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**CRYPTOCURRENCY REGULATION: A COMPARATIVE STUDY OF
INDIA, USA AND EU**- Sanjana Sethi¹ & Ankita Dubey²**Abstract**

The abstract demonstrates that modern financial systems depend on cryptocurrencies because these digital assets enable people to conduct international money transfers without using banks. The rapid expansion of cryptocurrencies has generated multiple regulatory difficulties for governments who need to protect investors from fraudulent activities while stopping both money laundering operations and tax evasion activities and secure financial system stability. Different countries have adopted different approaches to deal with these issues. The United States mainly relies on strict enforcement and legal action, the European Union has created a comprehensive law to regulate crypto markets, and India has taken a cautious approach by focusing largely on taxation rather than full regulation. The research paper intends to examine the different regulatory systems that three countries India and the USA and the European Union use while researching international regulatory standards to determine effective methods which India should implement for developing a successful cryptocurrency regulatory system.

The **keywords** for this research include Cryptocurrency, Blockchain, Crypto Regulation, Virtual Digital Assets, Financial Stability, Investor Protection, Anti-Money Laundering, Crypto Taxation, Digital Economy, and Global Regulatory Models.

1. Introduction

The digital currencies Bitcoin and Ethereum have transformed from their initial experimental status into essential elements of worldwide financial systems. The digital assets which operate on blockchain technology enable users to conduct transactions directly with each

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other without needing conventional banking systems or payment processors. The decentralized system enables people to access financial services at reduced costs while it drives new technological advancements for digital economic development. The features that attract users to cryptocurrencies create major difficulties for regulators and policymakers. The world needs to find a solution for governments which must achieve two conflicting priorities:³The financial technology and digital market innovation process requires consumer protection and financial crime prevention through tax compliance and the protection of financial stability. The different legal systems of various countries have developed unique solutions to address this problem.⁴India has adopted a cautious and tax-focused approach while the United States depends on enforcement of its current securities and financial regulations and the European Union has established a complete regulatory system which governs digital assets. These different regulatory methods make the three jurisdictions an ideal case study for researchers who want to compare worldwide cryptocurrency regulations.⁵

2. Understanding Cryptocurrency Regulation

2.1 Why Regulation is Needed

The rapid expansion of cryptocurrency markets has generated multiple financial hazards which require regulatory measures to protect both economic stability and public safety. The existence of major financial dangers stands as the most important issue. The cryptocurrency market operates with extreme price volatility which leads to sudden and severe market changes that create high financial risks for investors.⁶The decentralized nature of these markets allows fraudulent activities such as pump-and-dump schemes and insider trading and fake token sales to occur, which results in decreased trust from investors and weakened market trust. The lack of proper investor education about the crypto market enables many retail investors to enter these markets, which makes them more vulnerable to financial scams and deceptive investment practices.⁷

Cryptocurrencies bring forth two major issues which include financial risks and legal challenges. Digital assets permit users to conduct unlawful activities because their

³ Satoshi Nakamoto, *Bitcoin: A Peer-to-Peer Electronic Cash System* (2008).

⁴ Financial Action Task Force (FATF), *Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers* (2019).

⁵ Bank for International Settlements, *Annual Economic Report* (2021).

⁶ Financial Stability Board, *Regulation, Supervision and Oversight of Crypto-Asset Activities and Markets* (2022).

⁷ International Monetary Fund, *Global Financial Stability Report* (2021).

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pseudonymous and borderless characteristics. Law enforcement agencies encounter challenges when they try to trace cryptocurrency transactions because criminals use multiple jurisdictional paths to conduct their operations. The tax authorities face challenges from cryptocurrencies because people use digital assets to conceal their possessions and they report no income which leads to tax evasion and lost government funds. The lack of standardized international laws creates enforcement difficulties while it leads to disputes between nations over jurisdictional authority.⁸

Cryptocurrencies create economic risks and monetary risks that extend beyond their digital assets. The increasing adoption of private digital currencies by people will diminish a nation's ability to manage its monetary system which will occur if cryptocurrencies become a common substitute for official national currencies. The widespread adoption of cryptocurrency will create capital flight which enables funds to be transferred between countries without any regulatory control thus creating a risk of economic instability for countries. The expansion of decentralized finance combined with unregulated cryptocurrency platforms will create a shadow financial system which operates without adhering to standard banking regulations. A balanced regulatory framework needs to exist because it protects innovation while it stops financial stability and economic governance dangers from occurring.⁹

3. Cryptocurrency Regulation in India

3.1 Evolution of India's Approach

Over the past ten years, India has changed its attitude toward cryptocurrency regulation from initial rejection to its current state of regulated acceptance. In the early stages, regulators viewed cryptocurrencies as a potential threat to financial stability and monetary control. The Reserve Bank of India (RBI) issued a circular in 2018 that banned banks and financial institutions from providing services to crypto businesses because of this concern. The Supreme Court overturned the banking ban in 2020 because it needed to establish controlled regulations instead of total bans. The Indian government began to change its policy from complete prohibition to risk management after this court decision. The 2022 introduction of Virtual Digital Assets (VDAs) for taxation purposes established a major indirect regulatory

⁸ Financial Action Task Force (FATF), *Virtual Assets Red Flag Indicators of Money Laundering and Terrorist Financing* (2020).

⁹ Bank for International Settlements, *Annual Economic Report* (2021).

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recognition of cryptocurrencies. The 2023 introduction of anti-money laundering laws brought crypto businesses under these regulations, which required exchanges to implement know-your-customer (KYC) procedures and fulfill reporting requirements. The government agencies now conduct more extensive monitoring of cryptocurrency trading activities and obligations related to tax compliance. India currently operates without a complete cryptocurrency regulatory framework, using taxation and AML compliance as temporary regulatory measures.¹⁰

3.2 Current Legal Status in India

India currently regulates cryptocurrencies through taxation and financial surveillance because the country lacks a specific legal framework for this purpose. The government has implemented one of the most severe tax regulations for crypto assets worldwide through its flat 30 percent tax on virtual digital asset transfer profits and 1 percent tax deducted at source (TDS) for all transactions. The authorities created these measures to monitor cryptocurrency transactions while they worked to stop tax cheating and discourage investors from making unwise trades. Crypto exchanges along with service providers must complete customer registration with the Financial Intelligence Unit because they need to follow anti-money laundering and counter-terrorism financing rules. Financial institutions must conduct customer identification procedures while they maintain transaction records and report any transactions that appear suspicious.¹¹

The current situation lacks effective regulatory control because major regulatory deficiencies continue to exist. India has not yet provided a clear legal classification of cryptocurrencies whether they should be treated as securities, commodities, or a separate asset class. The country currently lacks both a licensing system for cryptocurrency service providers and a specific system for protecting investors and any rules that govern stablecoins. The existing deficiencies create uncertain conditions for startups and financial institutions and investors, which leads to decreased innovation and drives cryptocurrency companies to establish operations in countries with more favorable regulations. The experts in the field require India

¹⁰*Internet and Mobile Association of India v. Reserve Bank of India*, (2020) 10 SCC 274.

¹¹ Ministry of Finance, Government of India, *Notification Bringing Virtual Asset Service*

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to establish a complete and fair system for cryptocurrency regulations as an immediate priority.¹²

3.3 Indian Regulatory Model

India operates its cryptocurrency regulatory system under a dual approach that combines "wait-and-watch" with "tax-first" regulations. The government has chosen to monitor and tax cryptocurrencies together with enforcing anti-money-laundering regulations instead of creating a complete legal framework because they want to study international developments. The authorities adopted this approach because they wanted to safeguard financial stability and protect investors while preventing criminal activities through cryptocurrency misuse.¹³

The model achieves its main strength through its ability to achieve complete tax compliance. The government established a tracking system for cryptocurrency activities through its implementation of a high tax rate and a transaction-based tax deduction system which brings digital assets into the formal financial sector. This method reduces tax evasion by making all crypto transactions accessible to regulatory bodies. The introduction of crypto exchanges to anti-money-laundering regulations has resulted in better monitoring capabilities and greater operational transparency. The policy's risk-averse characteristics create economic defense mechanisms against unexpected economic disturbances which occur when people adopt cryptocurrencies without proper regulation. The model presents multiple deficiencies through its execution process. The lack of a specific legal framework creates investment uncertainty for both startups and financial institutions. The complex legal environment for crypto assets creates obstacles for businesses which leads to their restricted capacity to make long-term investments and develop new solutions. The Indian crypto industry has experienced a major operational shift because companies have moved their activities to nations that enforce clearer crypto industry regulations which results in a loss of both skilled workers and investment and technological advancement. The current Indian system lacks the necessary consumer protection measures which protect crypto investors from fraud and exchange failures and market manipulation. The wait-and-watch method has effectively handled current hazards but it cannot serve as a permanent solution for regulatory needs.¹⁴

¹² Financial Intelligence Unit–India, *AML/CFT Guidelines for Virtual Digital Asset Service Providers* (2023).

¹³ Financial Intelligence Unit–India, *AML/CFT Guidelines for Virtual Digital Asset Service Providers* (2023).

¹⁴ Parliamentary Standing Committee on Finance, *Cryptocurrency and Regulation of Official Digital Currency Bill – Discussions and Reports* (2021).

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4. Cryptocurrency Regulation in the United States

4.1 Multi-Agency Regulatory Approach

The United States uses a special method to control cryptocurrency through multiple agencies which assign different regulatory duties based on how crypto assets operate. The Securities and Exchange Commission (SEC) treats many crypto tokens as securities and regulates their issuance and trading under federal securities laws. The Commodity Futures Trading Commission (CFTC) oversees crypto derivatives and considers major cryptocurrencies such as Bitcoin as commodities. The Internal Revenue Service (IRS) manages taxation since it classifies cryptocurrencies as property which requires taxpayers to report their gains and losses. The Financial Crimes Enforcement Network (FinCEN) requires crypto exchanges and service providers to establish know-your-customer policies while reporting any suspicious activities to monitor their anti-money-laundering compliance. The United States employs this multi-agency system to implement existing financial regulations for cryptocurrency control instead of developing one complete law.¹⁵

4.2 Key Features of the US Model (Expanded Explanation)

The US regulatory system depends upon securities law principles as its main structural element. The SEC uses the Howey Test to assess whether a crypto asset functions as a security which causes most token offerings to meet securities regulatory requirements. The SEC has brought multiple enforcement cases against crypto exchanges and token issuers and service providers because they did not meet registration and disclosure standards. The enforcement approach causes major changes in market behaviour because traders respond to regulatory announcements and legal proceedings which create sudden market fluctuations. The United States depends on litigation and enforcement processes to protect investors while creating regulatory uncertainty for businesses because it does not use pre-emptive legislation.¹⁶

In recent years, US regulators have increasingly focused on emerging areas such as stablecoins, crypto exchange-traded funds (ETFs), and transparency requirements for digital asset companies. Stablecoins have potential to become systemically important because they maintain connections with traditional financial markets, while crypto ETFs create challenges

¹⁵ U.S. Securities and Exchange Commission, *Framework for "Investment Contract" Analysis of Digital Assets* (2019).

¹⁶ *SEC v. W.J. Howey Co.*, 328 U.S. 293 (1946).

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for safeguarding investors and monitoring market activities. The requirements for disclosure and compliance obligations for crypto companies keep growing.¹⁷

4.3 Strengths and Weaknesses (Expanded Explanation)

The US regulatory system has multiple advantages which include its effective enforcement processes and its complete protection of investors and its enforcement of strict compliance rules which maintain market order. The system faces criticism because it operates with multiple regulatory bodies and there is no national cryptocurrency legislation that establishes unified rules. Agencies need to share jurisdiction to govern the crypto industry because this practice creates confusion for businesses and raises their expenses. The complex nature of the system creates challenges for businesses to comply with regulations which results in unpredictable situations for the entire industry.¹⁸

5. Cryptocurrency Regulation in the European Union

5.1 MiCA – The World’s First Comprehensive Crypto Law

The European Union has taken a pioneering step in cryptocurrency regulation by introducing the Markets in Crypto-Assets (MiCA) Regulation which serves as the first comprehensive legal framework dedicated to crypto-assets in existence. The EU established a complete legislative framework that functions exclusively for cryptocurrency operations whereas other regions use their existing financial regulations to govern digital currencies. MiCA establishes a unified regulatory framework that member states of the European Union must follow to protect consumers and ensure financial stability while creating clear legal guidelines for businesses and investors. The regulation was introduced to address the fragmented regulatory landscape within Europe and to establish a single market for crypto services.¹⁹

5.2 Key Features of MiCA (Expanded Explanation)

The primary element of MiCA requires crypto-asset service providers to obtain official authorization before they can start operating in the European Union. The three types of crypto platforms which are exchanges and wallet providers and crypto platforms must fulfill specific governance and transparency and security requirements. After obtaining their license from

¹⁷ Commodity Futures Trading Commission, *Primer on Virtual Currencies* (2017).

¹⁸ Internal Revenue Service, *Notice 2014-21: Virtual Currency Guidance* (2014).

¹⁹ European Parliament and Council, *Regulation (EU) 2023/1114 on Markets in Crypto-Assets (MiCA)* (2023).

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one EU member state these companies can operate throughout the EU under the passporting system which promotes international business operations and market rivalry.²⁰

The regulation establishes two distinct categories through its asset-backed token framework which includes Asset-Referenced Tokens that derive their value from various backed assets and E-Money Tokens that use a single fiat currency for their value. The token issuers need to comply with all mandated reserve requirements together with governance rules and disclosure standards which exist to safeguard users while minimizing systemic financial risks.²¹

Consumer protection forms the third main pillar of MiCA. Crypto companies must provide clear disclosures to investors about risks, business models, and financial conditions. The companies must keep adequate capital reserves while following market abuse regulations that protect against insider trading and price manipulation and misleading activities. Because of its comprehensive scope and clarity, MiCA is widely regarded as the most advanced crypto regulatory framework in the world.²²

5.3 EU Regulatory Model (Expanded Explanation)

The European Union uses an all-encompassing legal framework system which establishes consistent legal standards that all member countries must follow. This system provides businesses with operational guidance which enables them to conduct their activities in the European Union without uncertainty thus making the region attractive for cryptocurrency development and investment. The framework includes multiple difficulties which need to be resolved. Firms experience high compliance expenses because of the demanding regulatory standards which require time and administrative work to implement across different regions. The EU model serves as an international standard for equitable cryptocurrency regulation according to current assessment.

6. Comparative Analysis

Feature	India	USA	EU
Regulatory Style	Cautious & Tax-	Enforcement-	Comprehensive

²⁰ European Commission, *Digital Finance Strategy for the EU* (2020).

²¹ European Banking Authority, *Report on Crypto-Assets* (2019).

²² European Central Bank, *Crypto-Assets: Implications for Financial Stability* (2022).

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Feature	India	USA	EU
	focused	driven	legislation
Legal Clarity	Low	Medium	High
Investor Protection	Limited	Strong	Strong
Licensing System	No	Fragmented	Yes
Stablecoin Regulation	No	Emerging	Yes
Innovation Environment	Uncertain	Moderate	High

7. Global Regulatory Models

Countries worldwide have different regulatory approaches to cryptocurrency because their economic priorities and risk tolerance and technological outlooks determine their respective strategies. The different approaches can be divided into four main regulatory models.²³

The Prohibition Model begins as the initial framework which China uses to prohibit all cryptocurrency activities including trading and mining and exchange services. The approach was developed to address three major problems which include financial stability issues and capital flight danger and the potential use of cryptocurrency for illegal activities. The governments that adopt this framework choose to protect their monetary systems and financial stability because they consider these elements more important than advancing technological progress. India employs the Wait-and-Watch Model as its second operational method. The governments of this system watch global trends together with domestic market progress while they decide against building a complete legal system. The organization uses taxation and anti-money-laundering regulations to control its operational dangers. The strategy enables policymakers to evaluate cryptocurrency effects on the future uncertain periods before they decide on formal legislation.²⁴

²³ People's Bank of China, *Notice on Further Preventing and Disposing of the Risk of Virtual Currency Trading and Speculation* (2021)

²⁴ Reserve Bank of India, *Report on Currency and Finance* (2022).

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The United States serves as a practical demonstration of the Enforcement Model which represents the third method. The regulators use current financial and securities regulations to control crypto assets instead of establishing new rules that specifically apply to cryptocurrencies. The system enforces strict penalties against entities that fail to comply with regulations while delivering protection to investors; however, the system creates uncertainty because different authorities share jurisdiction and no standard regulations exist.²⁵

The Comprehensive Law Model serves as the fourth developed method while the European Union operates as the subsequent system. The model establishes a complete legal system for crypto-assets which includes requirements for licensing and consumer protection and market integrity and financial stability. The system establishes unified regulations which deliver operational clarity to businesses across different regions while maintaining a balance between innovative progress and regulatory requirements. The four existing international regulatory frameworks supply essential insights which help nations construct their upcoming cryptocurrency regulatory systems.²⁶

8. Proposed Regulatory Framework for India

The cryptocurrency regulatory framework in India needs to establish three main goals which include protecting investors and maintaining financial stability while supporting innovative developments. The first step should be legal recognition and classification of crypto assets. The current legal framework lacks clear recognition which results in business operations and investment activities facing uncertainty. India should formally define cryptocurrencies as digital assets and classify them as securities or commodities depending on their function and use. The functional classification system will enable SEBI and other financial authorities to oversee various crypto activities through their existing regulatory powers.²⁷

The process begins with the implementation of a necessary licensing system which all cryptocurrency service providers must follow. All crypto exchanges, wallet services, and stablecoin companies need to secure regulatory permissions before conducting business operations in India. Licensing would ensure compliance with security standards, governance requirements, and financial safeguards. The system would help combat fraud activities while

²⁵ Financial Crimes Enforcement Network (FinCEN), *Application of FinCEN's Regulations to Virtual Currencies* (2019).

²⁶ U.S. Securities and Exchange Commission, *Framework for Investment Contract Analysis of Digital Assets* (2019).

²⁷ Reserve Bank of India, *Report on Currency and Finance* (2022).

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creating better security measures which would enhance public confidence about the cryptocurrency system. The third step establishes an effective investor protection system. Crypto platforms must provide users with clear risk information, adhere to responsible advertising practices, and set up systems to handle investor complaints about fraud or exchange problems. The measures would build consumer trust while lowering the chances that retail investors would experience financial losses.²⁸

The implementation of balanced taxation systems stands as another vital requirement for this reform. The existing high transaction tax system generates two main problems because it prevents people from making legal trades while forcing them to trade in underground markets. The tax system needs to decrease its source-based deductions because it needs to allow loss offsets against gains to develop an effective system which supports economic development. India needs to establish a regulatory sandbox which will support blockchain and Web3 startups through better innovation protection. Startups can assess their new technologies through a sandbox which enables them to operate under regulatory oversight without needing to fulfill complete compliance requirements. The country will develop homegrown solutions which will bring in foreign investment while helping India emerge as a top player in the global digital asset market.

9 Challenges for India

India needs to address multiple challenges which have emerged since cryptocurrencies became more popular to create a successful regulatory system. The main problem exists because multiple authorities including the Reserve Bank of India and the Securities and Exchange Board of India and the Ministry of Finance need to work together on regulatory matters. The existence of two different types of cryptocurrencies as financial assets and technological innovations create overlapping jurisdiction which results in unpredictable market behaviour because of policy delays and regulatory conflicts.²⁹

The international and unrestricted operation of cryptocurrency markets creates a substantial obstacle for regulators. The instantaneous cross-border capability of crypto transactions between different jurisdictions creates challenges which require worldwide partnerships for effective governmental regulation. The practice of regulatory arbitrage increases because

²⁸ Securities and Exchange Board of India, *Consultation Paper on Crypto Assets and Regulation* (2021).

²⁹ Financial Stability Board, *Regulation, Supervision and Oversight of Crypto-Asset Activities* (2022).

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businesses can establish operations in countries that offer them better compliance options thus decreasing the strength of local regulatory frameworks.³⁰

Investors from India will transfer their investments to foreign crypto exchanges and offshore platforms to escape the country's strict tax regulations and its ambiguous rules regarding crypto trading. The government will lose tax revenue while facing difficulties monitoring financial transactions. The fast development of technology in decentralized finance and NFTs and blockchain applications creates major challenges for regulatory authorities. The fast-paced development of technologies creates a need for regulatory systems that require continuous adjustments to meet evolving requirements.³¹

10. Conclusion

Cryptocurrency regulation has emerged as one of the most challenging policy issues in the digital age because it exists between three distinct domains which include finance and technology and international governance systems. The research study shows how various jurisdictions implement separate regulatory systems because their protected assets and operational dangers are distinct from each other. The United States enforces financial and securities regulations to protect investors through its current legal system, while the European Union develops a complete legal framework to establish clear and unified regulations. India operates its regulatory system through a cautious method which uses tax regulations for monitoring purposes while it works to establish complete regulatory mechanisms. India must advance from its current temporary regulations to establish a permanent yet fair system for cryptocurrency regulation because it has reached a pivotal point in digital currency adoption. India can establish an effective regulatory framework for its digital asset market by integrating European Union regulatory clarity with American enforcement strength to protect investors and maintain financial stability.

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³⁰ International Monetary Fund, *Global Financial Stability Report* (2021).

³¹ Bank for International Settlements, *Annual Economic Report* (2021).

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