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Virtual Assets and Cryptocurrencies in Pakistan: Legal Framework, and Digital Economy Risks

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Abstract: The virtual assets regulation in Pakistan has transitioned from the informal ban to a systematic control from 2025 to 2026. The new regulatory framework of Virtual Assets Act 2026 is based on the Pakistan Virtual Assets Regulatory Authority (PVARA), the separation of jurisdictional roles of small and big banks between the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan, the FATF-compliant Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) framework, and the simultaneous creation of a central bank digital currency. Current study explores the legal development of the virtual asset's regulation in Pakistan, the prohibitory circular of the State Bank of Pakistan of 2018 and the enactment of the Virtual Assets Ordinance 2025 leading to the Virtual Assets Act 2026. The unresolved policy issues like regulatory uncertainty between the two authorities, capital requirements which can bar local innovators, procedural inadequacies in lawmaking via presidential ordinance, constitutional problems in regulatory overreach, data privacy issue in the absence of a broad-based data protection law, enforcement capacity issues, and the unsolved problem of Shariah compliance in a Muslim-majority country have also been discussed. Comparative analysis with South Asian jurisdictions, especially with the taxation-intensive policy in India and the fact that Bangladesh has not yet legalized its virtual assets system, the author argues that for an effective regulation, Pakistan should demarcate its jurisdiction, implement a comprehensive licensing system, have an effective parliamentary control, and come up with Shariah-compliant virtual assets laws.

Keywords: Pakistan Virtual Assets Regulatory Authority; Virtual Assets Ordinance 2025; Virtual Assets Act 2026; Virtual Assets Regulation in Pakistan; cryptocurrencies

1. Introduction

Virtual assets (VAs) are digital representations of value that can be digitally or electronically traded or transferred using distributed ledger technology (ComplyFactor 2026) and include cryptocurrencies (e.g., Bitcoin, Ethereum), non-fungible token (NFTs), and tokenized assets. VAs have transformed global financial systems and their decentralized nature challenges traditional regulatory paradigms, particularly in developing economies. VAs have changed conventional legal categories of money, property, and securities. Globally, VAs can be used in money laundering, terrorist financing, and consumer harm but also offer opportunities for financial inclusion and innovation. Developing countries need to regulate them to address financial stability, innovation, and international obligations. The Virtual Assets Act 2026 (VAA 2026) defines them as digital representations of value used for payment, investment, or transfer through distributed ledger technologies.

Pakistan remained unclear about cryptocurrencies and other digital assets during almost seven years from 1918 to 1923. The traders, investors and exchanges worked in a legal vacuum since they were not sure whether their actions would result in regulatory actions or criminal prosecution. State Bank of Pakistan (SBP) circulated the BPRD Circular No. 03 2018¹ that instructs all financial institutions to avoid dealings with virtual currencies, which practically froze the formal financial sector of the crypto economy, the personal ownership and the peer-to-peer exchange (State Bank of Pakistan 2018). This regulatory vacuum of more than six years led to the flourishing of a sizeable informal market. In 2025, the virtual asset market of Pakistan included 40 million users, with an annual trading volume of over 300 billion dollars, making it one of the fastest-growing frontier markets in the world (The Block 2025; Profit by Pakistan Today 2026). Globally, Pakistan was

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¹ <https://www.sbp.org.pk/bprd/2018/C3.htm>

ranked the third country in the Chainalysis Global Crypto Adoption Index with around 20 million people as active users of cryptocurrencies (Khan 2025).

The Financial Monitoring Unit (FMU) of Pakistan indicated VAs as high-risk for money laundering and terrorist financing in strategic analyses, citing anonymity, peer-to-peer transactions, and links to predicate offenses such as drug trafficking and Ponzi schemes (Financial Monitoring Unit 2023). In 2023, VASPs were brought under the Prevention of Money Laundering Act (PMLA) 2010, requiring registration and basic AML compliance. In 2025, the federal government consented to the establishment of the Pakistan Crypto Council. The President issued the Virtual Assets Ordinance 2025² on July 8, 2025, under Article 89 of the Constitution, and the government released its first framework of the virtual assets (VAs) and virtual asset service providers (VASPs) in line with the Financial Action Task Force (FATF) Recommendation 15 (PakBanker 2025a; Daily Times 2025a). At the same time, the SBP launched a pilot on a central bank digital currency (CBDC), based on two-pronged strategy of controlling private virtual assets and enhancing the sovereign digital currency infrastructure (Daily Times 2025b; Mettis Global 2025a). Parliament passed the Virtual Assets Bill in late February and early March 2026 (Senate approval February 27–28; National Assembly March 3–4), as Virtual Assets Act 2026³ legalizing the cryptocurrencies (Dawn 2026; Salaam Gateway 2026).

Current research explores three dimensions of the virtual assets (VAs) in Pakistan including the history of legal developments, the new regulatory framework, and policy issues, such as a lack of jurisdiction, procedural shortcomings, constitutional questions, Shariah compliance problems, data privacy issues and controlling decentralized technology in a digital economy with weak institutions.

2. Legal Evolution of Virtual Assets Regulation in Pakistan

2.1 The 2018 Circular: Prohibition or Regulatory Pause?

In Pakistan, the regulation of virtual assets started with the BPRD Circular No.03 of 2018 issued by the SBP. The circular ordered all the banks, development financial institutions, microfinance banks, payment system operators, and payment service providers to avoid processing, using, holding, promoting, or investing in cryptocurrencies. The circular declared that electronic currencies like Bitcoin, Litecoin, Pakcoin, Onecoin, DasCoin, Pay Diamond, and ICO tokens were not legal tender. Government of Pakistan (GoP) did not issued or guaranteed them and the SBP had not licensed any entity to issue, trade, or invest in such assets in Pakistan. The cryptocurrency-related transactions were to be reported to the Financial Monitoring Unit (FMU) by the financial institutions as suspicious transactions (State Bank of Pakistan 2018).

This circular attracted a lot of controversy as it was perceived as an explicit prohibition of cryptocurrency in Pakistan. In May 2025, the SBP gave a formal clarification that this circular did not declare virtual assets illegal. It only meant to avoid trading in cryptocurrencies as there was no regulatory framework for the same (Geo.tv 2025) to protect the regulated entities and their customers (Geo.tv 2025). This reinterpretation faced strong criticism as an expression of the normalization of a harmful legal culture in Pakistan where national policy is not made in parliament but in PDF files posted to institutional websites (Khan 2025). Pakistan allegedly blocked more than 11, 000 bank accounts, related to cryptocurrency transactions, between 2018 and 2024. In 2021, alone the Federal Investigation Agency (FIA) blocked the accounts of 1,064 individuals dealing in crypto trading, with some transactions of about Rs. 51 million through Binance and Coinbase platforms (Bukhari, Haq, and Shakoori 2025a). These enforcement actions were based on the 2018 SBP circular. This anomaly highlighted basic issues of legal certainty, separation of power and the appropriate boundaries of delegated regulatory authority.

2.2 The SECP's 2020 Consultation Paper

Another landmark achievement was the release of position paper on regulating the digital assets by the Securities and Exchange Commission of Pakistan (SECP) in November 2020. The SECP explored the emerging digital finance market in Pakistan, analyzed the regulatory frameworks of other jurisdictions, and suggested possible methods of regulating digital assets. The digital assets market value amounted to over €7 billion globally and four forces defined the need to develop the policy namely, digital assets as an innovation affecting the financial sector; the inability to regulate them in the existing framework; opportunities to establish a regulatory arbitrage; and the necessity for investment, and participation in digital assets (The Financial Daily 2020).

This 2020 policy consultation paper of SECP proposed possible regulatory sandboxes in the fintech and digital asset sector. However, it was an exploratory paper and not a prescriptive one and no tangible regulatory framework came out of it in a few years. However, it was a significant step in recognition that Pakistan could not ignore the globally increasing digital assets market.

2.3 The Virtual Assets Ordinance 2025

President of Pakistan approved the Virtual Assets Ordinance 2025 on July 8, 2025, under Article 89(1) of the Constitution of Pakistan. It was the first legal framework for managing virtual assets and the companies operating such assets. The ordinance defines virtual assets as “digital representation of value that can be digitally traded or transferred and used for payment or investment purposes,” and states that virtual assets would not be a legal tender in Pakistan (Virtual Assets Ordinance 2025; Khalid Zafar and Associates 2025).

It established the Pakistan Virtual Assets Regulatory Authority (PVARA), led by the Chairperson, Governor of the State Bank of Pakistan, federal secretaries of the Ministries of Finance, Law and Justice and Information Technology, Chairpersons of the SECP, Federal Board of Revenue (FBR), and the Digital Pakistan Authority, Director General of the Federal Investigation Agency (FIA), and two independent directors selected by the federal government (Virtual Assets Ordinance 2025). PVARA can license, regulate, and oversee VASPs in eight categories, such as advisory services, broker-dealers, and exchanges, and make sure that the

² Virtual Assets Ordinance, 2025 (Ordinance No. VII of 2025). https://www.senate.gov.pk/uploads/documents/1755602422_748.pdf

³ Virtual Assets Act, 2026 (Pakistan). <https://pvara.gov.pk/documents/Virtual%20assets%20Act%202026%20passed%20by%20NA.pdf>

Anti-Money Laundering (AML), Combating the Financing of Terrorism (CFT) and cybersecurity measures are followed strictly (ComplyFactor 2026).

VASP categories were taxonomically similar to the taxonomy of crypto-asset services of Markets in Crypto-Assets (MiCA) Regulation of the European Union, whereas the capital requirements of Schedule 2 were close to the UAE licensing requirements (Bukhari, Haq, and Shakoori 2025a). Although this adoption of foreign statutes accelerated the development of Ordinance, it raised concerns as to whether the ordinance had sufficiently considered the socio-legal context of Pakistan. The ordinance was issued as a presidential ordinance, and not as a Parliamentary act. The President can promulgate an ordinance when the National Assembly is not in session and an urgent action is required. The circumvention of the parliamentary process can't be justified since there was no emergency that necessitated it not to be presented in the form of a Bill before the Parliament (Bukhari, Haq, and Shakoori 2025a). The ordinance had to last 120 days, necessitating its renewal by president or acceptance by Parliament before November 4, 2025 (Virtual Assets Ordinance 2025).

2.4 Legislative Developments and the Virtual Assets Act 2026

The ordinance eventually lapsed without any approval from the parliament resulting in the introduction and acceptance of Virtual Assets Bill 2026. On February 27, 2026, the Senate of Pakistan approved the bill, and on March 4, 2026, the National Assembly, officially legalized cryptocurrencies and created a regulatory framework of the digital assets in the financial system of the country (Dawn 2026; Pakistan Today 2026). This Virtual Assets Act, 2026 replaced the Virtual Assets Ordinance, 2025. The bill mandated the establishment of a special regulatory body to license, regulate and oversee virtual assets and VASPs.

The Act expressly provides the Shariah-compliant virtual asset services and emphasizes the necessity to conform to the international regulations (Salaam Gateway 2026). The Act has a regulatory sandbox (up to 18 months for testing innovations), and a Virtual Assets Tribunal (VAT) for dispute resolution. PVARA is the primary regulator for VASPs, while retaining coordination with the SBP (payment systems and potential CBDC), SECP (tokenized securities), FMU (AML intelligence), and FIA (enforcement). A Shariah Advisory Committee (SAC) advises on Islamic-compliant products. The VAT consists of a presiding officer who is a legal expert, two members, one technical and one financial, and the appeal procedure to the Supreme Court within sixty days (Virtual Assets Act 2026). Followed by this 2026 act, many Pakistanis accumulated significant crypto holdings (Profit by Pakistan Today 2026).

3. Regulatory Architecture

3.1 Institutional Framework: PVARA, SBP, and SECP

Pakistan has a tripartite institutional structure of PVARA, SBP, and SECP as a regulatory framework of virtual assets. PVARA being the special virtual assets regulator has the major role of licensing, monitoring, and overseeing VASPs. The authority is a self-governing federal agency, which reports to the federal government, but has the discretionary power to make its own decisions regarding licensing and enforcement. The mandate of PVARA is to provide robust AML, CFT, and cybersecurity services and encourage Shariah-compliant innovation through regulatory sandboxes (Press Information Department 2025; Mettis Global 2025b).

The Act identifies SBP as the authority over payment-oriented tokens and VASPs, and SECP as the authority over security tokens and asset-backed offering (Virtual Assets Act 2026). It resembles the regulatory approach in other jurisdictions like Singapore and the United States, where payment tokens are subject to the supervision of the central bank or payments regulator but security tokens are supervised by the security regulator. Demarcation between SBP and SECP jurisdictions is, however, unclear, and it creates doubts as to how the hybrid assets, which feature both characteristics of payment tokens and securities, should be classified (Haqu and Shakoori 2025a). This two-pronged regulation poses a risk to companies and investors because it can discourage innovation in the token design, decentralized financial applications and new financial instruments.

3.2 Licensing and Registration Requirements

The Act provides a systematic licensing system for VASPs and a person or organization can't offer services concerning virtual assets without a license. Practicing without a license is subjected to criminal penalties, such as a prison sentence of up to seven years (Virtual Assets Act 2026). The Virtual Asset Service Provider Governance & Operations Regulations 2025 stipulates that VASPs should be licensed in the categories such as crypto exchange operations, broker, custody, token issuance (including stablecoins), lending and borrowing, derivatives and futures, asset management, settlement service and blockchain service provider (ComplyFactor 2026).

All VASPs including exchanges, custodians, wallet providers, token issuers, broker-dealers, and derivative platforms will be incorporated under the Companies Act 2017 and will obtain a PVARA license. The licensing process will begin by payment of prescribed fees, a No Objection Certificate (NOC), followed by FMU AML registration, local subsidiary incorporation, and full licensing. PVARA targets decisions within 60 days of complete applications. Ownership details, business plan, minimum capital, fit-and-proper criteria for directors and controllers, physical office of VASP in Pakistan, residence of a key management person in Pakistan and segregated customer asset accounts are mandatory. The customer assets should be deposited in segregated accounts and the licensee should present cryptographic evidence of the reserves reconciled with the customer liabilities (ComplyFactor 2026). Proof-of-reserves reconciliation and exclusion of customer assets from insolvency proceedings enhance protection.

AML/CFT requirements align with FATF Recommendation 15 and the PMLA 2010. VASPs must conduct customer due diligence (KYC), ongoing transaction monitoring, sanctions screening, record-keeping (seven to ten years), and immediate suspicious transaction reporting to the FMU. The "Travel Rule" for originator/beneficiary information is implied through FATF alignment. Market manipulation is criminalized. Unlicensed operations carry severe penalties: imprisonment up to seven years, fines up to PKR 50–100 million (or 5% of the offering value), asset seizure, and license suspension. False statements in applications attract up to three years' imprisonment or PKR 20 million fines.

Although every VA need not be Shariah compliant (non-compliant products can be licensed if clearly separated and labeled), VAA 2026 prioritizes and incentivizes Shariah-certified ones. Licensees should separate Shariah-compliant and non-compliant activities where relevant, implement custody and reserve mechanisms that satisfy Islamic fiduciary standards and undergo periodic Shariah audits similar to those for Islamic banks. Early NOCs to global players such as Binance and HTX (December 2025) signal openness to foreign investment, provided local subsidiaries comply. By establishing PVARA, enforcing FATF-aligned AML/CFT rules, and institutionalizing Shariah compliance through the dedicated SAC, VAA 2026 is a supervised, values-driven ecosystem.

Capital requirements imposed by the Act are a serious barrier to entry as “prohibitively high thresholds may exclude domestic startups and local innovators favoring established multinational “ (Bukhari, Haq, and Shakoori 2025b). This is concerning in the developing economy of Pakistan, where the domestic fintech startups do not usually have the capital base like international competitors. The PVARA framework does not oblige VASPs to wait until they have a complete comprehensive license to start operations, but it provides a so-called No Objection Certificate (NOC) mechanism to enable controlled entry (Mettis Global 2025b). The lack of a well-developed tiered licensing mechanism for various types of service providers is also an issue, and each operator will be in the same regulation category (Haq and Shakoori 2025a).

3.3 AML and CFT Framework

The regulatory architecture of Pakistan follows FATF standards. A strategic framework by the National Working Group on virtual assets (VAs) and VASPs, set up by the Ministry of Finance in January 2024 and under the oversight of the AML/CFT Authority and led by the FIA, is fully consistent with FATF Recommendation 15 (Daily Times 2025a; PakBanker 2025a). The framework deals with the risks that are of critical concern to money laundering, financing of terrorism, and financial instability and supports the responsible use of blockchain-based technologies.

Every licensed VASP is required to uphold full AML/CFT practices, such as customer due diligence by verifying identity throughout the business relationship; real-time monitoring of all transactions to identify suspicious patterns; record maintenance of at least seven years; reporting suspicious activities to the Financial Monitoring Unit; screening for national and international sanctions list; and data protection with effective cybersecurity measures (ComplyFactor 2026). The rules render the FATF Travel Rule compulsory whereby crypto companies must share the sender and receiver information. For any crypto transfer of more than Rs 1 million, VASPs are required to gather, authenticate and have full information of the sender and the beneficiary, including full names, CNIC or passport numbers, wallet addresses, origin of transaction, identity evidence, source of funds and recipient platform information. The unhosted wallets (wallets without KYC) will be subjected to enhance diligence, and large transactions in unhosted wallets will be flagged for investigation (ComplyFactor 2026).

This AML/CFT model is due to an essential weakness. Finance Minister of Pakistan cautioned that Pakistan can slip back to the FATF grey list since unregulated digital transactions are being conducted by a significant portion of the population (The Express Tribune 2025). Pakistan exited from FATF grey list left in 2022 after years of compliance, and it does not want to go there once again. The regulatory regime of the virtual assets is hence more to do with the global financial compliance rather than the national consumer protection.

3.4 Central Bank Digital Currency (CBDC) as a Parallel Track

Besides regulating the private virtual assets, SBP has been striving to develop a central bank digital currency. Governor SBP, in July 2025 announced that the bank was developing a pilot program for a CBDC, and was developing capacity to pilot the digital currency (Daily Times 2025b; Mettis Global 2025a). The central banks of China, India, Nigeria, and Gulf states are already experimenting similar moves. The CBDC project of Pakistan is based on the RAAST real time payment system introduced in 2021. Pakistan aims to leverage its CBDC to improve financial inclusion, reduce transaction costs, digitalize welfare disbursements, and incorporate millions of the unbanked citizens into the formal economy (PakBanker 2025b). According to World Bank, more than 100 million adults in Pakistan are not banked, and the gender gap in account ownership is over 50 percent, which is one of the largest in the region (Profit by Pakistan Today 2026). The virtual assets are not legal tender and the SBP retains its monopoly on the official means of payment, however the trading, holding, and transfer of private digital assets as commodities or investment instruments are allowed (Virtual Assets Act 2026). The strategy is similar to the regulatory strategy adopted by most jurisdictions, such as the European Union under MiCA.

4. Policy Challenges

4.1 Regulatory Ambiguity and Dual Authority

The key problem in the regulatory framework of Pakistan is the unclear role of SBP and SECP. Although the Act technically assigns payment tokens and security tokens to the SBP and SECP respectively, the distinction between the two is not always apparent in practice. Hybrid products that have the features of payment tokens and securities are in the regulatory void (Haq and Shakoori 2025a). This uncertainty creates challenges for businesses and investors, potentially discouraging innovation in the design of tokens and decentralized financial applications.

Historically, SBP and SECP have been governed by different regulatory philosophies and execution style. The SBP as the central bank has dealt with monetary and financial stability whereas the SECP has protected the investors and the integrity of the market. VASPs can have conflicting requirements or regulatory arbitrage opportunities without clear coordination mechanisms and dispute resolution procedures. A Virtual Assets Tribunal will be established under the act for regulatory appeals, but this system will solve conflicts after they arise rather than avoiding the jurisdictional overlap at the very beginning (Virtual Assets Act 2026; ComplyFactor 2026).

4.2 Procedural Deficits and Constitutional Concerns

The Virtual Assets Ordinance raised doubts as according to Article 142 of the Constitution, Parliament makes the laws. The SBP issued clarification that implicitly re-characterized the legal position of a whole class of assets, indicated that in Pakistan the

state governs more through notification than through legislation (Khan 2025). The ordinance appeared without any significant consultation, and public discussion is perceived as an overall trend of executive discretion as a governmental system (Bukhari, Haq, and Shakoori 2025a). References in the ordinance to the Anti-Money laundering Act 2010, the Securities Act 2015, and the Companies Act 2017 of Pakistan do not cover the particular problems of virtual currencies. The laws, which were initially designed to suit conventional financial products and corporate frameworks, are not defined and no mechanisms is suggested to enforce them on digital assets (Haq and Shakoori 2025b). The transformation of ordinance to act changed constitutional imbalance. The lack of a long-term discussion and passing of bill of Virtual Assets within minutes following waiver of the rules raised concerns (Dawn 2026; Pakistan Today 2026) as it is meant to regulate billions of dollars in investment and saving.

4.3 Financial Inclusion Versus Exclusionary Licensing

The National Financial Inclusion Strategy of Pakistan aims to increase the provision of formal financial services. However, the regulatory framework of the virtual assets (VAs) can disrupt financial inclusion. The high capital demands to purchase VASP licenses excluded local innovators and startups, benefiting established big players renders the virtual asset landscape an exclusive club of the elite in Pakistan (Bukhari, Haq, and Shakoori 2025b).

It is especially relevant in the existing demographic characteristics of cryptocurrency adoption in Pakistan. Most of the 40 million Pakistani crypto users are technologically skilled generation-Z who have opted digital assets to bypass inflation, a remittance source, or an investment opportunity. Most of these users do not have access to conventional banking services. The currency of Pakistan has been depreciated by over 50 percent in the last five years slashing the purchasing power of common people. Bitcoin and other online currencies help restore money which is decreasing due to inflation, political decisions, and currency mismanagement (Profit by Pakistan Today 2026).

A regulatory approach that renders indigenous entrepreneurs unprofitable and concentrates VASP licensing to a few international big players cannot serve this group of users and they can focus informal peer-to-peer markets (Haq and Shakoori 2025a). The six-month transition period provided by the Act to the existing operators who seek to obtain a license or to shut down their business is a challenge to the numerous small-scale crypto-oriented Pakistani businesses established in the regulatory void (Virtual Assets Act 2026).

4.4 Data Privacy and Regulatory Overreach

Pakistan faces challenges of data privacy and regulatory overreach. Although AML and KYC interventions help prevent financial crimes, the Act does not provide much information on the data protection standards in line with the modern world practices, leading to increased surveillance undermining the users trust (Haque and Shakoori 2025b). The requirements of maintaining seven years record and reporting of suspicious transactions by VASPs, poses a lot of data collection obligations. Pakistan lacks data protection laws like that of European Union General Data Protection Regulation (GDPR). Lack of legal protection of the collected data has possibility of misuse, unauthorized access, or government overreach (Bukhari, Haq, and Shakoori 2025a).

The SBP proposal to limit outbound crypto transfers to US 100,000 annually is specially challenging. This upper cap treats the digital assets as a regular remittance neglecting their special feature and trying to police an industry that does not fit the traditional banking system (Khan 2025). Distributed ledgers and peer-to-peer transfers are different from traditional wire transfers, exchanges and middlemen may exit the country due to compliance burden on them. It will lead to unregulated areas where money laundering and fraud risks will grow (Khan 2025).

4.5 Enforcement Capacity and Technological Challenges

The successful management of virtual assets demands technical skills that might be limited in the Pakistani regulatory bodies. The cryptocurrency transactions being decentralized, pseudonymous and transnational, challenge the conventional enforcement systems as faced by the FIA in high profile cases. In Mustafa murder case, the homicide investigators alleged that the prime suspect transferred income obtained through illegal enterprises to cryptocurrency and the FIA requested the court to grant access to the Bitcoin exchange platform of the suspect for an ongoing money laundering investigation (The Express Tribune 2025). In another case, Bitcoins were found in the wallets of suspects, who had received massive amounts of money in foreign currency, in a multi-billion-rupee scheme involving call centers where money was laundered by the hawala and hundi systems and exchanged into cryptocurrency to be sent overseas (Bukhari, Haq, and Shakoori 2025b).

Currently an informal crypto market of \$25 billion is operating without any regulatory framework (Profit by Pakistan Today 2026). The Act provides that unlicensed entities may face seven years prison and fine of up to Rs100 million (Virtual Assets Act 2026), raising question of the possibility of enforcement. Institutional capacity building by training regulators, law enforcement officers, and judicial officers on blockchain technology, cryptocurrency trading, and forensic analysis, can help the Act achieve its goals (Mettis Global 2025b).

5. Islamic Finance Considerations

Pakistan being a Muslim state has a significant section of Islamic banking in its financial system. Whether cryptocurrencies and other virtual assets can be deemed as Shariah-compliant has been extensively debated by Islamic scholars. Pakistan is establishing the infrastructure of a safe, Shariah-compliant, and progressive digital economy and ecosystem of virtual assets (Press Information Department 2025). The Virtual Assets Act 2026 expressly provides a subsection that is a Shariah-compliant virtual asset services, wherein PVARA must establish a Shariah Advisory Committee to advise on Shariah compliance of virtual asset products and services (Virtual Assets Act 2026; Salaam Gateway 2026). Pakistan and Malaysia have collaborated to develop a Shariah-compliant system of digital assets in discussions regarding whether cryptocurrencies can be termed as being Shariah-compliant (The News 2025).

The Act's objectives explicitly promote the development of Shariah-compliant virtual asset services while directing PVARA to ensure activities align with Islamic finance principles. These principles bar *riba* (interest/usury), excessive *gharar* (uncer-

tainty/speculation), *maysir* (gambling), and involvement in *haram* activities (e.g., alcohol, pork, or conventional interest-based instruments). This integration is based on Pakistan's established Islamic banking framework, which follows Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards with SBP adaptations.

The Act mandates the constitution of a Shariah Advisory Committee (SAC) consisting of expert Islamic finance scholars. The SAC will advise PVARA on the Shariah compliance of VA products and services, with its rulings on designated Islamic offerings being binding on licensees. Its mandate includes evaluating whether specific VAs or services involve prohibited elements (e.g., highly leveraged derivatives resembling *riba* or excessive speculation), approving structures such as *mudabah*- or *musharakah*-based investment vehicles, commodity-backed tokens, real-asset-referenced stablecoins, or tokenized *sukuk* and providing ongoing guidance on market conduct, custody, and yield mechanisms to ensure fidelity to *fiqh al-mu'amalat* (Islamic commercial jurisprudence). The SAC will coordinate with the SBP's existing Shariah governance mechanisms and the SECP to maintain consistency across the financial sector. VASPs seeking Shariah certification for products must submit applications to PVARA, which will refer them to the SAC for review.

However, important questions of theology and jurisprudence are not resolved. The principles of Islamic finance forbid any speculative actions (*gharar*), and the transactions should be supported by material assets. Cryptocurrencies pose a challenge due to their nature and absence of asset base. The unpredictability of these currencies promotes speculative buying and selling, which is very similar to gambling (*maysir*), which is forbidden in Islam. The illicit activities can be executed through virtual asset transactions making it difficult to comply with Shariah. According to the President and the CEO of Bank Islami, Islamic finance is regulated by principles (which are not speculative activities) and deals must be supported by tangible assets (Cryptocurrencies, 2025).

Regulators, Islamic scholars, and technologists will have to work together to develop Shariah-compliant digital assets. The possible solutions are the tokenization of real-life assets (including real estate or commodities) as digital tokens that are Shariah-compliant, the creation of halal stablecoins linked with physical assets, and the creation of Islamic digital asset exchanges that operate within the Shariah regulatory frameworks. The collaboration between Pakistan and Malaysia, a leading Islamic finance hub in the world, is one of the opportunities that can be tapped to mitigate these challenges (The News 2025).

6. Theoretical Framework

The Law & Economics framework assesses legal rules based on efficiency and welfare outcomes (Posner 1973). Pakistan adopts a substance-over-form approach, classifying VAs based on their economic function rather than nomenclature or formal designation. VAs reduce transaction costs and enhance financial efficiency and Pakistan aims to harness these economic benefits while maintaining oversight (ComplyFactor 2026). Unregulated VA markets produce negative externalities, including fraud, information asymmetry, and systemic risk. Regulatory intervention corrects such inefficiencies (Posner 1973). The VAA 2026 balances compliance costs with societal benefits by centralizing regulatory authority and reducing duplication (CCN 2026).

VAA 2026 reflects public interest objectives, including consumer protection, financial stability, and AML compliance (PTBP 2025). Regulatory capture is a possible risk, especially in emerging markets where large firms can influence results of regulation (Stigler 1971). VAA 2026 aligns with responsive regulation by combining enforcement with flexibility and graduated sanctions (Ayres and Braithwaite 1992). This act emphasizes risk-based supervision, focusing on high-risk activities such as cross-border transactions and money laundering (CCN 2026). It's both efficiency-driven and grounded in public interest considerations.

7. Comparative Analysis with India and Bangladesh

India has already removed its previous prohibition on crypto trading and is moving towards a regulatory structure, with a 30 percent tax on crypto profits and a 1 percent tax deducted at source (TDS) on trading. India does not promote or prohibit crypto but imposes high taxes on the digital assets, impose capital gains tax of 30 percent and of 1 percent TDS since July 2022. India has not yet enacted comprehensive laws on virtual assets and traders are currently in a grey area. The Supreme Court of India has encouraged the government for clear regulations as high tax rates are tantamount to tacit acceptance of the industry (The Business Standard 2025).

Bangladesh has a restrictive approach in the region. The Bangladesh Bank in 2017 announced that cryptocurrencies such as Bitcoin are not legal tender. Although cryptocurrency is not explicitly prohibited by law, the central bank and the already established law on foreign exchange and money laundering make crypto business risky. However, black markets are thriving, and Bangladesh is 35th in the global ranking of cryptocurrencies users (The Business Standard 2025).

While India is still debating and Bangladesh has prohibited, Pakistan has passed a comprehensive law and established a specialized regulating body. The Virtual Assets Act 2026 aims to legitimize, regulate and compete the global digital assets economy (Salaam Gateway 2026; Dawn 2026). Such variation in regulatory approaches is due to national priorities. India is more concerned with taxation as it is more responsible to the fiscal priorities; Bangladesh is more concerned with financial stability as it is prohibited; Pakistan has a more balanced approach meeting the FATF requirements, financial inclusion, and the utilization of digital assets to develop its economy.

8. Recommendations

SBP and SECP jurisdictions should be made clear. Regulatory certainty requires clear guidelines of grouping hybrid assets in addition to coordination and dispute resolution processes. In the absence of this clarity, the dual-regulatory framework will discourage innovation and increase compliance costs surpassing the benefits of formalization (Haq and Shakoori 2025a).

The licensing system should encourage and not hinder financial inclusion. Increasing capital requirements will exclude domestic startups and local innovators from the ecosystem (Bukhari, Haq, and Shakoori 2025b). Enabling fintech start-ups in the country, through regulatory sandboxes, risk-based tiered licensing, and technical support, would help cope this challenge. The regulatory sandbox to support controlled testing of innovative virtual asset products and services of up to eighteen months is a good move (Virtual Assets Act 2026), but its application will be challenging.

Data protection standards should be established to fulfill AML/CFT requirements. Existing laws do not address privacy risks associated with the gathering and retention of large volumes of customers data by VASPs. Accordingly, a comprehensive data protection framework in line with the international standards is required (Bukhari, Haq, and Shakoori 2025a).

The Shariah compliance issue should be settled by involving the regulators, Islamic scholars and industry players by a continuous dialogue. Shariah-compliant virtual assets along with certified halal digital asset products would offer the legal assurance to Muslim investors making Pakistan a pioneer of Islamic digital finance (The News 2025).

The virtual assets must be regulated efficiently, which demands the technical skills of blockchain technology, trading of cryptocurrencies, and forensic investigation. Trainings of regulators, law enforcement agencies, and judicial officers will help meet these goals (Mettis Global 2025b). The National Working Group on VAs/VASPs of FIA is a potential institutional innovation whose efforts should be extended (Daily Times 2025a).

The procedural gaps in the lawmaking process should be addressed. Although the ordinance to act changed the most obvious constitutional shortcoming, the large-scale trend of governance by notification over legislation is not a healthy practice. The prospective regulatory changes must be consulted meaningfully, debated in parliament and exposed publicly. The swift enactment of the Virtual Assets Bill 2026, though speeding up the process of the implementation of the law, cannot be taken as a precedent to the rigorous work of the creation of the law in Parliament (Dawn 2026; Pakistan Today 2026).

9. Conclusions

The establishment of a specialized regulator of virtual assets, the formulation of the AML/CFT requirements to the standards of FATF, and the creation of a CBDC at the same time suggest that Pakistan is not neglecting the sphere of digital assets. The Virtual Assets Act 2026 can be used as a base on which an effective regulation framework can be established. Future developments will depend upon the effectiveness of its implementation, the timeliness of regulators to the arising issues, and the readiness of policy-makers to cope with the structural gaps outlined in this analysis. Pakistan cannot afford to be dependent on the old economic models, with about 70 percent of the population being below the age of 30. A regulatory system is required to safeguard consumers and uphold financial integrity without stifling the innovation of digital assets.

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