

Brief Overview of Cryptocurrency

Cryptocurrency, a decentralized digital asset that uses cryptography for secure financial transactions, has grown exponentially since Bitcoin's launch in 2009. By 2024, the global cryptocurrency market had reached unprecedented heights, with millions of users worldwide.

India's position in this global phenomenon is noteworthy. According to estimates, India is expected to have nearly 270 million crypto users in 2024, surpassing the combined total of the United States and Europe¹. This projected growth underscores the immense popularity and potential of cryptocurrencies among Indian citizens.

Importance of Understanding Cryptocurrency Regulations in India

Despite the growing popularity of cryptocurrencies in India, the regulatory landscape remains uncertain. Understanding the regulatory status of cryptocurrencies in India is crucial because it affects:

- The legality of owning, buying, selling, and using cryptocurrencies
- Tax obligations for crypto transactions
- Compliance requirements for crypto exchanges and service providers
- Investor confidence and market participation

India is currently in the process of determining its regulatory approach to cryptocurrencies, with several organizations participating in this endeavor, including: Reserve Bank of India (RBI), Directorate of Enforcement (ED), Securities and Exchange Board of India (SEBI), Digital Currency Board of India (DCBI), and Financial Intelligence Unit India (FIU IND)

Current Legal Status of Cryptocurrency in India

Supreme Court Ruling in 2020

In March 2020, the Supreme Court of India delivered a landmark judgment that significantly impacted the legal status of cryptocurrencies in the country. The court struck down the Reserve Bank of India's (RBI) circular dated April 6, 2018, which prohibited banks and financial institutions from providing services to businesses dealing with cryptocurrencies².

This ruling, known as *Internet and Mobile Association of India v. Reserve Bank of India*³, was a major victory for cryptocurrency enthusiasts and businesses operating in India. The court held that the RBI's ban was unconstitutional and violated the principles of freedom of trade and commerce guaranteed under Article 19(1)(g) of the Indian Constitution.

The Supreme Court's decision effectively lifted the banking restrictions imposed by the RBI, allowing crypto exchanges and businesses to resume operations and access banking services once again. This ruling marked a significant shift in the regulatory landscape surrounding cryptocurrencies in India.

[Proposed Cryptocurrency and Regulation of Official Digital Currency Bill 2021](#)

In December 2021, the Indian government introduced the Cryptocurrency and Regulation of Official Digital Currency Bill 2021. This proposed legislation aimed to regulate cryptocurrencies and introduce a central bank digital currency (CBDC).

However, as of the current date (October 21, 2024), the status of this bill is unclear. The government had intended to introduce the bill in the winter session of Parliament, but it appears that the legislative process has been delayed or put on hold.

The proposed bill aimed to:

¹ <https://sumsub.com/blog/cryptocurrency-in-india/> [Last accessed: 21st Oct]

² <https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NOTI15465B741A10B0E45E896C62A9C83AB938F.PDF> [Last accessed: 21st October]

³ https://main.sci.gov.in/supremecourt/2018/19230/19230_2018_4_1501_21151_Judgement_04-Mar-2020.pdf [Last accessed: 21st October]

- Ban private cryptocurrencies
- Allow for the creation of an official digital currency issued by the RBI
- Regulate cryptocurrency exchanges and trading platforms
- The delay in implementing this bill has left the cryptocurrency market in India in a state of uncertainty, with many stakeholders eagerly awaiting clearer regulations.

The bill proposes several provisions aimed at regulating the mining and trading of cryptocurrencies.

1. The prohibition on banks from dealing with individuals or businesses involved in cryptocurrency transactions.
2. Another provision requires cryptocurrency exchanges to obtain licenses from the government before operating. This licensing requirement aims to ensure that only reputable and compliant entities engage in crypto trading. Additionally, the bill proposes strict KYC and AML regulations for crypto exchanges and wallets.
3. The bill suggests that miners must register with the government and adhere to environmental and energy consumption guidelines. This provision addresses concerns about the energy-intensive nature of cryptocurrency mining and its potential impact on the environment.

Reasons for RBI Launching Its Own Digital Currency

The Reserve Bank of India (RBI) has initiated its digital currency program, commonly referred to as the "digital rupee" or "e₹", for several compelling reasons:

- By introducing a digital version of the Indian rupee, the RBI aims to further India's progress in the digital currency landscape and keep pace with global developments in this area.
- The RBI views cryptocurrencies as a threat to financial stability. By offering a regulated digital currency, it provides a safer alternative for those interested in digital transactions.
- CBDCs can potentially streamline cross-border transactions, making them faster and less expensive compared to traditional methods.
- Digital currencies can significantly reduce the costs associated with printing, distributing, and storing physical cash.
- As a regulated asset, CBDCs offer better traceability and control over transactions, potentially reducing illicit financial activities.

Anti-Money Laundering (AML) Compliance in Crypto in India

In India, Anti-Money Laundering (AML) regulations are primarily governed by the Prevention of Money Laundering Act (PMLA) of 2002. The PMLA establishes the framework for preventing and combating money laundering activities in India.

- The Financial Intelligence Unit-India (FIU-IND) serves as the central national agency responsible for receiving, processing, analyzing, and disseminating information related to suspicious financial transactions.
- The Enforcement Directorate (ED) is the primary investigative agency tasked with enforcement and prosecution under the PMLA.
- AML regulations cover a wide range of entities, including banks, financial institutions, and designated businesses.

Penalties for non-compliance with AML regulations

Penalties for non-compliance with Anti-Money Laundering (AML) regulations in India can be severe and far-reaching.

- Reporting Entities, including cryptocurrency exchanges, can face fines of up to INR 100,000 per violation.
- Under the PMLA, individuals found guilty of violating AML regulations can face imprisonment ranging from 3 to 7 years, depending on the severity of the offense.
- For financial institutions, failure to comply may result in cancellation of licenses, effectively shutting down their operations.

- In July 2024, the RBI imposed monetary penalties on three payment system operators - Manappuram Finance Limited, Ola Financial Services Pvt. Ltd., and Visa Worldwide Pte. Limited - for non-compliance with regulatory guidelines, particularly regarding KYC requirements and unauthorized implementation of payment solutions.⁴
- The RBI imposed a monetary penalty of INR 50,000,000 on Federal Bank Limited for non-compliance with guidelines on KYC and AML requirements.⁵
- The ED arrested the former vice president (banking) of Bhushan Steel Ltd in connection with a loan fraud amounting to approximately INR 56,000 crore linked to a money laundering case against the company.

Money Laundering Risks

Cryptocurrency transactions pose significant risks for money laundering activities, creating challenges for Indian regulators. The pseudonymous nature of blockchain transactions makes it difficult to trace the origin of funds, potentially allowing illicit activities to go unnoticed. Furthermore, the decentralized nature of cryptocurrencies means that there is no central authority to monitor transactions, exacerbating the risk of money laundering. This creates a regulatory dilemma, as strict oversight measures could compromise the privacy and anonymity benefits that many users value in cryptocurrencies.

The Enforcement Directorate (ED) has been actively investigating cases of cryptocurrency-related fraud and money laundering in India. One notable case involves the ED conducting its first-ever raid in the Leh-Ladakh region in connection with a fake cryptocurrency business. The agency searched six premises in Leh, Jammu, and Sonipat under the provisions of the Prevention of Money Laundering Act (PMLA)⁶

The scam, involving "Emollient Coin Limited," allegedly duped 2,508 investors out of over Rs 7 crore worth of deposits. Investors were enticed through cash transactions, bank transfers, or Bitcoin exchanges via a mobile app, promising returns of up to 40% after a 10-month lock-in period. This multi-level marketing structure allowed for complex financial webs, creating difficulties for authorities in tracing transactions and identifying perpetrators.

Recent Developments

India's cryptocurrency landscape has witnessed significant developments in recent months, particularly concerning major crypto exchanges operating in the country. One of the most notable events involves Binance, the world's largest cryptocurrency exchange, which has announced plans to re-enter the Indian market after a period of absence.⁷

Prior to this, the Binance app was removed from the Google Play Store in January 2024 due to unauthorized operations. The exchange has now registered with the Financial Intelligence Unit (FIU) and is working to adhere to anti-money laundering regulations.

Another major player in the Indian crypto scene is WazirX, which recently suffered one of the largest cryptocurrency thefts in Indian history.⁸ In July 2024, hackers stole cryptocurrencies worth nearly Rs 2,000 crore (\$230 million USD) from a wallet linked to the WazirX exchange. This incident led to WazirX halting deposits and withdrawals on its platform.

Following the hack, WazirX reported the incident to Indian regulators, including the central cybercrime portal, Financial Intelligence Unit, and the Indian Computer Emergency Response Team. A police case was also registered in Delhi. Digital forensics firms Pelorus Technology and Crystal Intelligence assisted in investigating the theft, revealing that the plan had been in preparation since July 10, 2024.

⁴ [RBI Fines Three Payment System Operators For KYC And Regulatory Failures](#)

⁵ [Anti-Money Laundering Laws and Regulations India 2024](#)

⁶ [First-ever search: ED raids Ladakh in cryptocurrency fraud case](#)

⁷ [World's largest crypto exchange re-enters Indian market after paying a penalty of Rs 18.82 crore](#)

⁸ [What is WazirX's legal status after a \\$230 million wallet hack?](#)

The recent developments underscore the complex regulatory landscape and security issues confronting cryptocurrency exchanges in India. While prominent entities such as Binance strive to align with Indian regulations, others, including WazirX, are dealing with the repercussions of substantial security incidents. These occurrences emphasize the necessity for strong security protocols, effective communication with users, and strict compliance with regulatory standards in India's swiftly changing cryptocurrency sector.

Conclusion

India's cryptocurrency landscape continues to evolve rapidly, with significant developments in regulation, adoption, and security concerns. The country's projected 270 million crypto users by 2024 underscores its growing importance in the global cryptocurrency market. However, this growth is tempered by ongoing regulatory uncertainty and security challenges.

Key takeaways from India's cryptocurrency journey include:

- The Supreme Court's 2020 ruling lifted banking restrictions on cryptocurrencies, allowing exchanges to resume operations.
- Proposed legislation like the Cryptocurrency and Regulation of Official Digital Currency Bill 2021 aims to regulate the sector while introducing an official digital currency.
- Anti-money laundering regulations are becoming increasingly stringent, with the implementation of the crypto Travel Rule and strict KYC requirements.
- Major exchanges like Binance are re-entering the market after addressing regulatory concerns, while others face security incidents like WazirX's \$230 million hack.

Looking ahead, India's cryptocurrency future remains uncertain. Clearer regulations could promote innovation and investment, while ongoing security challenges pose risks. The government's efforts to balance innovation with oversight will likely shape the sector's trajectory. As India navigates this complex landscape, stakeholders must remain vigilant about compliance, security measures, and the evolving legal framework governing cryptocurrencies in the country.