



Regulating Digital Finance: A Critical Analysis of Pakistan's Virtual Assets Ordinance 2025

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ABSTRACT

The Virtual Assets Ordinance 2025 of Pakistan, which establishes a legislative framework for virtual assets, crypto service providers, and a Central Bank Digital Currency (CBDC) pilot, is examined critically in this article. It assesses the scope, governance, sandbox design, and licensing system of the Ordinance, emphasizing jurisdictional overlaps, enforcement ambiguities, and the separation of civil and criminal culpability. Comparisons with the United Arab Emirates, Singapore, India, and the European Union's Markets in Crypto-Assets Regulation (MiCA) highlight Pakistan's regulatory strengths and weaknesses, especially with regard to Shariah compliance. The article argues that the Ordinance runs the risk of restricting innovation and creating legal uncertainty if it is not refined. It ends with recommendations for legislative permanency, institutional capacity-building, and a tiered licensing approach.

Keywords: Central Bank Digital Currency, criminal culpability, Markets in Crypto-Assets Regulation, Shariah compliance, Ordinance, legislative permanency

1. OVERVIEW & REVIEW

1.1. Promulgation & Scope

Issued on July 8, 2025, as an ordinance (valid for 120 days unless ratified), it establishes the Pakistan Virtual Asset

Regulatory Authority (PVARA) governing crypto assets and VASPs operating in or from Pakistan.

1.2. Key Features

- Defines “virtual assets” broadly (excluding fiat and regulated securities).

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- Requires all service providers to be licensed, with capital, compliance, and reporting mandates.
- Includes regulatory sandbox capabilities and “no-action” reliefs.
- Establishes a Shariah Advisory Committee and a Virtual Assets Appellate Tribunal.

1.3. Mandate & Governance

PVARA is autonomous, with a board including SBP, SECP, FBR, and independent experts.

1.4. Complementary Reforms

SBP piloting a CBDC, and the Pakistan Crypto Council (PCC) is exploring Bitcoin reserves and mining.

2. PAKISTAN’S SANDBOX & LICENSING (ORDINANCE SECTIONS 42–45)

2.1. Sandbox Design

2.1.1. Eligibility

Innovators must submit a detailed proposal including risk assessments and exit strategies.

2.1.2. Duration

Up to 18 months, with discretionary limits on financial exposure and user numbers.

2.1.3. Support

No technical assistance, mentorship, or funding. Mere administrative oversight—not an enabling innovation environment.

2.1.4. Post-Sandbox Transition

Lacks defined criteria or roadmap to move from sandbox to full licensing.

3. KEY CONCERNS

3.1. Legislative Validity

As an ordinance, it's temporary unless Parliament approves—creating legal uncertainty.

3.2. High Regulatory Burden

Critics highlight opaque licensing costs, “one-size-fits-all” capital requirements, and no differentiated treatment for smaller players.

3.3. Operational Gaps

Capacity-building, stakeholder coordination (SBP, SECP, FBR), and tax clarity remain underdeveloped.

3.4. Local Conditions & Adaptation:

The approach borrows heavily from developed countries without tailoring to Pakistan’s lower crypto literacy and institutional readiness.

Opaque evaluation and selection metrics; no clear application timeline. Authority can withdraw “no-action” relief arbitrarily, raising legal uncertainty.

Enforcement and penalties (up to PKR 100 million or 5% of turnover) may be overly punitive without checks.

3.5. Authority-Extraterritorial Scope:

It seems that the Ordinance asserts jurisdiction that is primarily extraterritorial. Virtual assets are borderless by nature, but the text does not go far enough in addressing the need for robust mutual legal assistance frameworks and technical capacity to enforce laws across national borders.

3.6. Framework for a Complex Investigation with Overlapping Authorities:

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Several authorities and organizations, including the SECP, State Bank of Pakistan, FIA, and FBR, are involved in the investigation and enforcement process. This overlapping authority may result in conflicting acts, delays in the legal process, and regulatory arbitrage if there is no clear separation of powers and coordination procedures.

3.7. Is the nature of the law ambiguous-criminal or civil?

The distinction between criminal and civil culpability is muddled by the Ordinance. Although it establishes compliance requirements and sanctions that carry both civil and criminal penalties, it is unclear when a violation is solely regulatory or when it deviates

into criminal activity. Both courts and investigating officers may encounter difficulties as a result of this uncertainty.

3.8. Dual Liability: Criminal Offenses (Section 50) and Civil Penalties (Section 49)

Although civil penalties and criminal offenses are covered in Sections 49 and 50, respectively, it is unclear how these two relate to one another. Can a person or thing deal with both at the same time? Does protection against double jeopardy exist? How is proportionality going to be upheld? To prevent capricious or overbearing enforcement, these questions require clarity.

Table 1: Comparison with Other Jurisdictions

Feature	Pakistan	UAE / Singapore	India	EU (MiCA)
Regulator	PVARA (new)	FSRA/SEC (established)	RBI + forthcoming VA Act	European Commission
Licensing + Sandbox	Included	Yes	Restricted (RBI cautious)	Yes
Shariah Governance	Yes (Shariah Committee)	No	N/A	No
CBDC Pilot	Yes	Yes	No	Multiple pilots
Legal Status	Ordinance, temporary	Act (stable legal basis)	Mixed; banking restrictions	Full legislative framework (MiCA)

In terms of licensing, sandboxing, and CBDC experimentation, Pakistan follows international trends (such as those in the UAE and the EU). It has a distinct advantage since it incorporates Shariah governance. Similar to India's careful regulatory approach with RBI bans, Pakistan lacks legislative permanence and clarity in contrast to the UAE's established frameworks and

the EU's complete MiCA statute.

4. SINGAPORE’S MAS SANDBOX & LICENSING (PAYMENT SERVICES ACT)

4.1. Sandbox Framework

- Open to fintechs, banks, tech firms; applications evaluated

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- based on novelty, consumer benefit, and risk management.
- Offers relaxations: lighter capital adequacy, board composition, asset maintenance for sandbox participants.
- No-action letters available, with transparent conditions, feeding into ongoing dialogue.
- Structured support: mentoring, funding access, regulatory guidance—actively nurturing innovation.
- MAS licenses DPT (Digital Payment Token) providers: includes trading, custody, exchange.
- Strong AML/CFT: KYC, travel rule, risk monitoring.
- Tiered licensing: Standard vs. Major Payment Institution depending on transaction volumes and risk.
- Clear penalties: up to SGD 1 million fine or 2 years’ imprisonment for breaches.

5. LICENSING UNDER MAS PSA

6. DIRECT COMPARISON

Table 2: Direct Comparison between Pakistan and Singapore Ordinance

Feature	Pakistan (Ordinance)	Singapore (MAS – PSA)
Sandbox eligibility	Detailed proposal required; no timeline or metrics.	Broad eligibility; assessed on innovation, risk controls, user benefit.
Regulatory relief	No-action letters, but revocable arbitrarily	No-action letters with transparent terms; integrated support
Support during sandbox	Administrative only; no funding or mentorship	Mentorship, capital reliefs, regulatory guidance
Transition to full license	No defined scaling timeline; risk of dead-end sandbox	Clear path to licensing; scaled oversight as business grows
Licensing framework	One-size-fits-all licensing; lacks tiers	Tiered licensing (Standard/Major); fit-for-purpose compliance
AML/KYC standards	Mandated, but details unclear	Robust, with KYC, travel rule, high conduct standards

7. SUGGESTIONS FOR IMPROVEMENT

7.1. Parliamentary Approval

Transition the ordinance into a full Act to ensure durability beyond 120 days.

7.2. Tiered Regulatory Framework

Introduce small vs. large provider categories, with phase-wise capital and

compliance thresholds, to foster startup innovation.

7.3. Transparent Licensing

Publish clear fee schedules, application timelines, and revenue model guidelines.

7.4. Capacity & Coordination

Allocate resources for PVARA training, and establish a joint taskforce with SBP, SECP, and FBR to handle

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supervision, AML/CFT, and tax harmonization.

7.5. Public Engagement & Education

Launch a national awareness program on crypto risks and consumer protections in local languages.

7.6. Iterative Policy Refinement

Conduct periodic (e.g. biannual) stakeholder reviews to refine sandbox rules, licensing caps, and compliance burdens.

7.7. Define eligibility & timelines

Set explicit criteria, evaluation metrics, and decision timelines for sandbox applications.

7.8. Offer regulatory reliefs

Provide proportional relaxations (e.g. reduced capital, simplified governance) during testing.

7.9. Build innovation support

Include mentorship, access to funding, and regulatory dialogue to attract serious innovators.

7.10. Ensure predictable relief

Make no-action letters binding with specified duration and limited revocation rights.

7.11. Create step-up pathways

Develop a structured process to transition sandbox pilots to full licensing seamlessly.

7.12. Adopt tiered licensing

Introduce Standard vs. Major licenses with aligned compliance and capital thresholds.

7.13. Cap penalties

Scale fines based on issue severity and

business size; add oversight on enforcement.

8. CONCLUSION

A significant step toward regulating and legitimizing the cryptocurrency industry has been taken with Pakistan's Virtual Assets Ordinance, 2025. A forward-looking approach is indicated by the establishment of PVARA, which includes Shariah reviews, and the piloting of a CBDC. Pakistan must, however, transform the ordinance into permanent law, modify the burden of compliance, strengthen its institutional capacity, and adapt to the local circumstances in order to prevent choking progress.

Although the Ordinance is an important and vital attempt to regulate virtual assets, practitioners, regulators, and the courts may face significant difficulties as a result of these ambiguities. Effective implementation requires a more defined framework regarding jurisdiction, the civil-criminal boundary, and investigative overlap.

It is a positive first step, Pakistan's sandbox now functions more like a regulatory checkbox than a launchpad. Singapore's MAS framework, on the other hand, provides a well-defined, encouraging, and organized route from innovation to full market deployment.

Pakistan may realize the full potential of its rapidly growing cryptocurrency industry by implementing quantifiable evaluation standards, proportionate oversight, structured mentorship, and tiered licensing. Adopted with these improvements, Pakistan might establish itself as a regional center for Shariah-compliant digital finance in addition to safeguarding consumers and discouraging illegal finance.

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