation bill to do that while it attempts to grapple with all the above complexities and encourage innovation.

## **NEED FOR STRENGTHENING CRPTOCURRENCYREGULATION IN INDIA**

### **1. Strengthening Anti-money laundering (AML) Measures**

The proposal aims to enhance the identification of offences related to anti-money laundering measures. Cryptocurrencies, which allow users to use aliases instead of real account numbers and names, as well as facilitate cross-border transactions, are increasingly attractive instruments for money laundering and other illegal activities. The ability of cryptocurrencies to enable the borderless movement of funds without falling under traditional banking regulations poses significant challenges for law enforcement agencies.

Therefore, there is an urgent need to implement proper Standard Operating Procedures (SOPs) in the form of efficient anti-money laundering (AML) rules to curb the misuse of cryptocurrencies for unlawful activities like terrorism financing, tax evasion, and fraud. Ideally, a comprehensive crypto regulation bill passed by Parliament should mandate that all crypto exchanges and wallets adhere to KYC and AML protocols. To mitigate the risks of cryptocurrency, use in illicit transactions, India must require these platforms to verify the real identities of users and monitor transactions for indications

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<sup>1</sup> Cryptocurrency Definition, Investopedia, <https://www.investopedia.com/terms/c/cryptocurrency.asp> (last visited Dec. 31, 2024).



of unlawful activities.<sup>2</sup>

Additionally, mandatory reporting of large bank transactions and cross-border transfers should be regulated to aid in the early detection of money laundering activities. Enforcing measures against crypto-related financial crimes is crucial due to the unregulated, decentralized, global, and often anonymous nature of digital assets. India should collaborate with global organizations, such as the Financial Action Task Force (FATF), to ensure its cryptocurrency regulatory framework aligns with the standards of developed nations.

## 2. Pillars for the Maintenance of Market Integrity

Cryptocurrencies have high fluctuations, and the problem of price manipulation was observed. This is because the establishment often receives limited regulatory oversight hence pump and dump or front-running can influence the prices of crypto assets. Lack of market integrity can put off the retail investor from investing and erode the credibility of the decentralized ecosystem that is crypto currencies. Thus, a draft of the crypto regulation bill should contain provisions related to market manipulation. They should include the regulation of Cryptocurrency exchanges, price manipulation issues must be addressed and just trading standards must be set. Regulators could insist on exchanges putting in place trading filters that check the market for such manipulative activity as is done by the trading platforms of stock exchanges.<sup>3</sup>

In addition, the regulation should set measures for entry of new crypto assets and ICOs control to make certain that only legal audited tokens enter the market. This will stop the creation of new pump and dump scams that are disadvantageous to most regular investment buyers.

## 3. Consumer Protection in the Cryptocurrency Environment

In India, one of the major challenges of engaging in the trading of Cryptocurrencies is the poor or scarce legal protection for consumers. As more new entrants in the crypto-trading market, ICOs, and dApps emerge, instances of various forms of fraud and

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<sup>2</sup> How Does Cryptocurrency Money Laundering Work? Cognyte Blog (2024), <https://www.cognyte.com/blog/anti-cryptocurrency/#:~:text=How%20does%20cryptocurrency%20money%20laundering,an%20exchange%20to%20be%20liquidated> (last visited Dec. 31, 2024).

<sup>3</sup> Parul Sharma, The Legal Landscape of Cryptocurrency in India, *Indraprastha Law Review* Vol. 2, Issue 1 (2021), [https://indraprasthalawreview.in/wp-content/uploads/2022/09/GGSIPU\\_USLLS\\_ILR\\_2021\\_V2-I2-03-Parul-1.pdf](https://indraprasthalawreview.in/wp-content/uploads/2022/09/GGSIPU_USLLS_ILR_2021_V2-I2-03-Parul-1.pdf) (last visited Dec. 31, 2024).

hacking, ponzi schemes, and embezzlement of innovative capital have appeared, involving scripts from novice investors.

This means that in most cases, the investors in crypto have no effective options they can turn to especially where the provided regulation lacks strong controls. For example, if an investor loses funds to a con or hacking of an exchange, few legal remedies exist. Specific guidelines to ban-baring functions of a comprehensive crypto regulation should include requirements for exchanges, wallets and other platforms based on clear standards of security, essay, accountability, and responsibility that must be assigned unambiguous regulatory-compliant expressions.

Indeed, consumer awareness programs must be required to provide the public with information about potential exposure to trading of crypto assets. Regulatory requirements could also provide for how the platforms declare the risks falling with their services as the consumer protection laws relating to conventional investment products. Over the years, India has also witnessed a lot of misuse of cryptocurrencies.

Cryptocurrencies, by their design, that is decentralization, anonymity, and creating borders and fewer transactions, have positive and negative implications for the financial systems across the globe. Currently, there are no clear laws regulating crypto assets hence these products have provided ample opportunity for money laundering in India.<sup>4</sup>

Cryptocurrencies, with their inherent features of decentralization, pseudonymity, and borderless transactions, offer both opportunities and challenges in the financial landscape. In India, the absence of robust regulations has created a favourable environment for the misuse of crypto assets, particularly in money laundering activities. Several methods illustrate how these assets are exploited.

One common method involves layering through crypto exchanges. Here, criminals convert fiat money into cryptocurrencies, transfer them across borders, and reconvert them into fiat currency in different jurisdictions. This structured process makes tracing illicit funds difficult

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<sup>4</sup> Shailak Jani, The Growth of Cryptocurrency in India: Its Challenges & Potential Impacts on Legislation, ResearchGate(Apr.20,2018),[https://www.researchgate.net/publication/324770908\\_The\\_Growth\\_of\\_Cryptocurrency\\_in\\_India\\_Its\\_Challenges\\_Potential\\_Impacts\\_on\\_Legislation](https://www.researchgate.net/publication/324770908_The_Growth_of_Cryptocurrency_in_India_Its_Challenges_Potential_Impacts_on_Legislation) (last visited Dec. 31, 2024).

for authorities. Similarly, peer-to-peer (P2P) platforms facilitate direct transactions between users without intermediaries, providing anonymity that criminals often exploit to transfer funds without leaving identifiable traces.

Another tactic includes the conversion of illicit funds into less popular altcoins or tokens. These tokens can be seamlessly exchanged for other cryptocurrencies or traditional money, effectively erasing the trail of funds. Moreover, privacy-centric cryptocurrencies like Monero and Zcash exacerbate the issue as they obscure transaction details, offering additional layers of anonymity that are highly attractive to money launderers.

Despite these challenges, the regulatory framework in India remains underdeveloped, allowing many cryptocurrency platforms to operate on the fringes of legality. Addressing money laundering through cryptocurrencies requires strict measures. For instance, enforcing Know Your Customer (KYC) norms on crypto exchanges would ensure that only verified users can access these markets, significantly reducing the potential for criminal misuse. Additionally, implementing transaction monitoring systems would help detect suspicious activities, such as large transactions or those involving high-risk regions.

Given the global and decentralized nature of cryptocurrencies, cross-border cooperation is also crucial. Indian authorities need to collaborate with international counterparts to effectively tackle the misuse of crypto assets and ensure compliance with anti-money laundering (AML) protocols worldwide.<sup>5</sup>

These measures highlight the need for a comprehensive approach to address the misuse of cryptocurrencies, ensuring that their potential is harnessed responsibly while minimizing risks to financial systems

### **Reports of Crypto-Related Money Laundering in India**

- **The WazirX Incident (2021)**

Earlier this year in 2021, the Indian Enforcement Directorate, the agency responsible for enforcing the country's anti-money laundering law, began an investigation of WazirX

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<sup>5</sup> Shailak Jani, The Growth of Cryptocurrency in India: Its Challenges & Potential Impacts on Legislation, ResearchGate(Apr.20,2018), [https://www.researchgate.net/publication/324770908\\_The\\_Growth\\_of\\_Cryptocurrency\\_in\\_India\\_Its\\_Challenges\\_Potential\\_Impacts\\_on\\_Legislation](https://www.researchgate.net/publication/324770908_The_Growth_of_Cryptocurrency_in_India_Its_Challenges_Potential_Impacts_on_Legislation) (last visited Dec. 31, 2024).

PVT Ltd, one of the largest centralized cryptocurrency trading platforms in India due to some evidence that it was involving itself in unlawful activities such as money laundering. The probe was conducted in connection with the large-scale embezzlement of money and transferring it to foreign accounts.

The ED accused WazirX of letting people use its app to transfer Cryptocurrencies to other international exchanges which are prohibited in India. In this way, the funds were being transferred across the borders and they were being warehoused through other entities.

The ED investigation also found that some users engaged in P2P transactions that involved use of the cryptocurrencies to transact with foreign persons without necessarily using the established institutional and legal players. This raised a major problem for regulators as funds were crossing national borders and the flow was almost invisible. The case resulted in the shutting down of crypto exchanges and putting pressure on the Indian government to come up with more stringent regulations on any form of crypto transactions.<sup>6</sup>

- **The CoinDCX and another Crypto-Related Ponzi Scheme (2020)**

Another of India's largest cryptocurrency exchanges, CoinDCX, got involved in money laundering for a Ponzi scheme in 2020. Allegedly, several persons washed the funds through the platform with the help of Ponzi schemes for investments. Those involved engaged in creating a pyramid and Ponzi schemes that made them promise high yields on invested cryptocurrencies. The money was being embezzled, and investors were getting profits earned from the money that new entrants were putting in.

The scammers counted on the fact that no one could regulate them and used fake wallets to transfer the funds across borders and camouflage their actions. These fake trades were processed on the platform of CoinDCX, which became the unlawful intermediary for such actions, and during the investigation, the police managed to freeze a large amount of digital currency.<sup>7</sup>

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<sup>6</sup> Indian Cryptocurrency Exchange WazirX Hacked: Halts Withdrawals as Over \$230 Million Stolen, The Hindu (Dec. 31, 2024), <https://www.thehindu.com/sci-tech/technology/wazirx-hacked-halts-withdrawals-as-over-230-million-stolen/article68421190.ece#:~:text=Indian%20cryptocurrency%20exchange%20WazirX%20claimed,of%20more%20than%20%24230%20million.>

<sup>7</sup> Crypto Scammers and the CoinDCX Twitter Lock: Hacking Verified Accounts with a New Exploit, CNBCTV18 (Oct. 18, 2024), <https://www.cnbctv18.com/cryptocurrency/crypto-scammers-coindcx-twitter-locked-hacking-verified-accounts-new-exploit-14772741.htm> (last visited Dec. 31, 2024).

- **Arrest of Delhi Businessman in Multi-Level Marketing Scam (2023):**

This year in May, the ED arrested Delhi-based businessman Nikhil Mahajan under the charge of money laundering about a multi-level marketing fraud Bitcoins in the amount of ₹6,600 Crores. The investigation found that Mahajan incorporated his company cashed through the sales of Bitcoin through which events and celebrities were paid through the sale of Bitcoin at Dubai exchanges.<sup>8</sup>

- **First-Ever Raid in Ladakh Related to Cryptocurrency Fraud (2024):**

On 20th August 2024, the ED for the first time raided the union territory of Ladakh for money laundering in connection to a cryptocurrency scam. The investigation revealed that Emollient Coin Limited had cheated a total of 2508 people to invest in the company worth over ₹7 crore. It reveals that there is a growing trend of cryptocurrency-related fraud in different parts of India.<sup>9</sup>

- **Charge-Sheet Filed Against Chinese-Origin Directors in Crypto Mining App Case (2023):**

On 8 December 2023, the ED said it filed a charge sheet against 299 people including ten China-origin accused of investing in a cryptocurrency scam under the anti-money laundering law. The particular case was linked to the so-called “HPZ Token” application which involved earning a high profit from the shares of Bitcoin and other Cryptocurrencies which consequently was unprofitable for the investors.

These cases further establish the rising worry about cryptocurrency-based money laundering in India. This has hampered the development of an overreaching regulation that would easily facilitate monitoring and regulation of such activities. Recent activities of the Enforcement Directorate clearly suggest that stronger regulations, besides more scrutiny, are required to check the use of cryptocurrencies in money laundering.

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<sup>8</sup> Press Releases, Delhi Police Economic Offences Wing, [https://eow.delhipolice.gov.in/Press\\_Release.htm](https://eow.delhipolice.gov.in/Press_Release.htm) (last visited Dec. 31, 2024).

<sup>9</sup> ED Conducts Searches in Ladakh in Connection with Cryptocurrency Case, The Hindu (Nov. 15, 2024), <https://www.thehindu.com/news/national/ed-conducts-searches-in-ladakh-in-connection-with-cryptocurrency-case/article68476086.ece#:~:text=In%20its%20first%20ever%20raids,worth%20of%20deposits%2C%20officials%20said.>

In early 2023, the Enforcement Directorate (ED) intensified its scrutiny of cryptocurrency exchanges operating in India. The ED initiated investigations into several exchanges for allegedly facilitating money laundering activities. As of January 31, 2023, the ED had attached proceeds of crime worth nearly ₹936 crore (approximately \$113 million) related to cryptocurrency under the Prevention of Money Laundering Act (PMLA)<sup>10</sup>.

The misuse of cryptocurrencies for money laundering in India is a growing concern, exacerbated by the lack of a comprehensive legal framework. The cases of WazirX and CoinDCX highlight the challenges India faces in controlling illicit financial activities involving crypto assets.

To combat these issues, India must implement stricter AML regulations, enhance cross-border cooperation, and mandate compliance with KYC norms across all crypto platforms. This will not only help curb money laundering but also contribute to fostering a more secure and transparent crypto ecosystem, encouraging legitimate investors and businesses to participate in this emerging market.

As the Indian government continues to deliberate on cryptocurrency regulation, a regulatory framework must be established that provides clarity and safeguards against the potential misuse of cryptocurrencies in money laundering and other illicit activities.

At the beginning of 2023, the Enforcement Directorate (ED) began focusing on the exchanges of cryptocurrency in India. In February 2018, the ED began probing several exchanges for involvement in money laundering operations. The ED had valued the enforcement of the PMLA in cryptocurrency frauds up to ₹935.77 crore (about \$113 million) till 31 January 2023.

Through the unregulated market, Indian fraudsters expand the use of cryptocurrencies for money laundering due to the limited legislation of the industry. This is evidenced by the WazirX and CoinDCX scenarios raising the question of how India can address the issues of suspected Crypto asset-related financial crimes.

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<sup>10</sup> ED Files Charge Sheet Against Chinese-Origin Directors & Others in Crypto Mining App Case, Economic Times (Nov. 16, 2024), <https://economictimes.indiatimes.com/news/india/ed-files-charge-sheet-against-chinese-origin-directors-others-in-crypto-mining-app-case/articleshow/108264732.cms?from=mdr> (last visited Dec. 31, 2024).

To address these challenges, India must tighten its AML regime, increase multidimensional coordination, and ensure compliance with the KYC norms with the crypto platforms. It will additionally assist in preventing money laundering and other fraudulent phenomena that are illicit in most countries while promoting the creation of a truthful and safe environment to expand the participation of legal stakeholders in this novel market.

Due to the ongoing debate on the legalities of crypto assets in India, the right legal structure for cryptocurrencies, which will help prevent their actual use in money laundering and similar unlawful activities must be set in place.

### **RELEVANT LEGAL PROVISIONS**

In India, the use of cryptocurrencies including money laundering activities is regulated not with a single cryptocurrency law but through the existing financial and anti-money laundering laws. Here are the key legal provisions that are relevant to the regulation of cryptocurrencies and the prevention of money laundering:

#### **1. The Prevention of Money Laundering Act PMLA, 2002<sup>11</sup>**

The main law of money laundering in India is the Prevention of Money Laundering Act (PMLA), 2002. The authorities have been vested with the power to investigate and bring to book perpetrators of financial crimes which under this Act include those involving cryptocurrencies. Key provisions include:

- **Money Laundering Offense:** The PMLA describes money laundering as the act of changing the identity of the suspected illicit sources of money so that it looks like lawful income. This could include bitcoins when the funds are transferred through bitcoin stores to conceal the source of the cash.
- **Attachment of Property:** The ED, which lies under the PMLA, can freeze or confiscate assets that are said to be the proceeds of the crime, including cryptocurrencies.
- **Know Your Customer (KYC):** Cryptocurrency is also an area where KYC norms are mandatory for financial institutions like cryptocurrency exchanges, to check for anonymous and/or unlawful transactions after ascertaining the

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<sup>11</sup> Prevention of Money Laundering Act, 2002, Financial Intelligence Unit India, [https://fiuindia.gov.in/files/AML\\_Legislation/pmla\\_2002.html](https://fiuindia.gov.in/files/AML_Legislation/pmla_2002.html) (last visited Dec. 31, 2024).

identity of the customer.

Reporting of Suspicious Transactions: Cryptocurrency exchanges, banks and other financial service providers are required to alert the FIU to suspicious transactions to curb money laundering.

## 2. FEMA means Foreign Exchange Management Act of 1999

FEMA controls and monitors the movement of Indian capital across its borders as well as the movement of foreign exchange into and out of the country. Cryptocurrencies have regulations that are equally imposed by the Reserve Bank of India (RBI) and FEMA that have restrictions on foreign transactions, which then has an impact on the Cryptocurrency exchanges that conduct transactions with other countries.<sup>12</sup> While the Supreme Court of India invalidated the 2018 banking restriction on cryptocurrency exchanges in 2020, the RBI still partly controls cryptocurrency in India.

Earlier in 2018, RBI restricted the banking facilities to Cryptocurrencies by blocking the banking facilities of leading Cryptocurrency trading platforms. Due to this, after the Supreme Court act, the RBI had to open the possibility of cryptocurrencies to be transacted through banks. But RBI is still very conservative and has not encouraged people to invest in cryptocurrencies and, for that matter has also warned people about the danger of investing in cryptocurrencies.

## 3. The Income Tax Act, 1961<sup>13</sup>

Cryptocurrency trade is also taxable under the Income Tax Act of 1961 of India although it is not recognized legally as a mode of payment. The government considers profits emanating from trading in cryptocurrencies as capital gains and taxes them as such.

All the income received from the sale of these digital products is taxable under the capital gains or business income tax regime depending on the activity. Where the transactions are associated with criminal activities like money laundering, the tax authorities are privileged to punitive measures under this Act. Even though cryptocurrencies are not legal tender, they are considered an asset. Therefore, those used for trading or investment purposes, they're liable to tax.

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<sup>12</sup> Foreign Exchange Management Act (FEMA), Reserve Bank of India, <https://www.rbi.org.in/scripts/fema.aspx> (last visited Dec. 31, 2024).

<sup>13</sup> Income-tax Act, 1961, Income Tax Department of India, <https://incometaxindia.gov.in/pages/acts/income-tax-act.aspx> (last visited Dec. 31, 2024).



#### 4. The Digital Personal Data Protection Bill 2023<sup>14</sup>

The Digital Personal Data Protection Bill, 2023 does not apply to crypto directly but the broader framework created to rule over digital assets under its provisions includes personal data protection which can be used in crypto transactions. Those who run Crypto exchanges and any businesses must factor in the protection of data of users especially where the data is in relation to financial transactions. They believed that this law could be used to sue cryptocurrency platforms for violation of personal data for purposes of money laundering or fraud.

#### 5. The Companies Act, 2013

The Companies Act, 2013 shall apply to any cryptocurrency company working under a registered legal entity in India. This is a circumstance of compliance with the legal requirements of AML prevention and the filing of such operations.<sup>15</sup>

### Recent Developments and some Regulatory Push

#### 1. Banning of Private Cryptocurrencies and Introduction of Central Bank Digital

**Currency (CBDC) 2021:** Amendments to the legislature were introduced in the new year, according to which all private cryptocurrencies are prohibited in India except those used in some specific cases in exchange for a government-issued Central Bank Digital Currency (CBDC). This bill has not yet been passed but it presents the inclined government move toward regulating the crypto market.<sup>16</sup>

#### 2. Crypto Taxation Framework:

The Indian government, in the 2022 Union Budget, introduced a taxation framework on cryptocurrency. The tax regime includes<sup>17</sup>:

- A 30% tax on gains from crypto transactions.
- A 1% tax deducted at source (TDS) on crypto transfers above a certain limit.

<sup>14</sup> Cryptocurrency to Cryptography: Analyzing the DPDP Act vis-à-vis Blockchain Startups, IRC Corporate Law (Oct. 20, 2024), <https://www.irccl.in/post/cryptocurrency-to-cryptography-analyzing-the-dpdp-act-vis-%C3%A0-vis-blockchain-startups> (last visited Dec. 31, 2024).

<sup>15</sup> Companies Act, 2013, Ministry of Corporate Affairs, <https://www.mca.gov.in/content/mca/global/en/acts-rules/companies-act/companies-act-2013.html> (last visited Dec. 31, 2024).

<sup>16</sup> Bitcoin at \$89,000: What Does the Law Say About Cryptocurrencies in India, Bus. Standard (Nov. 12, 2024), [https://www.business-standard.com/finance/news/bitcoin-at-89-000-what-does-the-law-say-about-cryptocurrencies-in-india-124111200925\\_1.html](https://www.business-standard.com/finance/news/bitcoin-at-89-000-what-does-the-law-say-about-cryptocurrencies-in-india-124111200925_1.html) (last visited Dec. 31, 2024).

<sup>17</sup> Crypto Tax in India: Taxation on Cryptocurrency, IndiaFilings (2024), <https://indiafilings.com/learn/crypto-tax-in-india-taxation-on-cryptocurrency/#:~:text=Crypto%20Tax%20Rate%20in%20India,within%20a%20single%20financial%20year> (last visited Dec. 31, 2024)

No deductions for expenses or losses incurred in cryptocurrency transactions.

- 3. SEBI and Crypto Exchange Regulation:** The Securities and Exchange Board of India (SEBI) regulation is expected to have a role to play in regulating exchanges that have adopted trading in cryptocurrencies that exist as securities.<sup>18</sup>

### **MISSING LINKS IN THE REGULATION OF CRYPTOCURRENCIES**

Despite these laws, there are several gaps in the regulatory framework surrounding cryptocurrencies in India:

- **Lack of Clear Legislation:** As for the legal status of cryptocurrencies there is no law in India which directly states the regulation of cryptocurrencies, which causes the situation when the existing laws are interpreted in different ways and enforced in the same manner.
- **Regulatory Uncertainty:** Uncertainty surrounding the adoption of cryptocurrencies is mainly due to the government's rather volatile position towards this type of digital asset.
- **Lack of International Cooperation:** Because cryptocurrencies are decentralized, international cooperation between the regulators is necessary to stop money laundering, but it has its problems.

### **CONCLUSION**

In particular, the development of cryptocurrency brings new perspectives as well as risks to the Indian financial system. Nevertheless, there may be numerous benefits of CA usage in the financial system and beyond, however, without the paradigmatic and system approach to regulation, threats relating to cons losses, money laundering, and market manipulation could overshadow these advantages. What India requires is a clear-cut crypto regulation bill that will protect investors, businesses, and the government. A properly designed regulatory system will also guarantee that besides shielding consumers from frauds and scams as well as manipulations of the market, India can fully harness the opportunities of decentralized finance while preserving the country's financial sector from abuses. In my opinion, regulators should not hesitate and bring adequate legal changes to protect the rights of the cryptocurrency participants and encourage further development of this industry at the same time.

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<sup>18</sup> Securities and Exchange Board of India, SEBI, <https://www.sebi.gov.in/> (last visited Dec. 31, 2024).

The legal regulation of Money laundering in the Indian Crypto Space is still unfolding, while using existing legal frameworks PMLA, FEMA, and RBI directives to some extent. However, the absence of a provision that allows for the creation of a cryptocurrency law has been a problem for the regulators most especially given the rising cases of utilization of the crypto assets in illicit financial activities. The scales have been tilted globally toward embracing cryptocurrency activities with a main key leading focus being AML, consumer protection, and financial stability. While some countries like the USA and EU have already built an elaborate structure of regulation, other countries, such as Switzerland or Singapore, have chosen more liberal and oriented business approaches. The primary concern in all jurisdictions is to maintain rigorous KYC requirements on cryptocurrency transactions, to keep cryptocurrencies from promoting illegitimate usages, and to empower the supervisory authorities and have authority over the operations and fight against financial crimes. To fight money laundering and fraud more effectively India can consider the adoption of a particular cryptocurrency regulation law that will define all the AML regulation procedures, the methods of transaction monitoring, as well as the main requirements of the KYC norms.