6. Crypto Exchanges- Economy

India is mandating live selfies and location tracking for crypto users The Financial Intelligence Unit (FIU) has tightened AML/CFT norms for crypto exchanges, mandating rigorous KYC (including 'penny-drop' verification and liveness checks), geo-location tracking, and record retention for five years. These measures aim to align India's framework with FATF standards and curb high-risk activities like ICOs and anonymity-enhancing tokens

Context

Issuer- The Financial Intelligence Unit (FIU) has released revised AML and CFT guidelines specifically for cryptocurrency exchanges.

Objective- To tighten the regulatory noose around virtual assets, preventing their misuse for illegal activities like money laundering and terror financing.

1. Regulatory Status of Cryptocurrencies in India

Legal Tender Status- Cryptocurrencies are not recognised as legal tender in India.

Taxation- Transactions involving crypto assets are subject to taxation under the Income-tax Act.

Classification- Cryptocurrency exchanges are legally classified as Virtual Digital Asset (VDA) service providers.

Regulatory Framework- All VDA service providers fall under the purview of the Prevention of Money Laundering Act (PMLA). The Financial Intelligence Unit (FIU) serves as the primary regulator for crypto exchanges operating within the country.

2. Key Revised Guidelines for Crypto Exchanges

The guidelines focus on robust "Know Your Customer" (KYC) norms and enhanced due diligence.

A. Identity Verification (KYC)

Dual Documentation- Exchanges must collect one additional identity or address document (e.g., Passport, Driving Licence, Proof of Aadhaar possession) beyond standard ID proofs.

Digital Verification- Verification of the client's mobile number and email address via a One-Time Password (OTP) is mandatory.

Bank Verification

1. Mechanism- Implementation of the 'penny-drop' mechanism.
2. Purpose- To confirm the ownership and operational status of the client's bank account by depositing a nominal amount (usually ₹1) and validating the beneficiary's name.

B. Liveness Detection

Requirement- Exchanges must capture a live selfie of the user during the onboarding process.

Technology- Use of liveness detection technology (e.g., detecting eye blinking or head movement).

Objective- To ensure the individual is physically present and personally initiating the account creation, preventing bot-driven or fraudulent registrations.

C. Geo-Location and Digital Footprint

Location Data- Mandatory recording of the latitude and longitude of the user's location during onboarding.

Metadata- Capture of date, timestamp, and Internet Protocol (IP) address for audit trails.

D. Restrictions on High-Risk Activities

ICOs and ITOs- The guidelines strongly discourage facilitating Initial Coin Offerings (ICOs) and Initial Token Offerings (ITOs) due to heightened risks of money laundering and terror financing.

Privacy Coins- Transactions involving anonymity-enhancing crypto tokens (often called privacy coins) are prohibited/not to be facilitated.

E. Record-Keeping

Customer Data- Exchanges must preserve all customer identity and address details securely.

Transaction History- All transaction records must be maintained for a minimum period of five years to assist in future investigations.

3. Understanding Key Concepts

A. Cryptocurrency

Definition- A digital form of money that uses cryptography for security and operates on decentralized networks rather than being issued by central banks.

Key Features

1. Digital & Decentralized- Exists only online; no central authority control.
2. Cryptography- Uses encryption and public-private keys to secure ownership.
3. Blockchain- Transactions are recorded on a distributed, tamper-resistant public ledger.
4. Peer-to-Peer**-** Enables direct value transfer between users.

Examples- Bitcoin, Ethereum, Altcoins.

B. Blockchain Technology

Definition- A decentralized, distributed ledger system that records transactions across multiple computers ensuring security and transparency.

Validation- Relies on consensus algorithms (like Proof of Work or Proof of Stake) to validate transactions and maintain network integrity, ensuring only legitimate transactions are added to the chain.

4. Significance of the New Guidelines

Global Alignment- Bringing India's regulatory framework closer to the Financial Action Task Force (FATF) standards on virtual digital assets.

Risk Mitigation- Strengthening the national capability to prevent money laundering, terrorist financing, and proliferation financing (financing of nuclear/chemical weapons) associated with crypto assets.

5. Way Ahead

Inter-Agency Coordination- Enhanced collaboration is needed among the FIU, Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), and law enforcement agencies to tackle cross-border risks effectively.

Technology Adoption- Expansion of Regulatory Technology (RegTech) and Supervisory Technology (SupTech) to enable real-time monitoring and automated risk assessment.

Capacity Building- Training and equipping enforcement agencies and judicial authorities to effectively investigate and prosecute complex crypto-related offences.

Source- https-//www.businesstoday.in/latest/policy/story/explained-why-india-is-mandating-live-selfies-and-location-tracking-for-crypto-users-510354-2026-01-11