

Virtual Digital Assets: The Need for Regulatory Framework in India

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Abstract

The emergence of Virtual Digital Assets (VDAs) has reshaped the global financial landscape, generating a sharp friction between technological innovation and systemic stability. Driven by rapid adoption, the global crypto-asset market capitalisation reached over US\$4 trillion by late 2025. Internationally, VDA policies remain deeply fragmented, ranging from an outright ban in China to stringent regulatory oversight in Japan. In India, the VDA market has demonstrated rapid growth, with transaction volumes rising to ₹51,180 crore in 2024-25. This fast expansion presents a critical policy dilemma – balancing the Government’s gradual and cautious regulatory approach with the Reserve Bank of India’s call to reject private VDAs in favour of Central Bank Digital Currencies (CBDCs). This paper highlights the urgent need for domestic policy coherence and a unified framework for VDAs in India.

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Key words: Virtual digital asset (VDA); Crypto-assets; Crypto-currencies; Distributed ledger technology; Blockchain; Stablecoins; Central bank digital currency (CBDC).

1. Introduction

Over the last 15 years, there has been an extraordinary rise in the number of new digital instruments, known by various names – cryptocurrencies, digital currencies, crypto-assets, virtual digital assets or virtual assets. These digital assets rely on cryptography to secure transactions and control the creation of additional units. The distributed ledger technology, such as blockchain, is used to construct a ledger (or a database) that is maintained across a network.

The rise of crypto-assets is the result of decades-long search for a cyber solution that enables decentralised peer-to-peer electronic cash network. This evolution was

driven by an ideology that views money as a social institution that can be decentralised, effectively bypassing established financial intermediaries. Transfer of digital tokens between unknown counterparts using blockchain technology without a central authority facilitated this movement.

Since the birth of Bitcoin in 2008, the ecosystem has transitioned from a niche experiment to a global phenomenon. The crypto-assets market has experienced explosive growth, rising to a total market capitalisation of more than US\$4 trillion by late 2025. However, this rapid expansion has been characterised by unbacked crypto-assets like Bitcoin accounting a large chunk of the market value, despite having no underlying cash flows or intrinsic worth. Central bankers often view this growth much like a Ponzi scheme where value is anchored solely on speculative beliefs rather than fundamental economic utility and underlying cash flows.

While the emergence of crypto and blockchain technology transformed various sectors and opened up fresh avenues for innovation and development, yet the distinct features of digital assets – such as their decentralised structure and dependence on cryptographic security – bring about new risks and challenges. Crypto-assets, since their existence, have displayed significant volatility. Alongside, they have grown in complexity. Virtual Asset Service Providers, which serve as custodians of these assets, are particularly vulnerable to cyberattacks, fraud, and increasing regulatory oversight.

To address the extreme price volatility of traditional cryptocurrencies like Bitcoin, stablecoins entered the crypto arena. Stablecoin is a digital asset the price of which is pegged to stable fiat currencies (like the US\$) so users could trade, send money, and store value without losing purchasing power. Stablecoins have commonality and differences with other crypto-assets (which are unbacked) – they are issued on distributed ledgers, typically blockchains like other crypto-assets; and unlike unbacked crypto-assets, they have asset backing and are generally issued and operated in a centralised manner by entities such as crypto firms or financial institutions. A large majority of currently existing stablecoins is denominated in US\$.

This article provides an overview of the crypto-assets, their growth in India and the Indian provisions covering them. The global developments to regulate this rapidly developing sector are discussed to show how fragmented the present global regulatory landscape is. The rest of the article is organised in six Sections. Section 2 describes the virtual digital assets ecosystem. The emergence of stablecoins is discussed in Section 3. Section 4 highlights the regulatory fragmentation of global policies governing crypto-assets, focussing both on advanced and emerging market economies; Section 5 focusses on the adoption of VDAs in India and the emergence of regulatory landscape to govern them. Section 6 concludes and discusses the need for policy coherence in India.

2. The virtual digital assets ecosystem

The global crypto-asset or virtual digital asset ecosystem has expanded dramatically and comprises over 10,000 fungible assets with varying characteristics. These are generally categorised into:

- *Unbacked Cryptocurrencies*: Cryptocurrencies are mostly unbacked and most popular type of crypto-assets. They lack both an issuer and any type of underlying asset backing. Users treat unbacked crypto-assets as speculative instruments rather than as a medium of exchange. Their value is determined on supply and demand.

These crypto-assets offer limited or no rights for the holder and are usually issued in a decentralised manner. The most popular cryptocurrency is Bitcoin¹.

- *Stablecoins*: Stablecoins are designed to maintain a stable value relative to fiat currencies or commodities and are backed by liquid financial assets. They are issued and operated by centralised entities. Stablecoins are primarily used for crypto trading and their use for cross border payments is expanding. Tether is the most popular stablecoin.
- *Utility and Security Tokens*: Utility tokens are typically offered and sold to raise funds for decentralised platform projects. These tokens are used to access services or represent financial stakes. They are designed to act as a medium of exchange within a platform, for example to pay fees or buy items on a platform. Ether (ETH) and Solana (SOL) are examples of utility tokens. Security tokens, on the other hand, represent ownership on a part of an asset. The value of security tokens is directly related to the valuation of the company or asset issuing the token.
- *Non-Fungible Tokens (NFTs)*: A non-fungible token is a unique digital certificate stored on a blockchain that proves who owns a specific item. Non-fungible means it is one-of-a-kind and cannot be replaced with something identical. Unlike regular money or Bitcoin, where one unit is equal to another, no two NFTs are the same. NFT represent unique digital identifiers for art, in-game items, or real estate that represent value, generated and secured cryptographically and traded electronically, often on a blockchain.

Beyond speculative trading, crypto-assets power useful decentralised software infrastructure. This infrastructure offer several interesting use cases. Some of these include:

- *DeFi (Decentralised Finance)*: DeFi offers an alternative to the existing centralised financial system by using public blockchain networks to conduct transactions without having to rely on centralised service providers such as custodians or central clearing houses. They use smart contracts, which are computer codes stored on public blockchains designed in a way that prohibits intervention and manipulation. There are many advantages from DeFi, but there are also challenges and trade-offs – like it might be harder to enforce investor protection, can be problematic from a privacy perspective, and there may be scalability concerns (Schar, 2022).
- *Tokenisation*: Tokenisation of financial assets and liabilities on programmable digital ledgers is not an improvement of marginal efficiency but a structural shift in financial architecture. It describes how permissioned shared ledgers, programmable financial assets, and smart contract-based risk management alter the nature of settlement, liquidity, and systemic risk. However, if public trust is not anchored in digital finance through clear policy frameworks, safe settlements, legal certainty, and international coordination, tokenisation risks may amplify financial instability (Adrian T., 2026).

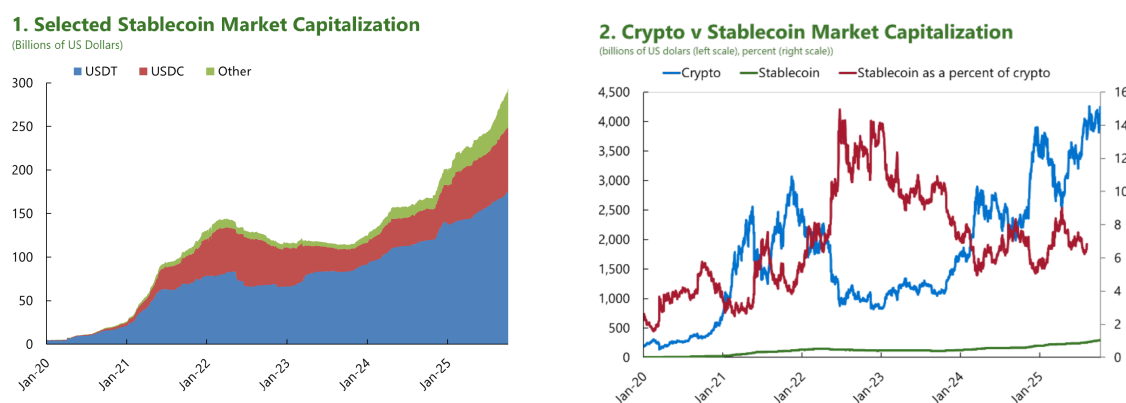
¹In certain regions of Switzerland and for certain payments in UAE, Bitcoin is allowed to function as an alternative point-of-sale medium of exchange. Even for these transactions, at the merchant's end, Bitcoin is instantly converted to local currency and the merchant receives stable fiat, shielding it from Bitcoin's price swings. Fiat currency remains the only official legal tender even in these economies.

- *Public Sector Usage*: Countries are using blockchain technology for several projects. These include, inter alia, establishing and maintaining identities for citizens (birth/death certificates, marriage registration, visas), maintaining interoperable health/insurance records, land title registry, supply chain management, social security payments, contract and vendor management, voting (enabling digital voting, ensuring eligibility, accurate counting, and auditing), and allowing transparency of government expenditure (OECD, 2018).

Annex 1 provides descriptions of some important terminologies used in the digital assets space.

3. The emergence of stablecoins

From among various types of crypto-assets discussed above, the focus, in this Section, is on stablecoins. Stablecoins are crypto-assets that are designed to maintain a steady value by being pegged to another asset. Unlike unbacked cryptocurrencies, stablecoins value is backed by financial reserves, aiming for nominal stability similar to bank deposits. They generally maintain a stable 1:1 value relative to a specified reference asset, typically the US\$. Stablecoins represent only a fraction of the wider virtual digital asset capitalisation. The first stablecoins were issued in 2014, but interest in them emerged only a few years later. The stablecoin market scaled with high velocity, doubling in size over a year to approximately US\$300 billion by September 2025. USDT (Tether) and USDC (Circle) together command nearly 90 per cent of the market share. While they represent only 7 per cent of total crypto market capitalisation, their role as a bridge between the crypto ecosystem and the real economy is expanding (Figure 1).



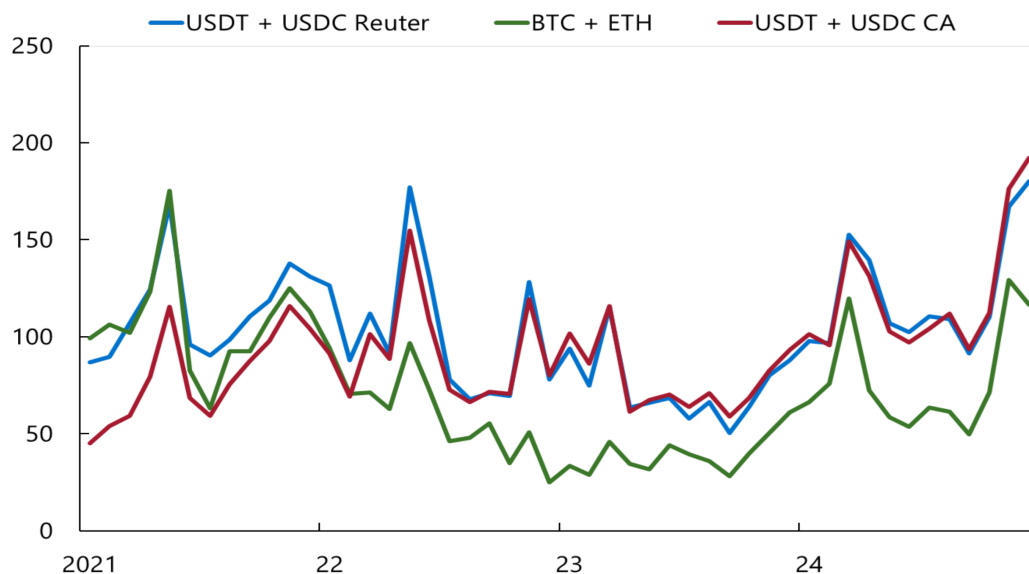
Source: Adrian T., *et. al.* (2025)

Figure 1: Stablecoins and crypto market capitalisation

As per the IMF Paper (2025) stablecoin cross-border flows are already sizable relative to unbacked crypto assets. Though stablecoins account for a small share of total crypto asset market capitalisation, their use in cross-border transactions is substantial (Figure 2).

The primary use cases for stablecoins include:

- *Efficient Payments*: They enable near-instant, 24x7x365 settlements compared to the traditional banking rails that require 3-5 business days for settlements and are



Source: Adrian T., *et. al.* (2025)

Figure 2: Stablecoins and crypto market capitalisation

not available round the clock.

- **Lower Costs:** Remittance costs can be as low as 0.5 per cent with stablecoins, significantly lower than the 2-7 per cent charged by traditional systems.
- **On-Chain Settlement:** They provide the essential liquid asset needed for the broader growth of asset tokenisation and smart-contract-based transactions.
- **Programmable Working Capital and Receivables Financing:** Payment networks like Visa supply real-time settlement data to on-chain lenders, allowing business receivables to serve as instant collateral for automated, smart-contract-driven stablecoin loans.

Global usage of stablecoins in absolute terms is led by the Asia, Pacific regions followed by North America. The usage in Africa and Middle East is also significant. The net flows generally emanate from North America to other regions.

‘Stability’ in stablecoins is maintained through a mechanism of reserve assets held by centralised issuers. The reserve backing of major stablecoins like USDT and USDC relies on short-term, liquid instruments (Adrian T., *et. al.* 2025). As of mid-2025, reserve compositions typically included:

- 45-65 per cent of reserves are held in US Treasury Bonds.
- Reverse repurchase agreements, collateralised by US Treasuries account for 10-40 per cent of reserves.
- Cash and Bank Deposits make up 10-15 per cent of reserves.
- Remaining reserves are held in other short-term assets, including commercial paper and financial institution deposits.

Even though stablecoins are designed as stable crypto-assets, the perceived stability of these assets is fragile. The USDC briefly lost its peg in March 2023 following the collapse of Silicon Valley Bank. Such events highlight that stablecoins remain vulnerable to confidence shocks and liquidity risks within their underlying reserves.

Also, unlike traditional dollarisation, which requires physical cash or bank accounts denominated in foreign currency, foreign currency-denominated stablecoins can penetrate an economy rapidly via the internet and smartphones and cause digital dollarisation. Currency substitution facilitated by stablecoin adoption could impinge on monetary sovereignty – a country’s ability to exercise full control over its own currency and monetary policy (Adrian T., et. al., 2025).

4. Regulatory fragmentation of policies around crypto-assets

Virtual digital assets (VDAs) have been in existence for the last 15 years, yet public policies to regulate them have gained prominence only recently. Even so, the global regulatory response to crypto-assets is fragmented, as jurisdictions diverge in their approaches for oversight and enforcement.

VDAs are associated with many risks. These include macroeconomic risks, which encompass risks to the effectiveness of monetary policy, capital flow volatility, and fiscal risks. There are also serious concerns about financial stability, financial integrity, legal risks, consumer protection, market integrity, and contestability. Some risks are inherent to the technology underpinning crypto-assets, while others stem from the lack of policies or their enforcement (IMF Policy Paper, 2023). Since crypto-assets have implications for both macroeconomic and financial stability, a comprehensive regulatory and supervisory oversight of crypto-assets should be a baseline to address these risks.

4.1. International frameworks for crypto-assets

For the crypto-assets sector, multilateral bodies like the International Monetary Fund (IMF), the Financial Stability Board (FSB) have developed a global framework of recommendations and standards. At the request of the Indian G20 Presidency, the IMF and the FSB have come out with a paper to synthesise their and standard setting bodies’ (SSBs’) policy recommendations and standards (Financial Stability Board, 2023).

The IMF and the FSB have also set out a roadmap to ensure effective, flexible, and coordinated implementation of the comprehensive policy response for crypto-assets. As per their recommendations, to address risks to financial integrity and mitigate criminal and terrorist misuse of the crypto-assets sector, jurisdictions should implement the Financial Action Task Force (FATF) anti-money laundering and counter-terrorist financing (AML/CFT) standards that apply to VDAs and VDA Service Providers (VDASPs).

Separately, the Basel Committee on Banking Supervision (BCBS) of the Bank for International Settlements (BIS) has come out with guidelines for banks in respect of their exposures to crypto-assets. Crypto-assets are defined as private digital assets, and which can be used for payment or investment purposes or to access a good or service. All on- or off-balance sheet amounts that give rise to credit, market, operational and/or liquidity risks are included in banks’ exposures. The Basel Framework has introduced prudential standards for crypto-assets for banks (Bank for International Settlements, 2026).

4.2. Global regulatory approaches

Policymakers around the world have been developing a variety of national approaches to manage crypto-assets. These vary significantly from outright ban to targeted restrictions to combinations of regulation-supervision-taxation to the other extreme of granting unbacked tokens legal tender status. We discuss here the policy direction of some of the major economies.

Advanced Economies:

- **European Union:** The framework to regulate crypto-assets in EU called – Markets in Crypto-Assets (MiCA) regulation – was enacted in June 2023. EU has a fully regulated uniform legal framework across all 27 member states. The key provisions under MiCA for those issuing and trading crypto-assets (including asset-reference tokens and e-money tokens) cover transparency, disclosure, authorisation and supervision of transactions. The new legal framework allows EU-wide passporting for licensed Crypto-Asset Service Providers. Strict capital reserve requirements are prescribed for stablecoins. The Act supports market integrity and financial stability by regulating public offers of crypto-assets and by ensuring consumers are better informed about their associated risks.²
- **Japan:** Japan was one of the early adopters of a dedicated digital asset statutory framework. Japan's crypto laws have been updated over years through legislative amendments, the latest landmark reform being passed in July 2026. Cryptocurrency is a legal financial instrument in Japan. The country strictly regulates crypto exchanges to protect regular users from hacks and fraud, making it one of the safest yet most tightly controlled crypto markets in the world. Crypto-Asset Exchange Service Providers need to be registered to function in Japan. Crypto-assets functioning as payments, such as stablecoins, are regulated under the Payment Services Act (PSA), overseen by the Financial Services Agency (FSA). PSA strictly restricts stablecoin issuance to licensed banks, registered money transfer agents, and trust companies.
- **Singapore:** Crypto-assets are regulated in Singapore by the Monetary Authority of Singapore (MAS). There are two Acts that govern crypto-assets – the Payment Services Act (for registering crypto-asset players); and the Financial Services and Markets Act (for MAS oversight to Singapore-incorporated entities that provide digital token services exclusively to overseas customers). Regulations for stablecoins in Singapore allow single-currency stablecoins pegged to the Singapore Dollar or G10 currencies, mandating strict reserve backing, high-liquidity assets, and rapid par-value redemptions.
- **Taiwan:** The Virtual Asset Service Act was passed by the legislature in Taiwan on June 30, 2026. The Act outlines licensing requirements for virtual asset service providers to obtain approval from the Financial Supervisory Commission (FSC) to operate. This recent development is a decisive shift from anti-money laundering registration alone that was in force until recently. For stablecoins, the new law requires full reserve assets to be held in financial institutions within Taiwan. The assets are subject to regulatory audits. Algorithmic stablecoins, which are not backed by assets, are not permitted in Taiwan.

²<https://www.esma.europa.eu/esmas-activities/digital-finance-and-innovation/market-s-crypto-assets-regulation-mica>

- **United Kingdom:** The crypto-asset regulation regime in UK is underpinned by the Financial Services and Markets Act 2000 (Crypto-assets) Regulations 2026 (the Crypto-assets Regulations), which were passed by Parliament in February 2026. These Crypto-assets Regulations brought a broad range of crypto-asset activities within the Financial Conduct Authority's (FCA's) regulatory perimeter for the first time, moving well beyond the anti-money laundering and financial promotions standards that previously defined crypto-assets' role in this market.³ Under the new Act, UK has come out with a Crypto-asset Roadmap and a comprehensive regime that sets standards, strengthens consumer protections, and positions UK as a trusted, competitive home for responsible crypto-asset innovation.
- **United States:** The US crypto laws are governed by a multi-agency framework and are evolving. The core regulatory bodies are (i) Securities and Exchange Commission (SEC) for digital assets classified as securities; (ii) Commodity Futures Trading Commission (CFTC) to regulate digital assets recognised as commodities, such as Bitcoin; and (iii) Financial Crimes Enforcement Network (FinCEN) that enforces Anti-Money Laundering (AML) and Know Your Customer (KYC) rules. Key laws/regulations that govern crypto-assets are: (a) GENIUS (Guiding and Establishing National Innovation for US Stablecoins) Act for stablecoins that became law in July 2025. The Act requires a 1:1 reserve backing, monthly audits, and licensing requirements for US\$-pegged stablecoins; (b) the proposed 'Regulation Crypto-Assets (RCA)' would provide crypto asset entrepreneurs with clear pathways to raise capital under the federal securities laws; and (c) the proposed CLARITY Act to clearly divide jurisdiction between the SEC and CFTC and define digital commodity structures.⁴

Emerging Market Economies (EMEs):

The rapid growth of crypto-asset sector presents complex macroeconomic and regulatory challenges for EMEs, where citizens increasingly adopt these assets for savings and investment, or for hedging against volatile domestic currencies. This rapid adoption of crypto-assets complicates regulatory oversight, exposing EMEs to multifaceted risks. High price volatility, alongside opaque and concentrated trading structures, drive acute market and liquidity risks for investors. Meanwhile, excessive leverage in DeFi protocols and weak market governance introduce significant credit risks, which is compounded by operational vulnerabilities to cyberattacks. Globally, widespread crypto integration threatens currency substitution, accelerates bank disintermediation as deposits shift away, and complicates capital flow management via untraceable cross-border payments (BIS, 2023). Select EME country policy response to the rapid crypto-asset growth is discussed below.

- **Brazil:** Brazil regulates its digital assets market (including that for stablecoins) under the Brazilian Virtual Assets Law, which establishes a comprehensive framework overseen by its central bank, Banco Central do Brasil (BCB) for virtual asset service providers. For crypto-assets functioning as securities, the legal jurisdictions is with Securities Commission (CVM). BCB Resolutions that came into force from February 2026 mandates formal licensing for local operators, restrict cross-border

³<https://www.fca.org.uk/publications/policy-statements/cryptoasset-regime>

⁴<https://www.sec.gov/newsroom/speeches-statements/atkins-statement-regulation-crypto-assets-081826>

offerings from unapproved foreign entities, enforce strict asset segregation, and phase in the Crypto Travel Rule for transaction transparency.⁵

- **China:** China maintains a comprehensive ban on all crypto transactions, offshore exchange services targeting domestic residents, token issuance, and bitcoin mining. The government prioritises the adoption of its central bank digital currency, the e-CNY. Legal tender status is reserved strictly for fiat and the digital yuan (e-CNY).
- **India:** Cryptocurrency is legal to buy, sell, and hold in India, but it is not recognised as legal tender. India does not have a single, comprehensive law governing crypto, but it enforces a strict tax and anti-money laundering framework. India case is discussed in detail in Section 5.
- **Indonesia:** Cryptocurrency is legal to trade and own as a digital financial asset in Indonesia. Bank Indonesia strictly enforces the rupiah as the only legal tender for transactions, making crypto payments illegal. Regulatory oversight of the sector is carried out by the Financial Services Authority (locally called OJK – Otoritas Jasa Keuangan), with effect from January 2025. All crypto market operators – exchanges, clearing institutions, custodians, and digital asset traders – need to secure license from OJK. No trading is allowed in crypto assets that fall outside the OJK approved list. Stablecoins are treated strictly as transactional instruments – it can be bought, sold, tokenised on licensed platforms, but cannot be used to pay for goods or services. OJK is preparing to bring crypto assets deeper into the country's financial system.⁶
- **Russia:** Russia's comprehensive cryptocurrency legislation formally took effect on September 1, 2026. The framework grants digital currencies legal status as property while placing them under the strict oversight of the Bank of Russia.⁷ Trading and custody is permitted through licensed domestic intermediaries. Russia explicitly permits the use of liquid cryptocurrencies like Bitcoin for cross-border trade settlements. However, the legislation maintains a strict ban on cryptocurrencies for any domestic payments for goods, or services within the country.
- **South Africa:** In South Africa, cryptocurrencies are legally classified as financial products rather than official legal tender. According to the Financial Sector Conduct Authority (FSCA), all Crypto Asset Service Providers (CASPs) must be formally licensed to operate.⁸ Furthermore, under the Financial Intelligence Centre Act (FICA), digital asset platforms are accountable institutions required to implement strict identity verification and anti-money laundering controls. Stablecoins are legally classified as financial products and only CASP licensed entities can deal with them. The South African Reserve Bank (SARB) actively regulates stablecoins, focusing on monetary stability, financial surveillance, and exchange controls. Stablecoins are not recognised as legal tender and are restricted for use in domestic payments.

⁵<https://www.bcb.gov.br/en/pressdetail/2639/nota>

⁶<https://indonesiacrypto.network/blog/ojk-prepares-to-integrate-crypto-into-indonesias-financial-system>

⁷<https://www.cbr.ru/eng/press/event/?id=32724>

⁸<https://www.fsca.co.za/New-Financial-Service-Provider/>

4.3. The challenge of policy fragmentation

The crypto-assets regulatory framework of different countries is at different level of development. Without proper regulations, crypto markets become unsafe and highly vulnerable to frauds with regulatory deficit empowering illicit actors and compromising consumer safety. On the other hand, stringent supervisory frameworks effectively mitigate systemic exploitation and drive away non-compliant entities toward weaker regulatory regimes. Fragmented frameworks also hinder international cooperation, making cross-border supervision and crisis management increasingly difficult.

4.4. Data reporting on virtual digital assets

Given that the size of virtual digital assets is large and there are global linkages, IMF has come out with compilation guidance on crypto-assets.

IMF suggests that compilers may select most suitable data sources to produce consistent and reliable statistics on crypto-assets, since the nature of crypto related activities is complex. The source of information could be administrative data (regulatory filings, tax records, international transaction data, and reports on crypto-asset losses, thefts, and seizures); financial reports (of mining companies, stablecoin issuers, crypto exchanges, and publicly listed corporations), or alternative (commercial) data sources.⁹

In the absence of dedicated surveys or established statistical reporting systems, regulatory reporting offers a practical starting point for compiling crypto-asset data. These reports may, inter alia, help in investor protection, market oversight, and compliance enforcement.

5. Adoption of virtual digital assets in India and the regulatory landscape

The virtual digital asset industry in India is fast growing. India's cryptocurrency adoption has evolved rapidly from early grassroots trading into a large retail-driven ecosystem.

5.1. The size of Indian crypto space

The Indian VDA industry is home to over 1,250 startups. These ventures have raised US\$3.5 billion in cumulative funding since 2020. Indian Web3 companies have seen a steep upward trajectory of growth and accounts for 15 per cent of the global Web3 developer talent. The base is young, led by students, of which, about 90 per cent are male. India has become the top blockchain adoption market and a leading hub for founders and developers driving innovation across Web3 (India Web3 Landscape Report, 2025).

As per TRM Labs, a leading blockchain intelligence and data analytics company, India has emerged as a global frontrunner in the adoption of VDA. In 2025, India ranked number one globally in the Global Crypto Adoption Index when adjusted for the size of the economy.¹⁰ TRM analysis suggests that India's position at the top is likely due to its large, young population's rising interest in digital assets, supported by a crypto-fluent middle class and a thriving developer ecosystem. Interest in crypto as an asset

⁹https://unstats.un.org/unsd/nationalaccount/aeg/2025/M28/M28_9_Crypto_Assets_Pres.PDF

¹⁰<https://www.trmlabs.com/reports-and-whitepapers/2025-crypto-adoption-and-stablecoin-usage-report>

class is also growing among institutional and high-net-worth investors, reinforcing India's accelerating crypto adoption.

According to news reports¹¹, India's crypto market jumped 41 per cent year-on-year in 2024-25, reflecting growing use of virtual digital assets amid evolving government policy environment. As reported by The Hindu, data presented in the Parliament reveals the Ministry of Finance collected ₹511.8 crore as Tax Deducted at Source (TDS) from cryptocurrency trades. At a 1 per cent TDS rate, this equates to ₹51,180 crore (USD\$6.14 billion) in total transactions during 2024-25. India's TDS on crypto transfers, was designed to track transactions and ensure proper reporting of gains. The rule has become a key source of data on market size. India's cryptocurrency market has recorded steady growth over the past three years, with transactions rising from ₹22,130 crore in 2022-23 to ₹36,270 crore in 2023-24, and further to ₹51,180 crore in 2024-25.

Crypto adoption in India was initially a metro phenomenon. Of late, crypto adoption is moving from being metro centric to Tier 2, 3 and 4 cities driven. As per CoinSwitch, a leading VDA service provider in India, these cities have a share of over 75 per cent of their user base. Uttar Pradesh leads with 13 per cent of total invested value, ahead of traditional centres like Maharashtra and Karnataka. Crypto investor base is young with 18-25 year investors holding a quarter of investments and 26-35 year group holding about a half of the overall crypto investments. This reflects a massive interest in blockchain and Web3 technology among the younger generation (CoinSwitch, 2025). Details on unfolding of India's crypto story are also available from reports by other players (for example, CoinDCX, 2025).

Bharat Web3 Association (BWA) is a leading VDA industry body, that has been pivotal in bridging the gap between innovation and regulation. BWA comprises of over 40 members including major crypto players like CoinSwitch, CoinDCX, Coinbase, Mudrex, Delta, and WazirX. BWA is working towards establishing industry standards, cybersecurity guidelines, and fostering stakeholder dialogue to build a compliant VDA ecosystem in the country. BWA collaborated extensively with FIU-IND to develop Red Flag Indicators (RFIs) for detecting suspicious transactions, ensuring the VDA sector aligns with global financial integrity standards. In absence of formal regulation, there are ongoing proposals for self-regulatory oversight.

5.2. VDA's regulatory landscape in India

India's approach for VDA regulation has been cautious with the aim to protect users, prevent fraud, and curb money laundering, while allowing innovation to continue. It operates under a stringent tax and anti-money laundering framework without dedicated recognition. While buying and holding VDAs is legal, transactions face a flat 30 per cent rate of income tax on gains. The VDA sector and its regulatory journey in India has seen its ups and downs.

5.2.1. The RBI's caution in 2013

In December 2013, the Reserve Bank of India (RBI) cautioned the users, holders and traders of virtual currencies (including Bitcoins), about the potential financial, operational, legal, customer protection and security related risks that they are getting exposed

¹¹<https://aibc.world/news/india-posts-strong-crypto-growth/> and <https://www.thehindu.com/business/Economy/crypto-transactions-in-india-in-2024-25-tax-collection-data-shows/article70372854.ece>

to.¹² The RBI mentioned that creation, trading or usage of VCs including Bitcoins, as a medium for payment are not authorised by any central bank or monetary authority. No regulatory approvals, registration or authorisation has been obtained by the entities concerned for carrying on such activities. As such, they may pose several risks to their users and the users were expected to exercise caution.

In February 2017, the RBI issued another caution and informed the users that it had not authorised any entity to operate or deal with Bitcoin or any virtual currency. Any user, holder, investor, trader, *etc.* dealing with virtual currencies will be doing so at their own risk. Later in December 2017, in the wake of significant spurt in the valuation of many virtual currency and rapid growth in initial coin offerings, the RBI reiterated its concern.

5.2.2. The banking ban in 2018 and the legal reversal

In April 2018, the RBI barred all regulated financial institutions and banks from servicing entities dealing in or exchanging cryptocurrencies.¹³ The ban applied to maintaining accounts, registering, trading, settling, clearing, giving loans against virtual tokens, accepting them as collateral, opening accounts of exchanges dealing with them and transfer/receipt of money in accounts relating to purchase/sale of virtual currencies. The regulated entities which were providing such services were advised to exit the relationship within three months.

The Supreme Court of India, however, set aside the RBI's 2018 circular, in March 2020 as the RBI could not show empirical evidence of actual harm to regulated banks.¹⁴ The lifting of ban in March 2020, allowed startups like CoinSwitch and CoinDCX to resume formal banking partnerships and spark explosive pent-up retail growth.

In May 2021, the RBI advised its regulated entities that for dealing in virtual currencies, they may continue to carry out customer due diligence processes, in line regulations under KYC, AML, Combating of Financing of Terrorism, Prevention of Money Laundering Act (PMLA), and Foreign Exchange Management Act (FEMA) for overseas remittances.

5.2.3. Formal definition of VDA and taxation in 2022

In India, virtual digital assets are formally defined under Section 2(47A) of the Income Tax Act, 1961 as any information, code, number, or token generated through cryptographic means or otherwise, which provides a digital representation of value, can be stored, transferred, or traded electronically, and includes Non-Fungible Tokens (NFTs). In line with the global definition, VDAs in India also include cryptocurrencies, tokens, and NFTs.

The current taxation related aspects for VDAs and its reporting requirement are covered in the Income Tax Act 1961 as amended in 2022. Income arising from dealing in VDAs is taxed at a flat 30 per cent rate, with no set-off for losses other than cost of acquisition. TDS of 1 per cent is also applied when payment is made to a resident for transfer of VDA. The Act also requires that specified reporting entities must report transactions involving crypto-assets in a prescribed form and timeline (Annex 2).

¹²https://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=30247

¹³<https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=11243&Mode=0>

¹⁴<https://indiankanoon.org/doc/12397485/>

5.2.4. Advertising guidelines in 2022

In February 2022, the Advertising Standard Council of India (ASCI), an independent, voluntary self-regulatory organisation, brought out the requirements that all advertisements for VDA products and VDA exchanges must follow.¹⁵ The guidelines are detailed and cover, inter alia, the following aspects:

- All advertisements must carry the disclaimer “Crypto products and NFTs are unregulated and can be highly risky. There may be no regulatory recourse for any loss from such transactions.” Such a disclaimer must be PROMINENT and UNMISSABLE by an average consumer.
- No advertisement for VDA products or exchanges may show a minor directly dealing or talking about the product.
- VDA products may not be compared to any other asset class which is regulated.
- Since this is a risky category, celebrities or prominent personalities who appear in VDA advertisements must take special care to ensure that they have done their due diligence, so as not to mislead consumers.

5.2.5. Registration requirement under FIU-IND in 2023

The Financial Intelligence Unit – India (FIU-IND) in March 2023, brought out guidelines for registration of VDA Service Providers. The VDASPs are now mandated, inter alia, to:

- Register with FIU-IND,
- Comply with the various provisions of PMLA,
- Establish process for customer due diligence,
- Maintain records,
- Set up internal control procedures,
- Ensure training of employees, and
- File suspicious transaction report with FID-IND.

5.2.6. Other legislative developments

In February 2023, government enhanced its efforts against digital fraud by integrating reporting for VDA-related frauds into the National Cyber Crime Reporting Portal (NCRP) and its associated helpline, 1930, for consumer grievance redressal.¹⁶

In December 2023 FIU-IND issued show-cause notices to nine major off-shore VDA exchanges for non-compliance with VDA regulations. The access to non-compliant platforms was blocked. By 2025, some of the foreign exchanges came back and registered with FIU-IND, reflecting broader industry shift towards regulatory compliance (CoinSwitch, 2025).

Union Budget 2025 introduced new Section 285BAA in the Income-Tax Act, mandating crypto-asset reporting by entities (like exchanges) for transactions from April 1, 2026, to combat tax evasion and enhance transparency.¹⁷

¹⁵<https://www.ascionline.in/the-asci-code-guidelines/>

¹⁶<https://cybercrime.gov.in/Webform/CrimeCatDes.aspx>

¹⁷<https://www.incometaxindia.gov.in/w/section-285baa>

In their March 2026 topical report, “Crypto Assets in India: Assessing the Case for Regulation,” the Gujarat National Law University underscores that the need for tailored, forward-looking crypto regulation in India is both urgent and undeniable. The report examines various regulatory approaches with SEBI (Securities and Exchange Board of India) as primary regulator, with RBI as primary regulator, with a Ministry of Electronics and Information Technology (MeitY)-led oversight, a self-regulatory organisation model, a new dedicated regulator, and a multi-agency (hybrid) model. The report looks at international instances of collaborative regulation and maps out how India’s regulatory bodies could coordinate to cover all facets of VDA activity.

A recent Report of the Standing Committee on Finance in July 2026 recommends that “the Government comprehensively examine the need for an appropriate statutory and regulatory framework for Virtual Digital Assets. Pending the establishment of a comprehensive legislative framework, the Government may consider introducing an interim mechanism through recognised Self-Regulatory Organisations (SROs) operating under the oversight of the designated regulator. Such a framework should prescribe minimum standards of governance, transparency, disclosure, investor protection, grievance redressal, compliance with prescribed codes of conduct and appropriate regulatory oversight, so as to mitigate risks arising from the existing regulatory vacuum while promoting market discipline and safeguarding investor interests” (Standing Committee on Finance, 2026).

5.2.7. International commitments by India

India has officially subscribed to two primary international reporting frameworks to curb tax evasion and illicit financial flows related to VDAs: the Financial Action Task Force (FATF) Standards¹⁸ and the OECD’s Crypto-Asset Reporting Framework (CARF).

The FATF routinely monitors money laundering, terrorist financing, and proliferation financing (*i.e.*, the financing of weapons of mass destruction) across jurisdictions to protect global financial system from illicit activity. In recent years it has expanded its focus to VDAs and VDASPs.

For implementation of CARF, India’s Presidency of the G20 in 2023 lent decisive momentum and India actively contributed to the development of these standards through its participation in global forums. The obligation to report transactions in crypto-assets is now provided for under section 509 of the Income-tax Act, 2025. The Central Board of Direct Taxes (CBDT), Ministry of Finance has prepared a Guidance Note to assist Reporting Crypto-Asset Service Providers in understanding and discharging their obligations under CARF (Government of India, 2026).

Thus, India has fully integrated these international frameworks into domestic law. While there is no single overarching law for VDAs in India, multi layered regulatory architecture across Income Tax Act, PMLA and international reporting framework legally govern VDAs.

5.3. The use of blockchain technology for CBDC

While private sector growth in the virtual digital assets was continuing, the Government was working towards utilising the underlying technology in public sector. To strengthen the governance through blockchain technology, a National Blockchain Framework was launched in September 2024. In the public sector, the blockchain technology is

¹⁸<https://www.enforcementdirectorate.gov.in/international-cooperation/fatf/>

being used in several areas – for storage and retrieval of certificates and documents, for logistics to track movement of goods, for maintaining judiciary data, for property transactions, in telecom ecosystem, for digital rupee by RBI, for debenture covenant monitoring by NSDL (National Securities Depository Limited), *etc.*¹⁹

Regarding digital rupee, using Distributed Ledger Technology (DLT) and token-based blockchain architecture, the RBI has brought out Central Bank Digital Currency (CBDC). A digital form of India's physical currency, CBDC or digital Rupee or e₹, is a legal tender issued by the RBI. It is exchangeable par-to-par with physical cash, is backed directly by the central bank, and is stored in mobile digital wallets. It can be used to receive/send money, and make payment for transactions, just like any physical currency.

The RBI says “CBDCs are digital tokens like stablecoins yet they are inherently superior since they satisfy all the attributes that money should have – fiat, single, trusted and representing value – and do not pose many of the risks associated with stablecoins” (Sankar, 2025).

CBDC is being used for both retail and wholesale transactions. In the retail space, wallet-to-wallet transfers were introduced first. Interoperability with UPI (Unified Payments Interface) also facilitated users to pay to merchants using their e₹wallets. Feature of discovering existing CBDC wallets with Bharat Interface for Money (BHIM) app has further facilitated CBDC payments. Programmability feature of CBDC (embedding rules, logic and conditions) allows programmable money (CBDC) transfers by individuals. In the wholesale space, government welfare and subsidy payments are being done using CBDC.

RBI is also working on new use cases that include, inter alia, pilots in various government agencies' welfare payments schemes leveraging CBDC's programmability feature to ensure productive utilisation of public funds; offline CBDC, both proximity based (Near Field Communication) and non-proximity based (SMS); secondary market trades settlement of G-Secs and inter-bank borrowing in CBDC; and providing a framework for testing of innovative products/services leveraging CBDC under the CBDC and Asset Tokenisation (CAT) sandbox. Most importantly, the RBI is actively engaging in developing cross-border CBDC arrangements with other countries on a bilateral and multilateral basis (RBI, 2026). Under India's Chairmanship of BRICS 2026, the BRICS Summit is focusing on official state-backed CBDCs and blockchain-based government settlement tokens. The RBI is working on connecting official CBDCs and respective fast payment systems of BRICS members to streamline cross-border trade, offer payment choices and lower transaction costs.²⁰

6. Conclusion and policy path going forward

Virtual digital assets (VDAs) offer transformative benefits – ranging from streamlined payments and asset tokenisation to enhanced transaction transparency. These immense potential of VDAs is heavily caveated by structural vulnerabilities. Without a centralised statutory regulator, existing compliance frameworks cannot fully shield users from rampant scams, systemic volatility, and sophisticated regulatory arbitrage.

India stands at a decisive crossroad. On the one hand, domestic adoption and

¹⁹<https://www.pib.gov.in/PressReleasePage.aspx?PRID=2182023®=3&lang=2>

²⁰<https://www.reuters.com/world/india/brics-nations-discuss-linking-payment-systems-cbdcs-rbi-chief-says-2026-08-11/>

market interest in VDAs continue to grow rapidly. On the other hand, policy approach for VDAs remains fragmented – there is a marked divergence between the views of the Government and the RBI.

The RBI remains highly cautious about VDAs, particularly stablecoins. The concern is rooted in safeguarding monetary authority, financial stability, and macroeconomic integrity. Since VDAs operate on decentralised rails and bypass formal financial controls, their widespread adoption threatens to cause digital dollarisation of the economy, which would strip the central bank of its ability to control money supply, manage inflation, and implement monetary policy. For stablecoins specifically, the risk of disintermediating the banking system by replacing low-cost bank deposits, threatens driving up credit costs and weakening the overall financial system. Private stablecoins also present severe capital flow management challenges, divert sovereign seigniorage revenue to private operators, often outside the home jurisdiction, and risk facilitating illicit activities by bypassing traditional KYC and AML/CFT regulations. Given India's highly efficient public payments landscape through UPI and proactive promotion of its own CBDC as a safer, fully anchored sovereign alternative for digital innovation, the RBI maintains that the severe systemic risks of private cryptocurrencies far outweigh their purported benefits, and “they do not serve a purpose that cannot be served better by fiat money” (Sankar, 2022 and 2025).

Given that global growth in crypto-assets, both globally and domestically, is rapidly rising, an outright rejection of VDAs exposes India to more risks than a strategically regulated environment. Critique of the central bank's rigid preference for state control points out that ignoring the operational benefits of stablecoins – such as 24x7 atomic settlement, smart-contract programmability, and seamless integration across digital markets – is analytically unconvincing. If tokenised dollars get embedded in global trade and cross border settlements, there is possibility of digital dollarisation, capital flow leakage outside domestic control and partial bypassing of local payment systems (Gurumurthy, 2025). Finance Minister in a speech has signalled openness to engagement with the digital assets sector, emphasising that nations cannot insulate themselves from innovations like digital currencies and stablecoins. The Government's focus is on innovation, competitiveness, and strategically adapting to new monetary architectures without risking global exclusion (Sitharaman, 2025).

The Government is gradually bringing in multi-layered regulations for the VDA sector across Income Tax Act, the PMLA, mandatory registrations of VDA Service Providers, and for international reporting. Yet, recent intelligence highlighting how residents utilise private wallets and offshore fintech platforms to convert VDAs into domestic purchasing power – closed-loop gift vouchers for gold, fuel, and even groceries – exposes a critical policy gap.²¹ This mechanism demonstrates that market participants actively exploit regulatory arbitrage through non-crypto, retail intermediaries, bypassing the foreign exchange frameworks and tax surveillance without interacting with legally registered domestic VDASPs.

Consequently, an effective VDA regulatory framework cannot focus strictly on the blockchain layer or exchange-level compliance. Achieving true policy coherence requires an approach that bridges VDA regulations with traditional payments and retail oversight. Policymakers must enforce stringent reporting, compliance, and audit requirements on domestic fiat off-ramps – including bulk gift voucher aggregators, Prepaid Payment In-

²¹https://m.economictimes.com/news/india/indians-are-using-crypto-to-buy-groceries-fuel-and-gold-through-overseas-gift-card-platforms/amp_articleshow/133895144.cms

strument (PPI) issuers, and cross-border settlement channels. Furthermore, as data reporting mechanisms mature, establishing regulatory reporting lines will prove essential for tracking cross-border crypto flows, investor activity, and peer-to-peer leaks outside regulated intermediaries.

Finally, pending the enactment of a comprehensive legislative framework, the Government may consider the Standing Committee on Finance recommendation to introduce an interim mechanism through recognised Self-Regulatory Organisations (SROs). Operating under the designated regulatory oversight, SROs can establish minimum standards of governance, transparency, disclosure, investor protection, grievance redressal and compliance with prescribed codes of conduct. This would instil market discipline and safeguard investor interests and mitigate risks arising from the absence of an overarching regulatory framework for the VDA sector.

India's path toward *Viksit Bharat @ 2047* requires aligning the gap between the Government's innovation agenda and the RBI's stability imperatives. By pairing targeted VDA rules with robust surveillance over non-crypto payment endpoints, India can build a coherent regulatory framework that preserves national financial sovereignty while positioning the country at the forefront of digital financial innovation.

Conflict of interest

The author does not have any financial or non-financial conflict of interest to declare for the research work included in this article.

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ANNEXURE

Annex-1: Glossary of Select Terms from the VDA Space

Sr.	Term	Description
1	Blockchain	A ‘blockchain’ is a particular type of data structure used in some distributed ledgers which stores and transmits data in packages called “blocks” that are connected to each other in a digital ‘chain’. Blockchains employ cryptographic and algorithmic methods to record and synchronize data across a network in an immutable manner.
2	Cryptocurrencies	Cryptocurrencies are digital currencies that rely on cryptographic techniques to achieve consensus. <i>Example:</i> Bitcoin (BTC) and Ether (ETH).
3	Distributed ledger technology (DLT)	DLT refers to the protocols and supporting infrastructure that allow computers in different locations to propose and validate transactions and update records in a synchronised way across a network. DLT is designed to function without a trusted authority. Thus, DLT is a shared database system synced across multiple computers where data updates together without a central boss. The best-known type of distributed ledger is blockchain.
4	Smart contract	Smart contracts are self-executing digital programs stored directly on a blockchain that automatically run when pre-determined conditions are met. They eliminate the need for a central middleman or trusted third party by converting legal or logistical agreements into immutable, mathematically verifiable lines of code.
5	Stablecoins	Stablecoins are a specific class of cryptocurrencies designed to maintain a steady exchange value. They bridge the gap between traditional fiat currencies and DLT by pegging their price 1:1 to an external reference asset—most commonly the USD. <i>Example:</i> USDT (Tether) and USDC (USD coin)
6	Token	A token is an object that represents another object (either physical or virtual), or an abstract concept. <i>Example:</i> Fungible Tokens (interchangeable, like identical currency notes) and Non-Fungible Tokens (NFTs) (completely unique, like a specific house deed).

Sr.	Term	Description
7	Tokenisation	Tokenisation means recording an existing asset on a blockchain platform and in order to improve processes around trading and transfer of the asset.
8	Web2	Web2 is the current version of the internet characterised by centralised, user-generated content and social media platform monopolies
9	Web3	Web3 refers to a decentralised online ecosystem based on the blockchain where platforms and apps are not owned by a central gatekeeper, but rather by users, who will earn their ownership stake by helping to develop and maintain those services.

Sources:

- i) BIS: https://www.bis.org/publ/qtrpdf/r_qt1709y.htm
- ii) ECB: <https://www.ecb.europa.eu/paym/dlt/html/index.en.html>
- iii) Worldbank: <https://openknowledge.worldbank.org/server/api/core/bitstreams/5166f335-35db-57d7-9c7e-110f7d018f79/content>
- iv) European Parliament briefing document: [https://www.europarl.europa.eu/R egData/etudes/BRIE/2023/757580/EPRS_BRI\(2023\)757580_EN.pdf](https://www.europarl.europa.eu/R egData/etudes/BRIE/2023/757580/EPRS_BRI(2023)757580_EN.pdf)

Annex-2: Taxation of Virtual Digital Asset (VDA) in India

In India the Virtual Digital Assets (VDAs) are legally defined under Section 2(47A) of the Income Tax Act, 1961. They broadly encompass crypto-assets, Non-Fungible Tokens (NFTs), and any other digital assets, excluding Indian currency, CBDCs, Foreign currency, and notified digital assets. As per the Income Tax Act, income from the transfer of VDAs is computed without any deduction except for the cost of acquisition and the income is taxed at a flat rate of 30

Meaning of virtual digital asset

Virtual Digital Asset, as per the Act, includes:

- (a) Information or code or number or token generated through cryptographic means [Section 2(47A)(a)];
- (b) Notified Non-fungible token (NFT) [Section 2(47A)(b)];
- (c) Any other notified digital asset [Section 2(47A)(c)]; and
- (d) Any crypto-asset being a digital representation of value that relies on a cryptographically secured distributed ledger or a similar technology to validate and secure transactions [Section 2(47A)(d)].

and it excludes:

- (a) Indian Currency;
- (b) Central Bank Digital Currency (CBDC);
- (c) Foreign Currency;
- (d) Physical NFT [Notification No. 75, dated 30-06-2022];

- (e) Gift Card or Vouchers [Notification No. 74, dated 30-06-2022];
- (f) Rewards Points or Loyalty Cards [Notification No. 74, dated 30-06-2022];
- (g) Subscription of Websites or Applications [Notification No. 74, dated 30-06-2022];
and
- (h) Notified Digital Assets.

Tax computation on the transfer of VDA [Section 115BBH]

The income arising from the transfer of virtual digital assets is computed as under:

	Particulars	Amount (Rs.)
A	Full Value of Consideration	XXXX
B	<i>Less: Cost of Acquisition (if any)</i>	<i>(XXXX)</i>
C	Taxable Income (A – B) (Capital Gains/Business Income)	XXXX

The income from the transfer of VDA is taxed at the rate of 30% without deduction of any expenditure (other than the cost of acquisition, if any) or allowance or set-off of any loss.

TDS on the transfer of VDA [Section 115BBH]

A 1 per cent TDS (tax deduction at source) is applied under Section 194S of the Act when payment is made to a resident for the transfer of VDA. If the payment is made to a non-resident, TDS is deducted under Section 195. No TDS is required if the payment does not exceed Rs. 50,000 (if the payer is an individual/HUF with a business turnover below Rs. 1 crore or professional receipts below Rs. 50 lakh or not having any business/profession income) and Rs. 10,000 (for all other payers).

Reporting of crypto-asset transactions [Section 285BAA]

The Act also requires that specified reporting entities must report transactions involving crypto-assets (as defined in Section 2(47A)(d)) in a prescribed form and timeline.

Source: <https://www.incometaxindia.gov.in/w/taxation-of-virtual-digital-asset-vda->