VOLUME 7 | ISSUE 2

INTERNATIONAL JOURNAL OF ADVANCED LEGAL RESEARCH

REGULATORY ARBITRAGE IN CORPORATE TOKENIZATION AND DECENTRALIZED AUTONOMOUS ORGANIZATIONS: A COMPARATIVE STUDY

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ABSTRACT

Tokenization of corporate equity and the rise of decentralized autonomous organizations ("DAOs") have exposed a structural fault line in securities regulation. The law is organised around national and sub-national boundaries, yet the assets it seeks to govern are inherently transnational, programmable and able to change domicile almost instantly. This paper studies how issuers, protocol founders and investors exploit differences between securities-law regimes to obtain favourable characterisation, lighter disclosure duties or outright non-regulation of tokenized instruments and governance tokens. The regimes examined are those of the United States, the European Union, Singapore, the United Arab Emirates, Switzerland, the offshore vehicle jurisdictions of the Cayman Islands and the British Virgin Islands, and India. The paper argues that regulatory arbitrage here is more than a compliance nuisance. It is a predictable result of applying transaction-based, jurisdiction-bound doctrine, epitomised by the Howey investment-contract test, to an asset class whose defining feature is that its economic function is detached from any single legal situs.

The analysis draws on the March 2026 joint interpretive taxonomy of the SEC and CFTC, the EU's Markets in Crypto-Assets Regulation ("MiCA") and DLT Pilot Regime, Wyoming's DAO LLC and DUNA statutes, and the Uniswap DUNI precedent. For India, it uses the Supreme Court's ruling in Internet and Mobile Association of India v. Reserve Bank of India, together with the emerging SEBI–IFSCA fragmentation, illustrated by the WazirX enforcement proceedings. On this basis the paper maps four principal arbitrage channels: issuer relocation, the functional mischaracterisation of securities as utility or governance tokens, offshore issuance combined with onshore marketing,

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and the strategic use of "sufficient decentralisation" as a liability shield. It concludes that lasting convergence is unlikely to come from harmonised rulebooks alone. What is needed is a move toward activity-based, technology-neutral regulation built on one principle: identical economic risk should receive identical regulatory treatment, whatever the legal, cryptographic or corporate wrapper in which it appears.

Key Words: *Regulatory Arbitrage, Tokenization, Decentralized Autonomous Organizations, Securities Regulation, Howey Test, MiCA, Regulatory Competition, SEBI, IFSCA, Legal Wrappers*

I. Introduction

Tokenization of corporate instruments, meaning equity, debt, fund units and governance rights recorded as native assets on a distributed ledger, is no longer confined to pilots and sandboxes. Asset managers are issuing tokenized money-market funds, some national land registries have begun recording title in tokenized form, and several stock exchanges are testing distributed-ledger settlement next to their traditional systems. At the same time, decentralized autonomous organizations (DAOs) have appeared as a rival to the corporate form itself: token holders vote through code, and that vote takes the place of a board making decisions from the top down. Securities law fits neither development comfortably. It was designed for instruments issued by an identifiable central party, tied to a particular territory and traded through licensed intermediaries.

The argument of this paper is that the gap between the two is structural rather than accidental. Tokenized instruments are modular and cross borders easily, while securities regulation stops at the border, and this predictably produces regulatory arbitrage. Issuers look for the jurisdiction whose classification test, disclosure threshold or rule on governance liability suits their token best. Many go further and spread a single project across several regulatory perimeters: an offshore issuing vehicle, an onshore entity handling marketing, and users located all over the world. Decentralized governance makes matters worse. Once control is spread across thousands of pseudonymous token holders, a protocol can plausibly say that it has no issuer, no promoter and no "essential managerial efforts", which is the core of the Howey test.[3] This holds even when the dispersal was deliberately designed to reach that very result.

The analysis moves in three stages. Part II lays out the key concepts (tokenization, DAOs and regulatory arbitrage) and places the inquiry within the wider scholarship on regulatory competition. Parts III to VI then compare the main regimes competing for tokenization business. These are the

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

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United States, after the SEC and CFTC issued their joint interpretive taxonomy in March 2026; the European Union, under MiCA, MiFID II and the DLT Pilot Regime; and a group of smaller, faster-moving hubs (Singapore, the United Arab Emirates, Switzerland, and the offshore fund centres of the Cayman Islands and the British Virgin Islands) that increasingly shape where issuers choose to go. India gets its own part, both because its courts and tax system have followed a different path and because the emerging split between SEBI and IFSCA shows, at national level, the same fragmentation seen internationally. Parts VII and VIII turn to how arbitrage actually works in tokenization structures, and to how the DAO form takes advantage of the distance between who really controls a project and who is legally answerable for it. Part IX reviews the regulatory responses aimed at closing these gaps. Part X asks whether arbitrage in this field should be tolerated or suppressed, and Part XI sets out policy recommendations ahead of the conclusion in Part XII.

In method, the paper is doctrinal and comparative. It relies on primary regulatory instruments and interpretive releases, on statutes enacted at state and national level, and on a handful of illustrative disputes and structuring precedents. These are read against the theoretical work on regulatory competition, including the debate over whether it produces a "race to the bottom" or a "race to the top" in corporate and financial law.

II. Conceptual Framework

Tokenization

Tokenization means issuing a unique, transferable digital record, the "token", on a blockchain or other distributed ledger. The token represents, evidences or itself creates a right: ownership of equity, a claim under a debt instrument, a unit in a fund, or a vote within an organization. This paper is concerned with three architectures. In representational tokenization, the token works as a digital certificate pointing to a legal right that exists off-chain, such as a token showing beneficial ownership of shares a custodian holds. In native, or "on-ledger", tokenization, the ledger entry is what brings the instrument into legal existence. The Swiss DLT Act takes this approach by allowing a ledger-based security to be the share itself.[4] In governance tokenization, the token gives a voting or proposal right inside a decentralized protocol rather than an economic claim against an issuer in the conventional sense, although in practice the two kinds of right are often bundled together.

[4]Swiss Federal Act on the Adaptation of Federal Law to Developments in Distributed Ledger Technology ("DLT Act"), in force 2021.

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Decentralized Autonomous Organizations

A DAO is an organization whose rules on membership, voting thresholds, treasury spending and, at times, operations are written into smart contracts on a public blockchain and carried out by them. Control sits with holders of a governance token, not with a board or managing member. The central legal problem is that, without a legal wrapper, a DAO has traditionally lacked recognized legal personality. It cannot enter contracts, own property or be sued in its own name. Courts asked to classify unwrapped DAOs have tended to treat them as general partnerships, which leaves every participating token holder jointly and severally liable, without limit, for the DAO's obligations.

Regulatory Arbitrage

Regulatory arbitrage is the practice of structuring a transaction, entity or instrument so as to obtain a better legal or regulatory result than the most natural, or economically closest, regime would give. It usually works by exploiting gaps in definitions, jurisdictional boundaries or differences in how regulators prioritize enforcement. Two forms matter here.

Jurisdictional arbitrage moves the issuer, the protocol's controlling entity or the place of sale to a jurisdiction with a more favourable rule of characterisation. An example is issuing from the British Virgin Islands, where the Financial Services Commission's token guidance leaves the sale to be governed by the substantive law of the investor's own jurisdiction, instead of applying BVI securities law directly.[5]

Characterisation arbitrage works on the token itself. Its bundle of rights, vesting schedule and marketing story are designed so that it falls outside the statutory or common-law definition of a security altogether. Issuers may stress "consumptive use", or engineer enough decentralisation that no identifiable promoter meets the "efforts of others" prong of Howey.

Scholarship on regulatory competition in corporate law gives a helpful frame. It asks whether the historical move of American corporations to Delaware was a beneficial "race to the top" toward efficient law or a harmful "race to the bottom" toward law that favours managers. Tokenization arbitrage shows both tendencies at once. It pushes regulators toward clearer and more proportionate rules, which is arguably what Singapore's demanding but predictable regime has done. It also allows a real race to the bottom in investor protection, since issuers can pick the jurisdiction with the lightest disclosure or governance duties and then market worldwide regardless.

[5]British Virgin Islands Financial Services Commission, Guidance on Regulation of Virtual Assets (2020).

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III. The United States: From Regulation-by-Enforcement to the 2026 Taxonomy

For most of the last decade, the United States regulated crypto assets mainly through enforcement, not rulemaking. The SEC applied the Howey test (an investment of money in a common enterprise, with a reasonable expectation of profits from the essential managerial efforts of others) to individual token programmes one at a time. The result was a pile of settlements and litigated decisions, but little certainty about what would be treated as a security in future. Market participants and commentators called this "regulation by enforcement", and it is widely credited with driving issuance offshore.

That changed materially on 17 March 2026. The SEC and the Commodity Futures Trading Commission jointly issued an interpretive release, formalised as SEC Release No. 33-11412, setting out a coordinated federal framework for classifying crypto assets, often called the "Taxonomy".[6] It divides digital assets into five categories: digital commodities, digital collectibles, digital tools, stablecoins and digital securities. Only the last is treated as inherently a security. Importantly, the release does not claim to replace Howey. It explains how the common-enterprise and "efforts of others" elements apply to token sales, staking, wrapping and airdrops, and it narrows the common-enterprise requirement. Several commentators expect this to make it harder for purely secondary-market transactions to be treated as investment contracts.

SEC Chairman Paul S. Atkins described the shift plainly in remarks accompanying the release.[7] He stressed that the great majority of crypto assets are not themselves securities under the legal definition, and that a token caught by an investment contract can later move outside that status as the enterprise behind it matures and decentralises.

The Taxonomy is expressly presented as an interpretive bridge until Congress passes broader market-structure legislation for digital assets. A related proposed rule, "Regulation Crypto Assets", would create a conditional exemption, informally a "token safe harbor".[8] Issuers could distribute tokens without full registration, including through airdrops meant to decentralise control of an open-source system, provided they meet defined conditions. For corporate tokenization in particular, the practical effect is threefold. Issuers get a taxonomy against which to test an instrument before launch. The CFTC's parallel jurisdiction over digital commodities is formally coordinated with the

[6]Application of the Federal Securities Laws to Certain Types of Crypto Assets and Certain Transactions Involving Crypto Assets, Securities Act Release No. 33-11412 (17 March 2026), 91 Fed. Reg. 13714 (23 March 2026).
[7]Paul S. Atkins, Remarks, "The SEC's Approach to Digital Assets: Inside Project Crypto" (12 November 2025) and "Regulation Crypto Assets: A Token Safe Harbor" (17 March 2026), available at sec.gov/newsroom/speechesstatements.
[8]Regulation Crypto Assets, Proposed Rule, Securities Act Release No. 33-11434 (SEC, 2026).

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SEC's securities jurisdiction, so the two agencies are not left to turf disputes. And because the release is interpretive rather than a binding rule, courts remain free to reach their own conclusions, especially since *Loper Bright Enterprises v. Raimondo* ended automatic deference to agency readings of statutes.[9] The Taxonomy is therefore persuasive authority, not conclusive.

This matters for the arbitrage analysis in two ways. First, clearer domestic rules reduce, without removing, the incentive to issue offshore simply to avoid Howey uncertainty, because issuers can now model their US exposure more precisely. Second, and more subtly, writing down a taxonomy creates new category lines for issuers to structure around. A token engineered to qualify as a "digital commodity" instead of a "digital security" invites the same characterisation gamesmanship the Taxonomy was meant to curb, only now at a different set of definitional boundaries.

IV. The European Union: MiCA, MiFID II, and the DLT Pilot Regime

The European Union has taken a two-track approach. Crypto-assets that are not "financial instruments" under the Markets in Financial Instruments Directive II ("MiFID II")[10] fall under the Markets in Crypto-Assets Regulation ("MiCA").[11]MiCA sets up a harmonised licensing and disclosure regime for crypto-asset service providers and for issuers of asset-referenced tokens and e-money tokens. Tokenised instruments that do qualify as financial instruments, such as tokenised shares, bonds or fund units, stay under MiFID II and the wider EU securities rules, and MiCA does not apply to them at all. Issuers often misunderstand this carve-out. Some structure a token expecting MiCA's relatively lighter regime, only to find that its economic substance brings it back under MiFID II.

Market infrastructure rules from the MiFID II and CSDR era do not work well with distributed-ledger settlement. To deal with this, the EU introduced the DLT Pilot Regime in March 2023.[12] It is an EU-wide regulatory sandbox that lets exchanges, central securities depositories and combined trading-and-settlement systems run markets in tokenised instruments under targeted exemptions from rules that would otherwise apply. Uptake has been slow. As of mid-2026, only a handful of infrastructures hold Pilot authorisation, among them two German-authorised platforms and a Czech central securities depository. Low trading caps, limited interoperability between competing DLT systems, and lingering uncertainty over primary-market issuance and admission rules across member

[9]*Loper Bright Enterprises v. Raimondo*, 603 U.S. 369 (2024).
[10]Directive 2014/65/EU on Markets in Financial Instruments (MiFID II).
[11]Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on Markets in Crypto-Assets (MiCA).
[12]Regulation (EU) 2022/858 on a Pilot Regime for Market Infrastructures Based on Distributed Ledger Technology.

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states have all held it back. The European Securities and Markets Authority has recommended making parts of the Pilot permanent, and in December 2025 the European Commission proposed a further reform of the DLT Pilot Regulation within its Market Integration and Supervision Package.[13]

For corporate tokenization, this layered design (MiFID II for substance, MiCA for crypto-specific market conduct, the DLT Pilot for infrastructure) opens a particular route for arbitrage. Some issuers structure tokens at the edge of the MiFID II "financial instrument" definition so that they land under MiCA's lighter, crypto-native regime. Others do the reverse: they market a MiCA-compliant utility or asset-referenced token in a way that in practice mimics an equity or profit-participation right. The EU's main safeguard is a functional, substance-over-form reading of "financial instrument", which in principle follows the economic rights attached to the token and not its technical wrapper. Enforcement across twenty-seven national competent authorities, however, is still uneven.

V. Competing Hubs: Singapore, UAE, Switzerland, and Offshore Vehicle Jurisdictions

A. Singapore

The Monetary Authority of Singapore regulates tokenised real-world assets under the Securities and Futures Act and applies a strictly functional test.[14] If a token has the economic characteristics of equity, debt or a collective-investment-scheme unit, it is a security token. It then faces the same licensing, prospectus and market-conduct rules as its non-tokenised equivalent, an approach summed up as "same activity, same risk, same regulatory outcome". The regime is demanding, but deliberately so. Singapore creates no separate, lighter track for the tokenised version of an already regulated product, so an MAS licence for a tokenised bond or fund carries essentially the same credibility as a conventional one. That is why sophisticated institutional issuers accept the higher compliance cost: they get counterparty confidence in return.

B. The United Arab Emirates

The UAE is the clearest example of fragmentation within a single jurisdiction that an issuer can face. Four regulators claim authority over digital assets inside the same federal territory:

[13]European Commission, Market Integration and Supervision Package, Proposal to Reform the DLT Pilot Regulation (4 December 2025).

[14]Securities and Futures Act (Singapore, Cap. 289), as applied to digital payment tokens and tokenised capital-markets products by the Monetary Authority of Singapore.

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- The Virtual Assets Regulatory Authority ("VARA") governs Dubai outside the Dubai International Financial Centre (DIFC). Since May 2025 it has offered a dedicated Category 1 "Asset-Referenced Virtual Asset" licence for RWA tokens.[15]
- The Dubai Financial Services Authority applies an Investment Tokens regime within the common-law DIFC free zone.[16]
- The Financial Services Regulatory Authority treats digital securities as ordinary securities within Abu Dhabi's ADGM free zone.
- Since January 2026, the federal Securities and Commodities Authority, renamed the Capital Markets Authority, governs onshore security tokens outside any free zone.

Mutual recognition among these regulators is not the same as passporting. An issuer that wants to operate in both the DIFC and mainland Dubai needs two licences from two regulators, applying two different bodies of law (common law in the DIFC, civil law onshore), even though both sit in one federal state. The Dubai Land Department's tokenisation of real-estate title deeds shows the UAE embracing tokenisation at registry level. It went live in March 2025, and secondary trading was enabled from February 2026. Even so, the regulatory map is something issuers must navigate, not a single coherent perimeter.

C. Switzerland

Switzerland's Distributed Ledger Technology Act allows a ledger entry itself to constitute a company's share under corporate law.[17] The token is the share, not a digital representation of a separately existing paper or book-entry share. This is paired with targeted exemptions under the Financial Services Act for offerings to professional investors, offerings to fewer than roughly five hundred investors, and offerings below a modest aggregate threshold of about CHF 8 million. Issuance takes place through licensed DLT trading venues. Clear statutory footing in corporate law, together with calibrated exemptions in securities law, has made Switzerland an attractive venue, as has Liechtenstein with a comparable framework. Issuers can obtain a natively digital equity instrument with unambiguous legal force without the compliance burden of a full public-offering regime.

[15]UAE Virtual Assets Regulatory Authority, Virtual Asset Issuance Rulebook and Category 1 Asset-Referenced Virtual Asset regime (May 2025); Marketing Regulations (2024).
[16]Dubai Financial Services Authority, Investment Tokens regime, DIFC (2021, as amended).
[17]See n 2 above; Financial Services Act (FinSA).

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D. Offshore Vehicle Jurisdictions

The British Virgin Islands and the Cayman Islands work differently from the regimes above. They are mainly issuer domiciles, not investor markets. A BVI special-purpose vehicle can issue tokens under Financial Services Commission guidance that leaves the offer to be governed by the substantive securities law of the purchaser's own jurisdiction.[18] The BVI entity thus provides a fast, low-cost, tax-neutral issuing shell, while the real regulatory exposure shifts to wherever the token is actually sold.

The Cayman Islands went further in March 2026 with a statutory tokenised-funds regime. It lets CIMA-registered funds issue digital equity or investment tokens and exempts them from separate virtual-asset-service-provider licensing.[19] Nine fund registrations followed within the regime's first weeks. Both jurisdictions show a recurring structural feature of corporate tokenization arbitrage: the issuing entity and the regulatory perimeter that actually protects investors need not coincide, and increasingly do not.

VI. India: Judicial Intervention, Domestic Fragmentation, and the GIFT City Margin

India offers a distinct and instructive case study. Its approach to digital assets came less from a deliberate legislative choice than from a sequence of judicial correction, fiscal opportunism and piecemeal regulatory experiments. The result is a domestic arbitrage structure that, on close analysis, closely mirrors the fragmentation inside the UAE.

A. The Constitutional Correction: Internet and Mobile Association of India v. Reserve Bank of India

The founding episode in India's crypto regulation was judicial, not legislative. On 6 April 2018, the Reserve Bank of India issued a circular telling all RBI-regulated entities, meaning banks and non-banking financial companies, not to deal in virtual currencies or serve anyone who did, and to end existing relationships within a set period.[20] The circular did not claim to ban holding or trading cryptocurrency as such. But exchanges and trading businesses cannot function without banking access, so cutting that access had a functionally equivalent effect. The Internet and Mobile Association of India, whose members included the main cryptocurrency exchanges, challenged the circular by writ petition, and the case reached the Supreme Court.

[18] See n 3 above.
[19] Cayman Islands Monetary Authority, statutory tokenised-funds regime (March 2026).
[20] Reserve Bank of India, Circular DBR.No.BP.BC.104/08.13.102/2017-18 (6 April 2018).

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On 4 March 2020, a three-judge bench decided the case and set aside the circular on grounds of proportionality.[21] The Court held that the RBI had produced no empirical data showing that the banks and NBFCs it supervises had suffered any actual harm from serving virtual-currency businesses. A measure this severe, it said, needs a reasoned, evidence-based justification, not a precautionary blanket prohibition. The Court also observed that the government's own inter-ministerial processes had by then yielded two successive draft bills taking diametrically opposite positions on cryptocurrency. It would not sustain so drastic a measure while the state's own policy remained unsettled.

The judgment matters here in two ways. First, unlike in several jurisdictions surveyed above, the initial check on regulatory overreach in India came from constitutional review, not from a rival regulator's more permissive rulebook. The arbitrage, in effect, ran through the courts and not across borders. Second, and more lastingly, the judgment left India with no settled legislative position on the status of virtual digital assets. It struck down only the RBI's banking-access measure and said nothing on whether or how tokens should be classified or regulated. The executive later filled that vacuum through taxation, not characterisation.

B. Regulation Through the Tax Code: The Finance Act, 2022

India did not adopt a Howey-style test or a dedicated tokenization statute. Its main legislative intervention came through fiscal law. The Finance Act, 2022 inserted a definition of "Virtual Digital Asset" into the Income-tax Act, 1961.[22] It also introduced Section 115BBH, which taxes income from transferring a virtual digital asset at a flat thirty per cent. Losses on one virtual digital asset cannot be set off against gains on another, or against income under any other head. Section 194S requires a one per cent tax deducted at source on qualifying transfers. The effect is to regulate digital assets mainly as a taxable residual category, deliberately agnostic on whether a token is a currency, a commodity or a security, and to leave the securities-law question largely untouched.

In March 2023, the Prevention of Money Laundering Act, 2002 was extended by notification to bring virtual-digital-asset service providers, exchanges included, within the definition of "reporting entity".[23] They must register with the Financial Intelligence Unit–India and comply with know-your-customer and suspicious-transaction-reporting obligations. Stricter daily reporting standards apply from April 2026.

[21] *Internet and Mobile Association of India v. Reserve Bank of India*, 2020 SCC OnLine SC 275 (decided 4 March 2020).
[22] Finance Act, 2022 (India), inserting Section 2(47A), Section 115BBH and Section 194S into the Income-tax Act, 1961.
[23] Prevention of Money Laundering Act, 2002, as extended to virtual-digital-asset service providers by Notification S.O. 1072(E) (Department of Revenue, 7 March 2023).

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C. Enforcement in Practice: The WazirX Proceedings

The Enforcement Directorate's action against Zanmai Labs Private Limited, the Indian company running the WazirX exchange, shows how this tax-plus-anti-money-laundering framework works when no securities-law characterisation regime exists. In August 2022, the Directorate froze the company's bank deposits under the Prevention of Money Laundering Act.[24] It alleged that the exchange had been used to launder the proceeds of an unrelated instant-loan-application fraud, by converting rupee deposits into Tether and moving the resulting stablecoin to wallets on Binance, which the Directorate described as registered in the Cayman Islands. It also alleged a contravention of the Foreign Exchange Management Act.[25] And it noted that Zanmai Labs had set up a web of agreements with a United States entity, a Singapore entity and the Cayman-registered Binance platform, in a way that, the agency said, obscured the exchange's true ownership and operational base.

Whatever the merits of the allegations, the structure the Directorate describes is a textbook case of the entity-layering and offshore-issuance mechanisms discussed in Part VII below, here appearing in an Indian enforcement record. An Indian-facing platform, a Singapore intermediary and a Cayman-domiciled exchange were linked by contracts whose main apparent effect was to make it hard for any one regulator (the RBI, SEBI or the Directorate itself) to see where economic control, and so regulatory responsibility, actually lay. The episode shows that regulatory arbitrage in the Indian market is not just a theoretical risk imported from abroad. It is an enforcement reality already litigated through India's own anti-money-laundering machinery, in the continued absence of a securities-law framework that could have dealt with the underlying token activity more directly.

D. Existing-Wrapper Regulation: SEBI, SM REITs, and the Tokenized-Bond Pilot

Where the Securities and Exchange Board of India has dealt with tokenization, it has generally required tokenized structures to fit inside an existing securities wrapper, not created a bespoke token test like Howey. Real-estate tokenization is the clearest example. Fractional-ownership property tokens are not treated as a new asset class. Instead, the SEBI (Real Estate Investment Trusts) (Amendment) Regulations, 2024 require fractional-ownership platforms to register as Small and Medium REITs, subject to defined asset-value thresholds.[26] Tokenized property interests thus come under the existing REIT disclosure and governance regime, and the token itself is not regulated as

[24]Enforcement Directorate, Press Statement on Freezing of Bank Balances of Zanmai Lab Pvt Ltd (WazirX) under PMLA (5 August 2022).
[25]Foreign Exchange Management Act, 1999.
[26]SEBI (Real Estate Investment Trusts) (Amendment) Regulations, 2024.

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such. SEBI's 2022 and 2023 consultation papers had pointed this way, distinguishing pure cryptocurrencies from asset-backed security tokens and treating the latter as functionally continuous with instruments already within SEBI's remit. In line with this, SEBI's 2026–27 priorities include a pilot for tokenizing corporate bonds using distributed-ledger technology. It builds on the blockchain-based bond-covenant monitoring systems already run by the depositories NSDL and CDSL, and is designed to interoperate with the Reserve Bank of India's wholesale central bank digital currency, which already settles government securities and inter-bank transactions.

E. The GIFT City Margin: IFSCA and the Prospect of Domestic Arbitrage

For this paper's arbitrage analysis, the more structurally significant development is a second, semi-autonomous Indian regulator with its own tokenization agenda. The International Financial Services Centres Authority (IFSCA) was set up under the International Financial Services Centres Authority Act, 2019 as the unified regulator for the GIFT International Financial Services Centre in Gandhinagar, Gujarat.[27] It combines powers otherwise divided among the Reserve Bank of India, SEBI, the Insurance Regulatory and Development Authority and the Pension Fund Regulatory and Development Authority, but only within the GIFT City zone. On 26 February 2025, IFSCA published a Consultation Paper on the Regulatory Approach towards Tokenization of Real-World Assets.[28] It covers financial securities such as funds, bonds and equity, and also payments, deposits, intellectual property, commodities and commercial real estate. It proposes a comprehensive legal framework distinct from SEBI's domestic, existing-wrapper approach.

The parallel with the UAE's VARA–DFSA–FSRA–CMA fragmentation is direct, though less developed so far. An issuer that can choose between structuring a tokenized instrument under SEBI's mainland framework or IFSCA's GIFT City regime faces materially different disclosure architectures. As with DIFC versus mainland Dubai, discussed in Part V, no general passporting arrangement yet ensures that IFSCA authorisation is automatically recognised for offerings outside GIFT City, or the reverse. As IFSCA's framework moves from consultation to binding regulation, this domestic margin is likely to sharpen, not resolve. That is especially so if IFSCA, designed from the start to compete with Singapore, the UAE and Luxembourg for international financial-services business, adopts a lighter-touch characterisation test than SEBI applies onshore.

[27]International Financial Services Centres Authority Act, 2019.

[28]International Financial Services Centres Authority, Consultation Paper on the Regulatory Approach towards Tokenization of Real-World Assets (26 February 2025).

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F. The Asset Tokenization Bill, 2026 and Unresolved Questions

A private member's bill, the Asset Tokenization Bill, 2026, was introduced in Parliament by MP Raghav Chadha.[29] It proposes India's first dedicated legislative category for tokenized assets. It aims to establish that tokenized assets are lawful and enforceable, to set out how tokens may be issued, traded and held in compliance with financial regulation, and to empower existing regulators to supervise token markets on a basis comparable to conventional securities markets. Because it is a private member's bill and not a government measure, its chances of enactment are uncertain. Its introduction nonetheless signals growing legislative awareness that the tax-code-plus-anti-money-laundering approach of 2022–2023, however administratively convenient, leaves the underlying securities-characterisation question substantially unresolved. This paper identifies that question as the central driver of arbitrage.

Until Parliament legislates directly, or SEBI and IFSCA settle on a shared functional test, corporate tokenization structures that reach Indian investors will keep being assessed piecemeal. The tax code covers fiscal exposure. PMLA and FEMA cover anti-money-laundering and exchange-control exposure. SEBI's existing-wrapper doctrine or IFSCA's emerging GIFT City framework covers securities-law exposure. No single authority sees the whole picture. This fragmentation recreates, within one national jurisdiction, much of the cross-border arbitrage dynamic the paper otherwise describes at the international level.

VII. Mapping the Arbitrage: Mechanism and Illustrations

Four recurring mechanisms shape corporate tokenization arbitrage in practice.

A. Issuer and Entity-Layer Relocation

The simplest mechanism is to relocate the issuing entity. The token-issuing SPV is incorporated in the BVI or the Cayman Islands, and protocol development sits in a Swiss foundation. Token sales are aimed at investors in jurisdictions with weaker enforcement capacity or more permissive private-placement exemptions. Meanwhile, marketing, community management and often beneficial economic control stay in a heavily regulated jurisdiction such as the United States or an EU member state. A direct and currently recommended example is the UAE practice of separating "UAE operating activity" from token issuance. Utility tokens are issued through a Swiss Association or Foundation, while the real business is run from Dubai or Abu Dhabi.

[29]Asset Tokenization Bill, 2026 (Private Member's Bill), Rajya Sabha.

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B. Characterisation Engineering

The second mechanism targets the legal test and not the issuer's location. Howey turns on a "reasonable expectation of profits" derived from the "essential managerial efforts of others". Issuers therefore design the token's utility, vesting and marketing narrative around consumptive use, such as network access, a governance vote or a discount on protocol fees. Any profit narrative is pushed into informal channels: community forums, influencer marketing and secondary-market price commentary. These fall outside the issuer's own representations, which makes them harder to attribute to it under a strict reading of the 2026 Interpretation's issuer-representations framework. The same engineering appears in the EU around the MiFID II "financial instrument" boundary, and in the UAE around the line between a utility token and a security or asset-referenced token.

C. Offshore Issuance, Onshore Marketing

The third mechanism exploits the gap between the law that governs issuance and the law that governs marketing and solicitation. A token issued from an offshore SPV under a permissive local regime can still be marketed worldwide through exchanges, social media and influencer campaigns that reach investors in far more protective jurisdictions. Regulators have started to respond with extraterritorial marketing perimeters. The UAE's Marketing Regulations 2024, for example, require pre-clearance and risk disclosure for promotions reaching UAE persons, wherever the issuer is domiciled.[30] Enforcement against an offshore issuer with no local presence remains difficult in practice, though, and the marketing perimeter becomes one more jurisdictional line to route around.

D. Sufficient Decentralisation as a Liability Shield

The fourth mechanism is the most doctrinally distinctive and applies only to protocol and governance tokens. The token's distribution and governance are engineered so that, when regulators or courts come to scrutinise it, no identifiable promoter is exercising the "essential managerial efforts" Howey requires. This usually starts with a centralised development and fundraising phase, during which the token plainly resembles a security. A staged transition follows: foundation-run grants programmes, gradual decentralisation of governance-token voting weight, and retirement of the core team's multisig control. The aim is to carry the protocol past the point at which a court or regulator would find a continuing common enterprise with the original promoters. The SEC's proposed token safe harbor expressly contemplates this strategy, offering a conditional exemption to issuers who follow a bona fide decentralisation pathway.[31] But the same route is equally open, and

[30] See n 13 above.
[31] See n 6 above.

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considerably harder to police, as a way to achieve permanent non-regulation for issuers who never intended genuine decentralisation.

VIII. Decentralized Governance and the Personhood Problem

Decentralized governance brings in a distinct and, in some ways, sharper arbitrage dynamic. What gets arbitraged here is not only how an instrument is characterised but whether the organization that issues or governs it legally exists at all.

A. The Default Rule: Unwrapped DAOs as General Partnerships

Where no statutory wrapper exists, courts dealing with an unincorporated DAO have tended to treat it as a general partnership among its token holders. Each participant then faces unlimited, joint-and-several liability for the DAO's obligations. The Commodity Futures Trading Commission's enforcement action against the Ooki DAO rested on exactly this theory,[32] and similar partnership-liability arguments have been raised in private litigation against other prominent protocols, including Compound and Lido. The rule fits poorly for a passive governance-token holder who has never met a co-venturer and may own only a few tokens bought on a secondary exchange. Even so, it remains the fallback wherever no wrapper has been adopted.

B. Statutory Wrappers: The Wyoming Model

Wyoming has legislated twice to close this gap. The 2021 DAO LLC statute (W.S. 17-31-101 et seq.)[33] lets a DAO register as a specialised Wyoming limited liability company. It gets ordinary LLC-style limited liability, and its articles of organization may point directly to an underlying smart contract as a source of governance authority. The DAO may be member-managed or algorithmically managed. Algorithmic management is allowed only if the governing smart contract can still be updated or modified, which preserves some human control. The statute also lets the governing documents define, reduce or eliminate the fiduciary duties that would normally attach to LLC members and managers, and restrict withdrawal, resignation and return of capital. These provisions answer the practical realities of pseudonymous, high-turnover token-holder governance, but they also remove protections that a conventional LLC member would have.

[32] *In re Ooki DAO*, CFTC Docket (2022–2023).
[33] Wyoming Decentralized Autonomous Organization Supplement, W.S. §§ 17-31-101 to 17-31-116 (SF0038, 2021; amended SF0068, 2022).

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The 2024 Decentralized Unincorporated Nonprofit Association ("DUNA") statute[34] takes a different route. It recognises DUNAs as legal entities separate from their members for contract and tort liability, without imposing a for-profit management structure or a duty to maximise profit. A DUNA has no directors and no profit-maximisation mandate by default, so the wrapper brings a securities-law benefit. It strengthens the argument that a DUNA-wrapped governance token does not meet Howey's element of an expectation of profit from the efforts of others, even though the statute expressly allows reasonable compensation to members for taking part in governance. The leading test of the DUNA wrapper came in September 2025. Uniswap, the largest decentralized exchange by trading volume, voted through its governance to adopt a Wyoming DUNA structure (the "DUNI" wrapper), giving the protocol a recognised legal entity for the first time in its history.

C. The Arbitrage Dimension of Legal Wrappers

Statutory wrappers solve a real legal-personality problem, but they also open a new arbitrage margin. A protocol can now decide whether to wrap at all, accepting partnership-style exposure in return for maximal decentralisation optics. If it wraps, it must choose which wrapper and which jurisdiction: Wyoming's DAO LLC, Wyoming's DUNA, the Marshall Islands' DAO LLC statute,[35] or an unincorporated foundation in Switzerland or the Cayman Islands. Each carries different fiduciary-duty defaults, different tax treatment and different consequences for how a court would later apply Howey to the governance token. The DUNA's securities-law benefit illustrates the point well. A wrapper adopted for liability protection under state LLC and nonprofit-association law also happens to strengthen an issuer's federal securities-law defence, and it would be naive to assume the overlap is unintended in every case. Governance-token structuring has effectively become a compound arbitrage exercise across corporate-form law, tax law and securities law at once, because one design choice at the wrapper layer now reaches all three.

D. The Indian Position: No Wrapper, and the Default Partnership Risk

India has no statute comparable to Wyoming's DAO LLC or DUNA regime, and no reported Indian judicial decision has yet dealt directly with the legal character of a DAO. With no purpose-built entity form, an unwrapped DAO with Indian participants would most plausibly be analysed by analogy under the general law of partnership and unincorporated association, chiefly the Indian Partnership Act, 1932.[36] That would carry the same unlimited, joint-and-several liability exposure

[34]Wyoming Decentralized Unincorporated Nonprofit Association Act, SF0050 (effective 1 July 2024).
[35]Decentralized Autonomous Organization Act 2022 (Republic of the Marshall Islands).
[36]Indian Partnership Act, 1932.

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that United States courts and regulators have applied to unwrapped DAOs through the general-partnership theory advanced in the Ooki DAO proceedings.

Indian securities and company law, including the Companies Act, 2013 and the Depositories Act, 1996,[37] is built around registered corporate entities and dematerialised securities held through recognised depositories. A governance token issued by an unwrapped, foreign-domiciled DAO but actively marketed to or held by Indian participants would therefore sit wholly outside that architecture. It could be reached, if at all, only through the tax, PMLA and FEMA levers discussed in Part VI, and not through any entity-specific governance or disclosure regime. Indian participants in decentralized governance structures are consequently in a materially weaker position than their counterparts in jurisdictions with a recognised wrapper. They face partnership-style liability by default, no domestic regulator is placed to supervise the DAO as an entity, and there is no clear route to the securities-law benefit that a Wyoming DUNA now gives protocols such as Uniswap.

IX. Regulatory Responses: Toward Convergence

A. Functional, Substance-Over-Form Principles

The clearest counter-strategy across jurisdictions is a move toward functional, activity-based characterisation. Singapore has stated the principle most explicitly, and EU and UAE guidance echo it: identical economic activity should receive identical regulatory treatment, whatever its technological wrapper. Applied consistently, it should close much of the characterisation-engineering channel described in Part VII, because it points the analysis at the rights the token actually confers and not at the label attached to it. The limit is enforcement capacity. A functional test still requires the regulator to investigate the token's real economic substance, and offshore issuance and diffuse marketing are designed precisely to frustrate that.

B. Extraterritorial Marketing Perimeters

A second response extends a jurisdiction's reach to marketing aimed at its residents, wherever the issuer is domiciled. The UAE's 2024 Marketing Regulations take this approach, and parts of MiCA's territorial scope echo it. This narrows the offshore-issuance-plus-onshore-marketing channel without closing it. Detecting and acting against an issuer with no assets or personnel in the regulating jurisdiction remains hard, especially where sales run through decentralised exchanges that have no identifiable intermediary to compel into disclosure or delisting.

[37]Companies Act, 2013; Depositories Act, 1996.

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C. Entity-Recognition Statutes as a Precondition for Regulation

A third response, and a less obvious one, is the legal-wrapper strategy itself. By giving DAOs a route to recognised legal personality, Wyoming's DAO LLC and DUNA statutes make it possible for the first time to regulate a decentralized organization as a legal subject. It can be served with process, held liable in place of every individual token holder, and made subject to disclosure or governance obligations directly. There is a paradox here: a statute meant to shield token holders from unlimited liability also hands regulators a more tractable target than an unincorporated, pseudonymous collective of token holders would ever offer.

D. International Coordination

Multilateral bodies, including the Financial Stability Board and the International Organization of Securities Commissions, have pressed for common high-level principles on crypto-asset regulation. The EU's own experience shows that even a single supranational rulebook (MiCA) does not guarantee uniform national application. Coordination so far has produced convergence on broad principles such as consumer disclosure, custody segregation and market-abuse prohibitions. It has not reached the harder question of instrument characterisation, where domestic securities-law traditions differ too much for simple harmonisation. Fragmentation persists even inside a single federal state, with the UAE's four-regulator structure the clearest example. Full convergence, even where intended, therefore remains aspirational.

X. Normative Analysis: Arbitrage as Bug or Feature

Whether tokenization-driven regulatory arbitrage should be tolerated, channelled or suppressed depends on which strand of the regulatory-competition literature one finds more persuasive. The "race to the top" account says that competition between jurisdictions pushes regulators toward efficient, proportionate rules, because issuers and eventually capital move away from needlessly burdensome or incoherent regimes. Singapore's demanding but predictable approach and Switzerland's statutory clarity are plausible examples. Each has drawn institutional issuance precisely because counterparties trust the rules once they are met. The "race to the bottom" account says the opposite. Competing for issuance volume and licensing fees, regulators drift toward the thinnest disclosure and governance requirements that will still attract business. The cost falls on retail investors, who cannot tell a rigorously licensed tokenized instrument from a loosely wrapped one.

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Tokenization complicates both accounts. The usual disciplining mechanism of regulatory competition is that investors and issuers observe outcomes and move toward better rules over repeated rounds. It works poorly where retail investors trade on global, disintermediated exchanges that do not clearly disclose the issuer's regulatory domicile, and where a token's economic substance can be redesigned faster than any regulator can update its characterisation guidance. In corporate law, competition disciplines the issuer, who suffers reputational and capital-raising consequences for choosing badly. In retail-facing tokenization, the party best placed to notice and respond to differences in jurisdictional quality is often not the party who bears the downside. This asymmetry is the strongest argument against treating tokenization arbitrage as a benign competitive process. It is also the strongest case for baseline international minimum standards, especially on disclosure of issuer domicile and applicable law, even where full harmonisation of characterisation remains out of reach.

At the same time, suppressing arbitrage altogether is neither feasible nor clearly desirable. Some divergence between jurisdictions reflects real and defensible differences in risk tolerance and market structure, not regulatory laxity. The Swiss DLT Act's token-as-share model, for example, solves a genuine legal-recognition problem and does not simply lower a compliance bar. The more defensible normative position is therefore not uniformity for its own sake but a floor. That floor would comprise minimum disclosure of issuer identity, domicile and applicable law; minimum custody and conflict-of-interest standards; and a shared, though not identical, commitment to the functional "same risk, same rule" principle. Above that floor, jurisdictions stay free to compete on the real margins of efficiency, speed and legal clarity.

XI. Recommendations

1. Adopt activity-based, technology-neutral characterisation as the default interpretive principle across jurisdictions. Statutory or interpretive guidance should direct regulators to the economic rights a token confers, not its technical form or marketing label. This would build on and generalise Singapore's "same activity, same risk, same outcome" posture, as well as the substance-over-form thread already visible in the SEC's 2026 Taxonomy and in EU practice.
2. Require disclosure of issuer domicile and applicable law at the point of sale for any tokenized instrument marketed to retail investors, whatever the issuer's jurisdiction. This closes the offshore-issuance-plus-onshore-marketing channel by making the regulatory gap visible to the investor, so the system does not rest solely on issuer-side compliance.

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3. Extend statutory legal-personality wrappers for DAOs beyond Wyoming, built on an internationally recognisable minimum template. The template should include a registered agent, an identifiable governance record, and a default fiduciary baseline that can be narrowed but not eliminated for member-facing representations. That way, entity recognition does not itself become a race to the jurisdiction with the weakest residual duties.
4. Harmonise the treatment of "progressive decentralisation" as a route out of securities status. Case-by-case, after-the-fact litigation over whether a protocol has become sufficiently decentralised should give way to an up-front, conditions-based safe harbor of the kind the SEC has proposed. It should be paired with ongoing disclosure duties during the transition period, so that issuers who never intended good-faith decentralisation cannot use the safe harbor as a permanent shield.
5. Pursue targeted international coordination, not a comprehensive scheme. Priority should go to agreement on a disclosure floor and a shared definition of "sufficient decentralisation", ahead of the more elusive goal of a single global test for instrument characterisation. Fragmentation persists even inside single federal states such as the UAE, which makes the narrower goal more realistic.
6. Tackle intra-jurisdictional fragmentation directly. The UAE's own move toward federal-level consolidation, shown by the January 2026 change from the SCA to the CMA, offers a template for other multi-regulator jurisdictions. Fewer internal regulatory perimeters means fewer for issuers to shop between.
7. For India specifically, replace the current tax-code-led approach with a dedicated securities-characterisation test. This could come through a measure along the lines of the Asset Tokenization Bill, 2026, or through coordinated SEBI rulemaking. India should also formalise passporting or mutual recognition between SEBI's domestic framework and IFSCA's GIFT City regime before the latter develops into a fully independent regulatory track. Otherwise India would reproduce within its own borders the DIFC-versus-mainland fragmentation seen in the UAE.
8. Enact an Indian entity-recognition statute for DAOs, either as an amendment to the Limited Liability Partnership Act, 2008[38] or as a freestanding measure modelled on Wyoming's DAO LLC and DUNA statutes. Indian participants in decentralized governance would then no longer

[38]Limited Liability Partnership Act, 2008 (India).

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be exposed by default to open-ended partnership liability under the Indian Partnership Act, 1932.

XII. Conclusion

Corporate tokenization and decentralized governance did not create regulatory arbitrage. They exposed, with unusual clarity, an opportunity that exists in any body of law linking legal consequences to jurisdictional situs and formal characterisation instead of economic substance. What sets the present moment apart is the speed and modularity with which that opportunity can now be exploited. An issuer can relocate its entity, restructure its token's rights bundle and redesign its governance process with little friction. The regulatory frameworks stay comparatively slow and bounded by national or supranational borders, even the most recently modernised ones, such as the SEC's 2026 Taxonomy or the EU's MiCA and DLT Pilot Regime.

India's experience is instructive for this reason. It shows the same fragmentation arising internally, with no cross-border element at all: a Supreme Court correction of executive overreach, a tax-code definition standing in for a securities-law test, and a nascent GIFT City regime developing alongside SEBI's domestic framework instead of in coordination with it.

The Wyoming DUNA statute and the Uniswap DUNI precedent show that legal innovation can, in principle, keep pace. A wrapper designed to solve a liability problem can also, deliberately or not, resolve a securities-characterisation problem. The same episode, however, shows how tightly entangled entity-form choice, tax planning and securities-law defence have become in this field. It also shows how much work remains, in India as much as anywhere else, before "same risk, same rule" is an enforceable reality and not an aspirational slogan.

Without a disclosure floor that makes jurisdictional choice visible to the investors who bear its consequences, and without narrower but genuinely coordinated agreement on when decentralisation is sufficient to end an issuer's ongoing responsibility, corporate tokenization will probably keep rewarding the best-structured arbitrage over the most economically sound instrument. Securities law has been meant, since its origins, to prevent exactly that outcome.

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