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Stablecoins in India: Examining the Regulatory Gap under Indian Financial Law

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ABSTRACT :

Stablecoins are digital tokens designed to hold a relatively stable value by reference to a fiat currency, an asset or a basket of assets, and they are increasingly used for payments, settlement and liquidity management. In India, however, there is no dedicated statute governing their issuance, reserve assets, redemption rights or issuer supervision. Stablecoins are reached only indirectly, through the tax treatment of virtual digital assets, the anti-money laundering obligations of service providers, payment-system law and foreign exchange controls. This proposal examines whether the existing Indian financial-law framework is capable of regulating stablecoins according to the risks created by their functions, particularly in corporate payments, cross-border settlement and treasury management. It adopts a doctrinal, analytical and comparative method, drawing on Indian statutes, RBI and FIU-IND materials, judicial decisions and international standards, and compares the Indian position with the European Union's MiCA Regulation and the stablecoin framework of the Monetary Authority of Singapore. The study proceeds on the hypothesis that the absence of a dedicated, risk-sensitive framework creates material gaps concerning issuer accountability, reserves, redemption, disclosure and cross-border use, and that a proportionate, activity-based framework would better protect financial stability while supporting legitimate innovation. The project aims to propose such a framework for India, one in which the promise of stability becomes a regulated and enforceable legal claim.

Keywords: Stablecoins, Virtual Digital Assets, Regulatory Gap, Corporate Finance, Financial Stability.

I. INTRODUCTION AND BACKGROUND

Digital financial systems are moving from account-based records towards token-based forms of value, and stablecoins are an important part of that movement. A stablecoin is generally a digital token designed to maintain a relatively stable value by reference to a fiat currency, an asset or a basket of assets.[1] Unlike highly volatile crypto-assets, its central purpose is to reduce price fluctuation so that the token can be used for payments, settlement, transfer of value and liquidity management. The legal significance of stablecoins comes from their mixed character. A single token may resemble a crypto-asset in technological form while performing functions associated with money, payment instruments, deposits, settlement assets or short-term stores of value. This overlap makes stablecoin regulation more difficult than the regulation of ordinary assets.[2]

In India the difficulty is more visible because the present legal framework contains no dedicated statute dealing comprehensively with stablecoin issuance, reserve assets, redemption rights, segregation of funds, prudential capital or issuer supervision. Stablecoins can fall within the broad concept of a 'virtual digital asset' (VDA) under tax law,[3] and service providers dealing with VDAs have been brought within the anti-money laundering framework.[4] These measures address important risks, but they do not answer the separate question of how an issuer should maintain the value of the token or protect users when redemption pressure arises. The result is a fragmented legal position in which taxation and anti-money laundering obligations exist, while core prudential questions remain largely unaddressed.

[1]Richard K. Lyons & Ganesh Viswanath-Natraj, What Keeps Stablecoins Stable?, National Bureau of Economic Research, Working Paper No. 27136 (2020).

[2]Financial Stability Board, High-Level Recommendations for the Regulation, Supervision and Oversight of Global Stablecoin Arrangements (July 17, 2023), https://www.fsb.org (Last visited on 09/10/2026).

[3]Income-tax Act, 1961, §§ 2(47A), 115BBH, 194S. The Income-tax Act, 2025 has been in force since Apr. 1, 2026 and carries these provisions forward in successor sections.

[4]Prevention of Money-laundering Act, 2002; Ministry of Finance, Department of Revenue, Notification bringing virtual digital asset service providers within the Act (Mar. 7, 2023), https://www.indiacode.nic.in (Last visited on 09/10/2026).

This proposal accordingly sets out a long-term project that will examine stablecoins in India as a problem of financial law rather than merely a problem of crypto-asset regulation, with particular attention to their use in corporate finance.

II. STATEMENT OF THE RESEARCH PROBLEM

The research problem is whether the existing Indian financial-law framework is capable of regulating stablecoins according to the risks created by their functions, particularly where they are used for corporate payments, cross-border transactions and treasury management. Rules designed for virtual digital assets generally were not framed around a token whose defining feature is its promise of relative stability. The project therefore asks whether regulation should remain activity-specific, with tax, anti-money laundering, payment-system and foreign exchange laws each applying to the part of the activity they govern, or whether India requires a stablecoin-specific framework built on reserve quality, redemption, disclosure, governance, prudential safeguards and cross-border coordination.

The issue is not only whether stablecoins should be permitted. It is also whether a legally recognised and supervised form of stablecoin can be designed without undermining monetary sovereignty, foreign exchange controls, financial stability and consumer protection.

III. RATIONALE AND SIGNIFICANCE OF THE STUDY

The rationale of the study lies in the growing functional importance of stablecoins. In a conventional payment, value moves through regulated banks or payment systems. A stablecoin can instead move value over a blockchain network, at any hour and across borders, while the token is represented as linked to a fiat currency. This can reduce settlement time, allow programmable transfers and connect corporate financial systems with tokenised markets. For firms operating internationally, a stablecoin may appear attractive for limited cross-border settlement, collateral movement and transfers between digital asset platforms. These possible benefits explain why the legal discussion should not begin from the assumption that stablecoins are merely speculative assets.

The same features create legal and financial risks. If holders have no reliable legal claim against the issuer, a stablecoin may fail precisely when confidence matters most. If reserve assets are not segregated, or are exposed to credit, market and liquidity risk, a redemption run can transmit losses from the token ecosystem to banks and other financial institutions. Foreign-currency stablecoins also raise questions of currency substitution, cross-border capital flows and regulatory arbitrage. International standard-setters have therefore stressed governance, reserve quality, disclosure, redemption, risk management and supervisory cooperation.[5] The significance of the project is that it applies these principles to the Indian legal environment and separates the parts of the problem already addressed by existing laws from the parts on which the law is silent.

The study is also significant for corporate finance because legal uncertainty is itself a transaction cost. A company may be technologically able to accept a stablecoin and yet face doubt about accounting, tax treatment, foreign exchange compliance, banking relationships, treasury controls and legal enforceability. Clear rules can protect users and give certainty to legitimate innovation at the same time. A well-designed framework would not require unrestricted acceptance of stablecoins; it would define permissible activities and impose conditions proportionate to risk.

IV. REVIEW OF LITERATURE

1. Literature on stablecoins and digital assets

The academic literature generally treats stablecoins as a distinct subset of crypto-assets because the promise of price stability changes both their economic function and their regulatory relevance. Lyons and Viswanath-Natraj examine stablecoin stability through the economics of fixed exchange rates and stress the role of arbitrage and market demand in holding a token near its peg; stability, on this view, is not automatic but depends on market structure, redemption arrangements and the incentives built into the issuer's design.[6] Gorton and Zhang approach the subject through monetary history and argue that privately issued stablecoins resemble earlier forms of private money and are exposed to runs when holders doubt the backing assets or the issuer's ability to redeem.[7] Ante and others review the empirical studies and underline the importance of reserve structure, market liquidity, price deviations and adoption.[8] Sheehy, Hawkins and Diaz-Granados analyse the legal problems of stablecoins through a multi-disciplinary lens,[9] while later work examines

[5]Committee on Payments and Market Infrastructures, Bank for International Settlements, Considerations for the Use of Stablecoin Arrangements in Cross-Border Payments (Oct. 31, 2023), https://www.bis.org (Last visited on 09/10/2026).

[6]Lyons & Viswanath-Natraj, supra note 1.

[7]Gary B. Gorton & Jeffery Y. Zhang, Taming Wildcat Stablecoins, 90 U. Chi. L. Rev. 909 (2023).

[8]Lennart Ante et al., A Systematic Literature Review of Empirical Research on Stablecoins, 2(1) FinTech 34 (2023).

[9]Benedict Sheehy, John Hawkins & Juan Diaz-Granados, Legal Problems and Solutions in Stablecoins: A Multi-Disciplinary Approach Applied to Euro Stablecoins, 19(1) Rev. L. & Econ. 85 (2023).

their architecture as a payment method and their comparison with money market funds.[1011] Together these studies support a functional approach: a stablecoin should be assessed by how it is issued, stabilised, redeemed and used, not by the blockchain on which it runs. They also show that reserve quality and redemption are not secondary compliance matters but central to the economic meaning of the instrument.

2. Indian legal and regulatory literature

Indian regulatory writing has approached crypto-assets through monetary policy, financial stability, consumer protection, taxation and anti-money laundering rather than through any stablecoin statute. After the Supreme Court set aside the RBI's 2018 banking circular in *Internet and Mobile Association of India v. Reserve Bank of India*,[12] the RBI clarified that regulated entities must continue to follow KYC, AML, CFT and FEMA obligations.[13] The resulting position is neither a complete ban nor a regulatory approval of crypto-assets. Commentary has also concentrated on the breadth of the VDA definition, the 30 per cent special tax and the 1 per cent tax deduction at source, and on the PMLA notifications that made exchanges, transfers and custody-related activities reportable.[14] The literature identifies a gap between perimeter regulation and product regulation: a service provider may be supervised for AML purposes while there is no rule on reserve segregation, redemption at par, independent attestation or insolvency treatment of a stablecoin reserve.

3. International literature on stablecoin regulation

International writing increasingly calls for regulation that is comprehensive, proportionate and coordinated across borders. The Financial Stability Board recommends that authorities regulate stablecoin arrangements according to function and risk, with attention to governance, operational resilience, redemption rights, stabilisation mechanisms and prudential requirements.[15] The BIS and the IMF similarly warn that stablecoins can pose legal, operational, monetary and financial-stability challenges even where they are technologically efficient.[1617] A recurring theme is regulatory arbitrage, because an issuer may be located in one jurisdiction, hold reserves with custodians in another and serve users in many. Comparative scholarship accordingly treats legal claims on reserve assets, bankruptcy remoteness, segregation and transparent disclosure as the key elements of credibility.[18]

4. Research gap

There is substantial Indian discussion of cryptocurrencies, taxation and anti-money laundering, and a growing international literature on stablecoin prudential regulation. There is comparatively little doctrinal analysis of stablecoins as corporate financial instruments under Indian law. The interaction between stablecoins, corporate settlement, FEMA, payment-system authorisation, reserve requirements and insolvency remains underdeveloped. The proposed research addresses this gap by treating stablecoins as a financial-law problem, and by asking how common international principles (one-to-one reserve backing, redemption rights, asset segregation, governance, disclosure and AML compliance) can be fitted into India's own bank-led payments ecosystem, exchange controls and regulatory institutions rather than copied from abroad.[19]

V. RESEARCH QUESTIONS

The research will be guided by the following questions:

(i) What is the legal and economic nature of stablecoins, and how do different stablecoin structures affect the applicable legal risks?

(ii) To what extent do existing Indian laws on virtual digital assets, payments, anti-money laundering, taxation and foreign exchange apply to stablecoins?

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[10]Dun Li et al., On Stablecoin: Ecosystem, Architecture, Mechanism and Applicability as Payment Method, 87 Computer Standards & Interfaces 103747 (2024).

[11]Nico Oefele, Dirk G. Baur & Lee A. Smales, Are Stablecoins the Money Market Mutual Funds of the Future?, 79 J. Empirical Fin. 101557 (2024).

[12]Internet and Mobile Association of India v. Reserve Bank of India, (2020) 10 SCC 274.

[13]Reserve Bank of India, Customer Due Diligence for Transactions in Virtual Currencies, RBI/2021-22/45 (May 31, 2021), https://www.rbi.org.in (Last visited on 09/10/2026).

[14] Financial Intelligence Unit-India, Registration of Virtual Digital Asset Service Providers in FIU-IND as Reporting Entity (July 4, 2023), https://www.fiuindia.gov.in (Last visited on 09/10/2026); Financial Intelligence Unit-India, AML/CFT Guidelines for Reporting Entities Providing Services Related to Virtual Digital Assets (Mar. 10, 2023, updated Jan. 8, 2026), https://www.fiuindia.gov.in (Last visited on 09/10/2026).

[15]See Financial Stability Board, supra note 2.

[16]See Comm. on Payments & Mkt. Infrastructures, supra note 5.

[17]International Monetary Fund, The Changing Landscape of Crypto Assets – Considerations for Regulatory and Supervisory Authorities (Feb. 23, 2024), https://www.imf.org (Last visited on 09/10/2026).

[18]Carol R. Goforth, Political Reality and Crypto Regulation, 26 Chapman L. Rev. 599 (2023).

[19]William Blair et al., Towards an International Framework for the Regulation and Supervision of 'Stablecoins', in International Monetary and Banking Law Post COVID-19 176–200.

(iii) Is the present framework sufficient for corporate payment and cross-border settlement use cases?

(iv) What regulatory lessons can India draw from the European Union and Singapore?

(v) What form of legal framework can protect financial stability while permitting responsible innovation?

VI. OBJECTIVES OF THE STUDY

(vi) To examine the concept, development and uses of stablecoins, including their corporate finance applications.

(vii) To analyse the Indian legal framework applicable to stablecoins and to the entities that deal in them.

(viii) To identify regulatory gaps relating to reserves, redemption, disclosure, governance, prudential safeguards and cross-border transactions.

(ix) To compare the Indian position with the Markets in Crypto-Assets Regulation (MiCA) in the European Union and the stablecoin framework developed by the Monetary Authority of Singapore.[2021]

(x) To suggest a proportionate regulatory model for India.

VII. HYPOTHESIS

The absence of a dedicated and risk-sensitive framework for stablecoins under Indian financial laws creates material regulatory gaps concerning issuer accountability, reserves, redemption, disclosure, corporate use and cross-border transactions, and a proportionate activity-based framework would better protect financial stability while supporting legitimate financial innovation. The hypothesis will be tested through doctrinal analysis of legislation, regulations, regulatory guidance, judicial decisions, official reports and comparative legal materials.

VIII. SCOPE AND LIMITATIONS

The study is confined to the legal and regulatory treatment of stablecoins in India, with particular attention to their use in corporate finance. It covers fiat-referenced and reserve-backed stablecoins and also considers algorithmic and crypto-collateralised models in order to identify how regulatory treatment should differ between them. The comparative inquiry is limited to the European Union and Singapore. The research will not value individual stablecoins, assess the investment merits of any token or undertake empirical testing of market behaviour; its emphasis is on legal design and regulatory adequacy. Because the market and the regulatory environment are developing rapidly, the legal position will be stated as on 09/10/2026.

IX. RESEARCH METHODOLOGY

The principal method is doctrinal legal research, which examines statutes, delegated legislation, regulatory circulars, official guidance, judicial decisions, government reports and international regulatory standards.[22] An analytical method will be used to identify the strengths and weaknesses of the present Indian framework, and a comparative method to examine MiCA and the Singapore framework.[23] A functional approach will govern the analysis, so that the legal character of a stablecoin is determined not only by its technological form but by what the instrument does in the financial system.

Primary sources will include the Income-tax Act, 1961 and its successor, the Income-tax Act, 2025; the Prevention of Money-laundering Act, 2002; the Payment and Settlement Systems Act, 2007; the Foreign Exchange Management Act, 1999; relevant RBI directions; FIU-IND guidance; and judicial decisions. Comparative primary material will include Regulation (EU) 2023/1114 and publications of the MAS. **Secondary sources** will include journal articles, working papers, books, and reports of the BIS, FSB and IMF, which explain the economic functions and risks of stablecoins. Online materials will be accessed from official sources wherever possible, and citations will follow the Bluebook (Indian adaptation) with the date of last visit for online sources.

[20]Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on Markets in Crypto-assets, arts. 3, 16–47, 48–58, 2023 O.J. (L 150) (European Union), https://eur-lex.europa.eu (Last visited on 09/10/2026).

[21]Monetary Authority of Singapore, MAS Finalises Stablecoin Regulatory Framework (Aug. 15, 2023), https://www.mas.gov.sg (Last visited on 09/10/2026).

[22]S.R. Myneni, Legal Research Methodology 179.

[23]Mike McConville & Wing Hong Chui eds., Research Methods for Law 193–95 (2d ed. 2017).

X. TENTATIVE CHAPTERISATION

The project is proposed to be organised into six chapters, each with five sub-chapters, as follows:

Chapter I: Introduction

(1) Background and statement of the research problem;

(2) Rationale and significance of the study;

(3) Research questions, objectives and hypothesis;

(4) Scope, methodology and sources of data;

Chapter II: Review of Literature

(1) Literature on stablecoins and digital assets;

(2) Indian legal and regulatory literature;

(3) International literature on stablecoin regulation;

(4) Research articles, reports and statutes;.

Chapter III: Concept, Legal and Regulatory Framework

(1) Concept, nature and types of stablecoins;

(2) Development and financial uses of stablecoins;

(3) Indian laws relating to virtual digital assets;

(4) Role of the RBI, SEBI and FIU-IND;

Chapter IV: Stablecoins and Corporate Finance

(1) Corporate payments and settlement;

(2) Cross-border transactions and corporate liquidity;

(3) Financial and regulatory risks;

(4) Reserve, redemption and disclosure requirements;

Chapter V: Critical and Comparative Analysis

(1) regulatory gaps in the Indian framework;

(2) eU MiCA and the Singapore stablecoin framework;

(3) comparative lessons for India;

(4) proposed legal and regulatory reforms;

Chapter VI: Findings, Suggestions and Conclusion

(1) major findings;

(2) findings on regulatory gaps;

(3) suggestions and recommendations;

(4) proposed regulatory framework for India;

(5) conclusion.

XI. ANTICIPATED CONTRIBUTION

The project anticipates showing that India need not choose between a complete ban and unrestricted use. A third option is a controlled regulatory pathway for stablecoins that meet minimum standards of value stability, transparency, redemption and governance. Drawing on the comparative material, the study

proposes to develop a six-level framework covering (i) classification and licensing, (ii) reserves, custody and redemption, (iii) governance, capital, liquidity and risk management, (iv) disclosure, audit and public communications, (v) AML/CFT, cybersecurity and data requirements, and (vi) cross-border use, recognition of foreign stablecoins, enforcement and resolution. Primary prudential responsibility for payment-oriented stablecoins would rest with the RBI, with FIU-IND retaining the AML/CFT perimeter, SEBI regulating security-like instruments within its mandate, and a regulatory sandbox available for wholesale settlement and limited corporate pilots. The guiding idea is that the legal promise of stability should itself become a regulated claim, backed by law, governance and assets rather than by marketing language.[24]

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[24]See Regulation (EU) 2023/1114, supra note 20, arts. 16–47; Monetary Authority of Singapore, supra note 21; Financial Stability Board, supra note 2.