

Pakistan's

Roadmap to Crypto Legalization

How Pakistan can
Embrace the Change !

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From the Author

In an age defined by digital transformation, the global financial landscape is undergoing a seismic shift – and at the heart of it lies cryptocurrency. As decentralized finance (DeFi), blockchain technology, and digital assets redefine economic paradigms, nations across the world are grappling with a pivotal question: how to embrace innovation without compromising stability, security, or sovereignty.

Pakistan, with its burgeoning tech-savvy youth, vibrant digital economy, and increasing exposure to global financial trends, finds itself at a critical crossroads. On one side lies caution – driven by regulatory ambiguity, concerns about illicit use, and a traditionally risk-averse financial system. On the other lies opportunity – the chance to harness blockchain's transparency, improve remittance flows, foster financial inclusion, and unlock a new era of economic empowerment.

This series delves deep into Pakistan's journey toward cryptocurrency legalization, offering a nuanced exploration of where we stand today, how we got here, and the way forward. Drawing on domestic realities and international best practices, it maps a potential framework for Pakistan to regulate, adopt, and ultimately thrive in the digital finance era – without losing sight of transparency, compliance, and national interests.

Through a thoughtful examination of historical context, policy shifts, technological readiness, and global case studies, this series aims to start a conversation – one rooted in pragmatic optimism. Because for Pakistan, the goal is no longer whether to regulate cryptocurrency, but how best to do it – intelligently, securely, and inclusively.

A blue ink signature that reads "Abdul Rauf Shakoori" in a cursive script.

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Table of Contents

04

ARTICLE - I

Defining Cryptocurrencies & conducting a Regulatory review

08

ARTICLE - II

Establishment of a Regulatory Framework

12

ARTICLE - III

Consumer Protection in Cypto-Currency

15

ARTICLE - IV

FATF, AML-CT Context

19

ARTICLE - V

Taxation of Crypto-Currency

23

ARTICLE - VI

Delivering a Sustainable Framework



Article: I

Defining Cryptocurrencies and Conducting a Regulatory review

The rapid evolution of cryptocurrency has significantly impacted global economies, offered new financial opportunities, and reshaped traditional banking systems. The increasing interest of individuals, businesses, and investors in digital currencies has made it imperative for governments to devise clear regulatory frameworks to ensure financial stability and security. The ability of cryptocurrencies to facilitate cross-border transactions, enable financial inclusion, and create new investment avenues has led many countries to adopt policies that integrate digital assets into their economies. The growing adoption of blockchain-based financial systems highlights the necessity of a structured legal framework that ensures transparency, security, and regulatory compliance.

The emergence of digital currencies has presented both opportunities and challenges, making it essential for governments to find a balance between regulation and innovation. The people of Pakistan have shown increasing interest in cryptocurrency, with many engaging in digital asset trading, investing in blockchain projects, and exploring decentralized financial solutions. The growing crypto community in Pakistan has driven discussions at the governmental level regarding the potential benefits and risks associated with legalizing cryptocurrency. The government of Pakistan has historically maintained a cautious stance on digital currencies, with the State Bank of Pakistan (SBP) banning all forms of cryptocurrency transactions. The country's financial regulators have repeatedly warned against the use of virtual currencies, citing concerns related to money laundering, terrorist financing, and lack of consumer protection. The shift in perspective, however, has led the government to reconsider its position, acknowledging the global trend toward digital finance.





The finance ministry of Pakistan recently established a National Crypto Council, a significant move aimed at aligning the country with emerging global trends in digital finance. The government has appointed a chief adviser on cryptocurrency to facilitate the process of integrating blockchain technologies and digital assets into Pakistan's financial ecosystem. The appointment of a strategic adviser highlights the country's intent to develop a robust regulatory framework for cryptocurrency. The recent meeting between the finance minister and foreign experts, including key figures from the global digital asset community, further emphasizes Pakistan's commitment to exploring cryptocurrency adoption. The government's recognition of digital assets as a potential driver for economic growth and innovation indicates a shift toward a more progressive regulatory stance. The focus on ensuring financial security, digital transformation, and economic sustainability through blockchain-based technologies demonstrates the country's willingness to embrace the future of finance.

The existing legal structure in Pakistan does not currently recognize cryptocurrencies as a legitimate asset class or medium of exchange. Several laws govern financial activities, yet none explicitly accommodate digital currencies. The State Bank of Pakistan Act, of 1956, governs currency regulation, and the definition of legal tender does not cover cryptocurrencies.

Therefore, amendments should define cryptocurrencies as digital assets and establish SBP's role in their regulation. The Foreign Exchange Regulation Act, 1947, involves cross-border transfers, necessitating clear rules regarding remittances and forex, while a revised framework should address the limits and reporting requirements for crypto transactions. The Anti-Money Laundering Act, 2010, must extend AML and KYC compliance to crypto exchanges and wallet providers, given that cryptocurrencies are often associated with illicit activities due to their pseudonymous nature. The Securities and Exchange Commission of Pakistan Act, 1997, needs amendments to define which digital assets fall under SECP's jurisdiction and regulate Initial Coin Offers (ICOs) accordingly. The Income Tax Ordinance, 2001, currently lacks provisions for taxing crypto profits, which should be revised to include tax obligations for crypto transactions, such as capital gains and mining revenue. The Electronic Transactions Ordinance, 2002, should be updated to validate digital transactions involving cryptocurrencies and provide legal recognition for smart contracts and blockchain-based transactions.

The absence of clear definitions and regulations has resulted in several critical gaps, including legal ambiguity, consumer protection deficiencies, tax evasion risks, AML and KYC loopholes, and limited innovation. A comprehensive legal review must be conducted by a task force comprising SBP, SECP, FBR, FIA, and legal experts with practical knowledge of crypto regulations and operations to analyze existing laws and identify conflicting areas and regulatory gaps. Cryptocurrencies should be categorized as digital assets, securities, commodities, or a new asset class, and their usage should be clearly defined. Licensing and registration requirements should be introduced, mandating AML and KYC compliance for exchanges and wallet providers. A taxation framework should be developed, incorporating capital gains tax and income tax on crypto transactions, with individuals and businesses required to report crypto holdings to FBR. Consumer protection and cybersecurity measures should be enhanced through strict security protocols for exchanges, mandatory insurance for users, and a dispute resolution mechanism for crypto-related issues.

Additionally, Pakistan needs to analyze the different classifications of cryptocurrencies adopted by various countries based on their financial systems, economic objectives, and regulatory priorities. The United States classifies crypto as commodities, securities, and property, with agencies such as the CFTC overseeing Bitcoin and Ethereum as commodities, while the SEC regulates tokens issued through ICOs.



The European Union treats crypto as digital assets under the MiCA regulations, focusing on harmonization across member states. Switzerland categorizes crypto into three types, payment tokens, utility tokens, and asset tokens, allowing flexible regulations based on use cases. Similarly, Japan recognizes cryptocurrencies as legal property but not legal tender, subjecting exchanges to strict consumer protection laws. Countries classify crypto differently based on economic priorities, regulatory philosophies, and AML and fraud risks. El Salvador treats Bitcoin as a legal tender to boost financial inclusion but now as a result of IMF conditions merchants are not obliged to accept Bitcoin, while China bans crypto to maintain financial control. The U.S. follows a multi-agency approach, while the EU focuses on uniform regulations. Whereas countries with strict financial oversight, such as Singapore and the UK, implement strong AML frameworks before mainstream adoption.

The development of a regulatory framework in Pakistan must consider international best practices while adapting to the country's unique economic and legal environment. The classification of

cryptocurrencies in Pakistan must ensure clarity in taxation, compliance, and investor protection. A multi-tiered approach can be followed, whereby cryptocurrencies used for payments are classified separately from those used as investment instruments. A special category for blockchain-based tokens that provide utility or function as smart contracts should also be created. This approach will prevent overregulation while maintaining financial integrity. The role of financial institutions must also be clearly defined, and banks should be allowed to offer crypto-related services under strict oversight to integrate digital assets into the traditional financial system. Moreover, financial literacy campaigns must be launched to educate businesses and individuals on the safe use of cryptocurrencies.

A major challenge in Pakistan's regulatory efforts is the lack of awareness and technical expertise among policymakers. Therefore, building capacity within regulatory institutions, including SBP and SECP, is necessary to ensure informed decision-making. Similarly, international cooperation with regulatory bodies such as the Financial Action Task Force (FATF) and the International Monetary Fund (IMF) can guide in structuring crypto regulations. Pakistan should adopt a phased approach by first regulating crypto businesses and then allowing gradual adoption for consumers, which can mitigate financial risks while supporting growth. Additionally, legal amendments should not only cover financial transactions but also address cybercrime risks associated with digital assets. We must recognize that hacking, fraud, and unauthorized transactions are common threats in the crypto industry, and clear legal provisions must be developed to handle such cases. Therefore, strengthening cybersecurity policies and requiring all crypto businesses to maintain high-security standards can significantly reduce vulnerabilities.

Pakistan stands at a turning point regarding cryptocurrency regulation. By addressing legal gaps, defining a clear classification system, and aligning with the best global practices, the country can establish a robust regulatory environment. A well-defined legal framework will not only protect consumers and ensure compliance but also position Pakistan as a leader in the emerging digital asset economy. Therefore, proactive steps taken today will shape Pakistan's future in the global crypto market. We must realize that implementing a progressive yet controlled regulatory framework will attract foreign investment, support technological growth, and enhance financial inclusion. Pakistan, with meticulous planning and the implementation of structured policies, has the potential to become a regional hub for blockchain technology, thereby fostering long-term economic prosperity.

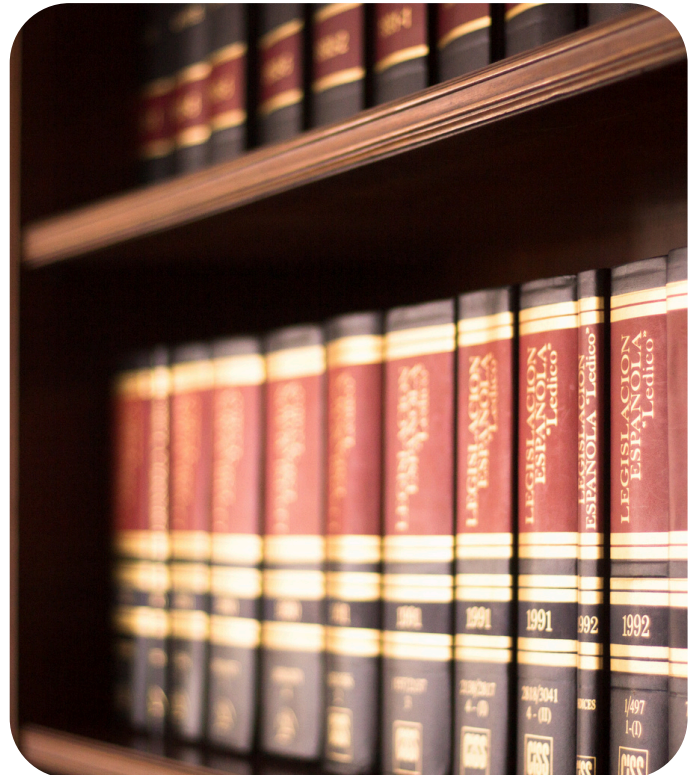


Article: II

Establishment of a Regulatory Framework

The establishment of a regulatory framework for cryptocurrencies in Pakistan necessitates a structured and phased approach. The first article of this series explored the initial step of defining cryptocurrencies and conducting a legal and regulatory review, which has set the stage for the next critical phase, establishing an oversight body and implementing a licensing system. The success of crypto regulations depends on a well-functioning oversight authority that upholds compliance while promoting innovation. The licensing framework is equally important, as it allows legal recognition to crypto businesses while safeguarding consumer interests, maintaining financial stability, and ensuring alignment with international standards.

The creation of an oversight body tailored to Pakistan's unique financial and technological environment is essential. The best model for Pakistan would be an independent authority under the Ministry of Finance, tentatively named the Pakistan Digital Assets Regulatory Authority (PDARA). Countries like the United States, the European Union, and Switzerland have established multiple agencies overseeing different aspects of crypto regulation, which often leads to complexity and fragmentation. Pakistan should avoid such a model and instead develop a centralized oversight body that consolidates functions such as licensing, compliance monitoring, policy development, and enforcement under a single entity. This approach will not only reduce regulatory challenges but also streamline business operations for crypto entrepreneurs.



The PDARA should act as the primary licensing authority for virtual asset service providers (VASPs), ensuring compliance with Anti-Money Laundering (AML) and Counter-Terrorism Financing (CFT) regulations. This model aligns with best practices in jurisdictions like Singapore and Estonia, where centralized oversight has proven to be effective in balancing innovation with security. The authority should collaborate with the State Bank of Pakistan (SBP) for matters related to fiat currency conversion, the Financial Monitoring Unit (FMU) for AML compliance, and the Federal Investigation Agency (FIA) for enforcement against illicit activities.

The licensing model should be designed for accessibility and efficiency, ensuring that businesses can enter the market without excessive bureaucratic hurdles. A key component of this system is the Virtual Asset Service Provider (VASP) license, which is required for crypto exchanges, trading platforms, custodial wallet providers, crypto payment processors, and other virtual asset businesses. The European Union's Markets in Crypto-Assets (MiCA) regulation provides an effective licensing model by categorizing crypto businesses based on their level of risk and imposing proportional requirements. Pakistan should adopt a similar approach by introducing different types of licenses tailored to the business model and operational risk of each entity.

The benefits of a VASP license include market legitimacy, access to financial services, and compliance with international regulations, which are essential for attracting foreign investment. Similarly, licensing requirements should include company registration, minimum capital thresholds, AML/KYC compliance, cybersecurity measures, and transparency in operations. While some jurisdictions, such as New York with its Bit License, impose high financial and compliance barriers, Pakistan should adopt a more business-friendly approach similar to Lithuania, where licensing is cost-effective and processed within a reasonable timeframe. However, Czech Republic, Georgia, and Slovakia models can be valuable references for Pakistan, as they offer streamlined regulatory frameworks with low processing times for granting licenses, minimal bureaucratic hurdles, and clear compliance requirements.



The government of Pakistan should consider implementing an efficient licensing system by introducing two categories of VASP licenses, a basic license for startups and small businesses, and a full-scale license for exchanges and trading platforms. The adoption of a dual-tier licensing approach would allow smaller businesses to obtain an entry-level license with lower capital and compliance requirements, while larger platforms would be subject to stricter regulations. This approach would foster innovation by enabling new enterprises to enter the market with reduced barriers while ensuring financial security through comprehensive oversight of both larger and small entities. This will encourage both innovation and financial security in the sector.

The VASP license application process should be streamlined through a single-window system managed by the PDRA. This will involve the submission of business documentation, compliance policies, financial statements, and cybersecurity frameworks, followed by a regulatory review and approval process. The challenges faced by businesses in obtaining a VASP license include long processing times, high compliance costs, and regulatory uncertainty. Pakistan can address these issues by implementing fast-track approvals for startups and providing regulatory sandboxes where businesses can test their models before obtaining full licensing.

The key considerations in awarding licenses should include the applicant's financial stability, operational integrity, and risk management capabilities. The licensing framework should incorporate a fit-and-proper test for business owners and key personnel to ensure that only credible entities are permitted to operate. The government of Pakistan should also establish strict due diligence processes to assess the background, financial health, and operational history of applicants. The ongoing compliance should be enforced through periodic audits, reporting obligations, and continuous risk assessment to prevent financial misconduct and regulatory breaches. The introduction of a transparent and well-defined evaluation process will enhance investor confidence, promote responsible business practices, and strengthen Pakistan's position as a credible and secure jurisdiction for crypto-related activities.



The licensing framework should differentiate between various business models operating within the crypto space. The exchanges and trading platforms should be subject to stringent AML/KYC regulations, while wallet providers and payment processors should have moderate compliance obligations. Similarly, token issuers should be required to disclose financial and technical details about their offerings to prevent fraudulent Initial Coin Offerings (ICOs). The regulatory framework should also address decentralized finance (DeFi) platforms, which operate without intermediaries and pose unique regulatory challenges.

A major challenge in regulating the crypto industry is striking a balance between innovation and compliance. Overly strict regulations, as seen in the United States, have driven many crypto businesses to offshore jurisdictions with more lenient policies. However, countries like El Salvador have adopted an overly lax approach, which has led to concerns about financial stability. Pakistan should position itself as a crypto-friendly jurisdiction by maintaining a balanced approach that encourages business growth while ensuring regulatory compliance.

Comparing global licensing models, the European Union's MiCA framework provides the most structured and harmonized approach, offering clarity and consistency across member states. Whereas, the United States follows a fragmented system, where businesses must comply with both federal and state regulations, leading to complexity and high costs. Switzerland, on the other hand, provides a progressive regulatory environment with clear compliance guidelines, making it an attractive destination for crypto businesses. Pakistan should take inspiration from Switzerland's streamlined approach while ensuring that regulations are tailored to its economic and legal environment.

The best model for Pakistan should incorporate elements from successful jurisdictions while addressing the unique challenges of the local market. The PDARA should serve as a one-stop regulatory authority with clearly defined licensing categories, efficient approval processes, and proportional compliance requirements. The licensing framework should offer cost-effective registration fees and reduced compliance burdens for startups to encourage market entry. Additionally, the integration of blockchain technology into the regulatory process can enhance transparency and efficiency, making Pakistan's licensing model more adaptable to future advancements.

The ultimate goal of establishing a licensing framework is to foster trust in the crypto ecosystem while ensuring financial stability and compliance with international standards. By adopting a well-structured oversight and licensing system, Pakistan can introduce itself as a competitive player in the global digital economy. The establishment of the PDARA and the implementation of a balanced licensing approach will create a regulatory environment that supports innovation while safeguarding against risks. The clear guidelines, transparent licensing procedures, and a focus on fostering a crypto-friendly ecosystem give Pakistan the potential to emerge as a leading destination for blockchain and digital asset businesses.



Article: III

Consumer Protection in Crypto Currency

Consumer protection in cryptocurrency transactions is an essential aspect of regulatory evolution, following the discussions on the definition, legal framework, oversight bodies, and licensing mechanisms in previous articles in the series. The complexities and risks associated with digital assets necessitate a comprehensive consumer protection regime to mitigate potential losses and enhance trust in the financial ecosystem. The various risks pose significant challenges for consumers engaging in cryptocurrency transactions. The market volatility can lead to extreme price movements, often resulting in substantial financial losses. The instances of misleading information, lack of protection, product complexity, and low liquidity exacerbate these risks. The fraudulent activities, including hacking and market manipulation, further undermine consumer confidence. Additionally, cyber threats such as malware, phishing scams, and rug pulls have demonstrated the vulnerabilities inherent in digital asset platforms.

The different types of crypto fraud have emerged globally, affecting unsuspecting investors. The Ponzi and pyramid schemes promise high returns but rely on new investments to sustain payouts, eventually collapsing and causing significant financial losses. The phishing scams exploit social engineering techniques to obtain private keys, enabling fraudsters to access and drain digital wallets. The rug pulls occur when developers abandon projects after raising capital, leaving investors with worthless assets. The fake Initial Coin Offerings (ICOs) have been widely reported, where fraudulent entities solicit funds for non-existent projects. The impersonation scams leverage the identities of celebrities or reputable companies to deceive users into transferring funds. The pump-and-dump schemes artificially inflate cryptocurrency prices before orchestrators sell off their holdings, causing sharp declines that leave retail investors at a loss. Similarly, malware attacks and hacking incidents target exchanges and individual wallets, leading to unauthorized transactions and asset theft.





CONSUMER PROTECTION

The regulatory frameworks in various jurisdictions provide insights into effective consumer protection mechanisms. The United States enforces crypto fraud laws through agencies such as the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC), prosecuting entities involved in misleading ICOs and pump-and-dump schemes. The United Kingdom's Financial Conduct Authority (FCA) investigates fraudulent activities and provides redressal mechanisms through Action Fraud. The Japan's Financial Services Agency (FSA) mandates rigorous licensing requirements for crypto exchanges, offering compensation for losses incurred from exchange failures. The Monetary Authority of Singapore (MAS) has established a dispute resolution framework, addressing consumer grievances effectively. The South Korea enforces strict compliance measures under the Financial Services Commission (FSC) to prevent fraudulent crypto operations.

The consumer protection laws play a crucial role in mitigating fraud and safeguarding investors. The securities laws regulate ICOs and token sales, ensuring transparency and compliance with investment standards. The consumer protection statutes, such as the UK Consumer Protection Act and the Australian Consumer Law, prohibit deceptive marketing practices. The cybercrime laws, including the U.S. Computer Fraud and Abuse Act (CFAA) and the EU Directive on Attacks Against Information Systems, address hacking and unauthorized data breaches.

The fraud and theft laws, exemplified by the UK Fraud Act 2006 and Section 420 of the Indian Penal Code, impose criminal liabilities on fraudulent schemes. The data protection regulations, such as the General Data Protection Regulation (GDPR) in the EU, reinforce safeguards for handling personal information. The banking and financial regulations, like Japan's Payment Services Act and Singapore's Payment Services Act, oversee crypto exchanges to prevent illicit financial activities.

The establishment of an effective complaint and redressal mechanism is essential to enhancing consumer confidence. The consumers must be able to report fraudulent activities to authorities such as the SEC, FCA, or Financial Intelligence Units. The legal action remains a viable recourse, enabling victims to pursue civil lawsuits or criminal complaints against perpetrators. The dispute resolution frameworks, such as Singapore's cryptocurrency mediation mechanisms, facilitate conflict resolution between consumers and service providers. The blockchain forensics tools, including Chainalysis and Cipher Trace, aid in tracing stolen assets and identifying fraudulent transactions.

The regulatory frameworks must emphasize investor education and risk assessment to address the inherent risks associated with cryptocurrency. The consumers should evaluate their financial capacity before investing in digital assets, considering the likelihood of total capital loss due to market fluctuations, scams, or cyber threats. The imperative is to assess the credibility of service providers, ensuring they are not blacklisted by financial regulators. The transparency in trading platforms and exchanges must be enforced to prevent price manipulation and ensure fair market practices.

The countries leading in combating cryptocurrency fraud have implemented comprehensive strategies. The United States pursues enforcement actions against fraudulent ICOs, exemplified by the BitConnect case, where its founders faced legal repercussions. The United Kingdom's Action Fraud serves as a central hub for reporting crypto-related scams, coordinating efforts with law enforcement agencies. The South Korea's crackdown on market manipulation and fraudulent exchanges has significantly enhanced investor protection. The Singapore's proactive regulatory stance has led to swift action against scams such as OneCoin. The Japan's rigorous exchange licensing regime and consumer compensation policies set a benchmark for regulatory efficacy.

The establishment of a consumer protection framework in Pakistan must incorporate these best practices, ensuring compliance with global standards while addressing local market dynamics. The crypto-specific consumer protection laws should mandate transparency, fair practices, and risk disclosures. International cooperation and intelligence-sharing mechanisms must be strengthened to combat cross-border crypto fraud. The stringent licensing requirements will deter fraudulent enterprises from operating in the market. The investment in blockchain forensic capabilities will enhance the ability to track illicit transactions and recover stolen assets.

The adoption of a comprehensive regulatory approach will enable Pakistan to foster a secure and transparent crypto ecosystem, mitigating risks and enhancing investor confidence. The strengthening of consumer protection measures will not only safeguard financial assets but also promote the sustainable development of the digital asset industry.



Article: IV

FATF, AML-CFT CONTEXT

The legalization of cryptocurrency in Pakistan is gaining momentum, requiring a strong regulatory framework to mitigate financial crimes. The previous articles in this series have laid the basis by discussing the fundamental mechanisms of cryptocurrency, the oversight body and licensing requirement, and consumer protection measures. The implementation of Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) regulations is considered a significant pillar in ensuring compliance with international standards and securing the financial ecosystem against illicit activities.

The concept of blockchain and distributed ledger technology (DLT) serves as the backbone of cryptocurrency transactions. The fundamental principle behind blockchain is decentralization, allowing transactions to be recorded in a public ledger that is immutable and transparent. The nature of wallets, addresses, and hashes is integral to understanding how transactions take place. The distinction between custodial and non-custodial wallets is significant in implementing AML regulations since custodial wallets are managed by exchanges or third parties, while non-custodial wallets give users complete control over their private keys.

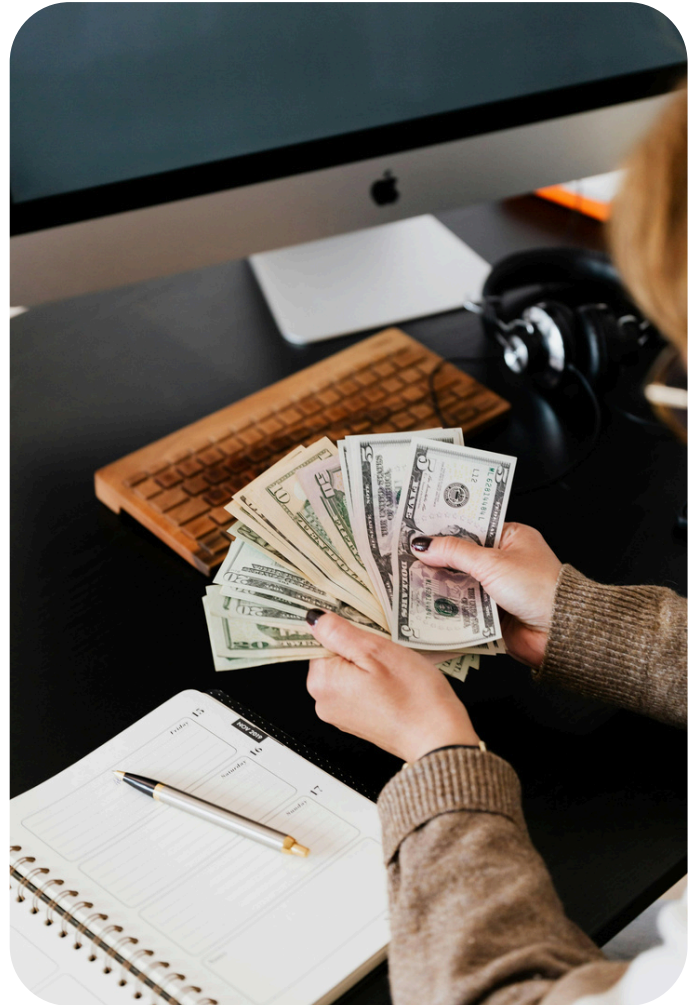
The classification of crypto assets, including Bitcoin (BTC), Ethereum (ETH), ERC-20 tokens, stable coins, decentralized finance (DeFi) assets, and non-fungible tokens (NFTs), requires a clear regulatory approach. The Financial Action Task Force (FATF) has emphasized that virtual assets (VAs) and virtual asset service providers (VASPs) must adhere to risk-based compliance requirements to prevent their misuse for financial crimes. The introduction of FATF Recommendation 15 has mandated the inclusion of VASPs under AML-CFT regimes globally, including Pakistan. The FATF Travel Rule requires VASPs to collect and share originator and beneficiary information for transactions exceeding a certain threshold. The challenge of assessing money laundering (ML) and terrorist financing (TF) risks in cryptocurrency lies in its pseudo-anonymous nature, cross-border exposure, and lack of centralized control.



The usage of mixers and tumblers to obfuscate transactions further complicates AML enforcement. The compliance in various jurisdictions has shown that non-compliance with the Travel Rule results in significant vulnerabilities in the financial system, thereby requiring Pakistan to ensure strict adherence to these guidelines. Pakistan's regulatory framework must address these challenges by implementing a comprehensive national crypto risk assessment. The identification of illicit financial flows through blockchain forensics, licensing requirements for exchanges, and integration of those with the Financial Monitoring Units (FMUs). The AML framework should mandate due diligence measures, reporting obligations, and strict compliance mechanisms. The regulatory authorities must also ensure the implementation of Know Your Customer (KYC) and Enhanced Due Diligence (EDD) protocols to effectively monitor crypto-related activities.

The classification of fraud risks in cryptocurrency includes Ponzi schemes, rug pulls, phishing attacks, and exchange hacks. The rapid movement of funds across multiple exchanges within short time frames can be indicative of layering and splintering tactics used in money laundering. The multi-asset laundering approach requires a multi-asset compliance defense, ensuring that both traditional financial institutions and crypto-related entities work together to mitigate illicit activities. The importance of financial intelligence units (FIUs) in sharing and analyzing crypto transaction data cannot be ignored.

The vulnerabilities of terrorist financing and sanctions evasion through cryptocurrency require an enhanced monitoring framework. Additionally, to identify and prevent unauthorized transactions, sanctions screening for VASPs, transaction monitoring systems, and blockchain analytics must be enforced.



The use of DeFi platforms and un-hosted wallets in peer-to-peer transactions further increases the risk of financial crimes, requiring Pakistan to adopt a risk-based supervisory approach. The ability to track and monitor suspicious activity in decentralized systems must be strengthened through advanced AI-driven compliance mechanisms.

The implementation strategy for AML-CFT regulations must focus on risk assessment, due diligence, blockchain monitoring, and enforcement mechanisms. The requirement for VASPs to maintain identity verification protocols, report large transactions and conduct enhanced due diligence (EDD) for high-risk customers aligns with global best practices.

The national AML framework must also include provisions for suspicious transaction reporting (STR) and compliance audits. The use of regulatory technology (RegTech) solutions can aid in automating AML processes and improving compliance efficiency.

The integration of blockchain intelligence tools for tracing illicit transactions is essential in enhancing Pakistan's financial security. The need for public-private partnerships, regulatory mechanisms, and collaboration with international financial intelligence units is an important element in this process. The country must align its regulatory approach with global AML-CFT standards, ensuring that cryptocurrency is not exploited for illicit purposes. The proactive engagement of the State Bank of Pakistan, the Securities and Exchange Commission of Pakistan, and law enforcement agencies is important in combating financial crime.



The implementation strategy for AML-CFT regulations must focus on risk assessment, due diligence, blockchain monitoring, and enforcement mechanisms. The requirement for VASPs to maintain identity verification protocols, report large transactions and conduct enhanced due diligence (EDD) for high-risk customers aligns with global best practices.

The status of jurisdictional implementation of the Travel Rule highlights a significant gap in compliance across multiple countries, including Pakistan. The challenges in enforcing the Travel Rule stem from technological limitations, lack of interoperability between exchanges, and reluctance from certain VASPs to disclose transaction data. The establishment of clear reporting mechanisms and collaboration with international regulatory bodies will be necessary to ensure Pakistan meets FATF requirements. The use of secure APIs for automated transaction reporting can improve compliance and reduce manual intervention, ensuring seamless integration with the broader financial system.

The recommendations for regulatory authorities in Pakistan include the establishment of a clear legal framework for cryptocurrency, mandatory registration and licensing of VASPs, and the implementation of travel rule compliance measures. The enforcement of transaction monitoring, blockchain forensics, and penalties for non-compliance will strengthen Pakistan's position in combating the illicit flow of funds. The implementation of cybersecurity measures to prevent hacks and fraud must be incorporated within the regulatory framework.

The role of education and awareness campaigns in promoting regulatory compliance is another essential mandate. The training of law enforcement officers, compliance professionals, and financial institutions on crypto-related financial crimes must be prioritized. The awareness of red flags associated with money laundering and terrorist financing in cryptocurrency transactions can enhance the ability of stakeholders to detect suspicious activities early.

Pakistan has significant potential to leverage blockchain technology for financial inclusion. Therefore, by setting up regulated crypto exchanges and investment platforms, the country can drive economic growth while ensuring compliance with AML/CFT standards. Furthermore, integrating blockchain-based identity verification systems can streamline KYC processes and strengthen mechanisms to prevent fraud, creating a more secure and inclusive financial ecosystem.

The legal recognition of cryptocurrency must be accompanied by comprehensive AML-CFT regulations. The alignment with FATF guidelines, stringent compliance measures, and the adoption of technological solutions will safeguard Pakistan's financial system against emerging threats. The successful implementation of these regulations will pave the way for a secure and regulated crypto economy in the country. Moreover, continuous adaptation of regulatory policies in response to evolving crypto trends and threats is necessary for maintaining financial stability and investor confidence. The collaboration between financial regulators, industry experts, and technology providers will be instrumental in ensuring a safe and compliant cryptocurrency ecosystem in Pakistan.



Article: V

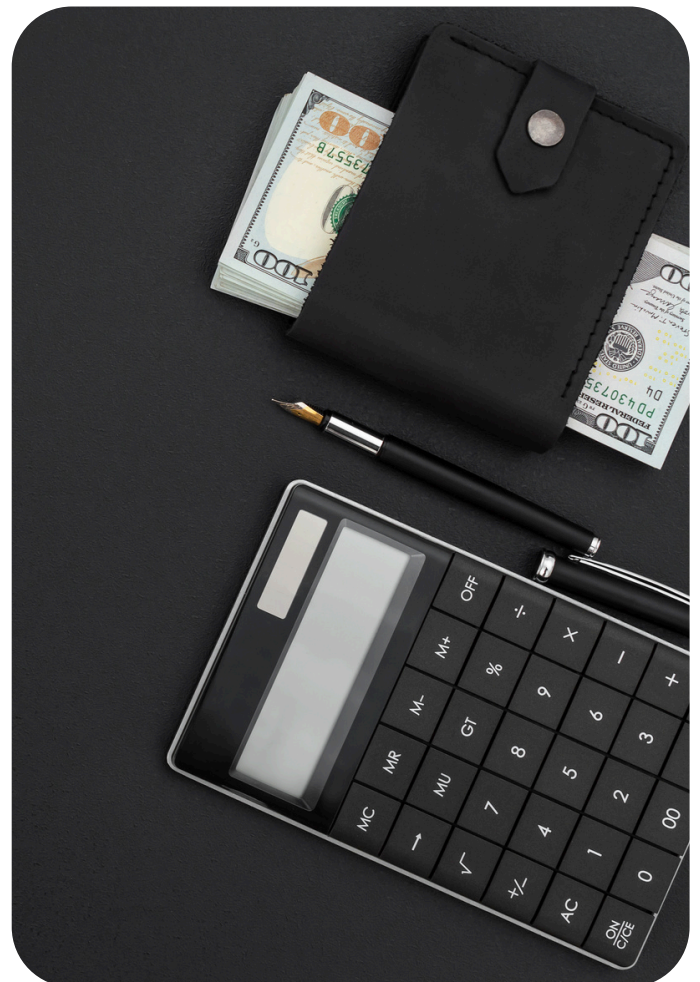
Taxation of Crypto Currency

The taxation of cryptocurrency assets in Pakistan plays an important role in the broader framework of legalizing digital currencies within the country. The preceding articles in this series have methodically built a foundation by defining cryptocurrency, outlining the legal and regulatory framework, specifying the oversight body and licensing requirements, ensuring consumer protection, and implementing an AML-CFT framework. The focus now shifts to the comprehensive taxation of cryptocurrency, detailing how the state can generate revenue while maintaining compliance with international standards.

The classification of cryptocurrency as either a commodity, security, or currency significantly impacts its tax treatment. The nature of crypto assets as both an investment vehicle and a medium of exchange demands distinct tax approaches. The capital gains tax applies when digital assets are acquired and disposed of for profit, while transactions for goods and services trigger VAT implications. The mining of cryptocurrencies presents a unique tax liability, requiring the recognition of generated assets as taxable income. The appropriate categorization of mining rewards and staking income influences the calculation of taxable gains.

The mechanics of cryptocurrencies rely on Distributed Ledger Technology (DLT), with blockchain serving as the most recognized form. Unlike permissioned systems that limit access, cryptocurrencies operate on permissionless blockchains, ensuring public accessibility but demanding robust mechanisms to prevent double-spending. Moreover, cryptographic encryption secures transactions, with private keys allowing users to authenticate transactions without revealing sensitive data. Similarly, validation methods like proof-of-work and proof-of-stake play a vital role in maintaining the integrity of crypto transactions, influencing tax treatment by determining whether crypto rewards are categorized as income or capital gains. Stablecoins, which maintain value through asset backing or algorithmic control, differ in tax implications due to their minimized volatility.

The taxation of cryptocurrency holdings follows conventional tax principles, where unrealized gains remain untaxed until disposal.



The realization principle mandates that crypto-to-fiat conversions, crypto-to-crypto swaps, and purchases using digital assets constitute taxable events. The valuation of cryptocurrencies for tax purposes depends on fair market value at the time of each transaction, ensuring accurate reporting. The absence of centralized reporting mechanisms poses a challenge, necessitating robust self-reporting requirements and integration with exchanges for compliance monitoring.

The classification of cryptocurrency transactions under VAT and sales tax frameworks requires clear legislative guidance. The exemption of digital asset purchases from VAT, like the European Union's treatment of Bitcoin transactions, provides clarity in tax application. The taxation of crypto-related services, such as exchange fees, wallet services, and staking platforms, generates indirect tax revenue.



The application of withholding tax on crypto transactions ensures tax collection at the source, mitigating potential evasion. Additionally, digital services taxes in various jurisdictions, including the UK and EU, highlight the evolving tax obligations for crypto exchanges and NFT marketplaces, with Pakistan requiring a similar approach to capture revenue from digital transactions.

The revenue potential from cryptocurrency taxation remains substantial, particularly as the adoption of digital assets increases. The taxation of institutional and retail investors through capital gains tax, combined with transaction-based levies, enhances fiscal revenues. The implementation of a structured reporting framework for centralized exchanges facilitates compliance enforcement. The integration of the best international practices, including OECD's guidelines on virtual currency taxation, ensures alignment with global standards. Moreover, market capitalization and price volatility significantly influence the taxable base, requiring adaptive policies to accommodate fluctuating asset values. The classification of crypto assets under IFRS and local GAAP standards as intangible assets rather than financial instruments introduces complexities, further necessitating precise tax regulations.

The implications of anonymity in cryptocurrency dealings present enforcement challenges, also need the adoption of blockchain analytics tools to trace taxable transactions. The regulation of peer-to-peer transfers and decentralized exchanges plays a critical role in curbing tax evasion. The registration of cryptocurrency service providers under the tax framework enables oversight and compliance tracking.

The establishment of clear penalties for non-compliance and underreporting enhances enforcement efficacy. International frameworks, such as the G20's efforts in crypto taxation, emphasize the need for transparency to combat tax evasion effectively.

The market capitalization of cryptocurrency assets significantly influences the tax base, with volatile price movements affecting taxable gains. The incorporation of cost basis methods, such as FIFO and LIFO, ensures accurate capital gains calculations. The taxation of stablecoins and privacy coins requires tailored approaches, considering their valuation stability and enhanced anonymity features. The introduction of tax incentives for regulated crypto businesses fosters a compliant ecosystem. The emergence of central bank digital currencies (CBDCs) adds another layer of complexity, requiring differentiated tax policies. The OECD's crypto-asset reporting framework (CARF) and the EU's DAC 8 emphasize increased transparency in digital asset taxation, setting a precedent for Pakistan to adopt similar reporting mechanisms.



The taxation of cryptocurrency assets follows a structured chain of events, encompassing acquisition, holding, transaction, and disposal. The implementation of clear guidelines on tax obligations at each stage minimizes ambiguity. The taxation of income derived from cryptocurrency activities, including mining rewards, staking earnings, and airdrops, ensures comprehensive tax coverage. The introduction of de minimis exemptions for small transactions encourages adoption while simplifying compliance. Additionally, considerations for policymakers include simplifying valuation methods, aligning crypto taxation with broader fiscal policies, and ensuring transparency in reporting mechanisms.

The enforcement of crypto taxation necessitates international cooperation and adherence to global tax transparency standards. The exchange of tax information with foreign jurisdictions facilitates the identification of offshore crypto holdings. The alignment with FATF's travel rules enhances compliance with AML-CFT measures. The development of a national cryptocurrency tax registry streamlines taxpayer identification and monitoring. The implementation of compliance-driven incentives encourages voluntary reporting and fosters a culture of tax adherence within the digital asset ecosystem.

The evasion of cryptocurrency taxes presents significant risks, requiring stringent anti-evasion measures. The criminalization of willful tax evasion and the imposition of strict penalties serve as deterrents. The integration of crypto taxation into existing income tax frameworks enhances enforceability. The collaboration between tax authorities and financial institutions strengthens compliance oversight. Moreover, emerging tax policy trends, including withholding taxes on crypto transactions and automatic reporting obligations, provide additional mechanisms for revenue collection.

The international framework of cryptocurrency taxation varies, with countries implementing diverse tax regimes. The United States subjects cryptocurrency to capital gains tax, while Germany exempts long-term holdings. The UK imposes income tax on frequent traders, distinguishing between investment and business activities. The adoption of a hybrid taxation model in Pakistan ensures alignment with international best practices while addressing domestic economic considerations. The OECD's comprehensive analysis of global crypto taxation practices provides a framework for structured policy development in Pakistan. Similarly, businesses engaging with digital assets must assess operational tax implications, including VAT treatment, withholding obligations, and income classification complexities to mitigate risks.

The taxation of cryptocurrency in Pakistan requires a well-defined legal and regulatory framework that aligns with global standards. The adoption of a structured tax regime, extensive income tax, capital gains tax, and VAT, ensures comprehensive coverage. The enforcement of compliance measures, including transaction reporting and anti-evasion mechanisms, strengthens tax collection. The integration of the best international practices fosters a transparent and sustainable cryptocurrency environment, contributing to the overall economic growth of the country. A dynamic and adaptive approach to crypto taxation will position Pakistan as a forward-thinking player in the global digital economy.



Article: VI

Delivering a Sustainable Framework

The article is the final piece in a comprehensive series outlining a roadmap for the legalization and regulation of cryptocurrencies in Pakistan. The previous articles have meticulously addressed defining cryptocurrencies, establishing a legal and regulatory framework, creating an oversight body, setting licensing requirements, ensuring consumer protection, implementing anti-money laundering (AML) frameworks, and devising a tax strategy. This article will focus on promoting innovation in the blockchain and cryptocurrency sector, fostering financial inclusion, educating the public and regulators, and positioning Pakistan as a leader in the global crypto industry. The goal is to create an ecosystem that balances technological advancement, economic growth, and regulatory oversight while ensuring that the benefits of blockchain technology are accessible to all.

The blockchain and cryptocurrency sector represents a transformative force in the global economy, offering unprecedented opportunities for innovation, financial inclusion, and economic growth. The decentralized nature of blockchain technology allows for secure, transparent, and efficient transactions, reducing the need for intermediaries and lowering costs. The potential applications of blockchain extend far beyond cryptocurrencies, involving supply chain management, healthcare, voting systems, and more. Pakistan should embrace this technology, which can unlock new avenues for economic development, particularly in a country where a significant portion of the population remains unbanked. Pakistan can position itself as a regional leader in blockchain technology, attracting investment and creating high-skilled jobs by fostering innovation in this sector.



The promotion of innovation in the blockchain and cryptocurrency sector requires a multi-faceted approach, beginning with the creation of regulatory sandboxes. The sandboxes provide a controlled environment where startups and established companies can test new technologies and business models without the immediate burden of full regulatory compliance. The sandboxes allow regulators to observe the impact of new technologies in real-time, enabling them to implement regulations that are both effective and flexible. The establishment of sandboxes in Pakistan would encourage local startups to experiment with blockchain solutions, fostering a culture of innovation and entrepreneurship. The sandboxes would also attract international companies looking to test their technologies in a supportive environment, further boosting Pakistan's position in the global crypto industry.

The education of the public, businesses, and government officials is critical to the successful adoption of blockchain technology and cryptocurrencies. The lack of understanding about these technologies often leads to skepticism and resistance, hindering their potential benefits. The government should invest in comprehensive educational programs aimed at increasing awareness and understanding of blockchain and cryptocurrencies. The programs should target a wide audience, including students, entrepreneurs, policymakers, and financial institutions. The curriculum should cover the basics of blockchain technology, its applications, and the risks and opportunities associated with cryptocurrencies. The education initiatives should also include workshops, seminars, and online courses to ensure widespread accessibility.



Pakistan can foster a more informed and engaged community that actively participates in the digital economy, by equipping the public with the knowledge to navigate the crypto landscape. The regulators play a pivotal role in shaping the future of the blockchain and cryptocurrency sector. The regulators must be well-versed in the technical and economic aspects of blockchain technology to create a regulatory framework that balances innovation with consumer protection. The government should establish specialized training programs for regulators, focusing on the latest developments in blockchain and crypto assets. The training programs should be conducted in collaboration with international experts and institutions to ensure that Pakistani regulators are equipped with global best practices. The well-informed regulators can create policies that encourage innovation while mitigating risks, ensuring that the sector grows sustainably and responsibly.

The financial inclusion is one of the most significant benefits of blockchain technology and cryptocurrencies. The traditional financial systems often exclude marginalized populations due to high costs, lack of infrastructure, and stringent requirements. The blockchain-based financial solutions can provide access to banking services for the unbanked and underbanked, enabling them to participate in the formal economy. The decentralized finance (DeFi) platforms, for example, allow users to access loans, savings, and insurance without the need for traditional banks. The government should promote the development of blockchain-based financial services that cater to the needs of underserved communities. The initiatives could include partnerships with fintech companies, the development of blockchain-based payment systems, and the integration of cryptocurrencies into existing financial infrastructure.

Pakistan can bridge the gap between the formal and informal economies, empowering millions of citizens to improve their financial well-being by leveraging blockchain technology. The international cooperation is essential to the success of Pakistan's blockchain and cryptocurrency strategy. The global nature of the crypto industry means that no country can operate in isolation. The government should actively engage with international organizations, regulatory bodies, and other countries to share knowledge, harmonize regulations, and prevent regulatory arbitrage. The participation in global forums such as the Financial Action Task Force ([FATF](#)) and the International Organization of Securities Commissions ([IOSCO](#)) can help Pakistan stay abreast of the latest developments in crypto regulation. The bilateral and multilateral agreements with other countries can facilitate cross-border collaboration, enabling Pakistani startups to access international markets and investors. International cooperation also helps in addressing challenges such as money laundering, terrorism financing, and tax evasion, ensuring that the crypto industry operates in a transparent and accountable manner.



The monitoring and adaptation of regulations are crucial to the long-term success of the blockchain and cryptocurrency sector. The rapid pace of technological advancements means that regulations must be dynamic and responsive to emerging risks and opportunities. The government should establish a dedicated task force to monitor the crypto market, analyze trends, and update regulations as needed. The task force should include experts from various fields, including technology, finance, law, and economics, to ensure a holistic approach to regulation. The regular reviews of the regulatory framework can help identify gaps and areas for improvement, ensuring that the sector remains competitive and resilient. The proactive approach to regulation can also enhance investor confidence, attracting more capital into the Pakistani crypto market.

Moreover, investment in the blockchain and cryptocurrency sectors is key to driving innovation and economic growth. The government should create a favorable environment for both local and foreign investors by offering incentives such as tax breaks, grants, and subsidies. The establishment of venture capital funds focused on blockchain startups can provide the necessary funding for innovative projects. The government should also encourage public-private partnerships to leverage the expertise and resources of the private sector. The investment in infrastructure, such as high-speed internet and data centers, is essential to support the growth of the crypto industry. The development of a robust ecosystem for blockchain and cryptocurrencies can position Pakistan as a hub for innovation, attracting talent and investment from around the world.

The leadership in the global crypto industry requires a strategic approach that combines innovation, regulation, and international collaboration. The government should develop a clear vision for the future of the blockchain and cryptocurrency sector, outlining specific goals and milestones. The vision should be communicated effectively to all stakeholders, including the public, businesses, and international partners. The government should also establish a dedicated agency to oversee the implementation of the crypto strategy, ensuring that all initiatives are aligned with the overall vision. The proactive and forward-thinking approach can help Pakistan become a leader in the global crypto industry, setting an example for other countries to follow.

The blockchain and cryptocurrency sector offers immense potential for innovation, financial inclusion, and economic growth. The successful adoption of this technology requires a comprehensive and coordinated approach that involves all stakeholders. The creation of regulatory sandboxes, investment in education, promotion of financial inclusion, international cooperation, and dynamic regulation are essential components of a successful crypto strategy. The government's commitment to fostering innovation and creating a supportive environment for the crypto industry can position Pakistan as a leader in the global digital economy. The journey towards crypto legalization and regulation is complex, but with the right policies and initiatives, Pakistan can unlock the full potential of blockchain technology and cryptocurrencies, driving economic growth and improving the lives of its citizens.



Thank You

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