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ADVICE MEMORANDUM

Public Consultation Feedback on Pakistan's Virtual Assets Regulatory Framework

1. Executive Summary

This memorandum sets out the proposed response of Esquare Legal to the public consultation issued by the Pakistan Virtual Assets Regulatory Authority. The consultation concerns the draft Pakistan Virtual Asset Services Regulations 2026 and the accompanying activity handbooks, published under section 68 of the Virtual Assets Act 2026.[1] The framework establishes the architecture of a dedicated regulator, a licensing pathway for virtual asset service providers, and a token issuance regime. Its structure follows international practice. Its operative detail, however, is delegated almost entirely to subordinate regulation, and it is that detail which determines whether the regime protects consumers, satisfies the Financial Action Task Force, and attracts credible market participants.

The consultation is therefore the decisive opportunity to fix the numbers and mechanisms that the primary statute leaves open. This consolidated submission is organised in three parts. Part A identifies fourteen points where the Act or the No Objection Certificate Regulations 2025 contain a gap, an ambiguity, an inconsistency, or a standard set below international practice, and for each states the defect, explains why it matters, proposes specific drafting, and benchmarks the proposal against named provisions of the leading comparator regimes, namely the European Union Markets in Crypto-Assets Regulation, the Dubai Virtual Assets Regulatory Authority rulebooks, the Monetary Authority of Singapore framework, the Abu Dhabi Global Market regime administered by the Financial Services Regulatory Authority, the Hong Kong Securities and Futures Commission regime, the New York Department of Financial Services guidance, and the standards of the Financial Action Task Force.

The fourteen points of Part A, and the change each one seeks, are summarized below.

1. **Point 1. Fiat-referenced token regime (section 31).** Prescribe a fixed redemption window, monthly independent reserve attestation, segregated

[1]Pakistan Virtual Assets Regulatory Authority, public consultation on the Pakistan Virtual Asset Services Regulations 2026 (opened 11 June 2026; closing 2 July 2026). https://www.pvara.gov.pk/consultations; https://www.pvara.gov.pk/consultations/virtual-asset-services-regulations.

bankruptcy-remote custody, and a defined issuer capital floor, none of which the Act currently fixes.

2. **Point 2. Rupee-referenced tokens and the boundary with the State Bank (sections 5 and 31).** Make issuance of a rupee-referenced token conditional on the prior written concurrence of the State Bank, and provide for a published memorandum of understanding on monetary-stability limits.
3. **Point 3. Travel rule (section 47).** Set a transfer threshold of USD or EUR 1,000, adopt the IVMS101 data standard, and prescribe enhanced due diligence for transfers involving unhosted wallets.
4. **Point 4. Market manipulation and insider dealing (section 52).** Enact a detailed catalogue of prohibited conduct modelled on the EU market-abuse regime, extend liability to distributed-ledger roles, and impose a surveillance and reporting duty on intermediaries.
5. **Point 5. Custody and proof of reserves (sections 24, 26 and 27).** Prescribe a minimum cold-storage ratio, mandatory insurance, multi-signature key management, daily reconciliation, and prior approval of any sub-custodian.
6. **Point 6. The No Objection Certificate pre-licensing pathway.** Prohibit custody of, and dealing for, retail client assets during the interim period before a full license, impose activity caps, and set a hard sunset.
7. **Point 7. Minimum capital (section 25).** Set activity-tiered capital floors in the Regulations rather than leaving the requirement entirely to administrative discretion.
8. **Point 8. Definitional gaps.** Define decentralized finance, staking, and the perimeter of the algorithmic-token prohibition, bring payment and investment NFTs into scope, and draw a bright line between advisory and management services.
9. **Point 9. Consumer compensation (section 29).** Convert the discretionary power to establish a compensation scheme into a mandatory obligation supported by contributions or insurance.
10. **Point 10. Appellate tribunal (sections 62 to 65).** Fix the qualification and tenure of tribunal members and impose a statutory time limit for the disposal of appeals.
11. **Point 11. Regulatory sandbox (section 35).** Prescribe eligibility criteria, cohort windows, maximum test duration, consumer safeguards, and an exit pathway.

12. **Point 12. Data localization (sections 5, 39 and 40).** Insert a reconciliation clause resolving the conflict between the precedence of data-protection law and the Authority's localization powers.
13. **Point 13. Anti-money-laundering supervisory architecture (section 46).** Require a published memorandum of understanding allocating lead supervision among the Authority, the Financial Monitoring Unit, and the national authority, with a single reporting channel.
14. **Point 14. Shariah governance.** Prescribe the composition, powers, and screening methodology of the Shariah Advisory Committee, and require a Shariah audit for products marketed as compliant.

Part B sets out fifteen further recommendations, addressing matters either absent from the current drafting or developed below international practice. Each is stated first as a single recommendation and then, where needed, in detail. They are summarized below.

- **Point 15. Insolvency-remoteness of client assets.** Relocate the estate carve-out for customer assets from the Handbooks to the Act or to a Regulation that expressly cites its empowering section, and extend the protection identically to client virtual assets and reserve assets, so that it can bind an insolvency court.
- **Point 16. A workable transitional regime.** Run the six-month application window from notification of the final Regulations, forms, fees and Handbooks rather than from commencement of the Act, replace the apply-or-cease cliff with a phased migration, and pair it with a capital glide-path.
- **Point 17. Reconciliation with the State Bank, and a foreign-currency and stablecoin rail.** Identify the Permitted Bank Client Account with the Client Money Account under State Bank Circular No. 10 of 2026, align the two regimes, and provide a pathway for foreign-currency and approved-stablecoin client money.
- **Point 18. Unclaimed and dormant client assets.** Prescribe a dormancy timeline after which the unclaimed assets of uncontactable users are liquidated or transferred to a custody fund managed by the Authority or the State Bank, with a reclaim mechanism preserved.
- **Point 19. Cross-border solicitation and reverse solicitation.** Replace the open-ended material-connection trigger with an objective actively-markets-to test, make the safe harbour technology-neutral, define persons in Pakistan, and codify a narrow reverse-solicitation exemption.

- **Point 20. Token admission, listing and delisting, and token due diligence.** Prescribe minimum admission criteria, an orderly delisting procedure with customer protection, and a mandatory legal and technical due-diligence file for every token before it is listed.
- **Point 21. Marketing, financial promotions, influencers and key opinion leaders.** Bring the promotion of virtual assets within a financial-promotions regime with risk warnings, a ban on incentives, a cooling-off period, and licensee responsibility for the influencers and key opinion leaders it engages.
- **Point 22. Tax treatment of tokenised and yield-bearing assets.** Through a published framework with the Federal Board of Revenue, clarify the tax treatment of virtual-asset disposals, tokenised assets and staking, lending and reward yield, aligned to the new VASP reporting duty.
- **Point 23. Environmental and sustainability standards.** Require sustainability disclosure and impose energy- and water-use siting conditions on licensed mining and data-centre operations, with heightened restrictions in water-stressed areas.
- **Point 24. National security, on-chain surveillance and financial sovereignty.** Build an active chain-surveillance capability within the Authority, designate VASPs as security gatekeepers, integrate national watch-lists and geo-fencing, and state that the Authority functions to protect financial sovereignty.
- **Point 25. Sovereign data residency and verified-identity integration.** Require customer and transaction data to be stored within Pakistan and identity to be verified against the national database through privacy-preserving, zero-knowledge integration, reconciled with the data-protection rules.
- **Point 26. Operational resilience: disaster recovery and IP tracking.** Make tested business-continuity and disaster-recovery arrangements mandatory for every VASP, and require enterprise-grade IP-address capture and retention for account access and transactions.
- **Point 27. Fiat-to-crypto on-ramp limits.** Impose tiered limits on fiat-to-crypto on-ramps, keyed to verification level and risk, coordinated with the State Bank foreign-exchange framework.
- **Point 28. Prudential alignment with the non-bank financial framework.** Align the fit-and-proper test with the SECP non-bank criteria, introduce VASP prudential-exposure limits modelled on the SECP prudential regulations, and apply the SECP asset-management rules to asset-referenced-token issuance.

- **Point 29. Shariah compliance: substantive conflicts and a binding committee.** Remove the statutory embedding of interest in the lending definition, mandate Halal reserves for tokens marketed as Shariah-compliant, restrict speculative conventional derivatives, and give the Shariah Advisory Committee binding authority.

Part C records a set of clause-level drafting refinements to the draft Regulations and Handbooks, endorsed by the firm and stated each as a single recommended change.

2. Structure of the Submission

Each of the fourteen points of Part A that follow is presented in four parts. The first identifies the gap and cites the relevant section of the Act or regulation. The second explains why the matter is significant. The third sets out a precise and implementable recommendation, expressed wherever possible as draft thresholds or mechanisms rather than as an aspiration. The fourth benchmarks the recommendation against the corresponding provision of the leading comparator regimes, with the source recorded in the footnotes. References are collected again, by jurisdiction, in the schedule at the end of this memorandum.

3. Part A: Feedback Points Benchmarked Against International Practice

Point 1. Fiat-Referenced Token Regime, including Redemption Timing, Audit Frequency, and Issuer Capital (section 31)

The gap. Section 31 requires a fiat-referenced token to be backed in full by high-quality liquid assets and to be redeemable at par, with audited reserves and protection for holders in insolvency. The Act fixes no redemption deadline, no frequency for audit or attestation, no issuer capital requirement, and no mechanics for segregation or custody of the reserve. These are the precise parameters that determine whether a stablecoin survives a run.

Why it matters. A right to redeem at par with no time limit is unenforceable in a liquidity crisis, which is the lesson of every significant de-pegging event. Without mandated independent attestation, a claim of full backing is a self-assertion. These standards should be set in the Regulations rather than left to be negotiated.

Recommendation. The token chapter of the Regulations should prescribe, first, that reserves be held on a one-to-one basis in the reference currency with a licensed, segregated, and bankruptcy-remote custodian, with no rehypothecation; second, a legally enforceable right to redeem at par within a fixed maximum window, for which

five business days would match Singapore and one working day would match Dubai for a stricter standard, in each case without fee; third, monthly independent reserve attestation, published and filed with the Authority; and fourth, an issuer own-funds requirement expressed as a fixed floor together with a percentage of outstanding supply.

Comparator benchmarks.

Singapore. The Monetary Authority of Singapore requires an issuer to return the par value of a regulated stablecoin to holders within five business days of a redemption request, to hold base capital of the higher of one million Singapore dollars or one half of annual operating expenses, and to obtain monthly independent reserve attestation and an annual audit.[2]

Dubai. Under the Virtual Assets Regulatory Authority issuance rules for fiat-referenced virtual assets, reserves must be at least one hundred per cent of supply, holders enjoy a legally enforceable right to redeem at par with requests completed within one working day and without fee, issuers must commission an independent audit monthly, and paid-up capital must equal 1,500,000 dirhams together with two per cent of the value of available supply.[3]

European Union. Under the Markets in Crypto-Assets Regulation, a holder of an electronic-money token may redeem at par at any time, and not less than thirty per cent of the funds backing the token, rising to sixty per cent for a significant token, must be held in segregated accounts with credit institutions in the reference currency.[4]

New York. The New York Department of Financial Services requires monthly reserve attestation by an independent accountant, published within thirty days, an annual internal-controls attestation, and reserves limited to short-dated government instruments and insured deposits.[5]

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[2]Monetary Authority of Singapore, finalised stablecoin regulatory framework (2023). https://www.mas.gov.sg/news/media-releases/2023/mas-finalises-stablecoin-regulatory-framework; https://www.aoshearman.com/en/insights/mas-finalises-its-policy-position-on-the-regulation-of-stablecoin-related-activities.

[3]VARA, Virtual Asset Issuance Rulebook, fiat-referenced virtual asset rules on reserve assets, redemptions, audits, and capital. https://rulebooks.vara.ae/rulebook/b-reserve-assets; https://rulebooks.vara.ae/rulebook/c-redemptions; https://rulebooks.vara.ae/rulebook/d-audits-and-reporting; https://rulebooks.vara.ae/rulebook/f-capital-requirements.

[4]MiCA electronic-money-token reserve and redemption requirements (Articles 36 and 54). https://link.springer.com/chapter/10.1007/978-3-031-74889-9_9; https://www.eba.europa.eu/regulation-and-policy/asset-referenced-and-e-money-tokens-mica; https://www.spark.money/research/stablecoin-regulation-mica-us-frameworks.

[5]NYDFS, guidance on stablecoin issuance. https://www.dfs.ny.gov/reports_and_publications/press_releases/pr202206081.

Point 2. Rupee-Referenced Tokens and the Boundary with the State Bank (sections 5 and 31)

The gap. Section 5 provides that the Foreign Exchange Regulation Act 1947 prevails over the Act, and the token regime in section 31 does not state whether a rupee-referenced token is permitted, who authorizes it, or how it interacts with the monetary and foreign-exchange mandate of the State Bank. Government figures have publicly committed to a rupee-backed stablecoin at the same time as the State Bank has tightened foreign-exchange controls, which is an unresolved contradiction of policy.

Why it matters. A rupee-referenced token engages monetary sovereignty, capital controls, and the risk of dollarization. Issuance without an express gate held by the State Bank invites both the destabilization that independent analysts have identified and a contest of jurisdiction between the Authority and the State Bank.

Recommendation. The Regulations should provide, first, that issuance of a rupee-referenced token requires the prior written concurrence of the State Bank; second, that a token referencing any currency be denominated and reserved in that currency, with reserves held domestically where the reference currency is the rupee; and third, that the Authority and the State Bank execute and publish a memorandum of understanding setting monetary-stability triggers such as issuance caps and holding limits, modelled on the central-bank opinion powers found in comparator regimes.

Comparator benchmarks.

Dubai. The Virtual Assets Regulatory Authority removes the domestic currency from its own perimeter entirely, providing that a token referencing the dirham remains under the sole and exclusive purview of the Central Bank of the United Arab Emirates. This is the cleanest available model, namely, to reserve rupee-referenced tokens to the State Bank.[6]

European Union. The Markets in Crypto-Assets Regulation empowers the European Central Bank and national central banks to issue opinions and impose limits where a token threatens monetary sovereignty or the smooth operation of payment systems, and to require the regulator to refuse authorization on a negative central-bank opinion.[7]

[6]VARA fiat-referenced virtual asset rules, dirham carve-out. https://rulebooks.vara.ae/rulebook/b-general-requirements-vara-approval; https://www.cryptoverselawyers.io/vara-category-1-va-issuance-dubai/.

[7]K&L Gates, overview of the MiCA framework and central-bank powers. https://www.klgates.com/MiCA-Overview-of-the-New-EU-Crypto-Asset-Regulatory-Framework-Part-2-11-21-2022.

Point 3. Travel Rule including Threshold, Data Fields, and Unhosted Wallets (section 47)

The gap. Section 47 imposes a travel rule and a record-keeping duty but states no monetary threshold, no list of the originator and beneficiary data fields that must accompany a transfer, and no rule for unhosted or self-hosted wallets. The seven-year record-keeping requirement in the No Objection Certificate Regulations does not cure this.

Why it matters. This is the single highest re-listing risk before the Financial Action Task Force. A travel rule with no threshold and no data schema cannot be implemented by service providers and cannot be enforced by the Authority or the Financial Monitoring Unit, which is precisely the category of technical deficiency that produced the grey-listing of 2018.

Recommendation. The anti-money-laundering chapter of the Regulations should prescribe, first, a threshold of one thousand United States dollars or euros, with aggregation of linked transactions; second, the IVMS101 data standard as the mandatory message format, carrying the verified name of the originator, the account or wallet identifier, and the physical address or national identifier or date and place of birth, together with the name and wallet identifier of the beneficiary; third, enhanced due diligence for transfers to or from unhosted wallets, including counterparty identification, whitelisting, and blockchain analytics; and fourth, screening of counterparties against sanctions lists before a transfer is made.

Comparator benchmarks.

Financial Action Task Force. Recommendation 16, as revised, requires standardized originator and beneficiary information, namely name, address, and date of birth, to accompany a virtual-asset transfer above the threshold of one thousand United States dollars or euros, consistent with the occasional-transaction trigger under Recommendation 10.[8]

European Union. Under the Transfer of Funds Regulation, transfers between crypto-asset service providers carry no de-minimis threshold and all require originator and beneficiary information, while enhanced due diligence applies to

[8]FATF, updated guidance on virtual assets and virtual asset service providers, and best practices on travel-rule supervision. https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/Updated-Guidance-VA-VASP.pdf; https://www.fatf-gafi.org/content/dam/fatf-gafi/recommendations/Best-Practices-Travel-Rule-Supervision.pdf.

unhosted-wallet transfers above one thousand euros, with the relevant guidelines applicable from 30 December 2024.[9]

Hong Kong. The Securities and Futures Commission requires travel-rule information to be collected and transmitted at or above eight thousand Hong Kong dollars and, because settlement is final, before the transfer is effected.[10]

Point 4. Market Manipulation and Insider Dealing (section 52)

The gap. Section 52 prohibits market manipulation and insider dealing, and section 3 defines inside information, insiders, and market abuse, but the operative prohibition lacks an enumerated catalogue of manipulative conduct and imposes no surveillance or reporting obligation on intermediaries.

Why it matters. Crypto markets are unusually prone to pump-and-dump schemes, wash trading, spoofing, rug pulls, and influencer manipulation. A bare prohibition is difficult to prosecute, and it is specificity that makes enforcement and the referral of matters to the Special Court under sections 56 to 58 effective.

Recommendation. The Regulations should import a catalogue modelled on Title VI of the Markets in Crypto-Assets Regulation. That catalogue should define inside information as precise, non-public, and price-sensitive; prohibit insider dealing together with attempts, recommendation, inducement, and unlawful disclosure; enumerate manipulative behaviours including the giving of false or misleading signals, the securing of an artificial price, wash trading, and the acquisition of a position followed by promotion through the media without disclosure; extend liability to roles specific to distributed-ledger technology, namely validators, node operators, and developers with access; and require persons professionally arranging or executing transactions to maintain surveillance systems and to file suspicious-transaction-and-order reports.

Comparator benchmark.

European Union. Title VI of the Markets in Crypto-Assets Regulation, at Articles 86 to 92, establishes a dedicated market-abuse regime. Article 87 defines inside information; Article 89 addresses insider dealing, including attempts, recommendation, inducement, and access in relation to a role in the distributed ledger; Article 90 addresses unlawful disclosure; Article 91 enumerates

[9]Hacken, summary of global travel-rule requirements including the EU Transfer of Funds Regulation. https://hacken.io/discover/crypto-travel-rule/.

[10]Titus, operational requirements of the Hong Kong virtual asset service provider regime. https://titus.com.hk/hong-kong-vasp-licence-operational-requirements/.

manipulation, including the illustration of a media position; and Article 92 imposes the surveillance and reporting duty on intermediaries.[11]

Point 5. Custody and Proof of Reserves, No Technical Floor (sections 24, 26 and 27)

The gap. Section 24 addresses segregation, bankruptcy-remoteness, and the prohibition on rehypothecation without consent; section 26 addresses custody and key management; and section 27 addresses proof of reserves and audit. Each sets a principle but no quantitative or technical standard. There is no cold-to-hot storage ratio, no insurance requirement, no key-management architecture, no reconciliation cadence, and no gate for the approval of a sub-custodian.

Why it matters. Principles without technical floors leave the Authority dependent on a case-by-case supervision for which it does not yet have capacity.

Recommendation. The custody handbook should prescribe, first, a minimum cold-storage ratio in the range of ninety to ninety-eight per cent of client virtual assets; second, mandatory insurance or compensation covering theft, fraud, and technological failure, with higher coverage for hot wallets; third, multi-signature key management with geographic separation of key shards, hardware-security-module storage, and no single point of control; fourth, daily reconciliation of on-chain balances against the internal ledger; fifth, prior approval by the Authority of any sub-custodian, which must itself be regulated; and sixth, an express bar on the treatment of customer assets as collateral, as the subject of set-off, or as part of the insolvency estate.

Comparator benchmarks.

Hong Kong. The trading-platform guidelines of the Securities and Futures Commission require that ninety-eight per cent of client virtual assets be held in cold storage, with insurance or compensation covering one-half of the assets held in cold storage and the whole of the assets held in hot or other storage.[12]

Dubai. The custody rulebook of the Virtual Assets Regulatory Authority requires multi-signature controls, anti-collusion measures, an analysis of hot and cold

[11]MiCA, Title VI on market abuse (Articles 86 to 92). https://www.esma.europa.eu/publications-and-data/interactive-single-rulebook/mica; https://www.mamotcv.com/insights/fintech-insights-12-mica-prevention-of-market-abuse/; https://link.springer.com/chapter/10.1007/978-3-031-74889-9_13.

[12]Hong Kong SFC virtual asset trading platform guidelines on cold storage and insurance. https://www.omm.com/insights/alerts-publications/hong-kong-launches-new-virtual-asset-trading-platform-licensing-regime/; https://www.hk-lawyer.org/content/recent-updates-regulatory-requirements-virtual-asset-trading-platform-operators.

storage risk, and daily reconciliation, with reserve assets reconciled daily, independently audited at least every six months, and not rehypothecated.[13]

New York. Under the updated guidance of the New York Department of Financial Services, customer assets must be segregated from corporate assets both on-chain and on the ledger, the equitable and beneficial interest must at all times remain with the customer, sub-custody requires prior approval, and assets may not under any circumstances be treated as collateral.[14]

Point 6. The Pre-Licensing Pathway under the No Objection Certificate Regime

The gap. Under the No Objection Certificate Regulations 2025, made under section 15 of the Ordinance, a certificate permits registration on the goAML portal and incorporation, and the registered services, namely broker-dealer, custody, exchange, and derivative services, may be provided before a full license is granted. This permits live and customer-facing activity, potentially including custody, during a period when the full prudential, custody, and conduct rules have not yet been applied.

Why it matters. International exchanges already hold certificates, issued in December 2025. Permitting custody or exchange services to retail customers before full licensing exposes consumers during the riskiest and least-supervised phase. The Authority has itself indicated that certificate holders are not yet permitted to operate, and the Regulations should resolve that tension cleanly.

Recommendation. The transitional provisions should, first, expressly prohibit the custody of, and dealing for, retail client assets during the interim period; second, impose caps on volume and on the number of customers for any interim activity; third, require an interim registrant to hold client assets only with a separately licensed qualified custodian; and fourth, impose a hard sunset, so that interim status lapses if a full license application is not filed within a fixed period and granted within the six-month transitional window under section 70.

Comparator benchmarks.

[13]VARA Custody Services Rulebook. https://www.linkedin.com/pulse/vara-custody-services-rulebook-alsafarandpartners-lawfirm; https://complinexx.com/blog/vara-crypto-license-cost-timeline-2026.

[14]NYDFS, updated guidance on custodial structures (30 September 2025). https://www.dfs.ny.gov/industry-guidance/industry-letters/il20250930-updated-guidance-custodial-structures; https://www.arnoldporter.com/en/perspectives/advisories/2025/10/new-crypto-guidance-on-custody-and-blockchain-analytics; https://infobytes.orrick.com/2025-10-10/nydfs-updates-guidance-on-virtual-currency-custody-and-consumer-protections-in-insolvency/.

Dubai. The Virtual Assets Regulatory Authority uses staged approval, in which an initial or conditional approval precedes the operational license, and the firm may not operate until the operational license is issued.[15]

Hong Kong. The Securities and Futures Commission requires a two-phase report by an external assessor, in which the first phase addresses design and accompanies the application, and the second phase addresses implementation and precedes approval, with the license granted only after the Commission is satisfied with the second-phase report.[16]

Point 7. Minimum Capital: No Statutory Floor (section 25)

The gap. Section 25 defers the requirement for minimum financial resources entirely to the Regulations, with no statutory floor and no tiering by activity. For reference, the lapsed Ordinance reportedly used paid-up capital tiers in the range of one hundred million to one billion rupees, and those figures should be re-examined and codified rather than left implicit.

Why it matters. Capital is the first buffer against loss and the principal barrier to under-capitalized and short-lived operators. A complete delegation to the Regulations creates uncertainty for applicants and risk for consumers.

Recommendation. The Regulations should set activity-tiered capital floors, expressed as the higher of a fixed amount or a percentage of fixed annual overheads, with the highest tiers applied to exchange and custody services. The tiers should be cross-checked against the band in the lapsed Ordinance and against the converted equivalents set out below.

Draft anchor and proportionality. The draft Regulations now contain Schedule I, which sets flat minimum paid-up capital by category, namely one billion rupees for an exchange and for fiat-referenced and asset-referenced token issuance; five hundred million rupees for lending and borrowing and for derivatives; two hundred million rupees for custody, management, and transfer and settlement; one hundred million rupees for broker-dealer services; and twenty-five million rupees for advisory. At prevailing exchange rates a flat one-billion-rupee gate is on the order of three and a half million United States dollars of locked capital before a single token is issued or a single trade is matched, which over-capitalises a small pilot and under-captures a systemic operator because it does not move with the metrics that drive risk. The draft already contains the

[15]Neo Legal, the VARA licensing stages. https://neolegal.ae/vara-license-in-dubai/.

[16]O'Melveny, the Hong Kong virtual asset trading platform licensing regime. https://www.omm.com/insights/alerts-publications/hong-kong-launches-new-virtual-asset-trading-platform-licensing-regime/.

remedy in undeveloped form, namely the restricted-licence discretion in regulation 7(5) and the proportionality note to Schedule I. The Authority should convert that discretion into a published, rules-based tiering matrix, anchoring each licensee to the higher of a defined entry tier or a risk-based amount that scales with the relevant exposure (client assets under custody for custodians; value of tokens in issuance and reserve composition for issuers; open interest and leverage for derivatives; settled throughput for exchanges), paired with the proportionate safeguards the draft already contemplates and a transitional glide-path so that operators authorised at the certificate stage build capital against defined milestones rather than front-loading the full amount on day one. This calibrates capital to risk in both directions and prevents a flat gate from handing the licensed market to a handful of well-funded foreign platforms while domestic founders remain offshore.

Comparator benchmarks.

European Union. Under Article 67 and Annex IV of the Markets in Crypto-Assets Regulation, the floor is the higher of a fixed minimum, namely fifty thousand euros for the first class, one hundred and twenty-five thousand euros for an exchange, and one hundred and fifty thousand euros for custody, or one quarter of the previous year's fixed overheads.[17]

Dubai. The company rulebook of the Virtual Assets Regulatory Authority sets paid-up capital by activity, namely one hundred thousand dirhams for advisory services; for broker-dealer services the higher of four hundred thousand dirhams where a licensed custodian is used or six hundred thousand dirhams together with a margin on overheads; for custody the higher of six hundred thousand dirhams or one quarter of overheads; for exchange the higher of eight hundred thousand dirhams or one million five hundred thousand dirhams together with a margin on overheads; five hundred thousand dirhams for lending and borrowing; a band of two hundred and eighty thousand to five hundred thousand dirhams for management and investment; and five hundred thousand dirhams for transfer and settlement, in each case with a net-liquid-assets layer of at least 1.2 times monthly operating expenses, reconciled daily.[18]

Abu Dhabi. Under the Financial Services Regulatory Authority of the Abu Dhabi Global Market, custody capital is the higher of a base of two hundred and fifty thousand United States dollars or six months of annual audited expenditure, and

[17]itisPay, summary of MiCA capital classes under Article 67 and Annex IV. https://itispay.com/blog/mica-casp-license.

[18]VARA Company Rulebook, paid-up capital and net liquid assets. https://rulebooks.vara.ae/rulebook/b-paid-capital; https://rulebooks.vara.ae/rulebook/c-net-liquid-assets.

a multilateral trading facility must hold six months of operational expenses together with a further buffer of up to six months.[19]

Point 8. Definitional Gaps in Decentralized Finance, Staking, Algorithmic Tokens, NFTs, and the Advisory Boundary (section 53)

The gap. The Act does not define decentralized finance or decentralized protocols, staking, or yield products; the prohibition on algorithmic tokens in section 53, which applies unless the Regulations permit otherwise, is unqualified; the exclusion of non-fungible tokens is incomplete for those used for payment or investment; and the boundary between advisory services and management and investment services, both listed in Schedule I, is undrawn.

Why it matters. Ambiguity here produces both over-reach, in which benign software is caught, and under-reach, in which custodial decentralized-finance front-ends are missed. The prohibition on algorithmic tokens, if read as absolute, is over-broad and also requires a defined perimeter.

Recommendation. The general handbook should define, first, decentralized finance by reference to whether an identifiable person controls or actively facilitates the service, following the control-and-facilitation test of the Financial Action Task Force; second, staking, including staking from custody, as a regulated activity subject to consent and disclosure; third, the perimeter of the algorithmic-token prohibition, so that purely algorithmic and uncollateralized stabilization mechanisms are prohibited while collateralized models are permitted; fourth, payment and investment non-fungible tokens as within scope notwithstanding the general carve-out; and fifth, a bright line between advisory services and management, turning on whether the provider exercises discretionary control over client assets.

Comparator benchmarks.

Abu Dhabi. The 2025 amendments of the Financial Services Regulatory Authority introduced an express prohibition on privacy tokens and algorithmic stablecoins within regulated financial services.[20]

[19]ADGM, Financial Services Regulatory Authority capital requirements. https://en.adgm.thomsonreuters.com/rulebook/capital-requirements-2.

[20]King & Spalding, the 2025 ADGM digital-asset amendments. https://www.kslaw.com/news-and-insights/adgm-fsra-implements-amendments-to-its-digital-asset-regulatory-framework.

Dubai. The Virtual Assets Regulatory Authority treats staking expressly within management and investment services and imposes additional custody controls for staking from custody, with mandatory client consent and risk disclosure.[21]

Financial Action Task Force. The guidance defines a virtual asset service provider by reference to acting as a business for or on behalf of another person and to the active facilitation of virtual-asset activity, which is the control test that the Authority should adopt for decentralized finance.[22]

Point 9. Consumer Compensation, a Discretionary Power that Should Be Mandatory (section 29)

The gap. Section 29 provides that the Authority may establish a customer compensation mechanism. This is a discretionary power rather than an obligation, and it is unaccompanied by a funding model.

Why it matters. In a market with an estimated user base in the tens of millions and a documented history of peer-to-peer fraud, a discretionary scheme provides no reliable backstop, and the permissive drafting will in practice mean that no scheme is established.

Recommendation. The word may should be replaced by the word shall. Licensees that hold client assets should be required to contribute to a compensation fund or to maintain mandatory insurance, and the coverage should be tied to the custody insurance floor proposed in Point 5.

Comparator benchmark.

Hong Kong. The Securities and Futures Commission makes insurance or compensation mandatory, covering one half of the client assets held in cold storage and the whole of those held in hot storage, with adequacy reviewed daily.[23]

Point 10. The Appellate Tribunal: Independence and Timing (sections 62 to 65)

The gap. Sections 62 to 65 establish the Virtual Assets Appellate Tribunal and the routes of appeal, namely a thirty-day window for appeal to the Tribunal and an onward

[21]Finjuris, the VARA management and investment services licence. https://finjuris.ae/blog/vara-license-for-management-investment-services-everything-you-need-to-know.

[22]FATF, updated guidance on virtual assets and virtual asset service providers. https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/Updated-Guidance-VA-VASP.pdf.

[23]O'Melveny, the Hong Kong virtual asset trading platform regime. https://www.omm.com/insights/alerts-publications/hong-kong-launches-new-virtual-asset-trading-platform-licensing-regime/.

appeal to the Supreme Court, but they provide limited detail on the qualification of members, on security of tenure, and on statutory timelines for decision.

Why it matters. The confidence of investors and licensees depends on an appellate body that is demonstrably independent, expert, and timely. Vague provisions on tenure and timing invite delay and give rise to concerns about capture.

Recommendation. The Regulations should specify, first, fixed criteria of qualification across law, finance, and technology, together with minimum experience for members of the Tribunal; second, security of tenure and a transparent process of appointment insulated from the Authority; and third, a statutory time limit for the disposal of appeals, in the range of ninety to one hundred and eighty days, mirroring the discipline that the Act already imposes on the Authority, such as the sixty-day period for a decision on a No Objection Certificate.

Comparator benchmark.

> Comparator regimes rely on established financial tribunals and courts operating within defined timelines. The firm should also cite the sixty-day decision standard for a No Objection Certificate in the Regulations of 2025 as the anchor of internal consistency.

Point 11. The Regulatory Sandbox, Under-Designed (section 35)

The gap. Section 35 establishes a sandbox, but the Act does not specify entry criteria, the structure of cohorts, limits on duration, consumer safeguards, or pathways for exit. The Authority has launched a sandbox and opened a first phase for the issuance of asset-referenced tokens, but the statutory design is thin.

Why it matters. A poorly bound sandbox either becomes a permanent and unregulated exception or fails to attract genuine innovation. Clear parameters protect consumers and give applicants certainty.

Recommendation. The Regulations should prescribe, first, objective criteria of eligibility, namely genuine innovation, benefit to consumers, and readiness to test; second, defined cohort windows and a maximum duration of testing, with explicit criteria for extension; third, consumer safeguards, namely caps on the number of customers, disclosure, and compensation arrangements during the test; and fourth, a defined pathway to full licensing or to an orderly exit.

Comparator benchmark.

The sandboxes of the United Kingdom Financial Conduct Authority, the Abu Dhabi Global Market, and the Monetary Authority of Singapore each operate cohort-based and time-limited testing with restricted authorization and consumer safeguards. The Authority should adopt the common structure of cohort, time limit, and safeguard.[24]

Point 12. Data Localization and Internal Inconsistency (sections 5, 39 and 40)

The gap. Section 5 provides that the laws on data protection and cybersecurity prevail over the Act, while sections 39 and 40 grant the Authority powers of data localization and segregation. This creates a conflict of precedence, for if data-protection law prevails, but the Authority may compel localization, it is unclear which governs a dispute over a cross-border transfer.

Why it matters. Global service providers cannot build a compliant architecture against contradictory commands, and legal uncertainty of this kind will deter the very international entrants the Authority seeks to attract.

Recommendation. The Regulations should insert a clause of reconciliation that specifies the order of precedence where the localization requirements of sections 39 and 40 conflict with prevailing data-protection law, and that provides a mechanism, such as consultation between the Authority and the data-protection authority, for the resolution of particular transfers. This should be aligned with the real-time data-access power in section 48, so that service providers face one coherent regime for data.

Comparator benchmark.

Financial Action Task Force. The guidance states expressly that travel-rule and data-access obligations must be implemented in a manner compatible with national rules on data protection and privacy, which requires the relevant authorities to coordinate.[25]

Point 13. Anti-Money-Laundering Supervisory Architecture, Overlap among the Authority, the Financial Monitoring Unit, and the National Authority (section 46)

The gap. Section 46 deems virtual asset service providers to be financial institutions under the Anti-Money Laundering Act 2010, supervised through the Financial Monitoring Unit and the goAML portal, while the Authority conducts its own anti-

[24]Dubai Financial Services Authority, consultation papers reflecting the Gulf sandbox model. https://www.dfsa.ae/your-resources/regulatory/consultation-papers.

[25]FATF, updated guidance on virtual assets and virtual asset service providers. https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/Updated-Guidance-VA-VASP.pdf.

money-laundering supervision and the chair of the national authority sits on its board. The Act does not delineate which body is the lead supervisor for service providers, which risks duplicative or conflicting supervision.

Why it matters. Overlapping supervision produces double reporting for firms and gaps in accountability, which is a recognized weakness of effectiveness. Pakistan scored low on ten of eleven effectiveness measures, even while it was technically compliant in 2022.[26]

Recommendation. The Regulations should require a published memorandum of understanding among the Authority, the Financial Monitoring Unit, and the national authority, which designates the Authority as the lead prudential and conduct supervisor for service providers while the Financial Monitoring Unit remains the financial intelligence unit for the receipt of suspicious-transaction and currency-transaction reports, defines a single channel of reporting, and allocates the responsibilities of inspection so as to avoid duplication.

Comparator benchmark.

> **Financial Action Task Force.** The guidance stresses a coordinated supervisory architecture and the clear allocation of registration, licensing, and supervisory responsibilities, so that the authorities may identify natural or legal persons that carry out virtual-asset activity without the requisite license.[27]

Point 14. Shariah Governance: a Committee Defined but Thinly Specified

The gap. The Act defines a Shariah Advisory Committee in section 3, and the statement of objects and reasons highlights Shariah-compliant virtual asset services, but the Act does not specify the composition, appointment, powers, or screening methodology of the Committee, nor the standards against which products are to be assessed.

Why it matters. Pakistan's market is overwhelmingly Muslim, and a credible offering in Islamic finance is a genuine point of competitive distinction. Without a defined framework of Shariah governance, a claim of compliance becomes a marketing assertion without assurance, and the concerns of gharar, maysir, and riba that dominate the scholarly debate go unaddressed.

Recommendation. The Regulations should prescribe, first, the composition and qualification of the Committee, drawn from recognized scholars of Islamic finance,

[26]Dawn, timeline of Pakistan and the FATF grey list. https://www.dawn.com/news/1694958.
[27]FATF, updated guidance on virtual assets and virtual asset service providers. https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/Updated-Guidance-VA-VASP.pdf.

together with its appointment and independence; second, a methodology of Shariah screening for tokens, addressing the existence of a real underlying benefit, a permissible underlying asset, and freedom from riba, gharar, and maysir; third, a mandatory Shariah audit for products marketed as compliant; and fourth, the adoption of recognized standards, such as those of the Accounting and Auditing Organization for Islamic Financial Institutions, where relevant.

Comparator benchmarks.

Bahrain. The crypto-asset framework of the Central Bank of Bahrain requires licensing and Shariah audit by authorized bodies, and its module on the issuance and offering of stablecoins embeds Shariah governance for products that carry an Islamic label, with independent Shariah oversight.[28]

Malaysia. The Shariah governance framework of Bank Negara Malaysia and the Shariah Advisory Council of the Securities Commission provides the model for a statutory committee with binding standards of screening.[29]

[28]White & Case, and an academic analysis, on the Bahraini and Emirati Shariah crypto frameworks. https://www.whitecase.com/insight-our-thinking/tokenised-islamic-finance-products-shariah-compliance-meets-digital-innovation; https://journal.uii.ac.id/JILDEB/article/view/42113.

[29]Academic analysis of the Malaysian Shariah governance framework. https://journal.uii.ac.id/JILDEB/article/view/42113.

4. Part B: Further Recommendations

The recommendations in this Part address matters that are either absent from the current drafting or developed below international practice. Each is stated first as a single recommendation, then in detail, and is benchmarked against a comparator where one is instructive.

Point 15. Insolvency-Remoteness of Client Assets: Anchoring and Harmonisation (regulations 33, 104, 108 to 112; Custody, Token and General Handbooks)

Recommendation in brief. Relocate the client-asset estate carve-out from the Handbooks to the Act, or to a Regulation that expressly cites its empowering section, and extend the regulation 104(2) protection identically to client virtual assets and reserve assets, so that the protection can bind an insolvency court.

The gap. The strongest statement of protection, namely that customer assets do not form part of a failed licensee's estate, currently sits in the Custody Services Handbook (paragraph 7), the lowest tier in the Authority's own stated hierarchy (General Handbook, paragraph 1(3)), and is further qualified to apply only to the extent permitted by applicable law. Client Money receives a clean estate carve-out in regulation 104(2), but Client Virtual Assets receive only a duty to structure arrangements to support segregation, subject to applicable insolvency law (regulation 110), and reserve assets backing token issuance carry the same soft hedge. A non-obstante override of any other law is effective only in an instrument of at least equal legal status; subordinate legislation cannot displace the Companies Act 2017 and the general insolvency law, and a Handbook cannot do so at all.

Why it matters. As drafted, the protection most likely to be relied upon by customers is the one least likely to bind a liquidator or a court, and the asymmetry between Client Money, which is protected, and Client Virtual Assets, which are merely supported, bites precisely where the assets are most valuable. In a custodian or exchange failure the predictable result is that customers are recharacterised as unsecured creditors and recover a fraction of their holdings.

Recommendation. Elevate the estate carve-out to the Act, or to a Regulation that expressly invokes the empowering section, so that the notwithstanding-any-other-law effect rests on primary authority; extend the regulation 104(2) formula expressly to Client Virtual Assets (regulation 110) and to reserve assets, so that all customer-attributable assets are treated identically as not forming part of the estate; and, where a statutory override cannot be secured in time, make a true statutory or express trust over client assets the safeguarding default, so that beneficial ownership remains with

clients and the assets never enter the estate as a matter of property law. This should be read with Points 5 and 6.

Comparator benchmark. The United Kingdom operates a statutory trust over client money so that those assets sit outside the firm's estate by operation of law; under the Markets in Crypto-Assets Regulation service providers must segregate clients' crypto-assets and place them beyond the reach of the provider's creditors; and in the Abu Dhabi Global Market and the Dubai International Financial Centre client-asset protection is grounded in statute rather than guidance.[30]

Point 16. A Workable Transitional Regime (regulation 5A; section 70 of the Act)

Recommendation in brief. Run the six-month application window from notification of the final Regulations, forms, fees and Handbooks rather than from commencement of the Act, replace the binary apply-or-cease outcome with a phased migration, and pair it with the capital glide-path proposed in Point 7.

The gap. Regulation 5A gives an existing provider six months from commencement of the Act to apply or cease, and to continue pending determination if it has filed a complete application within that window. The licensing machinery these applicants must use, namely these Regulations, Form II, the Schedule II fees and the Activity-Specific Handbooks, is still in draft. An applicant cannot file a complete application against requirements that are not yet final, so a meaningful part of the window risks elapsing before it can be used, and the apply-or-cease cliff invites incomplete filings or a rational decision by much of the market to remain on offshore rails.

Recommendation. Run the clock from notification of the final Regulations, or at least deem applications filed within a defined period after notification to satisfy section 70(2); replace the binary outcome with a registration step, then a complete application, then full compliance, with continued activity under interim conditions at each stage; preserve and clarify the continuity of certificates, sandbox permissions and other instruments already issued; and protect the operate-pending-determination right for the full statutory determination period.

Comparator benchmark. The Markets in Crypto-Assets Regulation provided an extended transitional period for existing providers running from the date its rules applied, and the Abu Dhabi Global Market and Dubai frameworks used temporary-

[30] United Kingdom client-money statutory trust under the FCA Client Assets Sourcebook; Markets in Crypto-Assets Regulation, segregation of clients' crypto-assets from the service provider's creditors; Abu Dhabi Global Market (FSRA) and Dubai International Financial Centre (DFSA) client-asset frameworks grounded in statute.

permission and phased-deadline mechanisms tied to the rules going live. The common principle is that the transition is measured from when compliance is actually possible.[31]

Point 17. Reconciliation of the Client-Money Regime with the State Bank, and a Foreign-Currency and Stablecoin Rail (regulations 103 to 107; State Bank Circular No. 10 of 2026)

Recommendation in brief. State expressly that the Permitted Bank Client Account is the Client Money Account contemplated by State Bank Circular No. 10 of 2026, align the two regimes, and provide a defined pathway, in coordination with the State Bank, for holding and settling client money in foreign currency and approved stablecoins.

The gap. The Regulations require Client Money to be held in a segregated account with a State-Bank-licensed Permitted Bank (regulation 104) but predate and do not reference Circular No. 10 of 2026, which now governs those accounts and constrains them sharply: the Client Money Account must be rupee-denominated and non-remunerative, closed to cash deposits and withdrawals, and unavailable as collateral. The result is two overlapping but unaligned regimes for the same account, and a client-money rail that is rupee-only, in a market whose principal flows, namely Gulf and Western remittances, freelancer dollar earnings and stablecoin settlement, are denominated in foreign currency.

Why it matters. If the only compliant client-money account a licensee can open cannot hold the currency its customers actually use, the licence is open on paper and unusable in practice for the transactions that make up the market. Customers and operators will predictably stay on the offshore and peer-to-peer channels that can handle those flows, which is the outcome the licensing regime and the Circular were meant to reverse.

Recommendation. Identify the regulation 104 to 105 Client Account with the Circular's Client Money Account and align segregation, remuneration and permitted-movement terms; in coordination with the State Bank, provide a defined pathway for foreign-currency and approved-stablecoin client money where the underlying service requires it, within the foreign-exchange framework and with appropriate safeguards; establish a published coordination mechanism between the Authority and the State Bank covering client-money banking and on- and off-ramps; and clarify that a rupee fiat-referenced token rail complements, rather than displaces, bank-held client money. This should be read with Point 2.

[31] Markets in Crypto-Assets Regulation, transitional (grandfathering) provisions for existing crypto-asset service providers running from the date of application; Abu Dhabi Global Market and Dubai (VARA) temporary-permission and phased-deadline mechanisms.

Comparator benchmark. In the United Arab Emirates, VASP licensing operates alongside the central bank's framework for fiat settlement and payments; in the European Union, the Markets in Crypto-Assets Regulation sits beside the e-money and payments frameworks that provide regulated fiat and stablecoin rails, including for foreign-currency settlement.[32]

Point 18. Unclaimed and Dormant Client Assets

Recommendation in brief. Prescribe what happens to the virtual assets of users who cannot be contacted, lose account access, or fail to withdraw on a corporate liquidation, including a defined dormancy period after which unclaimed assets are transferred to a custody fund managed by the Authority or the State Bank, with a reclaim mechanism preserved.

The gap. The framework does not take account of a practical reality, namely what happens to virtual assets belonging to users who cannot be contacted, fail to withdraw their funds, or lose account access during a corporate liquidation. Without a rule these assets fall into legal limbo.

Recommendation. Specify a dormancy timeline, for example 180 days of wholly dormant communication, after which unwithdrawn assets are safely liquidated or transferred into a custody fund managed directly by the Authority or the State Bank, while preserving an owner's right to reclaim value within a defined period.

Point 19. Cross-Border Solicitation and Reverse Solicitation

Recommendation in brief. Enact an express cross-border perimeter and a narrow reverse-solicitation exemption: replace the open-ended material-connection trigger with an objective actively-markets-to test plus examples, make the safe harbour technology-neutral, define persons in Pakistan, and codify reverse solicitation so that it cannot be used as a marketing device.

The gap. The territorial trigger treats an activity as carried on in Pakistan where it has a material connection to persons in Pakistan, which is open-ended and leaves global platforms in permanent uncertainty; the safe harbour is drafted around a website and so omits mobile applications on global stores; persons in Pakistan is undefined; and the framework contains no reverse-solicitation concept, namely the principle that a service provided at the exclusive initiative of a Pakistani client is not carried on in Pakistan. For

[32] State Bank of Pakistan, BPRD Circular Letter No. 10 of 2026 (14 April 2026), authorising rupee-denominated, non-remunerative Client Money Accounts for PVARA-licensed VASPs, strictly segregated, closed to cash deposits and withdrawals, and not usable as collateral. https://www.sbp.org.pk/bprd/2026/CL10.htm.

an offshore-dominated market this is the single most consequential boundary, and it is missing.

Recommendation. Replace material connection with an objective trigger of actively marketing to or soliciting persons in Pakistan, supported by a non-exhaustive list of examples so the Authority keeps its anti-avoidance reach; make the safe harbour technology-neutral by covering a website, mobile application, or other digital platform or interface; define persons in Pakistan to settle residents, nationals abroad and resident foreigners; and codify a narrow reverse-solicitation exemption coupled with an anti-circumvention rule, with the migration of an offshore platform's existing Pakistani customers to a newly licensed local entity tied to a fixed period after licence grant.

Comparator benchmark. The Markets in Crypto-Assets Regulation codifies a reverse-solicitation exemption (Article 61) that is construed narrowly and coupled with an anti-circumvention rule, and the leading regimes define the cross-border perimeter by targeting and solicitation rather than by mere accessibility.[33]

Point 20. Token Admission, Listing and Delisting, and Mandatory Token Due Diligence (regulation 57)

Recommendation in brief. Prescribe an objective framework for the admission, continued availability and delisting of virtual assets, and require every licensee to conduct and document legal and technical due diligence on each token before listing it.

The gap. The draft requires platforms to publish objective, transparent and non-discriminatory admission standards (regulation 57) but prescribes no minimum content for those standards, no delisting procedure with customer protections, and, critically, no obligation on a licensee to conduct technical or legal due diligence on a token, namely a smart-contract and security audit, a rights and classification analysis, and sanctions and provenance screening, before admitting it. A bare anti-discrimination duty does not prevent the listing of unaudited, fraudulent or unlawful tokens.

Recommendation. Prescribe minimum admission criteria, namely legal classification, issuer disclosure, a smart-contract and security audit, a market-integrity and liquidity assessment, and sanctions and provenance screening; mandate a documented legal-and-technical due-diligence file for each token, retained and available to the Authority; require an orderly delisting procedure with notice, fair-value treatment and asset-return

[33] Markets in Crypto-Assets Regulation, Article 61 (reverse solicitation), construed narrowly and coupled with an anti-circumvention rule.

rights for customers; and clarify that non-discriminatory preserves genuine, documented and consistently applied risk judgement rather than barring it.

Comparator benchmark. The Markets in Crypto-Assets Regulation conditions admission to trading on a published crypto-asset white paper and issuer disclosure, and the Dubai and other leading platform regimes require listing and delisting policies and token due diligence as a licensing condition.[34]

Point 21. Marketing, Financial Promotions, Influencers and Key Opinion Leaders

Recommendation in brief. Bring the marketing of virtual assets within a financial-promotions regime, with mandatory risk warnings, a ban on incentives to invest, a cooling-off period for first-time investors, and a licensee's legal responsibility for the promotions of the influencers and key opinion leaders it engages.

The gap. The draft addresses fair dealing and disclosure at the contractual level but contains no dedicated regime for the promotion and advertising of virtual assets, a market dominated by social-media influencers and key opinion leaders. Unregulated promotion is the principal channel of retail harm and pump-and-dump activity.

Recommendation. Require all promotions to be fair, clear and not misleading; prescribe standard risk warnings on the face of the promotion; ban monetary and non-monetary incentives to invest, such as referral and sign-up bonuses; impose a cooling-off period and an appropriateness assessment for first-time retail investors; and make a licensee legally responsible for promotions made on its behalf by influencers and key opinion leaders, with a duty to vet, brief and monitor them and to maintain a register of engaged promoters.

Comparator benchmark. The United Kingdom Financial Conduct Authority regime treats qualifying cryptoassets as restricted mass-market investments, requiring fair, clear and not misleading promotions, prescribed risk warnings, a ban on incentives to invest, a 24-hour cooling-off period for first-time investors, and holding the commissioning firm responsible for influencer content.[35]

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[34] Markets in Crypto-Assets Regulation, admission to trading conditioned on a published crypto-asset white paper and issuer disclosure; Dubai (VARA) and other leading platform regimes require listing and delisting policies and token due diligence as a licensing condition.

[35] United Kingdom Financial Conduct Authority, Policy Statement PS23/6 and Finalised Guidance FG23/3 on cryptoasset financial promotions: qualifying cryptoassets are restricted mass market investments requiring fair, clear and not misleading promotions, prescribed risk warnings, a ban on incentives to invest, and a 24-hour cooling-off period for first-time investors, with the commissioning firm

Point 22. Tax Treatment of Tokenised and Yield-Bearing Assets

Recommendation in brief. In coordination with the Federal Board of Revenue, publish clear tax treatment for virtual-asset disposals, tokenised assets and yield from staking, lending and rewards, aligned to the new VASP reporting obligation.

The gap. The Act and Regulations are silent on the tax characterisation of virtual-asset gains, tokenised real-world assets, and yield from staking, lending or reward mechanisms, even though the Federal Board of Revenue's virtual-asset reporting obligation now applies to VASPs. Uncertain tax treatment deters onshore migration and complicates the reserve and yield structures of token issuance.

Recommendation. Through a published framework between the Authority and the Federal Board of Revenue, clarify the characterisation and timing of tax on disposals, the treatment of tokenised assets by reference to the underlying, and the treatment of staking, lending and reward yield, and align licensee reporting with the statutory virtual-asset reporting regime so that licensees face one coherent reporting channel.[36]

Point 23. Environmental and Sustainability Standards, Including Energy- and Water-Stressed Siting

Recommendation in brief. Require sustainability disclosure for virtual-asset services and impose siting, energy-sourcing and water-use conditions on licensed mining and data-centre operations, with heightened restrictions in water-stressed areas.

The gap. The Token Issuance Handbook requires a statement on the environmental and climate-related impact of a virtual asset, but the framework otherwise contains no systemic environmental standard for the energy- and water-intensive activities it licenses, namely proof-of-work mining and the data centres that support custody, settlement and co-located computation, despite Pakistan's acute water stress and constrained grid.

Recommendation. Extend the environmental-impact disclosure into a standardised sustainability-disclosure requirement covering energy mix, consumption, and carbon and water intensity; impose siting and resource conditions on licensed mining and data-centre operations, including a prohibition or heightened conditions on high-water-use cooling in water-stressed areas and a preference for designated zones with assured

responsible for influencer content under section 21 of the Financial Services and Markets Act 2000. https://www.fca.org.uk/publications/policy-statements/ps23-6-financial-promotion-rules-cryptoassets.

[36] Federal Board of Revenue, virtual-asset reporting obligation applicable to VASPs under section 285BAA of the Income Tax Ordinance 2001.

power; and require energy-source declarations consistent with the national grid and climate commitments. This should be read with Point 24.

Comparator benchmark. The Markets in Crypto-Assets Regulation requires issuers and crypto-asset service providers to disclose the principal adverse impacts on the climate and environment, including energy consumption and the consensus mechanism.[37]

Point 24. National Security, On-Chain Surveillance and Financial Sovereignty (regulation 101; Mining Services Handbook)

Recommendation in brief. Establish within the Authority an active on-chain surveillance capability for terrorism and proliferation financing, designate VASPs as statutory security gatekeepers, integrate national watch-lists and geo-fencing of hostile jurisdictions, mandate grid-level monitoring of mining, and state expressly that the Authority functions to protect Pakistan's financial sovereignty.

The gap. Regulation 101 requires screening against United Nations and applicable targeted-financial-sanctions lists but does not integrate the local watch-lists maintained by national security and intelligence agencies, nor mandate geo-fencing or blocking of access from hostile jurisdictions. The Mining Services Handbook requires declarations only of licensed operators, while rogue and underground rigs used to generate untraceable value will never apply for a licence. The incident-reporting duty runs to the Authority alone, creating a dangerous delay during an active cross-border cyber-attack, which is becoming routine in the region. The framework nowhere states the strategic purpose that should animate it.

Recommendation. First, build within the Authority an active chain-surveillance function for terrorism and proliferation financing, and designate VASPs as statutory security gatekeepers with a direct, real-time reporting line to national security agencies in parallel with the Authority and the Financial Monitoring Unit, so that an isolated reporting channel does not delay response during a live attack. Second, integrate sanctions and watch-list screening with the lists maintained by national agencies, and require geo-fencing and access-blocking of designated hostile jurisdictions. Third, for mining, mandate an automated data pipeline between the Authority, the electricity distribution companies and national agencies to flag unexplained high-density power draw against registered sites, require commercial operators to register exact physical coordinates and the serial numbers of control boards, and confine industrial-grade

[37] Markets in Crypto-Assets Regulation, mandatory disclosure by issuers and crypto-asset service providers of the principal adverse impacts on the climate and environment, including energy consumption and the consensus mechanism.

mining to designated, security-cleared technology zones. Fourth, state expressly in the Regulations that the Authority functions as a shield protecting Pakistan's financial sovereignty.

Comparator benchmark. The Financial Action Task Force requires coordinated, intelligence-led supervision of virtual assets and effective implementation of targeted financial sanctions, including proliferation-financing measures.[38]

Point 25. Sovereign Data Residency and Verified-Identity Integration (regulations 5, 39 and 40; section 48)

Recommendation in brief. Require that customer and transaction data be stored within Pakistan and that customer identity be verified against the national identity database through a privacy-preserving, zero-knowledge mechanism, reconciled with the data-localization and data-protection provisions already in the framework.

The gap. Point 12 identifies the unresolved conflict between the precedence of data-protection law (section 5) and the Authority's localization powers (sections 39 and 40). Beyond reconciling that conflict, the strategic interest in sovereign data residency and in trustworthy identity verification is not addressed. Verification against the national identity database is the natural anchor of customer due diligence, but raw data-sharing raises privacy and concentration risks.

Recommendation. Require that customer and transaction records be stored on infrastructure located in Pakistan, consistent with the real-time access power in section 48, and provide for identity verification against the National Database and Registration Authority through a zero-knowledge or otherwise privacy-preserving mechanism that confirms a verified status without exposing the underlying identity data, the whole reconciled with prevailing data-protection law through the clause proposed in Point 12.

Point 26. Operational Resilience: Disaster Recovery and Enterprise IP-Tracking

Recommendation in brief. Make tested business-continuity and disaster-recovery arrangements mandatory for every licensee, and require enterprise-grade IP-address tracking and logging for access to systems and customer accounts.

The gap. The draft references operational resilience and incident management in general terms but does not mandate a tested disaster-recovery capability for every

[38] Financial Action Task Force, Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers, and standards on targeted financial sanctions and proliferation financing. https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/Updated-Guidance-VA-VASP.pdf.

licensee, and does not require enterprise-level IP tracking, which is basic to attributing fraud, account takeover and illicit access.

Recommendation. Require every licensee to maintain and periodically test a documented business-continuity and disaster-recovery plan with defined recovery objectives and off-site redundancy, and to capture, geolocate and retain IP-address data for account access and transactions, integrated with monitoring and available to the Authority and, where lawful, to national agencies.

Point 27. Fiat-to-Crypto On-Ramp Limits

Recommendation in brief. Impose calibrated, tiered limits on fiat-to-crypto on-ramps, keyed to customer verification level and risk, to contain capital-flight, money-laundering and consumer-harm risk.

The gap. The framework sets no limits on the value a customer may move from rupees into virtual assets through a licensed on-ramp, which engages both capital-control and consumer-protection concerns in a market under foreign-exchange pressure.

Recommendation. Prescribe tiered daily and monthly on-ramp limits keyed to the customer's verification tier, risk rating and retail or professional status, with higher limits unlocked only on stronger due diligence, coordinated with the State Bank foreign-exchange framework.

Point 28. Prudential Alignment with the Non-Bank Financial Framework: Fit-and-Proper, Exposure Limits, and Asset-Referenced-Token Rules (regulation 8; Schedules I and III)

Recommendation in brief. Do not reinvent prudential standards: align the fit-and-proper assessment of VASP directors and controllers with the SECP non-bank fit-and-proper criteria, introduce VASP prudential-exposure limits modelled on the SECP prudential regulations, and apply the SECP asset-management rules to asset-referenced-token issuance.

The gap. The draft provides for fit-and-proper assessment (regulation 8 and Schedule III) and minimum capital (Schedule I) but does not draw on the established, tested standards of the Securities and Exchange Commission of Pakistan for non-bank financial companies, even though VASPs now perform a wide range of financial functions, namely exchange, custody, lending, derivatives and management. There is no prudential exposure or concentration limit, and asset-referenced-token issuance, which is economically close to a collective-investment or asset-management activity, is not held to the corresponding asset-management standards.

Recommendation. First, align the fit-and-proper criteria for directors, controllers, sponsors and key individuals with the SECP non-bank fit-and-proper criteria applied to non-banking finance companies. Second, introduce a VASP prudential-exposure and concentration-limit framework modelled on the SECP prudential regulations, scaled to activity and book. Third, apply the substance of the SECP asset-management rules under the Non-Banking Finance Companies and Notified Entities Regulations 2008 to asset-referenced-token issuance and to discretionary management. This imports proven standards rather than building them anew.

Comparator benchmark. The Securities and Exchange Commission of Pakistan regulates non-bank financial companies, including asset-management companies, under the NBFC Rules 2003 and the Non-Banking Finance Companies and Notified Entities Regulations 2008, with fit-and-proper criteria, prudential conditions and exposure limits.[39]

Point 29. Shariah Compliance: Substantive Conflicts and a Committee with Binding Authority (section 3; sections 31 and 32; Schedule I)

Recommendation in brief. Beyond the governance framework in Point 14, remove the statutory embedding of interest from the lending definition, mandate Halal reserves for any token marketed as Shariah-compliant, restrict speculative conventional derivatives, and give the Shariah Advisory Committee binding authority over products claiming to be Islamic.

The gap. The lending-and-borrowing definition (Schedule I) is built on agreed interest, embedding riba in a statutory definition; the reserve-asset rules for stablecoins (sections 31 and 32) do not distinguish Halal from conventional, interest-bearing high-quality liquid assets; the derivatives category (Schedule I) broadly permits futures, options, swaps and contracts for difference, which raise gharar and maysir and, for contracts for difference, the sale of what the seller does not own; and the Shariah Advisory Committee (section 3) is advisory only, so that a Shariah-compliant label risks becoming a marketing assertion rather than assurance.

Recommendation. Provide, in the Regulations, an interest-free statutory pathway built on permissible structures such as murabaha, mudarabah and qard al-hasan, with returns derived from valid service fees (ujrah) or permissible economic activity; mandate that any token marketed as Shariah-compliant hold its reserves exclusively in Halal instruments, such as sukuk and deposits with licensed Islamic banks, subject to

[39] Securities and Exchange Commission of Pakistan, NBFC Rules 2003 and the Non-Banking Finance Companies and Notified Entities Regulations 2008, including fit-and-proper criteria, prudential conditions and exposure limits and the asset-management framework. https://www.secp.gov.pk/.

Shariah audit; restrict conventional speculative derivatives and authorise only scholar-approved Islamic hedging instruments based on structures such as waad or Islamic cross-currency arrangements; and empower the Shariah Advisory Committee with binding authority over any product, token or service claiming to be Islamic, composed of recognised scholars to recognised standards, with power to halt non-compliant activity. This should be read with Point 14.

Comparator benchmark. The Central Bank of Bahrain and Bank Negara Malaysia, together with the Securities Commission Malaysia, provide binding Shariah governance and audit for products carrying an Islamic label, and the standards of the Accounting and Auditing Organization for Islamic Financial Institutions are the recognised reference.[40]

[40] Shariah governance standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI); Central Bank of Bahrain crypto-asset framework and Bank Negara Malaysia and Securities Commission Malaysia Shariah governance for products carrying an Islamic label.

5. Part C: Clause-Level Drafting Refinements

The following clause-level refinements, drawn from a detailed review of the draft Regulations and the Activity-Specific Handbooks, are endorsed by the firm. Each is technical, self-contained, and stated as a single recommended change. Matters already addressed in Parts A and B, namely minimum capital, the transitional regime, client-asset protection, token admission, cross-border solicitation and fit-and-proper, are not repeated here.

Definitions and scope.

- **Define "Controller."** Insert a definition of Controller in the Regulations, since it drives the fit-and-proper, change-of-control and disclosure obligations and, for an international group, determines how far up the control chain those obligations reach.
- **Define "principal activity."** For the outsourcing prohibition, define principal activity by listing the core functions that may not be outsourced for each licence category, so that the limit of permissible outsourcing is clear.
- **Define "Associated Companies," and scope group financials.** Define Associated Companies, which drives the scope of disclosure, and limit the obligation to provide the financial statements and position of associated companies to those that are material, rather than all.
- **Widen "Client Agreement."** Widen the Client Agreement definition to include subsequent and product-specific agreements, so that later terms (not only the onboarding terms) count throughout the Regulations and Handbooks, including for rewards on client virtual assets and for product disclosures.
- **Classify non-discretionary staking.** State expressly that classic, non-discretionary staking is ancillary to custody and sits outside the Management and Investment licence, so the boundary is not left to interpretation across the Regulations and the Handbook.
- **Tie the ancillary test to conduct.** Replace the hypothetical ancillary-activity test (not capable of being offered as a standalone service) with a conduct test (not, in fact, offered or marketed to customers as a standalone service), so the test turns on real conduct.

Process, fairness and timelines.

- **Supply Form II and Schedule II.** Form II and the Schedule II fee schedule are cross-referenced throughout the application, variation and supervisory provisions but are absent from the draft; both must be supplied for the framework to be operable.

- **Constrain interim directives.** Provide that interim directives under regulation 5A are proportionate, reasoned and time-limited, and that the affected provider has a right to make representations.
- **Make "core obligations" exhaustive.** List the core obligations under regulation 5A(2) exhaustively, and treat good standing in a FATF-member jurisdiction (for example Dubai or the European Union) as a discretionary factor evidencing those core obligations during transition.
- **Prescribe an approval clock.** Prescribe a decision period for director and controlled-function approvals, for example thirty business days, with deemed non-objection if the Authority does not respond and has not notified an extension.
- **Apply an objective standard.** Replace satisfied with reasonably satisfied in the suspension, sanction and supervisory triggers, and qualify the information-gathering powers as reasonably necessary and proportionate, applied consistently across the Regulations.
- **Require reasoned variation notices.** Provide that an own-initiative variation of a licence be made by prior written notice stating reasons.
- **Name responsible bodies.** Name the specific Division responsible for approving the external auditor, and identify who assesses whether a dedicated risk function is warranted (the licensee, subject to the Authority's review, or the Authority).
- **Complete unfinished drafting.** Complete the unfinished personal-data-protection provision (regulation 68(1)(a)) and correct the drafting error in the conflicts-notification provision (notify the Authority without delay).

Governance and group structure.

- **Calibrate change of control.** Require prior approval only for a direct holding of twenty per cent or more in the Pakistan entity, with notification (not approval) for upper-tier changes that do not affect direct control and a carve-out (notification only) for group reorganisations that leave the ultimate owners unchanged; scope the merger and disposal triggers to the licensee and align Material with the defined term. Deal with this once and cross-refer, rather than arguing it in two places.
- **Carve out routine treasury operations.** Carve routine operational asset movements, such as liquidity rebalancing between the Pakistan entity and group treasury and movements between cold and hot wallets, out of the ten-per-cent disposal threshold, with the carve-out defined tightly so it cannot mask a genuine disposal.

- **Permit group-level board competence.** Permit the board's collective competence to be met through a mix of subsidiary-board competence and group-board or committee expertise with documented access (reporting lines, escalation, joint meetings), while requiring a minimum core competence at subsidiary level.
- **Permit combined compliance roles.** Permit the Compliance Officer also to act as the money-laundering reporting officer, subject to the Authority's approval and the preservation of independence.

Custody, client assets and operations.

- **Confirm ledger-level identification.** Confirm that ledger-level identification, using internal ledgers and pooled or omnibus wallets, satisfies the requirement to identify and return client virtual assets, which is the operational reality for exchanges.
- **Clarify warm wallets.** Clarify where warm wallets sit within the requirement that the majority of client assets be held in secure offline or equivalent storage, and any limits that apply to them.
- **Confirm self-hosted-wallet controls.** Confirm that a licensee meeting the risk-based controls in regulation 100(7) and Handbook section 12(1) satisfies the controls required for self-hosted-wallet transfers under section 12(2), without a separate case-by-case direction.
- **Allow an equivalent foreign client-money bank as an option.** Allow, as an option subject to the Authority's discretion, a Client Account with a bank regulated in a FATF-member jurisdiction where the account is designated for Pakistan-licensee clients with equivalent segregation, presented as an option rather than a demand. This should be read with Point 17.

Conduct, records and disclosure.

- **Recognise electronic acceptance.** Recognise expressly that electronic acceptance (click-through, tick-box or biometric) is valid acceptance of the Client Agreement, and specify the form and timing of delivery of the copy to the customer.
- **Specify a retention period.** Specify the retention period for versions of Client Agreements, for example five years from the later of account closure or the version ceasing to be in force, aligned to the AML record-keeping period to avoid conflicting durations.
- **Protect named individuals.** Disclose the names of Key Individuals to the Authority confidentially and publish titles only, given the real personal-security

risk to named virtual-asset executives, while preserving the Authority's ability to identify responsible individuals.

Application forms.

- **Adapt the forms for foreign applicants.** Provide a field for foreign applicant companies that cannot yet hold a CUIN (since a local entity is incorporated only after the NOC), clarify the Legal Status and Position fields, state the purpose and confidential handling of the Net Worth field, and tidy the duplicated Part D heading.

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