



# BHARAT CRYPTO ASSET REGULATION & ENFORCEMENT (RECOMMENDATIONS AND FINDINGS)

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## PROFESSIONAL COURSE WORKBOOK IN WORD

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# FOREWORD

The digital asset revolution has entered a decisive new phase. What was once an experimental frontier is now an integrated part of the global financial system — regulated, monitored, and deeply intertwined with the traditional economy. For financial investigators, regulators, and enforcement agencies, this means one thing: **crypto is no longer a niche — it is a mainstream financial vector that must be understood, regulated, and controlled with precision.**



The evolution from “wild west” to “regulated frontier” has been rapid. In 2025, over 70 countries maintain licensing regimes for centralized exchanges, and more than 40 enforce direct AML/CFT supervision under the FATF’s “Travel Rule.” But regulation alone is not enough. Criminal exploitation thrives in **the gaps between regimes**, where offshore entities, shadow OTC brokers, and privacy-focused tokens meet uncoordinated enforcement.

This handbook serves as a **field guide** — blending global intelligence, legal mechanisms, and case-based analysis — for use by investigators, policymakers, and compliance officers. It maps not just the regulatory landscape but the **enforcement levers**, showing how investigators can use licensing chokepoints, inter-agency cooperation, and compliance records to track, freeze, and recover illicit assets.

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*The fight against crypto-enabled financial crime will not be won on the blockchain alone — it will be won at the intersection of compliance, data, and diplomacy.”*

*— Senior Financial Crime Investigator*

# PART I — THE STRATEGIC FRAMEWORK

## Chapter 1: Global Regulatory Convergence (2025)

### 1. The Universal Principles Emerging

Across 20 major jurisdictions, a common framework has crystallized around six pillars:

Core Principle	Example Jurisdictions (2025)
1. Licensing of Custodial Exchanges	EU (MiCAR), Singapore (PSA), Japan (FSA)
2. Customer Asset Segregation	Japan, France, Switzerland
3. Real-Name Bank Account Verification	South Korea
4. AML / CFT Reporting (Travel Rule)	Canada, Singapore, Hong Kong
5. Prudential & Governance Standards	Germany, UK, Australia
6. Enforcement of Offshore Platforms	India, US, Brazil

These principles align closely with **FATF Recommendation 15**, **BIS Principles for Financial Market Infrastructures**, and **IOSCO standards for market integrity**.

### 2. Key Global Trends in 2025

#### End of the Grace Period

By 2025, the era of "regulatory optionality" has ended.

- EU's MiCAR,
  - Singapore's DTSP licensing, and
  - Hong Kong's VATP regime
- now require full compliance, comprehensive disclosure, and continuous monitoring.

#### Focus on Gatekeepers

Regulators now recognize custodians, fiat on/off-ramps, and compliance vendors as **control points**: Banks, payment gateways, stablecoin issuers, and custodians are the new chokepoints. "Compliance infrastructure firms" (KYC, blockchain analytics, TR providers) now fall under formal oversight in several jurisdictions.

### **Cross-Border Enforcement Acceleration**

Cooperative enforcement actions have increased dramatically:

- MLAT-driven requests between FIUs have grown **~40% YoY**.
- Joint supervisory actions (e.g., MAS-HKMA, ESMA-FCA) are becoming routine.
- India's FIU-IND has joined several multilateral data-sharing frameworks by **2025**.

### **Rise of Stablecoin and Tokenization Oversight**

Stablecoins are now classified as **systemically relevant financial instruments**:

- EU (MiCAR Title III), Hong Kong (HKMA), and Singapore (MAS) require licensing, reserve audits, and redemption SLAs.
- Tokenized real-world assets (RWAs) now fall under securities and collective investment scheme frameworks.

### **Global Transition Toward “Outcome-Based” Supervision**

Rather than prescribing technology rules, regulators now:

- Set outcome benchmarks (risk mitigation, disclosure, consumer protection).
- Allow jurisdiction-specific flexibility on compliance methods.
- Prioritize **materiality, system-level risks, and cross-border behaviour**.

## Chapter 2: The Investigator's Toolkit

### 1. Prioritization Framework

- Target the Fiat Entry Points: Focus on regulated CEXs with strong banking integration.
- Use Custody Rules: Jurisdictions requiring segregation (Japan, Switzerland) allow direct seizure orders.
- Exploit Registry Data: Public VASP registries are early intelligence tools.
- Leverage MLATs for Data and Assets: Each region has cooperative channels through central authorities.
- Track Enforcement Patterns: Regulators like FIU-IND, FinCEN, and AMF publicly flag non-compliant entities — often a red flag for laundering networks.



### Expansion of Supervisory Technology (SupTech) and AI-Driven Compliance

By 2025, regulators worldwide have shifted from manual monitoring to real-time, automated oversight:

- AI-driven transaction monitoring is used by MAS (Singapore), FCA (UK), and FinCEN (USA).
- Continuous compliance reporting (CCR) is now part of MiCAR's supervisory architecture.
- Regulatory agencies increasingly integrate:
  - Predictive risk scoring of VASPs
  - Entity resolution using on-chain/off-chain identity fusion
  - Automated sanctions screening for stablecoin flows
- Over 45 regulators now operate SupTech blockchain nodes for real-time market surveillance. This marks a shift from periodic audits to constant supervision.

### DeFi, DEX, and Protocol-Level Oversight Becomes Mainstream

While DeFi remains difficult to regulate, 2025 saw a major step forward:

- “Control Person Doctrine” adopted across EU, US, and Australia — those who *control or operate* a protocol (front-ends, admin keys, governance rights) can be regulated.
- DEX front-ends must implement Travel Rule in Singapore, UK, and Japan.
- Liquidity providers and aggregators are now classified as “intermediaries” in several jurisdictions.
- India is exploring similar oversight under FIU-IND for AMM and bridging activities.

Regulators now acknowledge that:

Decentralization does not absolve accountability.

### Sanctions & Illicit Finance Tightening

2025 brought an unprecedented emphasis on state-level adversarial financing:

- OFAC, EU, and UN have expanded crypto-related sanctions lists by 60%.
- Stablecoins and cross-chain bridges are now monitored as high-risk laundering vectors.
- Several jurisdictions require:
  - Real-time sanctions risk scoring for inbound/outbound crypto
  - Mandatory reporting of mixer-linked transactions
  - Freezing instructions on VASPs through automated APIs

This aligns with FATF’s enhanced focus on proliferation financing.

### Cybersecurity Becomes a Regulatory Pillar

After multiple CEX and cross-chain bridge hacks (2022–2024), cybersecurity became a non-negotiable licensing standard:

- EU MiCAR, Japan FSA, US NYDFS require:
  - Penetration tests
  - Hot/cold wallet risk frameworks
  - Mandatory insurance or guarantee funds
- Incident response timelines:
  - 24 hours (Singapore, UK, EU)
  - 72 hours (U.S.)
- Red teaming and threat-intelligence sharing became part of VASP obligations.

Cybersecurity is now treated as a prudential requirement, not just IT hygiene.

### CBDC and Digital Asset Interoperability

Central banks now directly interface with the crypto ecosystem:

- Wholesale CBDCs tested in EU (JWP), UAE, Singapore (Ubin+), and India (RBI pilots).
- Regulators now require:
  - Tokenized deposits and CBDC integration for settlement
  - Interoperability standards for stablecoin/CBDC redemption
- Cross-border CBDC corridors (e.g., mBridge) include stablecoin oversight for AML/CFT continuity.

This creates a hybrid public-private digital money ecosystem.

### **Market Integrity and Consumer Protection Intensify**

**2025 saw several new frameworks for monitoring market manipulation:**

- EU ESMA and US CFTC require surveillance for:
  - Wash trading
  - Layering/spoofing
  - Insider token events
- Mandatory disclosure of:
  - Tokenomics
  - Vesting schedules
  - Concentration risks
  - Governance rights

Many jurisdictions now apply securities-like conduct rules even for non-securities tokens.

## PART II – JURISDICTIONAL INSIGHTS

This section summarizes **licensing frameworks for Centralized Exchanges (CEXs)** across **15 key jurisdictions**, focusing on monitoring, enforcement, and investigative access.

Region	Regulator(s)	Licensing Model	Regulatory Focus (Supervisory + Compliance)	Investigative & Enforcement Powers
USA	FinCEN, SEC, CFTC, State Agencies	MSB + state licenses	AML/KYC, sanctions compliance, market integrity, custody rules	Broad subpoena powers (FBI, IRS-CI, FinCEN), SAR access, civil/criminal penalties, asset freezes
Canada	FINTRAC	MSB registration	AML/CTF monitoring, Travel Rule, reporting obligations	STR access, audits, administrative penalties, MSB deregistration
Brazil	Central Bank, CVM	Virtual Asset Law	AML, governance, investor protection	Compulsory reporting, inspections, fines, license suspension
UK	FCA	Cryptoasset business registration	AML/KYC, advertising controls, operational integrity	Information requests, STRs, license withdrawal, marketing bans
Germany (EU)	BaFin	MiCAR authorization	Capital requirements, custody segregation, governance	On-site inspections, order-book access, fines, operational bans
France (EU)	AMF	DASP → MiCAR	Custody security, conflicts of interest, AML	Investigations, reporting obligations, DASP deregistration, sanctions
Switzerland	FINMA	DLT Act authorizations	Custody segregation, AML, tech risks	Audit access, enforcement actions, license revocation
Malta (EU-aligned)	MFSA	MiCAR-aligned VFA → MiCAR	Governance, AML, cybersecurity	Audits, disclosure enforcement, administrative penalties

<b>Singapore</b>	MAS	DTSP (Payment Services Act)	Tech-risk management, safeguarding assets, AML/CFT	MAS–SPF joint investigations, freezing orders, license suspension
<b>Hong Kong</b>	SFC + HKMA	VATP licensing	Real-time surveillance, asset segregation, stablecoin oversight	Trading-data access, inspections, shutdown of unlicensed platforms
<b>Japan</b>	FSA	PSA registration	Strong custody rules (95% cold), exchange security, real-name rails	Deep inspection powers, mandatory audits, suspensions, insurance mandates
<b>South Korea</b>	FSC / FSS	Full VASP approval	Real-name bank verification, AML, insurance requirements	FIU monitoring, bank-VASP data sharing, license cancellation, prosecution
<b>Australia</b>	AUSTRAC / ASIC	DCE registration → full license	AML, consumer safeguards, operational risk	STR access, data requests, civil penalties
<b>India</b>	FIU-IND / ED	PMLA reporting entity	AML/STR reporting, offshore exchange compliance	FIU data access, ED attachment powers, summons, URL blocking
<b>UAE (Dubai)</b>	VARA	Full VASP license	Governance, cybersecurity, Travel Rule, market integrity	Inspections, mandatory reporting, fines, service suspension

# PART III – INTERNATIONAL STANDARDS AND INDIA’S ALIGNMENT

## Global Baseline Standards

Institution / Body	Mandate / Instrument (2025)	Supervisory & Investigative Impact on CEXs
<b>FATF (Rec. 15 + Travel Rule Guidance)</b>	Global AML/CFT standards for VASPs	<ul style="list-style-type: none"> <li>• Mandatory AML registration</li> <li>• Travel Rule compliance</li> <li>• STR/SAR filing</li> <li>• Sanctions screening</li> </ul>
<b>BIS (CPMI Reports on stablecoins &amp; settlement assets)</b>	Systemic risk, custody & payment infrastructure oversight	<ul style="list-style-type: none"> <li>• Oversight of stablecoin reserve management</li> <li>• Interoperability &amp; liquidity requirements</li> <li>• Custody-risk standards</li> </ul>
<b>IOSCO (Crypto-Asset Markets Recommendations)</b>	Market integrity, investor protection, securities conduct	<ul style="list-style-type: none"> <li>• Exchange supervision as trading venues</li> <li>• Surveillance, transparency, fair access</li> <li>• Governance + conflict-of-interest controls</li> </ul>
<b>FSB / IMF (Global Monitoring + 2024 Synthesis Paper)</b>	Macro-prudential oversight, cross-border cooperation	<ul style="list-style-type: none"> <li>• Monitoring systemic risk from CEXs</li> <li>• Cross-border supervisory cooperation</li> <li>• Standardized disclosure norms</li> </ul>
<b>G7 (2025 Communiqué)</b>	Coordination on illicit finance, CBDCs, and cross-border crypto policy	<ul style="list-style-type: none"> <li>• Harmonized regulatory expectations</li> <li>• Emphasis on Travel Rule implementation</li> <li>• Focus on stablecoin supervision</li> </ul>

# PART IV — INDIA'S ROADMAP: GAPS AND RECOMMENDATIONS

## 1. Structural Gaps (2025 Status)

Area	Current Situation	Gap / Issue
1. Licensing	No VASP/CEX licensing; only FIU registration	No proactive supervision
2. Oversight Structure	Multi-agency: FIU-IND, ED, CBDT, SEBI, RBI	Overlaps & jurisdictional conflict
3. Custody Rules	No rules under Indian law	No segregation / solvency protection
4. Stablecoin Regulation	No framework	High systemic risk; reserve uncertainty
5. Foreign / Offshore Entities	Offshore exchanges freely serve Indian users	Enforcement difficulty, user flight
6. AML Audits	Only reporting; no inspections	No compliance testing
7. Taxation	1% TDS + 30% gains	Drives users offshore
8. Inter-Agency Coordination	Fragmented	Slow enforcement response
9. Training & Investigation Capability	Limited investigator expertise	Blockchain forensics gap
10. International Cooperation	MLAT works but slow	No VASP-level MoUs

## 2. Recommended Reforms (2025–2027)

Priority	Action Plan	Description / Key Elements
1	Introduce a unified Digital Asset Services License (DASL) under PMLA	Covers all types of VASPs: CEXs, custodians, brokers, and stablecoin issuers. Provides a single point for licensing and regulatory oversight, enabling proactive supervision and enforcement.
2	Mandate segregation of user funds, third-party custody audits, and quarterly solvency statements	Ensures customer assets are fully segregated from company funds, audited regularly, and solvent at all times. Strengthens investor protection and systemic stability.
3	Create a FIU-IND + SEBI Digital Asset Joint Task Force	Joint team for market surveillance, AML/CFT enforcement, sanctions monitoring, and coordinated action across agencies. Reduces jurisdictional overlaps.
4	Establish National Blockchain Investigation & Training Centres under MHA/DoPT	Specialized centers to train police, ED, GST, and cybercrime units in blockchain forensics, VASP investigations, and digital asset compliance.
5	Develop stablecoin, tokenized asset, and reserve-backed digital money rules with real-time attestation	Regulate issuance, reserve backing, redemption processes, and ongoing attestation to mitigate systemic risks and ensure transparency.
6	Require real-name bank verification (KYC-linked accounts) for INR–CEX operations and UPI-linked withdrawal transparency	Ensures all transactions are tied to verified identities, preventing anonymous fiat on/off ramps and enabling traceability.
7	Implement routine AML examinations for registered VASPs	Annual or risk-based audits including compliance system penetration, Travel Rule adherence, sanction screening, and suspicious transaction detection.
8	Create an Offshore Exchange Enforcement Policy	Enables blocking orders, compliance warnings, MLAT requests, and regulatory actions against unregistered offshore platforms serving Indian users.
9	Build a centralized risk monitoring dashboard	Integrates FIU STR/SAR data, blockchain heuristics, wallet scoring, exchange-level indicators, and analytics for proactive risk detection and systemic oversight.
10	Reform tax policy	Shift from punitive 1% TDS to risk-based reporting. Maintain traceability while reducing incentives for users to migrate to offshore exchanges.
11	Regulatory control of DEXs / DeFi	Implement front-end KYC enforcement, geo-blocking, LP reporting thresholds, governance token accountability, smart contract whitelisting, stablecoin-level controls, analytics-driven wallet risk restrictions, and DNS/cloud blocking for non-compliant interfaces.

## Building the Enforcement Bridge



India stands at a crossroads. With one of the world's largest crypto user bases and a maturing regulatory ethos, it must now transition from reactive enforcement to proactive governance. The models outlined in this handbook show that **global leadership in blockchain does not mean deregulation — it means intelligent regulation.**

By combining strong compliance standards, inter-agency coordination, and technological forensics, India can become a **regional enforcement leader** and a **responsible innovation hub** — positioning itself as the “crypto-G20 anchor” for Asia.

## APPENDICES

- **Appendix A:** Global CEX Licensing Comparison Matrix (20 Countries)
- **Appendix B:** Model MLAT Templates and Preservation Orders
- **Appendix C:** Crypto-Asset Seizure Protocol under Indian PMLA
- **Appendix D:** FATF Travel Rule Compliance Flowchart
- **Appendix E:** Glossary of Investigative Acronyms