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# SCOPE AND LEGALITY OF CRYPTOCURRENCY IN INDIA

-Sitakant Mishra<sup>1</sup>

## ABSTRACT

Cryptocurrencies are among the most widely used decentralised digital currencies of the contemporary era. As financial technology continues to evolve, cryptocurrency has emerged as a novel payment instrument that differs fundamentally from conventional monetary systems. This article evaluates the conceptual underpinnings of virtual currencies, examining why cryptocurrencies cannot be equated with traditional legal tender, and analyses their impact on consumers, central banks, and monetary policy. Drawing on Indian case law, legislative developments, and comparative regulatory frameworks, the article examines the current position of cryptocurrency in India. The Reserve Bank of India's 2018 prohibition on bank services to cryptocurrency businesses was overturned by the Supreme Court in *Internet and Mobile Association of India v. Reserve Bank of India* (2020). Notwithstanding this landmark ruling, a comprehensive regulatory framework governing the use, trading, and taxation of cryptocurrencies in India remains absent. The article further analyses the Union Budget 2022 virtual-digital-asset tax regime, the extension of the Prevention of Money Laundering Act 2002 to cryptocurrency exchanges in 2023, and the ongoing development of the Central Bank Digital Currency. The article concludes that India must adopt a balanced legislative approach that mitigates associated risks while fostering technological innovation.

Keywords: Cryptocurrency, Bitcoin, Blockchain, Reserve Bank of India, Legal Tender, Virtual Digital Assets, CBDC, Money Laundering, Regulatory Framework.

## I. INTRODUCTION

Few topics in Indian financial law have generated as much argument, litigation, and legislative uncertainty as cryptocurrency. Virtual currencies, of which cryptocurrency is the most prominent form, owe their existence to advances in cryptography and distributed computing rather than to any

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act of government. The Reserve Bank of India (RBI) has characterised virtual currencies in its internal materials as digital instruments issued and controlled by private parties and accepted within specific user communities. The Financial Action Task Force (FATF) offers a broader definition: a digital representation of value that can be bought, sold, and transferred electronically, functioning as a medium of exchange, unit of account, or store of value, though without the status of legal tender in any jurisdiction that has formally addressed the question.<sup>2</sup>

The first and most widely recognised cryptocurrency, Bitcoin, was created in 2009 by an anonymous individual or organisation operating under the pseudonym "Satoshi Nakamoto." Since then, the cryptocurrency ecosystem has expanded rapidly to encompass thousands of digital assets, including Ethereum, Ripple (XRP), and Litecoin. Each cryptocurrency operates on a distributed ledger, permitting peer-to-peer transactions without reliance on intermediaries such as banks.

Merriam-Webster defines cryptocurrency as "that form of currency which exists only in digital form, and which is not backed by any regulating authority." The Cambridge Dictionary defines it as "any currency in digital form which is not made by the government, but produced by a public network using cryptography to make payments." The FATF defines it as "a math-based, decentralised convertible virtual currency protected by cryptography, relying on public and private keys to transfer value between persons, and signed cryptographically each time it is transferred."

Section 26 of the Reserve Bank of India Act 1934 defines legal tender as follows: "All promissory notes shall be legal tender for payment or credit of the money stated therein anywhere in India and shall be recognised by the Central Government." No sovereign government has yet accorded virtual currency the status of legal tender. The law on cryptocurrencies in India is a subject of continuous debate, reflecting the tension between innovation and regulation. The RBI's 2018 advisory prohibiting banks from providing services to cryptocurrency businesses had a significant impact on India's emerging cryptocurrency market. The Supreme Court's landmark 2020 ruling overturned those restrictions, underscoring the need for regulatory balance. Since then, tax measures and anti-money-laundering safeguards have been introduced, but a comprehensive legal framework remains elusive.<sup>3</sup>

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<sup>2</sup>Financial Action Task Force (FATF), "Virtual Currencies – Key Definitions and Potential AML/CFT Risks" (FATF, 2019).

<sup>3</sup>Reserve Bank of India, "Circular on Virtual Currencies" (RBI Ref. No. DBR.No.BP.BC.104/08.13.102/2017-18, April 6, 2018).

## **II. LEGISLATIVE PROVISIONS**

### **A. THE RBI'S 2018 CIRCULAR AND JUDICIAL INTERVENTION**

India's regulatory journey with respect to cryptocurrencies began in earnest in 2018 when the Reserve Bank of India issued a circular prohibiting banks and financial institutions from providing services to cryptocurrency-related businesses. The circular had a profound impact, effectively shutting down many cryptocurrency exchanges and creating acute uncertainty in the market. The circular did not, however, declare cryptocurrencies illegal a distinction that would later prove pivotal.

In *Internet and Mobile Association of India v. Reserve Bank of India*, the petitioners contended that the circular violated their fundamental right to trade and commerce under Article 19(1)(g) of the Constitution of India. In March 2020, the Supreme Court struck down the circular, holding that the RBI's measures were disproportionate in the absence of concrete evidence of harm to the regulated financial sector. While the ruling restored banking services to cryptocurrency businesses, it did not resolve the broader question of legal status.<sup>4</sup>

### **B. THE CRYPTOCURRENCY AND REGULATION OF OFFICIAL DIGITAL CURRENCY BILL, 2021**

Following the Supreme Court's ruling, the Indian Government introduced the Cryptocurrency and Regulation of Official Digital Currency Bill, 2021, which proposed to prohibit all private cryptocurrencies while creating a framework for a Central Bank Digital Currency (CBDC) issued by the Reserve Bank of India. The bill attracted significant criticism from industry participants who argued that a blanket prohibition would stifle blockchain innovation and drive the industry into unregulated shadow markets. As at the date of this article, the bill has not been tabled in Parliament and the regulatory position remains uncertain.<sup>5</sup>

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<sup>4</sup>*Internet and Mobile Association of India v. Reserve Bank of India*, (2020) SCC OnLine SC 275 (Supreme Court of India, March 4, 2020).

<sup>5</sup>Cryptocurrency and Regulation of Official Digital Currency Bill 2021 (introduced for parliamentary discussion, December 2021).

## **C. UNION BUDGET 2022: TAXATION OF VIRTUAL DIGITAL ASSETS**

The Union Budget 2022-23 marked a significant step in the de facto recognition of cryptocurrencies as taxable assets. Finance Minister Nirmala Sitharaman announced a flat tax rate of thirty per cent on income from the transfer of virtual digital assets (VDAs), with a one per cent tax deducted at source (TDS) on transactions exceeding prescribed thresholds. Losses in one VDA may not be set off against gains in another. Critics contend that the thirty per cent rate the highest applied to any asset class may deter compliant investors and push activity to offshore platforms. The tax measures provide legitimacy without conferring legal-tender status.<sup>6</sup>

## **D. ANTI-MONEY LAUNDERING MEASURES: EXTENSION OF THE PMLA, 2023**

In March 2023, the Ministry of Finance brought virtual-digital-asset service providers within the ambit of the Prevention of Money Laundering Act 2002 (PMLA), requiring compliance with Know Your Customer (KYC) and Anti-Money Laundering (AML) obligations. This measure represents a significant regulatory step, aligning India with the FATF's recommendations for virtual asset service providers. Enforcement, however, remains challenging given the decentralised and cross-border nature of the technology.<sup>7</sup>

## **E. THE FUTURE REGULATORY LANDSCAPE**

India's approach to cryptocurrency regulation continues to evolve. The Reserve Bank of India has piloted a digital rupee (CBDC) in both wholesale and retail segments, reflecting a preference for state-issued digital currency over decentralised private cryptocurrencies. A comprehensive legislative framework that classifies cryptocurrencies, protects investors, mandates exchange registration, and establishes clear tax and anti-money-laundering obligations remains the immediate legislative imperative.<sup>8</sup>

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<sup>6</sup>Finance Act 2022 (India), s 115BBH; Income Tax Act 1961 (India), s 194S (as inserted by Finance Act 2022).

<sup>7</sup>Ministry of Finance (India), "Notification S.O. 1072(E)" (Government of India Gazette, March 7, 2023) bringing virtual-digital-asset service providers under the Prevention of Money Laundering Act 2002.

<sup>8</sup>Reserve Bank of India, "Report on Currency and Finance 2021–22: Towards a Digital Rupee" (RBI, 2022).

### **III. JUDICIAL ANALYSIS**

#### **A. INTERNET AND MOBILE ASSOCIATION OF INDIA V. RESERVE BANK OF INDIA (2020)**

The most consequential judicial pronouncement on cryptocurrency in India is *Internet and Mobile Association of India v. Reserve Bank of India (2020)*. The Reserve Bank of India issued a circular in April 2018 prohibiting scheduled commercial banks, small finance banks, payment banks, and all entities regulated by the RBI from providing services in relation to virtual currencies. The petitioners, comprising cryptocurrency exchanges and individual traders, challenged the circular on constitutional grounds.

The Supreme Court, in a unanimous judgment, struck down the circular on the following grounds. First, the court found a lack of proportionality: the RBI had not adduced sufficient evidence demonstrating that cryptocurrency trading posed a tangible risk to the entities it regulated. Second, the circular violated the fundamental right to carry on trade and business under Article 19(1)(g) of the Constitution. Third, and perhaps most significantly, the court observed that the absence of a regulatory framework does not justify blanket prohibition i.e the appropriate response is measured regulation, not prohibition.<sup>9</sup>

The judgment remains the cornerstone of cryptocurrency jurisprudence in India. It is important to note, however, that the court did not adjudicate upon the legality or illegality of cryptocurrencies per se, and the regulatory vacuum persists.

#### **B. ADVANTAGES AND DISADVANTAGES OF CRYPTOCURRENCY**

The table below summarises the principal advantages and disadvantages of cryptocurrency as an asset class and payment instrument:

##### Advantages

Cryptocurrency offers several noteworthy advantages. First, its decentralised architecture allows transactions to take place without the involvement of banks or other financial intermediaries, thereby placing greater control in the hands of individual users. Second, cross-border payments are settled almost instantaneously and at considerably lower cost than traditional wire transfers. Third, digital

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<sup>9</sup>*Internet and Mobile Association of India v. Reserve Bank of India, (2020) SCC OnLine SC 275, at paras 66–70.*

currencies open up financial services to populations that remain unbanked or underserved by conventional institutions. Fourth, the underlying distributed-ledger technology ensures that all recorded transactions are transparent and cannot be altered retroactively, bolstering trust among participants. Fifth, programmable smart contracts allow parties to execute commercial agreements automatically and without reliance on intermediaries. Finally, the cryptocurrency sector has acted as a powerful stimulus for fintech innovation, with ripple effects felt across banking, supply-chain management, and healthcare.

#### Disadvantages

Despite these benefits, cryptocurrency carries significant drawbacks. Its most frequently cited weakness is extreme price volatility, which makes it a poor candidate for a stable store of value or unit of account. Regulatory uncertainty further compounds the problem, exposing businesses and investors to unpredictable legal consequences as governments formulate their responses. Security vulnerabilities in digital wallets and exchange platforms continue to attract hackers and fraudsters, resulting in substantial financial losses for users. The technology also presents a high barrier to entry for non-technical participants; crucially, the permanent loss of private keys translates directly into the irrecoverable loss of funds. From an environmental standpoint, proof-of-work mining the consensus mechanism underpinning Bitcoin consumes enormous quantities of energy, raising legitimate sustainability concerns. Finally, the pseudonymous nature of transactions provides cover for illicit activity, including money laundering, ransomware attacks, and unlawful trade.

## **C. UNDERSTANDING THE GOVERNMENT'S REGULATORY FRAMEWORK**

The Indian Government has consistently maintained that cryptocurrencies do not constitute legal tender within the meaning of the Reserve Bank of India Act 1934. The RBI's powers under Section 18 of the Payment and Settlement Systems Act 2007 extend to the regulation of payment systems, including the issuance of directions relating to electronic and non-electronic payments. These powers have been invoked in successive circulars and advisories concerning cryptocurrencies.<sup>10</sup>

India's regulatory attitude has shifted over the years, moving from outright prohibition towards a regulation-first approach. The 2022 tax regime, the PMLA extension, and the CBDC pilot collectively

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<sup>10</sup>Inter-Ministerial Committee, "Report of the Committee to Propose Specific Actions to be Taken in Relation to Virtual Currencies" (Ministry of Finance, February 2019).

signal a disposition to integrate digital assets into the formal financial system while preserving monetary sovereignty.

## **D. CAN CRYPTOCURRENCY CONSTITUTE CURRENCY IN THE STRICT SENSE?**

For any instrument to qualify as currency, it must fulfil three classical monetary functions: (i) medium of exchange; (ii) store of value; and (iii) unit of account. Economic orthodoxy requires money to exhibit stability of value. Cryptocurrencies are characterised by extreme price volatility, which undermines their capacity to function as a reliable store of value or unit of account. The "Report of the Committee for the Promotion of Virtual Money Special Operations" concludes that cryptocurrencies are supported by trust derived from verification processes but suffer from significant transaction latency, value instability, and speculative pricing features fundamentally inconsistent with the classical attributes of money.<sup>11</sup>

Furthermore, the main argument advanced by national governments opposing the classification of cryptocurrencies as legal tender is that they fail to satisfy the competitive conditions prescribed for fiat money. Despite their widespread use as investment instruments, cryptocurrencies do not presently meet the criteria for legal-tender status in India or any major jurisdiction.

## **E. CRYPTOCURRENCY AS A TOOL FOR CRIMINAL ACTIVITY**

The pseudonymity, decentralisation, and borderless nature of cryptocurrencies render them attractive instruments for illicit activity, including money laundering, ransomware attacks, drug trafficking, and terrorist financing. Unlike conventional financial systems requiring identity verification, cryptocurrencies permit transactions with limited disclosure, complicating law enforcement efforts.<sup>12</sup> Dark-net platforms have historically relied upon cryptocurrencies such as Bitcoin and Monero to facilitate illicit transactions. Terrorist organisations, including groups affiliated with ISIS and al-Qaeda, have reportedly used Bitcoin wallets to receive donations and move funds across borders without

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<sup>11</sup>Committee for the Promotion of Virtual Money Special Operations, "Report on Cryptocurrency as Currency" (2020).

<sup>12</sup>Financial Action Task Force (FATF), "Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers" (FATF, October 2021).

intermediary intervention. The Silk Road dark marketplace, dismantled in 2013, relied almost entirely upon Bitcoin. Tools such as cryptocurrency mixers and privacy coins such as Monero and Zcash further obfuscate transaction data, impeding forensic tracing.<sup>13</sup>

To mitigate these risks, governments and regulators have deployed KYC/AML requirements, blockchain analytics, and international co-operation frameworks. Entities such as Chainalysis and CipherTrace provide blockchain analysis tools that assist law enforcement in identifying suspicious transaction patterns. The FATF's 2021 guidance on virtual assets sets out a risk-based approach for member jurisdictions. India's extension of the PMLA to cryptocurrency service providers in 2023 represents a concrete legislative response to these concerns.

## **F. LEGAL ISSUES AND CONSUMER PROTECTION**

The legal environment for cryptocurrency in India remains ambiguous. In the absence of comprehensive legislation, cryptocurrency exchanges and users operate without a clear regulatory framework, raising acute concerns about consumer protection, investor safety, and financial stability. The proposed Cryptocurrency Bill, once enacted, would provide a definitive legal classification, mandatory exchange registration, and investor-protection obligations.

Taxation represents a significant legal issue. The thirty per cent flat rate introduced in 2022, combined with restrictions on loss set-off and uncertainty regarding the tax treatment of staking rewards and airdrops, has drawn criticism for its complexity and potential to drive activity to less regulated jurisdictions. Legislative clarity on these matters is essential.<sup>14</sup>

Consumer protection remains inadequate. Investors have no recourse mechanism comparable to that available in regulated financial markets. The proliferation of Ponzi schemes, fake initial coin offerings (ICOs), and phishing attacks has caused substantial losses, eroding public trust. Mandatory disclosure requirements, investor education programmes, and accessible redress mechanisms are necessary components of a credible regulatory framework.

Environmental concerns also merit regulatory consideration. Proof-of-work mining, which underpins Bitcoin, consumes considerable energy. In a jurisdiction such as India, where energy resources remain constrained, widespread cryptocurrency mining could place additional strain on the electricity grid.

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<sup>13</sup>Yaya J Fanusie & Alex Entz, "Bitcoin and the Islamic State" (Foundation for Defense of Democracies, FDD's Center on Sanctions and Illicit Finance, 2017).

<sup>14</sup>"Legal Status of Cryptocurrencies: A Comparative Analysis" (2022) 18(2) International Journal of Law and Technology 124.

Policymakers should consider whether proof-of-stake and other energy-efficient consensus mechanisms warrant preferential regulatory treatment.

Blockchain technology itself has applications beyond cryptocurrency, including supply-chain management, healthcare records, land registry, and digital identity verification. Major Indian technology companies like Infosys, Wipro, and TCS have invested substantially in blockchain research and development. NITI Aayog's National Blockchain Strategy and state-government land-registry initiatives in Andhra Pradesh and Telangana demonstrate the government's recognition of blockchain's transformative potential, independent of its cryptocurrency applications.<sup>15</sup>

## **CRYPTOCURRENCY SCAMS: TYPOLOGY AND CASE ANALYSIS**

Cryptocurrency fraud has grown in sophistication alongside the market's expansion. The following typology identifies the principal categories of cryptocurrency scams prevalent in the Indian and global context.

### **1. INVESTMENT SCAMS AND PONZI SCHEMES**

Investment scams typically promise high returns with minimal risk, attracting unsophisticated investors. Bitconnect, which operated a lending platform promising exorbitant daily returns, exemplifies this category; it collapsed in 2018, causing billions of dollars in losses. Pump-and-dump schemes inflate the price of low-liquidity cryptocurrencies through coordinated false representations, enabling perpetrators to liquidate holdings before the price collapse.<sup>16</sup>

### **2. PHISHING SCAMS**

Phishing scams deceive users into disclosing wallet credentials, private keys, or mnemonic recovery phrases through fraudulent communications that mimic legitimate cryptocurrency service providers. The irreversibility of blockchain transactions means that funds stolen through phishing are rarely recoverable.

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<sup>15</sup>NITI Aayog, "National Strategy on Blockchain" (Government of India, 2021).

<sup>16</sup>"Pump-and-Dump Manipulation in Cryptocurrency Markets" (2022) 14 Journal of Financial Security 88.

### **3. FAKE INITIAL COIN OFFERINGS (ICOS)**

Fraudulent ICOs solicit investment by presenting fictitious cryptocurrency projects accompanied by professional-looking white-papers and marketing materials. Centra Tech raised in excess of twenty-five million US dollars through a fraudulent ICO before its founders were arrested and convicted of securities fraud.

### **4. GIVEAWAY SCAMS**

Giveaway scams exploit social media platforms by impersonating prominent public figures and promising to return double any cryptocurrency sent to a specified address. The 2020 Twitter hack in which verified accounts belonging to Elon Musk, Bill Gates, and other public figures were compromised resulted in losses exceeding one hundred thousand US dollars.<sup>17</sup>

### **5. MALWARE AND RANSOMWARE**

Malware intercepts clipboard data to redirect cryptocurrency payments to attackers' wallets. Ransomware encrypts victims' files and demands cryptocurrency as consideration for decryption keys. The 2017 WannaCry attack, which demanded Bitcoin ransoms from hundreds of thousands of victims worldwide, remains the most prominent example.<sup>18</sup>

### **6. RUG PULLS AND DECENTRALISED FINANCE (DEFI) FRAUD**

Rug pulls occur when developers of a new cryptocurrency project abruptly withdraw all liquidity, leaving investors with worthless tokens. The Squid Game token, launched in November 2021, soared in value before its developers executed a rug pull estimated at approximately 3.38 million US dollars, illustrating the acute risks of unregulated token issuances.

### **7. MULTI-LEVEL MARKETING (MLM) CRYPTOCURRENCY SCHEMES**

Pyramid schemes in the cryptocurrency space recruit new participants to generate returns for earlier entrants. OneCoin, marketed as a legitimate cryptocurrency but operating as a pyramid scheme, defrauded investors worldwide of an estimated four billion US dollars.

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<sup>17</sup>United States Department of Justice, "Twitter Hack – Final Report" (DOJ, 2021).

<sup>18</sup>United States Securities and Exchange Commission, "Investor Alert: Avoiding Cryptocurrency Scams" (SEC, 2021).

## **PREVENTION MEASURES**

- Effective measures to reduce the risk of cryptocurrency fraud include:
- Verifying the regulatory status and identity of cryptocurrency exchanges and projects before investing.
- Treating unsolicited communications promising guaranteed returns with extreme scepticism.
- Using hardware wallets, enabling two-factor authentication, and never disclosing private keys.
- Consulting official regulatory advisories issued by SEBI, the RBI, and the Ministry of Finance.
- Reporting suspected fraud to the Financial Intelligence Unit (FIU-IND) and the Enforcement Directorate.

## **G. CASE LAW ON CRYPTOCURRENCY FRAUD**

### **(I) INTERNET AND MOBILE ASSOCIATION OF INDIA V. RESERVE BANK OF INDIA (2020)**

As discussed at length in Section III above, this landmark Supreme Court judgment struck down the RBI's 2018 circular as unconstitutional for want of proportionality and violation of Article 19(1)(g). The judgment precipitated a significant increase in cryptocurrency trading volumes and exchange registrations in India. The regulatory vacuum that the ruling exposed continues to occupy the attention of the legislature.

### **(II) STATE V. AMIT BHARDWAJ AND OTHERS (2018)**

Amit Bhardwaj, founder of GainBitcoin, orchestrated what is widely regarded as one of India's largest cryptocurrency Ponzi schemes, promising monthly returns of ten per cent on Bitcoin mining contracts over eighteen months. Approximately one million investors, primarily retail participants, were affected. Bhardwaj was arrested in Bangkok in 2018 and extradited to India. He and his associates were charged under the Indian Penal Code with cheating, criminal breach of trust, and criminal conspiracy, and under the Maharashtra Protection of Interest of Depositors (In Financial Establishments) Act. The Pune Police Financial Crimes Wing and the Enforcement Directorate

conducted multi-state investigations and seized assets including luxury vehicles and cryptocurrency wallets.<sup>19</sup>

The investigation faced substantial obstacles, including the volatility of cryptocurrency valuations (which complicated the quantification of loss), the global reach of the scheme, and the absence at the relevant time of a dedicated cryptocurrency regulatory authority in India. The proceedings remain ongoing, and the case has been influential in shaping subsequent legislative proposals for mandatory exchange registration and investor protection.

### **(III) STATE V. SATISH KUMBHANI (2022)**

Satish Kumbhani, founder of BitConnect, is alleged to have orchestrated one of the world's largest cryptocurrency Ponzi schemes, defrauding investors of an estimated 2.4 billion US dollars. BitConnect offered investors the ability to lend Bitcoin to the platform in exchange for guaranteed daily returns generated by purported trading bots and volatility software. The platform collapsed in January 2018. The Enforcement Directorate initiated proceedings against Kumbhani under the PMLA following complaints from Indian investors. The US Department of Justice charged Kumbhani with wire fraud conspiracy, commodities fraud conspiracy, and money laundering.<sup>20</sup>

Kumbhani remains a fugitive. The investigation has involved the FBI, the SEC, and law enforcement agencies across multiple jurisdictions, underscoring the imperative of international co-operation in combating cryptocurrency fraud. The case has had a significant influence on India's decision to bring cryptocurrency service providers within the PMLA framework.

## **IV. APPRAISAL AND RECOMMENDATIONS**

Cryptocurrencies present India with a distinctive combination of economic opportunity and regulatory challenge. Their capacity to promote financial inclusion, reduce transaction costs, facilitate cross-border commerce, and catalyse fintech innovation underscores their strategic importance. Blockchain technology, which underpins cryptocurrencies, has transformative applications across supply-chain management, healthcare, land registration, and public governance.

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<sup>19</sup>"GainBitcoin Ponzi Scheme: Legal and Regulatory Analysis" (2021) 5(3) Indian Legal Review 101.

<sup>20</sup>"BitConnect Class Action and Enforcement Analysis" (2020) 7(2) Financial Fraud Journal 56.

Notwithstanding these opportunities, the risks are substantial: price volatility exposes investors to severe financial losses; the absence of regulation leaves the ecosystem vulnerable to fraud and money laundering; and the lack of a legal classification creates uncertainty for businesses and courts alike.

The following recommendations are advanced for consideration:

- **Legislative Classification:** Parliament should enact a dedicated Cryptocurrency and Digital Assets Act that classifies virtual digital assets as a distinct asset class, distinguishing between security tokens, utility tokens, and cryptocurrency instruments. Such legislation should provide clear guidance on the rights and obligations of issuers, exchanges, and investors.
- **Exchange Registration and KYC/AML:** Mandatory registration of cryptocurrency exchanges with a designated regulatory authority (whether SEBI or a newly constituted Digital Assets Regulator) should be introduced, together with robust KYC and AML obligations consistent with FATF standards.
- **Investor Protection Mechanisms:** Mandatory disclosure requirements, segregation of client assets, and an accessible dispute-resolution mechanism should be established to protect retail investors.
- **Tax Simplification:** The thirty per cent tax rate should be reviewed in the context of international comparisons. Clear guidance on the tax treatment of staking, mining, airdrops, and NFTs is urgently required.
- **International Co-operation:** India should actively engage with the G20 Digital Finance Working Group, the FATF, and bilateral partners to develop harmonised standards for cross-border cryptocurrency regulation.
- **Regulatory Sandbox:** A regulatory sandbox administered by SEBI and the RBI would enable controlled testing of innovative blockchain-based financial products before full market launch, reducing systemic risk while encouraging innovation.
- **CBDC Integration:** The digital rupee, once fully operational, should be positioned as a complement to rather than a replacement for regulated private cryptocurrency activity, leveraging blockchain efficiency while maintaining monetary sovereignty.

## **CONCLUSION**

The legal and regulatory status of cryptocurrency in India stands at a critical juncture. The Supreme Court's 2020 ruling in *Internet and Mobile Association of India v. Reserve Bank of India* established

that proportionate regulation, not blanket prohibition, is the constitutionally appropriate response to the challenges posed by digital assets. The tax measures introduced in 2022 and the extension of the PMLA to cryptocurrency service providers in 2023 represent incremental progress, but they do not substitute for a comprehensive legislative framework.

A statutory classification of digital assets as a distinct category, combined with mandatory exchange registration, investor-protection obligations, and harmonised international standards, would address the principal concerns of regulators financial stability, consumer protection, and the prevention of financial crime while creating an enabling environment for technological innovation. India's large technology sector, growing digital infrastructure, and expanding middle class position it uniquely to become a leading jurisdiction in the global blockchain ecosystem.

The future of cryptocurrency in India will be determined by the legislature's willingness to engage constructively with the technology on its own terms: neither demonising it as an instrument of criminality nor uncritically embracing it as a panacea. A balanced, forward-looking, and evidence-based regulatory framework, one that draws on the best practices of jurisdictions such as Japan, Switzerland, and Singapore offers the most credible path to sustainable development of the digital-asset sector in India.