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The Impact of Cryptocurrency Regulations on Indian Capital Markets: A Study of SEBI's Role

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Introduction

Cryptocurrencies have swiftly emerged as one of the maximum tremendous improvements in the worldwide financial gadget over the last decade. In India, their increasing adoption has attracted not best hundreds of thousands of individual traders but additionally the eye of government and regulatory agencies. because the regulatory landscape evolves, there may be accelerated scrutiny on how those digital assets affect the wider capital markets. significant to this communication is the Securities and change Board of India (SEBI), whose capability involvement is widely visible as pivotal for shaping the destiny of cryptocurrencies in the USA.

This paper comprehensively explores how cryptocurrency regulations, mainly those shaped or prompted via SEBI, are impacting Indian capital markets. An emphasis is placed on historic traits, regulatory ambiguity, the intersection of era and traditional finance, and the potential instructions Indian policymakers might also take.

Historical Evolution of Cryptocurrency Regulation in India

Early Growth and Regulatory Skepticism

India's interest in cryptocurrencies may be traced back to the early-to-mid 2010s, as international headlines round Bitcoin and blockchain era stuck the creativeness of tech enthusiasts and early buyers. but, as adoption accelerated, so did concerns amongst regulatory government. In December 2013, the Reserve bank of India (RBI) issued its first public caution regarding the capacity economic, felony, and security risks posed through virtual currencies. This skepticism changed into fueled

through the inherent volatility in cryptocurrency pricing, their pseudonymous nature, and concerns that they could facilitate illegal sports.

The 2018 Banking Ban and Its Consequences

The RBI's cautious method became more assertive in April 2018, whilst a circular became issued prohibiting banks and regulated entities from offering offerings to crypto businesses and individuals dealing in digital belongings. This efficaciously reduce off formal banking channels for exchanges, forcing several to shutter operations or flow remote places. The nearby enterprise became thrown into disarray, and buyers confronted difficulties in liquidating their holdings and getting access to fiat on-ramps.¹

The Supreme Court's 2020 Reprieve

The regulatory tale took a dramatic flip in March 2020 while the ideally suited courtroom of India overturned the RBI's ban, ruling that the banking restrict became disproportionate and lacked ok constitutional grounds. This selection rejuvenated the Indian crypto ecosystem as exchanges reopened, and new companies launched modern products. however, the underlying uncertainty concerning the prison popularity of cryptocurrencies remained, leading to persisted ambiguity in type and regulation.²

Evolving Regulatory Landscape: Agencies and Their Jurisdictions

The Multiplicity of Authorities

India's regulatory landscape for cryptocurrencies remains fragmented, involving several authorities:

Reserve Bank of India (RBI): Focused on monetary policy and systemic risk, continuously voicing strong reservations about the risks private cryptocurrencies pose to financial stability.

¹ The economic impact of India's crypto legislation on the global market, <https://economictimes.com/markets/cryptocurrency/the-economic-impact-of-indias-crypto-legislation-on-the-global-market/articleshow/111897632.cms> (Last Visited July 24, 2025)

² Internet and Mobile Association of India v. Reserve Bank of India [2020] 2 SCR 297

Ministry of Finance: Frames taxation policies for virtual digital assets (VDAs) and has moved to include crypto transactions under anti-money laundering law.³

Securities and Exchange Board of India (SEBI): Regulates the securities and commodity markets, and is steadily being considered as a prospective regulator for investment-like digital assets.

This multiplicity leads to overlapping jurisdictions and sometimes conflicting approaches, particularly around how digital assets are classified and which body should take the regulatory lead.

Taxation and Anti-Money Laundering Measures

The Union Budget 2022 marked the first time India formally recognized cryptocurrencies for taxation purposes, imposing a 30% tax on gains from VDAs and requiring a 1% TDS on all such transactions above specified thresholds. In 2023, the Ministry of Finance extended the Prevention of Money Laundering Act (PMLA) to cover crypto exchanges, significantly raising compliance requirements and standards. These actions, while giving formal recognition and introducing transparency, stopped short of resolving larger questions regarding status and oversight.⁴

SEBI: Mandate, Competence, and the Road Ahead

Institutional Mandate and Core Functions

Established by the SEBI Act of 1992, SEBI is tasked with protecting investor interests, promoting the development of the securities market, and ensuring its orderly functioning. These objectives have made SEBI the natural candidate for overseeing new-age digital investment instruments that functionally resemble securities, such as security tokens and tokenized physical assets.

³ Cryptocurrency Regulation in India: All You Need to Know in 2025, <https://www.kychub.com/blog/cryptocurrency-regulations-in-india/> (Last Visited July 24,2025)

⁴ Press Information Bureau. Ministry of Finance (2023). "Crypto transactions under PMLA, <https://www.timesnownews.com/business-economy/industry/money-laundering-act-crypto-transactions-under-pmla-what-crypto-holders-should-know-article-98566783> (Last Visited July 24,2025)

Calls for SEBI's Leadership

Indian crypto exchanges and numerous policy commentators have advocated for the integration of digital assets into SEBI's regulatory universe. The rationale is multi-fold:

- Digital assets often carry features akin to traditional securities, including investment intent, transferability, and potential returns.
- SEBI is well-versed in licensing, compliance, and addressing investor grievances, making it the agency best equipped to establish standardized procedures across exchanges.
- Placing responsibility with SEBI could enable product innovation, such as regulated crypto ETFs and index funds, thereby increasing market participation and fostering greater risk control.⁵

SEBI's Official Stance and Ongoing Ambiguity

Despite being the most likely candidate to regulate certain digital assets, SEBI has adopted a measured approach. Its officials have stated that any significant moves would depend on clear policy direction and asset classification provided by the central government. Until such classification is forthcoming, SEBI's intervention remains limited to monitoring and offering inputs during inter-agency consultations.

Impact of Crypto Regulation on Indian Capital Markets

Diversion of Capital and Investment Behavior

One area of contention is the flow of investment funds. As cryptocurrencies became more accessible, capital began flowing into digital assets, causing concern among market participants about a diversion away from traditional vehicles like equities, mutual funds, and bonds. Surveys and research, however, indicate that most Indian investors treat crypto as a diversification option rather than a substitute for stocks or fixed income. The portion of portfolios allocated to digital assets is modest for the majority of investors, and many retain their core investments in regulated markets.

Volatility, Sentiment, and Intermarket Dynamics

⁵ SEBI Act, 1992, No. 15 Acts of Parliament 1992 (India).

Cryptocurrencies are inherently volatile, with price swings far exceeding those of conventional assets. While direct correlation between Indian equity markets and cryptocurrencies is relatively low, periods of extreme growth or downturns in digital assets can spill over into broader investor sentiment—particularly among retail participants who have exposure to both asset classes. During such times, capital liquidity can shift, and confidence in either market may be temporarily affected.⁶

New Market Products and Financial Innovation

The crypto industry's presence has catalyzed an explosion of innovative financial instruments. These include tokenized securities, blockchain-based exchanges, and decentralized finance (DeFi) platforms that challenge traditional models of ownership and settlement. Should SEBI assume direct oversight, it could enable the launch of regulated crypto investment products (like ETFs, index trackers, or even tokenized equities) which would attract institutional funds and give retail investors access to products with established investor protection protocols.⁷

Investor Safety and Disclosure Requirements

The Indian financial sector is no stranger to market manipulation, scams, or poor disclosure standards, and these risks are amplified in the less regulated crypto space. Regulatory oversight by SEBI can introduce requirements for know-your-customer (KYC) controls, regular audits, transparent reporting, and a standardized grievance redressal mechanism. Such measures are vital for protecting less informed retail participants and ensuring fair market practices.⁸

The Tax Regime: Its Merits and Drawbacks

⁶ Comparative Risk-Return Analysis of Cryptocurrencies and Indian Stock Indices: Insights for Investors in Emerging and Traditional Markets, <https://www.researchgate.net/publication/> (Last Visited July 24, 2025)

⁷ Regulating cryptocurrency in India, <https://www.ibanet.org>. (Last Visited July 24, 2025)

⁸ Digital Assets Regulation: Insights from Jurisdictional Approaches, https://www3.weforum.org/docs/WEF_Digital_Assets_Regulation_2024.pdf (Last Visited July 24, 2025)

India's taxation policy on crypto—among the highest globally—has led to declining domestic trading volumes and an exodus of users to foreign platforms offering lower costs and greater anonymity. While taxes have increased government revenue and formalized asset reporting, they have also driven some domestic businesses and investors toward unregulated offshore platforms, which in turn could reduce transparency and regulatory oversight.⁹

Regulatory Challenges for SEBI and Policymakers

Coordination and Overlap

One chief challenge is regulatory overlap. Differences in approach among SEBI, RBI, and the Finance Ministry can create gaps or contradictions, providing opportunities for regulatory arbitrage. Harmonizing definitions, developing inter-agency protocols, and clearly delineating jurisdictional boundaries will be necessary to close loopholes and foster comprehensive oversight.

Decentralization and Enforcement

The decentralized design of blockchains makes it inherently difficult for traditional centralized agencies to enforce rules. Cross-border transactions, pseudonymity, and the absence of intermediaries challenge established supervisory tools, making enforcement and investigation more complex.

Market Sophistication and Financial Literacy

A significant portion of retail participation in the crypto sector is driven by perceptions of outsized returns, often stoked by unregulated marketing and social media campaigns. Many new investors lack deep understanding of blockchain mechanics, project fundamentals, or risk factors, leaving them susceptible to hype, misinformation, and loss. SEBI's role in investor education becomes critical in this context.

Pace of Technological Change

⁹ The 2022 Global Crypto Adoption Index, <https://www.chainalysis.com/blog/2022-global-crypto-adoption-index/> (Last Visited July 24, 2025)

Financial innovation in the digital asset ecosystem often outpaces regulatory adaptation. By the time rules or guidelines are formulated, technologies—and means of circumventing them—may have already evolved. This requires regulators like SEBI to develop flexible, technology-agnostic frameworks capable of adaptation and rapid response.

Strategic Opportunities for Indian Markets

Innovation and Economic Growth

Proactive regulation can support innovation in blockchain infrastructure, digital asset management, and fintech, positioning India as a leader in the global digital economy. By fostering a regulatory environment that encourages legitimate — yet responsible — innovation, India can attract talent, capital, and technology to its financial markets, ultimately driving growth and job creation.

Financial Inclusion and Access

Digital assets and decentralized finance platforms offer pathways to financial inclusion by reducing barriers to entry for the unbanked and underbanked. A regulatory framework that supports safety and accessibility without stifling growth could bring millions of Indians into the financial fold, promoting wealth creation and reducing volatile disparities.

Enhanced Transparency and Market Integrity

Effective regulation will enforce strong disclosure, anti-money laundering, and reporting standards for crypto exchanges and projects. This will raise the quality of offerings, prevent fraudulent schemes, and elevate the integrity of both digital and traditional markets. Additionally, standardized licensing and regular audits would make the entry of institutional participants more feasible, further deepening the market.

Cross-Border Alignment and Global Best Practices

Looking abroad, several leading economies have chosen their securities regulators (e.g., the SEC in the US, the FCA in the UK) to oversee crypto markets, recognizing the similarities between many digital assets and investment securities. Following this global trend, India can synchronize its regulatory structure with international standards, facilitating cross-border investment and enhancing its reputation as a fintech leader.

International Comparisons: Global Approaches

A comparative glance exhibits instructive training. the usa, via the Securities and exchange commission (SEC), is pursuing tremendous oversight over digital assets that qualify as securities, requiring issuers to check in and conform to strict disclosure requirements. the United Kingdom's monetary conduct Authority (FCA) has additionally adopted a regulatory regime for crypto asset change service providers, specializing in client safety and anti-cash laundering compliance.

Those frameworks underscore the developing inevitability of crypto regulation falling within the ambit of mounted securities regulators. If India aligns its oversight responsibility with SEBI, it can simplify compliance for global firms trying to do enterprise regionally and head off jurisdictional disputes.

The Road Ahead: Scenarios and Recommendations

India is currently engaged in inter-ministerial consultations, with several draft variations of comprehensive crypto legislation stated to be underneath evaluate. The trajectory these discussions take will largely decide the scale and nature of SEBI's involvement.

A phased approach—beginning with the registration and licensing of crypto exchanges, followed through the status quo of qualification criteria for which digital assets are taken into consideration securities—appears possibly. This have to be matched via everyday consultations with stakeholders, ongoing evaluation of global great practices, and a dedication to investor education.¹⁰

As soon as a foundation of oversight and compliance is installed, SEBI could allow the introduction of latest, regulated products inclusive of crypto ey s, derivatives, and tokenized securities. this will in addition deepen India's capital market infrastructure and encourage mutual believe between digital innovators and conventional buyers.¹¹

¹⁰ Pathways to the Regulation of Crypto-Assets: A Global Approach, https://www3.weforum.org/docs/WEF_Pathways_to_the_Regulation_of_Crypto_Assets_2023.pdf (Last Visited July 24, 2025)

¹¹ Cryptotech Industry in India- Decentralized Systems at the Centerstage of Digital Evolution, <https://community.nasscom.in/communities/blockchain/crypto-industry-india-decentralized-systems-centerstage-digital-evolution>, (Last Visited July 24, 2025)

Conclusion

The evolution of cryptocurrency regulation is reshaping the contours of Indian capital markets. The growing involvement real or ability of SEBI gives a credible direction to balancing the benefits of innovation towards the dangers of unchecked hypothesis, fraud, and systemic instability.

with the aid of leveraging its institutional understanding in market law, investor safety, and disclosure necessities, SEBI can convey order to a complicated, swiftly-changing sector. The critical steps ahead contain coverage clarity from the authorities, inter-organization cooperation, and the development of bendy but sturdy pointers that keep to conform as the market matures.

India faces an extraordinary opportunity to chart a regulatory route that achieves responsible innovation, safeguards investor interests, and reinforces its status within the global virtual finance atmosphere. If done with foresight, India's technique could provide a replicable model for emerging economies and set the stage for inclusive, sustainable financial growth a long way into the destiny.