*NUST JOURNAL OF SOCIAL SCIENCES AND HUMANITIES*
*Vol. 12, Special Issue (September 2026, pp. 63-78*

# Blockchain Jurisprudence: Regulation and Taxation of Cryptocurrency in Pakistan

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## Abstract

*The cryptocurrencies have become a disruptive aspect of global finance that has endangered the conventional monetary frameworks and regimes. The debate is of concern to regulators in Pakistan as they attempt to strike a balance between innovation and financial stability, consumer protection, and global compliance. Specific focus will be given in the present paper to the legal obstacles to the introduction of cryptocurrency in Pakistan, such as the lack of a specific legal framework, inefficient tax laws and regulations, and the risk of money becoming a means of criminalizing money. The study, as compared to other countries, indicates that there is the need to have clear policies, exchange licensing, investor protection, mining and trading regulations. The potentials of cryptocurrencies to diversify the financial system of Pakistan as well as to decrease dependency on the dollar in trade are also discussed in the paper. The facts demonstrate that Pakistan is not able to ban and to legalize the usage of cryptocurrencies unconditionally. Instead, a harmonized legal and policy framework has to be established to legalize them, enable economic growth and protect financial integrity.*

**Keywords:** cryptocurrency regulation, Pakistan, financial stability, legal framework, crypto adoption, blockchain policy

**Article History:** Submitted:23/3/2026 Accepted: 06/07/2026 Published: 30/09/2026

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**DOI:**

Journal homepage: www.njssh.nust.edu.pk

## 1. INTRODUCTION

Cryptocurrency has changed the global financial system. It has succeeded in challenging the traditional banking and introduced a decentralized and unregulated system that transcends borders. Cryptocurrencies such as Bitcoin and Ethereum have evolved from niche technological innovations into mainstream instruments of trade, investment, and even state-level adoption, as demonstrated by El Salvador's recognition of Bitcoin as legal tender in 2021 (Narayanan et al., 2016). The significance of cryptocurrencies is not merely its value but the feature that it allows transfer of money through a block without any centralized authority or an intermediary making the transfer of funds easy and fast. It has the capacity to reshape the global economy by offering enhanced cross-border intermediary-free transfers, reduced dependence on central banking authority and fast access (Catalini & Gans, 2016). According to the World Bank (2022), cross-border remittances constitute nearly $626 billion annually, a sector where cryptocurrencies increasingly play a pivotal role in ensuring efficiency, speed, and lower transaction costs. This international topicality highlights the

immediate necessity to consider legal, regulatory, and policy implications of cryptocurrencies.

The case of Pakistan in this regard comes into the limelight as a significant case study. In 2022, the Chainalysis ranked Pakistan as the eighth-largest crypto market in the world, indicating not only the growing interest of people in cryptocurrency but also the growing reliance of informal economy on digital assets. The sector is a challenge and an opportunity to the state with the estimated value of assets traded per year in the crypto ecosystem of Pakistan amounting to as much as 20 billion dollars. It has its own merits and demerits. The interest is particularly pronounced among youth, freelancers, and small investors, many of whom turn to digital currencies to hedge against inflation and the depreciation of the Pakistani rupee (Aslam & Khurshid, 2024). The factor behind this trend is weak conventional banking system that is hostile towards digital payments and fintech. Despite these advancements, there exists no regulatory framework for crypto in Pakistan. This has opened avenues for the misuse of cryptocurrency and potential financial crimes such as money laundering, terror financing, and digital frauds. The State Bank of Pakistan (SBP) has issued multiple circulars warning against digital currencies, notably its 2018 circular banning banks and financial institutions from engaging with crypto exchanges (SBP, 2018). Nevertheless, these restrictions have no strong basis in legislation, leaving investors and regulators in the grey area. The inability of legislators to speak up has left investors on toes. Strict compliance is emphasized by the Financial Action Task Force (FATF) that has been scrutinizing Pakistan for years to prevent money laundering and terrorist financing using virtual assets. Unregulated cryptocurrency presents major challenges for Pakistan. The lack of compliant FATF standards puts the financial system at risk and jeopardizes the position of Pakistan in world finance as it may face a risk of being shut out of the international market (Mirza).

The instant policy response is needed to resolve ambiguity, potential uncertainty, abuse possibilities, and grave consequences. The argument presented in this paper is that Pakistan has an opportunity to do more than mere bans and establish an extensive legal and regulatory framework regarding cryptocurrencies to achieve the full potential of their benefits. The paper will focus on critically discussing the global development of cryptocurrency regulation, the status of Pakistan and the threat posed by the absence of legal regulations. The proposed research seeks to identify opportunities and challenges through adoption of a qualitative method that integrates statutory and case-law review and comparative insights within other jurisdictions such as the United States, European Union, and India. I have confidence in a robust regulatory framework in Pakistan that will lower the risks of financial crimes, enhance innovation, provide employment opportunities to youngsters, and draw Pakistan into the worldwide financial framework.

## 2. RESEARCH METHODOLOGY

A qualitative methodology is the most appropriate to use in the research. It provides us the opportunity to study the dynamic and complex legal, regulatory, and financial environment of cryptocurrencies in Pakistan. Qualitative methods allow us to critically examine legal texts, case outcomes, and policy reports and reveal the history of norms and governance issues. Unlike quantitative methods, which emphasize statistical tendencies, qualitative methods offer descriptions of how legal norms are related to social, economic, and financial realities (Creswell and Poth, 2016). This plan is required because it will cover the major concerns on compliance, sovereignty and international financial imperatives in addressing the regulation of cryptocurrencies. It is not merely a matter of numbers, but it furnishes much, explanatory information. Numerous primary and secondary sources are used in the analysis. It is informed by the Pakistani statutes and case law which provides the domestic legal background. It further discusses international guidelines and norms, particularly the Financial Action Task Force (FATF) recommendations that provide guidelines across the globe when dealing with money laundering (AML) and the financing of terrorism (CTF) (FATF, 2021). The European Union, the United States, and India also have regulatory frameworks reviewed during the study (Houben and Snyers, 2018). Finally, the critique of the scholarly commentary, foreign agency reports and judicial decisions are critically analyzed that adds depth to the theoretical and practical aspects of the research.

## 3. DISCUSSION

### 3.1 Discerning Web3: Blockchain, Smart contracts and Cryptocurrency

Web3 Smart contracts are self-executing agreements, coded in software and executed without intermediaries, through the Web3 blockchain technology. In contrast to the traditional contracts, smart contracts operate on a decentralized registry, ensuring the transparency, immutability and automation (Szabo, 1997). They are important because they help to cut down the cost of transactions, remove the intervention of third parties, and give certainty of execution. Nonetheless, their legal status is still disputable, with most legal systems still being based on the traditional principles of contract law, i. e., offer, acceptance and consideration (Werbach and Cornell, 2017).

The enforceability of smart contracts is determined whether the legal systems of such jurisdictions recognize code as a legal medium in which a contract may be established. As an example, jurisdictions such as the U.S. and EU have started to recognize smart contracts under e-commerce and digital signature laws, albeit with the understanding to apply to blockchain-based agreements (Mik, 2017). The concerns have included issues of jurisdiction, cross-border enforcement, and the problem of immutability where erroneous coding cannot be corrected that the issue of immutability exemplifies gaps in technological innovation and legal infrastructure. Despite these constraints, smart contracts have transformative potential to financial services, supply chain management, and governance, assuming legal frameworks adapt to regulate their risks without compromising their efficiency (Tapscott &

Tapscott, 2016).

### 3.1.1 Difference between Fiat and Digital Currency

Fiat money is legal tender that is emitted by a government, and whose value depends on the backing of the government, not on any intrinsic or extrinsic value.--An example is the Pakistani Rupee, or the U.S. Dollar. Digital currency on the other hand, refers to any type of currency that is available in electronic form (including central bank digital currencies (CBDCs) that retain sovereign guarantees (BIS, 2020). Cryptocurrency is a type of digital asset, which is decentralized and secured by cryptography, and is not controlled by central authorities. The value of a fiat money is market based and stable, unlike fiat money.

The crypto assets are more comprehensive than the cryptocurrencies, including the tokens that are used as utility, governance or investments on blockchain platforms (Kerner, Kochanska, Teulery, and Tresso). Although fiat and digital currencies are used as stable mediums of exchange, the cryptocurrencies and crypto assets are speculative, innovative and usually unregulated financial instruments. This difference is of paramount importance to the regulatory policy because each category has different implications on the monetary stability, consumer protection, and anti-money laundering frameworks (FATF, 2021).

Cryptocurrency coins versus crypto tokens compose an important aspect of comprehending the organization of cryptocurrency markets. Coins Coins are native digital currencies which run on their own independent blockchains, such as Bitcoin (BTC) running on the Bitcoin blockchain or ETH) running on the Ethereum blockchain (Narayanan et al., 2016). Coins are majorly produced with the intention of using them in the form of a medium of exchange, a store of value and in some cases, a unit of accounting functions which have traditionally been attributed to money. In contrast, tokens are deposited on top of blockchains, via such standards as ERC20 or BEP20. They may be tokens that represent digitised assets like real estate or securities, voting rights and utilities, and so on (Mougayar, 2016). This is a difference that does count in terms of the law. In the way they are issued and utilized, regulators can perceive tokens as securities (Guseva, 2020). The coins could be considered to remain useful in the blockchain they are linked to, but the tokens gain value as they are meant to perform certain tasks.

### 3.1.2 Crypto: Property, Currency or a Commodity?

A controversial subject in legal and academic circles is taxonomy of cryptocurrencies, with jurisdictions taking different positions on the issue. In the US, the IRS considers cryptocurrencies as property and is thus capital-gain taxable. In the meantime, Community Futures Trading Commission (CFTC) regards the cryptocurrencies, specifically, Bitcoin, as commodities. According to this categorization, the CFTC will oversee the markets of derivatives and futures related to cryptocurrencies (Lucking & Aravind, 2019).

The bilateral treatment illustrates a disjointed regulatory environment, whereby one and the same asset is handled differently in different contexts. In

the United Kingdom, a court regards cryptocurrency as an asset. They are contented with the fact that cryptocurrencies can be possessed, transferred, and even subject to injunctions. El Salvador, in contrast, has made Bitcoin a legal tender, which it treats as a currency (Alonso et al., 2023). It demonstrates that digital currencies cannot be easily incorporated into a single category; they combine the features of a property, currency, and commodities (Houben and Snyers, 2018). Therefore, investor protection, taxation, and anti-money-laundering regulations are affected by this ambiguity. Laws should then follow suit to evolve with the increasing usage of digital assets in international finance.

### 3.2 Regulation of Cryptocurrency in Pakistan: Regulating the Unregulated

According to the Chainalysis Global Crypto Adoption Index (2022), Pakistan is rapidly forming the eighth-largest cryptocurrency market worldwide. This development is due to the economic nature of the problems of the country and the young and tech-savvy population. Inflation, weakening rupee, and weak access to traditional banking services have pushed individuals to resort to digital assets as a barrier to financial risk. Also, the affordability of smartphones and the growing internet access has enabled cryptocurrency transactions in semi-urban and rural areas as well (Nadeem et al., 2025). Even though the State Bank of Pakistan prohibited the ability of banks to operate with cryptocurrencies in 2018, the users still interconnect via peer-to-peer (P2P) models and decentralized exchanges (DEXs). This paradoxically establishes a situation where crypto expansion occurs in the informal setting as formal regulatory mechanisms are absent. As a result, Pakistan runs a risk of money laundering and financial instability (Ahmad et al., 2022).

#### 3.2.1 Role of State Bank of Pakistan and Ministry of Finance

The State Bank of Pakistan (SBP) took a cautionary approach and released Circular No. 3 in April 2018. These circular encouraged banks and other financial institutions to shun crypto transactions, to reduce their usage (State Bank of Pakistan, 2018). Similarly, the Ministry of Finance had issued a warning that cryptocurrencies would enable the funding of terrorism, capital flight, and money laundering (Rana, Audi, and Ali, 2025). The two institutions are in a dilemma. Harsh penalties are meant to comply with the FATF standards, but they also suppress innovation and prevent the introduction of blockchain as a tool to achieve financial inclusion in Pakistan (Rana, 2025). It is preferable to a balanced regulatory regime that controls innovation but prevents financial crime, rather than prohibitions. Lack of explicit laws opens a loophole in the legal framework that places businesses, investors, and enforcement agencies in a vacuum and impedes the future sustainable development of the digital economy.

#### 3.2.2 Case Studies of the USA and the UK

The regulatory systems of the USA and UK may be good examples that Pakistan can refer to. The system in the U.S. is still in its maturity and

cryptocurrencies are currently regulated in a fragmented manner. Most tokens are regulated by the U.S. Securities and Exchange Commission that imposes strict requirements on securities. The Community Futures Trading Commission (CFTC) treats cryptocurrencies such as Bitcoin as commodities. Cryptos are taxed as property by IRS, which creates the multi-layered regime (Houben and Snyers, 2020). This variety of approach proves the difficulty in regulating crypto but indicates the need to harmonize the legal categories with the economic facts. The model that guides the United Kingdom is based on principles which focuses on consumer protection and anti-money laundering policies. The Financial Conduct Authority (FCA) regulates crypto exchanges in accordance with the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 (that impose the stringent customer due diligence) (Arner, Barberis, and Buckley, 2015). Although the cryptocurrency is not a legal tender in the UK, the country treats the crypto assets as property and it provides clear guidelines on taxation and conflict resolution. These examples suggest that Pakistan can go on hybrid strategy: combine the sectoral model of the U.S. with the focus on the consumer protection and money laundering compliance of the UK.

### 3.2.3 Maintenance of decentralized nature of cryptocurrency while safeguarding it from misuse

One of the key problems that the policymakers in Pakistan must tackle is that it is necessary to strike a balance between the decentralization of cryptocurrency, on the one hand, and the protection against misuse, on the other hand. The first appeal of digital currencies is their decentralization, which provides freedom and avoids the use of the banking system. But the same aspect can be also a cause of concern regarding the anonymity, money laundering and terrorist financing, all these are the same issues raised by the Financial Action Task Force (De Koker, 2020). This should be effectively controlled to create transparency without compromising on the innovation of the blockchain technology. Some countries, such as Switzerland, have shown that it is possible to have a decentralization and introduce safeguards by licensing exchanges, implementing know-your-customer (KYC) protocols, as well as requiring transactions to be monitored (Zohar, 2015). In the example of Pakistan, a regulatory sandbox of the State Bank of Pakistan may enable the authorities to experiment. The sandbox would also enable authorities to monitor risks, and at the same time stimulate the creation of fintech. It would be a hybrid solution, which would safeguard against abuse but would not damage the democratic ethos of cryptocurrencies.

### 3.2.4 Legal recognition of crypto-related contracts and transactions

The legal recognition of crypto contracts is the most important step in the process of legalizing the use of digital assets in the Pakistani legal and economic system. In the current times, the law of Pakistan has adopted the Contracts Act of 1872, which is only used to determine the validity of contracts in case they include an offer, acceptance, consideration, and a legal purpose. Cryptocurrency contracts including crypto contracts can meet these

requirements, but these are still uncertainties within the legal framework since no specific law recognizes them. As an illustration, the crypto transactions are never formally announced as legal tender, thus, it is not clear whether the courts will enforce them. Singapore and the UK have begun to recognize the transactions of digital assets, making them enforceable by the existing laws. Pakistan may emulate this by enforcing crypto-related agreements as contracts provided they pass the minimum contractual requirements. This would create much confidence among the investors and put business in the emergent digital asset market on a clear path.

### 3.2.5 P2P, smart contracts and enforceability under Pakistani legal system

Peer-to-peer (P2P) trading and smart contracts pose difficult legal issues in Pakistan. Though P2P crypto exchanges are widespread, they are regulated in a vacuum, and traders are exposed to fraud, with claims hard to enforce. Smart contracts, which are self-executing contracts that are coded on the blockchain, blur legal and traditional notions of interpretation and enforcement. The Pakistani courts are based on the Contract Act of 1872 and the Qanoon-e-Shahadat Order of 1984, which lack a precedent on digital contracts, which makes the situation unclear. However, comparative analyses indicate that accepting blockchain records as admissible evidence and general contract law to smart contracts may offer a way to enforce contracts (Werbach and Cornell, 2017).

## 3.3 Taxation of Cryptocurrency in Pakistan

The taxation of cryptocurrency has emerged as one of the most significant legal questions globally, and Pakistan cannot remain outside this debate. Fundamentally, cryptocurrency represents value and is capable of generating economic benefit, which makes it a potential subject of taxation under the general principles of fiscal law. The Income Tax Ordinance, 2001 in Pakistan gives that any income, whether those incomes are from any source, unless specifically exempted, shall be subject to taxation. Based on this, the tax net may cover cryptocurrency income, be it through trading, mining, or staking. In the world, it has already been proven that jurisdictions like the United States and the United Kingdom can indeed tax digital assets. Thus, even when it is a decentralized system, and is not supported by a sovereign, crypto qualifies as the basic definition of taxable property, so long as it generates a measurable economic benefit (Yermack, 2017).

### 3.3.1 Classification of crypto for taxation purposes: Income, asset or capital gains?

One of the main issues of taxing cryptocurrency in Pakistan is the classification of the cryptocurrency. Varied approaches have been taken in different jurisdictions. The U.S. Internal Revenue Service (IRS) considers crypto as property, thus making transactions taxable by capital gains tax. Likewise, the HMRC of the UK has made it clear that crypto-assets are not currency or money but can be regarded as assets in terms of taxation. Pakistan In Pakistan there is uncertainty when it comes to classification, as there is no

clear legal recognition. Nonetheless, with the application of the general principles of taxation, crypto can become subject to three possible heads:

**a.** Income: The business income that can be taxed under the Income Tax Ordinance is the income of the business in the form of the profits of the business.

**b.** Asset: Cryptocurrency being treated as a store of value is subject to taxation as a wealth or asset tax regime.

**c.** Capital Gains: The sale or disposal of crypto at a profit would logically fall within the capital gains tax as would shares or securities (Nadeem, Liu, Pitafi, Younis, and Xu, 2021).

The taxation system in Pakistan needs to be based on a hybrid model that acknowledges the various classifications, based on the nature of the transaction and to avoid tax evasion as well as to align with the international best practices (Bhullar, Joshi, Sharma, Phan, & Nguyen, 2025).

### 3.3.2 Role of SECP and FBR: Crypto trading and mining

The Federal Board of Revenue (FBR) and the Securities and Exchange Commission of Pakistan (SECP) play crucial roles in regulating the tax of cryptos. The SECP, which is already a regulator of capital markets, can offer frameworks of regulating the crypto exchanges and the Initial Coin Offering (ICO), to ensure compliance and investor protection (United Nations ESCAP, 2021). Meanwhile, the FBR collects taxes on trading, mining and staking revenue. Another factor that makes mining a particularly complex issue is the fact that mining involves expenditure on hardware and electricity, and the coins that are mined are taxed as soon as they are minted. This can be achieved by setting up rules that adhere to the international requirements so that loopholes that could promote tax evasion are done away with. It is important to organize a transparent tax system with SECP. This framework must consider crypto as a taxable undertaking but at the same time promote innovation within the rapidly expanding digital economy of Pakistan.

Mining of cryptocurrency can generate profits, but it places a heavy burden on an already scarce power supply in Pakistan. The mining is a computationally intensive process which leads to excessive electricity consumption and exacerbates the long-standing energy deficit experienced in the country (Javaria & Masood, 2025). Large-scale mining may redirect limited electricity resources to private gains at the expense of other important public sectors, and because of frequent load-shedding and reliance on imported fuel, large-scale mining can effectively expropriate public resources. These are the issues that lead us to the thought that whether the price is greater than the price. Mining is mostly informal and thus does not generate income for the state. Moreover, the production of electricity is premised on the use of fossil fuel, thereby contributing to carbon emissions (Abdurakhmonova, 2024). Thus, crypto mining can be an attractive source of short-term returns, but when it is powered by renewable sources and controlled, it might instead turn into a societal liability.

### 3.3.3 Case Studies: India and the USA

The history of India and the United States reveals two opposite methods of taxation of cryptocurrencies. India has proposed a tax regime: 30 percent tax on crypto gains, 1 percent TDS on transactions. This is achieved to reduce speculation and inject more money into the government (Biswas, 2023). As a result, a lot of active trading on the formal exchanges has reduced and many traders are shifting to the peer-to-peer (P2P) platforms (Sardana & Shukla, 2025). By contrast, United States taxes cryptocurrencies as property. The treatment of crypto as a capital gain subject to taxation is treated similarly as other assets such as stocks. This will have the effect of encouraging long-term holding but asking the users to declare their dealings. These instances confirm the fact that Pakistan must strike a balance between creativity and money making. The over-taxation may drive the market to the underground thus there is a need to regulate it.

## 3.4 FATF's Obligations and International Pressure

Cryptocurrencies have become a big problem in the world, as they are used to fund terror groups and money laundering. Financial Action Task Force (FATF) has warned that virtual assets are equally attractive to terrorist groups and criminal networks over their anonymity and cross-border capabilities. Pakistan already became a grey listed country of the FATF; thus, it is also under closer inspection. Unless cryptocurrency transactions are adequately regulated, there is a risk that the illicit actors may exploit the loopholes in the regulation and arouse the financial suspicion of the country in the international arena (Ahmed, 2021). Finance financing of terror is an old challenge in financial system in Pakistan. The absence of regulations of crypto transactions may subject the country to new international sanctions and curbs to cross-border money flows. The mitigation of crypto-based terror financing risks is, thus, important both to the economy and to the security of nations and the status of Pakistan in the international arena.

### 3.4.1 FATF's Guidelines on Virtual Assets

In 2019, the Financial Action Task Force (FATF) issued formal guidance on virtual assets (VAs) and virtual asset service providers (VASPs). It called on the member states to extend the Anti-Money laundering (AML) and Counter-Terrorist Financing (CTF) regulations to encompass these entities. The recommendation emphasized the Travel Rule. This rule mandates VASPs to collect and disclose information regarding the origin and beneficiaries of crypto transacting that surpass some threshold, a fact that also applies to conventional banking (Houben and Snyers, 2020). Further, FATF recommended governments to license and supervise Virtual Asset Service Providers (VASPs), enforce good customer due diligence, and report suspicious activity. The United States and the EU states have heeded these recommendations with laws being put into place. Consequently, this requires exchanges to comply with KYC and anti-money-laundering (AML) regulations (Skinner, 2023). It is particularly important that Pakistani compliance is 100 percent. Noncompliance with the FATF regulations might

undermine its recent off-grey listing efforts and foreign investments. Compliance with FATF will demonstrate the commitment of Pakistan to combating financial crime and will open its digital economy to international trade.

### 3.4.2 Legal Compliance and Implications of Non-Regulation

There is no apparent regulatory framework of cryptocurrency in Pakistan, which is extremely risky. In legal terms, non-adherence to the FATF directives may weaken the reputation of the country, limit cross-border banking, and undermine investors. It can also encourage global financial authorities to perform more vigilant tracking, complicating cross-border trade and remittances (Ali, Aftab, Aslam, and Ferreira, 2024). The active regulation, which is based on the FATF requirements, may provide the space for financial innovations and may also prevent the flow of illegal money. Nations that have neglected to act on FATF recommendations, such as some of the African states have found it difficult to access international capital markets. Pakistan faces high stakes. Failure to regulate crypto assets as per the FATF rules will likely wipe out the gains that it has achieved in enhancing financial regulation. Thus, the harmonization of domestic legislation with the international one is essential to ensure the preservation of economic stability and maintain the financial reputation of Pakistan on the international arena.

## 3.5 Use of Cryptocurrency by the State Government

### 3.5.1 International Trade and Reliance on Digital Assets

Pakistan is looking at blockchain-based options to enhance the speed and cost of international remittances, which is a key income earner estimated to have introduced approximately USD 27-31 billion in 2022. This is being spearheaded by the Pakistan Crypto Council (PCC), which was formed in 2025 with the aim of reducing the cost of remittances and accelerating transactions using blockchain applications. Pakistan has very slow and costly traditional remittances, and this innovation will help improve financial inclusion, ease cross-border payment, and boost the economy that is highly dependent on remittances.

### 3.5.2 De-dollarizing Trade

The use of cryptocurrencies and blockchain technology may also be used as a tool by Pakistan to help reduce the use of the U.S. dollar as a currency in international trade. Although still in its infancy, the strategic impetus of the state institutions suggests that there is a desire to seek such options. Notably, in the middle of 2025, Pakistan announced its national Strategic Bitcoin Reserve, a non-speculative, non-tradable, sovereign-owned digital asset reserve, which is a long-term commitment to decentralized finance (Arab News, 2025). The migration is an indication of a globalized trend whereby economies are exploring the use of digital assets as alternative settlement tools. To Pakistan, the mechanisms would help to ensure that in the long run, reliance on the dollar would be reduced and that the economy would be cushioned against outside shocks, provided the international community adopts the strategy and the country maintains high level of financial integrity.

Custodianship of crypto assets in the sovereign area is novel and hazardous. There are very few states that possess crypto reserves, and Pakistan is no exception; its Strategic Bitcoin reserve. The funds of this savings account are financed through the seizure of U.S. Treasury BTC and by controlling a national Bitcoin wallet. There is more than 460,000 BTC in the possession of governments, or approximately 2.3 percent of the total supply (ChainlQ, 2025). Despite the fact that these assets present some sort of speculative diversification and a symbolic association with the digital economies, they also involve the presence of strong governance, effective custody services, and active risk management. The greatest challenge facing Pakistan is to use these resources in a smart way. A balance between innovation and stability of the finances should be created by good structures.

### 3.6 Legal and Policy Reforms: Toward a Transparent Crypto Regime

#### 3.6.1 Dedicated cryptocurrency law and amendments to the existing financial laws

Cryptocurrency is not specially legalized in Pakistan. This contradiction forces the regulatory authorities such as the State Bank of Pakistan (SBP), the Securities and Exchange Commission of Pakistan (SECP) to adopt the old financial laws. A complete law on cryptocurrency would give a clear understanding of classification, the recognition of crypto- assets and the responsibility of users and intermediaries (Ali, 2022). Such changes to the current legislation as the Payment Systems and Electronic Fund Transfers Act 2007 and the Anti-Money Laundering Act 2010 would be needed to make the transactions involving digital assets covered by the legislation. Without these reforms, it is possible that Pakistan will be left behind to the global standards of FATF that focuses on regulation of virtual assets and individuals offering its services. Therefore, there is need to develop a clear statute based on the optimal international practices to have the legal certainty and increase investor confidence.

#### 3.6.2 Licensing of Exchanges

Reforming crypto exchanges to licensed is a reform that is required and will increase transparency, accountability and regulation. Licensing has also been introduced in countries like Japan and Singapore to ensure that the exchanges meet the capital adequacy standards, cybersecurity standards and anti-money laundering standards. In the case of Pakistan, exchanges licensing to be overseen by SECP would protect against fraud and illicit trading and would instill confidence in the investors. It would also enable regulators to uphold compliance with FATF recommendations by ensuring that there is proper due diligence, verification of customer and reporting standards. This type of licensing can at once promote innovation and guard the integrity of the financial system.

#### 3.6.3 Investor Protection

Protecting investors is one of the key concerns of the validity of a crypto regime. Retail investors fall prey to financial losses because crypto markets

are susceptible to scams, Ponzi schemes, and extreme volatility (Arner, Barberis, and Buckey, 2016). Pakistan has no explicit dispute resolution mechanisms and avenue to the crypto investors. The state can protect investors by making them aware of their rights and covering them against fraudulent deals through consumer protection laws, disclosure requirements of exchanges and advertisements. The UK regulators, e.g., put a lot of emphasis in the fair treatment of the customer and transparency in the financial products, an example Pakistan may follow. The high level of investor protection would not only reduce risks but also increase the involvement in digital asset markets.

### 3.6.4 Legal clarity on Crypto mining and trading

Crypto mining and trading are not highly regulated in Pakistan, causing investors and miners to be uncertain about the law. Mining is a process that consumes a large amount of energy resources, which casts doubts on its sustainability and the control of the state (Alzoubi, Al-Ahmad, Kahtan, and Jaradat (2022). In the absence of specific legal provisions, people and companies involved in mining and trading will be at risk of being criminally liable under the current anti-money laundering and foreign exchange laws. Pakistan must clearly define mining operations, establish parameters in energy use, and determine taxation parameters on income obtained through mining. Similarly, the legality of the trade, whether it is exchange or peer-to-peer (P2P) should be made clear. Crystal law will reduce confusion in the market, illegal transfer, consumer protection, and encourage legitimate investment in the Pakistan crypto economy.

### 3.6.5 Adaptive attitude towards crypto: Role of Parliament, SECP, FBR and SBP

With the formation of an effective crypto regime, Pakistan will have to collaborate in order to come up with a clear framework. Based on which crypto is its own property, and is considered by the international standards, including the FATF, a parliamentary law should be enacted. The SECP is likely to regulate the exchanges, put in place disclosure policies and ensure that the market is not abused. The FBR will be forced to come up with specifically designed laws on taxation of crypto capital gains and incomes. Meanwhile, the SBP must be financially stable and ensure that the crypto activity will not interfere with the monetary policy and foreign reserves. A flexible and balanced approach to innovations and regulated by laws can enable Pakistan to take advantage of the possibilities of crypto and keep risks under control.

## 4. CONCLUSION

The current paper has uncovered the fact that regulation of cryptocurrency in Pakistan is underdeveloped. The rules and regulations are unclear, laws are disjointed and the overall policy is non-existent. With the increase in individuals and companies using crypto, the absence of definite rules has resulted in a shadow market, which is susceptible to fraud, tax

evasion and money laundering. Comparing it to other countries, it is seen that, when crypto is treated as a legal asset and financial regulation observed, and the economy is not disrupted, the innovation can thrive. Such models can be utilised by Pakistan to come up with a free and flexible regulatory framework. Such a framework should also come with an elaborate cryptocurrency policy that defines the legal status of cryptocurrency assets, mining activities, and trading business. Parliament ought to act as a mediator in the development in collaboration with the regulatory bodies like the Securities and Exchange Commission of Pakistan (SECP), the State Bank of Pakistan (SBP), and the Federal Board of Revenue (FBR). The partnership between these organizations would bring about coordination in the industry. Licensing of exchanges, protection of investors and establishment of transparent tax regulations to regulate cryptocurrency gains should also be included in the reforms. Development of policies which would help in ensuring that mining activities which are compliant with the guidelines of the Financial Action Task Force (FATF) are energy efficient is also needed. These would put illegal cryptocurrency activities in check. The campaigns of public awareness and institutional training will be beneficial in terms of compliance, minimizing risks exposure, and investor confidence. The latter, together with a flexible regulatory framework that would be consistent with the current international trends would aid Pakistan to not only enjoy the fruits of innovation but also be able to manage the systemic risks within the country. The adoption of cryptocurrency in Pakistan ought not to be shrouded in dark secrets, ambiguity, and must be supported by a solid institutional response. The future of digital assets and the maintenance of financial stability is about to be reaped by an active and targeted regulatory system.

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