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A Regulatory Framework for Forex and Virtual Asset Markets in the Kurdistan Region of Iraq

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Executive Summary

Retail participation in forex trading and digital-asset activity has grown sharply across the Kurdistan Region of Iraq (KRI) over the past five years, driven by online trading platforms, local introducing-broker arrangements, and, increasingly, cryptocurrency and stablecoin activity used to fund or withdraw from these platforms. This growth has occurred almost entirely outside any licensing, supervisory, or consumer-protection framework. The Central Bank of Iraq (CBI) prohibited cryptocurrency trading in 2017, and in 2025 the KRG Ministry of Interior and Asayish security directorates separately banned forex and virtual-asset trading, citing fraud risk and the absence of any regulatory basis for oversight [1], [2], [3]. Enforcement action has continued alongside the underlying activity: cases documented in 2025 alone include a Duhok-based scheme that defrauded local investors of an estimated USD 15 million [4] and the arrest in Erbil, on 10 April 2025, of the operator of "Twana FX," a locally prominent unlicensed digital-trading platform, on charges of fraud and deception [5]. At the federal level, Baghdad's Second Karkh Investigation Court separately recovered a combined total of approximately IQD 16 billion (roughly USD 12 million) during 2025 from companies that had illegally profited from exchange-rate differentials through fraudulent transfer operations [30], [31], [32].

A review conducted for this paper identified approximately 20 to 30 platforms currently marketing forex, commodity, and cryptocurrency trading services to KRI residents, none holding a license that actually covers that activity. Self-reported figures gathered directly from forex company representatives during the underlying focus group research indicate a retail user base considerably larger than the market's informal, unregulated status would suggest. One platform representative reported approximately 40,000 registered or active users, and another approximately 14,000, figures that are self-reported and unverified but nonetheless point to a market of meaningful scale operating with no oversight of any kind.

This paper argues that prohibition alone has not closed this market; it has pushed it further underground, complicated law-enforcement tracing of transactions routed through stablecoins, and left users with no institutional recourse when they lose money. Drawing on primary qualitative evidence gathered directly from eight KRG stakeholder groups engaged in a dedicated focus group research exercise conducted in 2026 (Directorate of Banks, Economic Security Division, Money Exchange Offices, Forex and Crypto Trading Experts, Sulaimani Court Directorate, Directorate of Company Registration, Victims of Forex and Investment Scams, and registered and semi-formal Forex Companies) [14]; and on a comparative review of four established regulatory models, the United States Securities and Exchange Commission (SEC), the Dubai Virtual Assets Regulatory Authority (VARA), the European Union's Markets in Crypto-Assets Regulation (MiCA), and the Cyprus Securities and Exchange Commission (CySEC). This paper recommends that the KRG establish a dedicated Kurdistan Financial Markets Authority (KFMA) with a clear legal mandate to license, supervise, and enforce conduct rules across forex intermediaries, virtual-asset service providers, and security-token issuers operating in or from the Kurdistan Region.

Every one of the eight stakeholder groups engaged in the research process expressed direct support for replacing the current prohibition-only approach with a licensing and supervisory regime, with several stakeholders explicitly citing the UAE, EU, and US frameworks as models to emulate [14]. This paper sets out the evidentiary basis for that recommendation, benchmarks the leading international regulatory architectures, and proposes a phased, legally coordinated pathway toward a KFMA that protects forex and digital-asset users, closes institutional gaps, and positions the Kurdistan Region within a modernizing regional and global regulatory landscape for these markets specifically.

پوختە

مامەڵە کردن بە دراوی بیانی (فۆرێکس) و چالاکییە داراییە دیجیتاڵییەکان لە هەرێمی کوردستان، لە پێنج ساڵی ڕابردوودا گەشەیەکی بەرچاوی بەخۆیەوە بینیوە. هۆکارە سەرەکییەکانی ئەم پەرەسەندنەش بریتین لە پلاتفۆرمە ئۆنلاینەکان، نێوەندگیرە ناوخۆییەکان ،(Introducing Brokers)، هەروەها بەکارهێنانی بەردەوامی دراوە دیجیتاڵییەکان و دراوە جێگیرەکان(Stablecoins) بۆ دابینکردن یان گواستنەوەی سەرمایە لەسەر ئەم پلاتفۆرمانە. ئەم گەشەسەندنە تا ڕادەیەکی زۆر لە دەرەوەی هەر چوارچێوەیەکی مۆڵەتدان، چاودێری و پاراستنی بەکارهێنەر ڕوویداوە.

بانکی ناوەندیی عێراق لە ساڵی ٢٠١٧ـەوە مامەڵەکردن بە دراوە دیجیتاڵییەکانی قەدەغە کردووە. لە ساڵی ٢٠٢٥ـیشدا، وەزارەتی ناوخۆی هەرێمی کوردستان و بەڕێوەبەرایەتییەکانی ئاسایش، بە جیا بڕیاری قەدەغەکردنی مامەڵەی فۆرێکس و دراوە دیجیتاڵیەکان دەرکرد، ئەمەش بەهۆی مەترسیی فێڵبازی و نەبوونی هیچ بنەمایەکی یاسایی بۆ چاودێری و ڕێکخستن. لەگەڵ ئەم بڕیارانەشدا، چالاکییەکان نەوەستاون؛ هەر لە ساڵی ٢٠٢٥دا، پلانی فێڵبازییەک لە پارێزگای دهۆک ئاشکرا بوو کە تێیدا نزیکەی ١٥ ملیۆن دۆلاری ئەمریکی لە وەبەرهێنەرانی ناوخۆیی بە فێڵ براوە. هەروەها لە ١٠ی نیسانی ٢٠٢٥، لە هەولێر، بەڕێوەبەری پلاتفۆرمی "Twana FX" کە یەکێکە لە پلاتفۆرمە ناسراوە بێ مۆڵەتەکان، بە تۆمەتی هەڵخەڵەتاندن دەستگیر کرا. لە ئاستی فیدراڵیشدا، دادگای لێکۆڵینەوەی دووەمی کەرخی بەغدا نزیکەی ١٦ ملیار دیناری عێراقی (نزیکەی ١٢ ملیۆن دۆلاری ئەمریکی) لە کۆمپانیاکان گەڕاندەوە کە بە شێوەی نایاسایی قازانجیان لە جیاوازیی نرخی دراوە لە ڕێگەی مامەڵەی ساختەوە وەرگرتبوو.

پێداچوونەوەی ئەم توێژینەوەیە نیشانی داوە کە نزیکەی ٢٠ تا ٣٠ پلاتفۆرم لە ئێستادا خزمەتگوزاریی مامەڵەی فۆرێکس، کاڵا و دراوە دیجیتاڵییەکان پێشکەش دەکەن، بێ ئەوەی هیچ کامیان مۆڵەتێکی یاساییان هەبێت. زانیارییەکان کە ڕاستەوخۆ لە نوێنەری کۆمپانیاکان لە میانەی گفتوگۆ لەگەڵ چەند گرووپێکی پسپۆڕ کۆکراونەتەوە، ئاماژە بە هەبوونی بنکەیەکی بەرفراوانی بەکارهێنەران دەکەن کە زۆر زیاترە لەوەی بۆ بازاڕێکی نافەرمی چاوەڕوان دەکرێت؛ بە جۆرێک نوێنەرێک ئاماژەی بە ٤٠ هەزار بەکارهێنەر و نوێنەرێکی دیکە ئاماژەی بە ١٤ هەزار بەکارهێنەر داوە. هەرچەندە ئەم ژمارانە بە سەربەخۆ پشتڕاست نەکراونەتەوە، بەڵام ئاماژە بە بازاڕێکی بەرفراوان دەکەن کە بە تەواوی لە دەرەوەی چاودێریی ڕێکخستنییە.

ئەم توێژینەوەیە جەخت دەکاتەوە کە سیاسەتی قەدەغەکردن نەیتوانیوە بازاڕەکە کۆنترۆڵ بکات، بەڵکو بازاڕەکەی بەرەو شاراوەیی بردووە و شوێنپێهەڵگرتنی یاسایی مامەڵەکان کە بە Stablecoin ـی ئاڵۆزتر کردووە، بەکارهێنەرانیشی بێ هیچ دامەزراوەیەکی فەرمی جێهێشتووە بۆ داواکردنی مافەکانیان. توێژینەوەکە پشت بە بەڵگەی چۆنایەتی دەبەستێت کە لە ساڵی ٢٠٢٦ لە هەشت گرووپی پەیوەندیداری حکومەتی هەرێمی کوردستان (بانکەکان، ئاسایشی ئابووری، نووسینگەکانی ئاڵوگۆڕی پارە، شارەزایانی فۆرێکس، دادگای سلێمانی، بەڕێوەبەرایەتیی تۆمارکردنی کۆمپانیاکان، قوربانیانی فێڵبازی و کۆمپانیاکانی بواری فۆرێکس) کۆکراونەتەوە. هەروەها بەراوردکارییەکی چوار مۆدێلی نێودەوڵەتییSEC ، VARA، MiCA، CySECکراوە.

لە ئەنجامدا، ئەم توێژینەوەیە پێشنیاز دەکات حکومەتی هەرێمی کوردستان دەسەڵاتی بازاڕی دارایی کوردستان (KFMA)دابمەزرێنێت، بە دەسەڵاتێکی یاسایی ڕوون بۆ مۆڵەتدان، چاودێری و جێبەجێکردنی ڕێساکان بەسەر

ناوەندەکانی نێوەندگیری فۆرێکس، دابینکەرانی خزمەتگوزارییە دیجیتاڵییەکان و دەرکەرانی نیشانەی ئەمنیی دارایی (Security Token)لە هەرێمی کوردستان.

هەموو ئەو هەشت گرووپەی بەشدارییان لە توێژینەوەکەدا کردووە، بە ڕاشکاوی پشتگیریی خۆیان بۆ گواستنەوە لە سیاسەتی تەنها قەدەغەکردن بۆ سیستەمێکی مۆڵەتدان و چاودێری دەربڕیوە. ئەم توێژینەوەیە بنچینەی بەڵگەکان دەخاتەڕوو و ڕێرەوێکی قۆناغبەقۆناغ پێشنیاز دەکات بۆ دامەزراندنی KFMA، بە مەبەستی پاراستنی بەکارهێنەران، داخستنی کەلێنی دامەزراوەیی و بەهێزکردنی پێگەی هەرێمی کوردستان لە گۆڕەپانی ڕێکخستنی دارایی جیهانیدا.

الملخص

شهد تداول العملات الأجنبية (الفوركس) وأنشطة الأصول الرقمية في إقليم كردستان العراق نمواً ملحوظاً خلال السنوات الخمس الماضية، مدفوعاً بانتشار منصات التداول الإلكترونية، وشبكات الوسطاء التعريفيين المحليين (*Introducing Brokers*)، فضلاً عن التوسع في استخدام العملات الرقمية والعملات المستقرة (*Stablecoins*) لتمويل عمليات التداول أو تحويل الأموال عبر هذه المنصات. وقد تحقق هذا النمو إلى حدٍ كبير خارج أي إطار للترخيص أو الرقابة أو حماية المستثمرين.

ومنذ عام ٢٠١٧، حظر البنك المركزي العراقي التعامل بالعملات الرقمية. وفي عام ٢٠٢٥، أصدرت وزارة الداخلية في حكومة إقليم كردستان ومديريات الأسايش، كلٌّ على حدة، قرارات بحظر تداول الفوركس والأصول الرقمية، استناداً إلى مخاطر الاحتيال وغياب أي أساس قانوني يتيح الإشراف والتنظيم. ومع ذلك، لم تتوقف هذه الأنشطة؛ ففي عام ٢٠٢٥ وحده، كُشف عن عملية احتيال في محافظة دهوك استولت على ما يقارب ١٥ مليون دولار أمريكي من المستثمرين المحليين. كما أُلقي القبض في أربيل، بتاريخ ١٠ نيسان/أبريل ٢٠٢٥، على مدير منصة "Twana FX"، وهي إحدى أبرز المنصات غير المرخصة، بتهمة الاحتيال والخداع. وعلى المستوى الاتحادي، استعادت محكمة تحقيق الكرخ الثانية في بغداد ما يقارب ١٦ مليار دينار عراقي نحو ١٢ مليون دولار أمريكي من شركات حققت أرباحاً غير مشروعة من فروقات أسعار الصرف عبر عمليات تحويل احتيالية.

وأظهرت مراجعة هذه الدراسة وجود ما بين ٢٠ و٣٠ منصة تقدم حالياً خدمات تداول الفوركس والسلع والأصول الرقمية في إقليم كردستان، دون أن تمتلك أيٌّ منها ترخيصاً قانونياً يجيز ممارسة هذه الأنشطة. كما تشير البيانات التي جُمعت مباشرة من ممثلي هذه الشركات خلال جلسات مجموعات التركيز إلى وجود قاعدة واسعة من المستخدمين تفوق بكثير ما يمكن توقعه في سوق غير رسمية وغير خاضعة للتنظيم؛ إذ أفاد أحد ممثلي الشركات بوجود نحو ٤٠ ألف مستخدم، بينما أشار ممثل آخر إلى نحو ١٤ ألف مستخدم .ورغم أن هذه الأرقام لم تخضع للتحقق المستقل، فإنها تعكس مؤشرات واضحة على وجود سوق واسعة النطاق تعمل بالكامل خارج نطاق الرقابة التنظيمية.

وتؤكد هذه الدراسة أن سياسة الحظر لم تنجح في احتواء هذا السوق، بل دفعت به إلى مزيد من العمل في الخفاء، وزادت من تعقيد قدرة الجهات المختصة على تتبع المعاملات التي تتم عبر العملات المستقرة(*Stablecoins*) ، كما حرمت المستخدمين من أي جهة مؤسسية يمكنهم اللجوء إليها للمطالبة بحقوقهم عند تعرضهم للخسائر. وتعتمد الدراسة على أدلة نوعية جُمعت خلال عام ٢٠٢٦ من ثماني فئات رئيسية من أصحاب المصلحة في حكومة إقليم كردستان، شملت: مديرية المصارف، وشعبة الأمن الاقتصادي، ومكاتب الصرافة، وخبراء تداول الفوركس، ومديرية محكمة السليمانية، ومديرية تسجيل الشركات، وضحايا عمليات الاحتيال، وشركات الفوركس. كما تستند إلى دراسة مقارنة لأربعة من أبرز النماذج التنظيمية الدولية، وهي: هيئة الأوراق المالية والبورصات الأمريكية(SEC) ، وهيئة تنظيم الأصول الافتراضية في دبي(VARA) ، ولائحة الأسواق الأوروبية للأصول المشفرة(MiCA) ، وهيئة الأوراق المالية والبورصات القبرصية.(CySEC)

وبناءً على ذلك، توصي الدراسة بإنشاء هيئة أسواق المال في كردستان(Kurdistan Financial Markets KFMA) ، تتمتع بصلاحيات قانونية واضحة في مجال الترخيص والرقابة وإنفاذ الأطر التنظيمية على وسطاء الفوركس، ومقدمي خدمات الأصول الرقمية، ومصدري الرموز المالية (*Security Tokens*) العاملين داخل إقليم كردستان.

وقد أعربت جميع فئات أصحاب المصلحة الثماني المشاركة في الدراسة عن تأييدها الواضح للانتقال من نهج الحظر إلى إطار يقوم على الترخيص والإشراف والتنظيم. وتعرض هذه الدراسة الأساس العلمي لهذه التوصية، وتقترح خارطة طريق مرحلية لتأسيس هيئة أسواق المال في كردستان(KFMA) ، بما يسهم في حماية المتعاملين، وسد الفجوات المؤسسية، وتعزيز مكانة إقليم كردستان ضمن البيئة التنظيمية الحديثة للأسواق المالية والأصول الرقمية على المستويين الإقليمي والدولي.

مرحلياً ومتوافقاً مع الإطار القانوني لتأسيس هيئة أسواق المال الكردستانية(KFMA) ، بما يكفل حماية مستخدمي الفوركس والأصول الرقمية، وسد الفجوات المؤسسية، وتمكين إقليم كردستان من التموضع ضمن المشهدين الإقليمي والدولي المتطورين لتنظيم هذه الأسواق على وجه الخصوص.

Part I: The Problem

1. Introduction: Scale and Urgency

Retail forex trading and virtual-asset activity have expanded rapidly across the Kurdistan Region of Iraq over the past five years, driven primarily by unlicensed online trading platforms, local introducing-broker arrangements, and bazaar-based money-exchange offices that have adapted their services to fund trading accounts, often using USDT as an intermediate settlement rail [9]. This is not a uniquely local phenomenon: European regulatory analyses have found that between 74 and 89 percent of retail contract-for-difference (CFD) accounts lose money, with average losses per client ranging from EUR 1,600 to EUR 29,000 [10], and academic research demonstrates that leverage itself is a primary driver of these losses independent of market direction. An analysis of United States retail forex accounts found that the average high-leverage trader loses approximately 44 percent of account value per month in absolute terms, and that leverage-constraint policies of the kind used by mature regulators mitigate such losses by roughly 40 percent [11]. This evidence base is directly relevant to KRI, where the focus group research described in Part II confirms that unsuitable leverage and lot-size selection, rather than simple bad luck, is the dominant driver of retail losses.

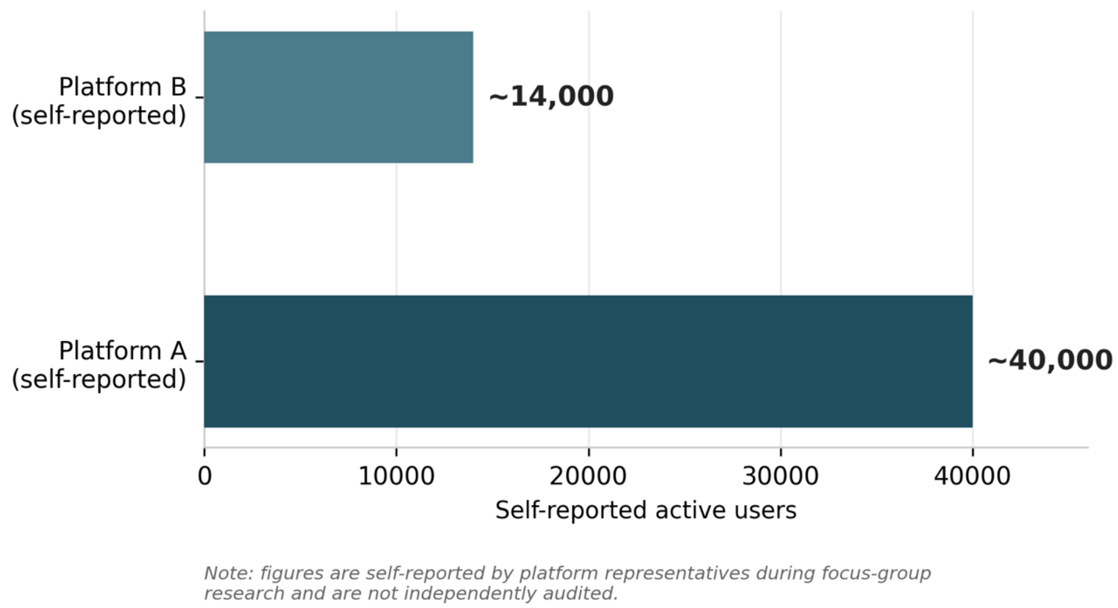
The urgency of this problem is not merely theoretical. As Section 1.1 documents, a review conducted for this paper identified approximately 20 to 30 platforms currently marketing forex, commodity, and cryptocurrency trading services to KRI residents, and self-reported figures gathered directly from forex company representatives during the underlying research point to a combined active user base in the tens of thousands. All of this activity currently occurs with no licensing regime, no capital requirements, and no consumer-protection backstop of any kind.

1.1 Market Scale: Brokers, Money-Exchange Offices, and the Data Gap

No KRG or federal institution currently maintains a count of active forex-trading intermediaries operating in or from the Kurdistan Region, and this paper's own evidence base explains why: The Directorate of Company Registration confirmed that no company is registered under a forex or crypto activity code, with such businesses instead appearing under generic labels such as "financial affairs" or "consultancy" [14]. Nationally, Iraqi media reporting in 2026 placed the number of CBI-licensed exchange companies at approximately 166, but this figure covers currency-exchange licensing only, is not broken down by governorate, and does not capture forex introducing brokers, signal-selling "academies," or virtual-asset intermediaries, which operate outside any licensing category altogether.

A review of publicly available broker websites, social media pages, and independent broker-verification services, conducted for this paper, identified approximately 20 to 30 platforms currently marketing forex, commodity, and, in several cases, cryptocurrency trading services to residents of the Kurdistan Region, as can be seen in Figure 1. These range from small, locally registered trading offices holding no more than a generic commercial registration to internationally active brokers that hold genuine regulatory licenses in other jurisdictions but no license covering their Iraq-facing marketing and client activity specifically. Consistent with the confidentiality protections extended to research participants and the sensitivity of ongoing enforcement activity in this sector, individual platform names are not disclosed in this paper. What can be said with confidence is that every platform identified in this review holds, at most, a license or registration that does not extend to the forex, commodity, or virtual-asset services it markets to KRI clients, directly illustrating the registration-category gap described above, in which a generic commercial registration is consistently presented to the public as though it were sector-specific regulatory approval.

Figure 1. User stats in the Kurdistan Region of Iraq for two brokers only.



Self-reported figures gathered directly from forex company representatives during the focus-group research give a further, though unverified, indication of scale. One representative reported approximately 40,000 active users trading forex, commodities, and cryptocurrencies through its platform; another reported approximately 14,000 active registered users, noting that its platform offers Islamic (swap-free) accounts among its features [14]. Consistent with the same anonymity protections, the identities of these platforms are not disclosed. These figures are self-reported by the companies themselves, are not independently audited, and should not be treated as verified user counts, but even taken as rough indicators, they suggest a retail user base in the tens of thousands across just two platforms, in a market of an estimated 20 to 30 active intermediaries, with no licensing regime, no capital requirements, and no consumer-protection backstop of any kind.

This paper therefore does not present a precise market-size estimate, because none can be produced responsibly from existing data; the figures above are illustrative and self-reported, not a census. It instead recommends, as a concrete first deliverable of KFMA Phase 1 (Section 23), a baseline census of money-exchange offices, forex introducing brokers, and virtual-asset intermediaries operating in KRI, conducted jointly with the Directorate of Company Registration and the Economic Security Division. This census should be the evidentiary basis for calibrating the licensing-tier assumptions in Appendix B and the revenue projection in Section 20.

2. Documented Harm

The absence of a licensing regime has not prevented harm; it has simply left harm undocumented, uninsured, and largely unprosecutable under clear legal categories. Publicly reported cases from 2025 alone illustrate the scale of the problem. Authorities in Duhok arrested two individuals suspected of operating a cryptocurrency scheme that defrauded local investors of an estimated USD 15 million [4]. In a separate case, Erbil authorities arrested the operator of "Twana FX," a locally prominent digital-trading platform, on 10 April 2025 on charges of fraud and deception; the security directorate confirmed the company held no license or registration of any kind [5]. Although that case arose in the Kurdistan Region, the same underlying market dysfunction is visible at the federal level: during 2025, Baghdad's Second Karkh Investigation Court recovered a combined total of approximately IQD 16 billion (roughly USD 12 million) from companies that exploited exchange-rate differentials through fraudulent transfer operations, with the judiciary confirming that further cases of the same type remain under investigation [30], [31], [32]. Independent reporting has separately described the phenomenon of Iraqi youth "risking all" in crypto and forex trading, with widespread anecdotal reports of family financial distress, debt, and asset liquidation following trading losses [9], and a separate investigative account described the trade as one in which forex victims lose billions [12]. These figures are almost certainly a lower bound. Because no licensing or reporting obligation exists, cases surface only when they escalate to criminal investigation, court action, or media attention; the routine, smaller-scale losses experienced by individual retail traders are not systematically captured anywhere in the current institutional architecture.

3. Why Prohibition Alone Has Not Worked

The CBI's 2017 prohibition on cryptocurrency trading, reinforced in 2025 by KRG Ministry of Interior and Asayish directives explicitly banning both forex and virtual currency trading and USDT-denominated transactions [1], [2], [3], has coexisted with continued, and in some respects growing, informal market activity. This is consistent with a broader empirical pattern documented in the financial-regulation literature: prohibition without a licensing alternative tends to displace rather than eliminate demand for a service, particularly where that service (in this case, currency hedging and cross-border payment access) meets a genuine underlying economic need. Post-conflict and transition economies face a specific version of this dynamic, in which weak formal-sector currency and payment infrastructure pushes activity into informal channels that are, by definition, opaque to regulators, tax authorities, and law enforcement alike [13]. The KRI case fits this pattern closely: money-exchange offices interviewed for this research openly described continuing to exchange USDT for forex-funding purposes on a daily basis despite the ban, operating informally rather than ceasing the practice altogether, direct evidence that prohibition has changed the visibility of the activity more than its incidence [14].

4. The Institutional Gap

No single KRG or federal Iraqi institution currently holds a mandate to license, supervise, or set conduct rules for forex or virtual-asset intermediaries. Evidence gathered directly from KRG institutions confirms this gap runs across the entire system [14]. The Directorate of Banks in Sulaimani reports that it has no rule or regulation under which to monitor suspicious forex-linked cash flows and no coordination channel with security agencies when such flows are identified. The Economic Security Division of the Ministry of Interior confirms that it lacks the tools, technology, and trained personnel needed to trace Bitcoin or USDT-linked transactions tied to forex fraud cases, despite receiving new complaints on a weekly basis. The Sulaimani Court Directorate reports that it has no rule to rely on when adjudicating forex-related fraud and loss disputes, forcing cases into general fraud or deception categories that were not designed for leveraged trading products or crypto-denominated claims. The Directorate of Company Registration confirms that, by law, no company is registered with it to conduct forex or crypto activity; such businesses instead register as financial affairs, money exchange, or other generic categories that obscure their real activity and place them outside any sector-specific oversight. Each institution, in short, encounters a piece of the same problem, but none holds the mandate, tools, or inter-agency coordination needed to address it comprehensively [14].

5. Consumer Protection Failure

The consumer-protection consequences of this institutional gap are severe and, on the evidence gathered for this paper, systemic rather than incidental. Forex and crypto trading experts interviewed for this research estimated that approximately 80 percent of retail traders in KRI lose money, attributing this primarily to a lack of market knowledge combined with unsuitable leverage and lot-size selection [14]. Representatives of registered and semi-formal forex companies confirmed that only a small share of their clients have real market knowledge or literacy and that client behavior is driven predominantly by the desire for quick returns rather than an informed risk assessment [14]. Money-exchange office representatives corroborated this, reporting that they can easily observe a lack of literacy and awareness of trading techniques among the clients they serve [14]. These local findings are consistent with the wider retail-trading literature, which documents that undisciplined leverage use, rather than market direction, is the dominant driver of retail losses internationally [11]. What is unique to the KRI context is the complete absence of any regulatory backstop, no leverage limits, no mandatory risk disclosure, no cooling-off period, no compensation scheme, and no public registry against which a prospective client could verify whether an intermediary is legitimate.

6. Why This Is Urgent Now

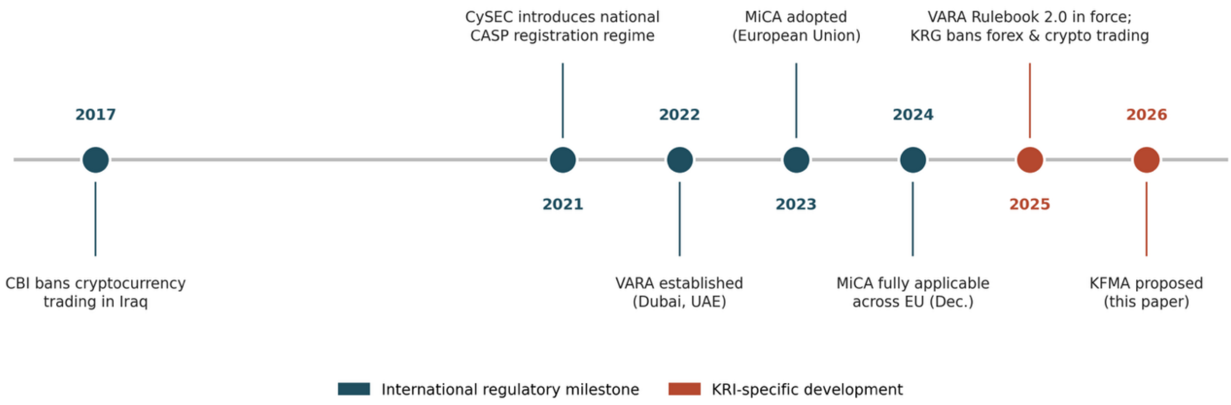


Figure 2. Regulatory timeline.

As it can be seen in Figure 2, several converging factors make 2026 a particularly consequential moment for this decision. First, the CBI itself is actively modernizing Iraq's monetary and payments architecture: it is developing a central bank digital currency (the "digital dinar") [6], has moved to phase out its long-standing daily dollar auction in favor of correspondent-banking channels for external transfers [8], and continues to manage the dinar's official exchange rate of 1,300 per US dollar amid ongoing public debate over a possible revaluation [7]. Taken together, these steps demonstrate that Iraqi monetary authorities are not opposed in principle to digital finance and currency-system modernization even as they maintain the ban on private virtual-asset trading. Second, the regional and global regulatory landscape has moved decisively toward comprehensive licensing rather than prohibition: the UAE's VARA framework became fully operational through 2025 and 2026 [18], [19], the EU's MiCA regime became fully applicable in December 2024 [21], and Cyprus's national crypto-asset framework has since transitioned into the harmonized MiCA regime [22], [23]. A jurisdiction that continues to rely solely on prohibition risks falling further behind regional competitors that are actively positioning themselves to attract compliant fintech investment. Third, and most directly, the research described in Part II demonstrates that the institutions closest to this problem, banks, security services, courts, the company registry, market practitioners, and even active and former forex companies are themselves requesting a licensing and supervisory framework rather than continued prohibition [14]. This paper treats that convergence of evidence as the central justification for recommending a shift from a prohibition-only posture to a regulated-market model.

Part II: Evidence Base

7. Research Methodology

To ground this paper's recommendations in the operational reality of the KRI market, a dedicated qualitative research exercise was conducted in 2026 using semi-structured focus-group discussions with eight distinct stakeholder groups: the Directorate of Banks (Sulaimani City), the Economic Security Division of the Ministry of Interior, representatives of money exchange offices, Forex and crypto trading experts, the Sulaimani Court Directorate, the Directorate of Company Registration, victims of Forex and investment scams, and representatives of Forex companies operating in the local market [14]. Sessions were designed to run 3 to 4 hours, were recorded with consent where institutional protocols allowed, and used a trauma-informed facilitation approach for the victims' group given the sensitivity of the subject matter. Five thematic areas structured every session: the real scale and mechanics of the market; the drivers of trader losses; the current legal and regulatory status of the sector; governance and coordination gaps across institutions; and the appropriate future role of the KRG government. Consistent with the confidentiality protocol under which the research was conducted, individual participants are not identified anywhere in this paper; findings are reported only in aggregate or by institutional role, and the specific responses of the Money Exchange Offices and Victims groups are withheld from direct quotation in this paper at the participants' explicit request for anonymity, although their overall position is reflected in the aggregate findings below [14].

8. Summary of Findings

The findings converge on three points with a consistency that is unusual for qualitative research of this kind [14]. First, every one of the eight stakeholder groups confirmed that the market operates entirely outside any licensing or supervisory structure, and every group independently identified this institutional absence rather than merely fraud by bad actors as the primary driver of consumer harm. The Directorate of Banks stated that overlap between retail forex trading and the formal banking system is very significant, yet the bank has no rule or regulation under which to monitor or restrict related cash flows and no coordination channel with security agencies when suspicious flows are identified.

The Economic Security Division confirmed that it handles new forex-fraud complaints on a weekly basis; they are recruited primarily through WhatsApp groups, fake websites, and social media, and its investigators lack the tools, technology, and trained personnel to trace forex losses and fraud or Bitcoin- or USDT-linked components of these cases.

The Sulaimani Court Directorate reported that forex- and crypto-related disputes reach it as generic fraud, deception, or money-related claims because no specific rule exists to address leveraged trading or crypto-denominated losses. Furthermore, the Directorate of Company Registration confirmed that no company is legally registered with it to conduct forex or crypto business; such entities instead register under generic categories such as financial affairs, money exchange, or remittance services, which shields their real activity from any sector-specific scrutiny.

Second, market practitioners and companies corroborated the scale and mechanics of retail losses from the supply side. Forex and crypto trading experts estimated that approximately 80 percent of retail traders lose money, attributing this to a combination of limited market knowledge and undisciplined use of leverage and lot sizing.

Representatives of forex companies operating in the local market confirmed that only a small minority of their clients have genuine market literacy and that client behavior is driven by the desire for fast returns rather than informed risk-taking; the same representatives confirmed that they had previously offered BTC, ETH, and XRP funding options but withdrew them following the government ban, though they noted that other, non-locally-registered brokers operating remotely from jurisdictions including Dubai and Cyprus continue to offer such services to KRI clients. Money-exchange office representatives confirmed that they continue to exchange USDT for forex-funding purposes on a regular basis despite the ban, directly evidencing that the current prohibition has changed the visibility of this activity rather than eliminated it.

Third, and most significant for this paper's central recommendation, every one of the eight stakeholder groups explicitly favored replacing the current prohibition-only posture with a licensing and supervisory framework. The Directorate of Banks stated that it strongly supports regulating such markets. The Economic Security Division stated that the appropriate government role includes prohibition of clearly fraudulent conduct, licensing and monitoring, and public-awareness campaigns all together, rather than any single instrument alone. Forex and crypto trading experts recommended that the KRG regulate the market along the lines of Dubai, MiCA, or the United States, naming the same three benchmark jurisdictions examined independently in Part III of this paper.

The Sulaimani Court Directorate stated that clearer rules, public awareness, and professional training would materially improve its ability to protect victims and distinguish ordinary market risk from criminal conduct. The Directorate of Company Registration stated that a dedicated law, similar to those in other countries, is needed. Representatives of forex companies stated that they strongly support the introduction of a governance framework that would allow professional, compliant firms to continue operating while closing the market to bad-faith operators. Likewise, the money exchange offices and victim groups independently confirmed the same position in their sessions; consistent with the anonymity protections agreed with those two groups, their specific responses are not quoted individually in this paper, but their support for regulation is reflected in the unanimous conclusion above.

This is a striking degree of convergence across institutions with very different mandates, incentives, and day-to-day exposure to the market. Regulators do not typically find enforcement agencies, courts, registries, banks, practitioners, and industry participants in full agreement on the need for a specific policy instrument. This paper treats that convergence as strong primary evidence that a licensing and supervisory model, rather than continued prohibition, is both the technically correct and the politically viable path forward for the KRG.

Part III: International Regulatory Benchmarking

A substantial comparative literature now documents how jurisdictions worldwide have moved from prohibition toward structured licensing of crypto-asset and forex markets [25], [26], [27], and [28]. This part examines four benchmark regulators in detail.

9. United States: The Securities and Exchange Commission

The US Securities and Exchange Commission was established as an independent federal agency with rulemaking, examination, and enforcement authority over securities markets and has more recently developed a structured approach to digital-asset regulation without new primary legislation specific to crypto-assets. Institutionally, the SEC is governed by a multi-member commission and organized into functional divisions: Corporation Finance, Enforcement, Examinations, Investment Management, Trading and Markets, and Economic and Risk Analysis, supported by specialized offices including the General Counsel, Chief Accountant, International Affairs, and Investor Education and Assistance [16]. This divisional structure separates rule-writing and disclosure review (corporate finance) from ongoing compliance monitoring (examinations) and from investigative and punitive action (enforcement), a separation of functions that recurs across all three of the other benchmark jurisdictions examined below.

On digital assets specifically, the SEC established a dedicated Crypto Task Force in January 2025 to provide clarity on the application of federal securities law to crypto-asset markets; this work was subsequently expanded under the agency-wide "Project Crypto" initiative announced by the SEC chairman later in 2025 [17]. Separately, the US Congress enacted the GENIUS Act, establishing a comprehensive federal framework for payment stablecoins under which such instruments are treated as neither securities nor commodities, with the Office of the Comptroller of the Currency serving as the primary regulator for federally qualified nonbank issuers [17]. The SEC's underlying statutory framework, the Securities Act of 1933, the Securities Exchange Act of 1934, and their associated rules remain the reference architecture for disclosure-based securities regulation internationally [15].

10. United Arab Emirates: The Virtual Assets Regulatory Authority

The Dubai Virtual Assets Regulatory Authority, established under Law No. 4 of 2022, is the most directly relevant international precedent for the KRG's situation because VARA is itself a sub-federal regulator: it holds exclusive competence over virtual-asset activity across Dubai's mainland and free zones (excluding the Dubai International Financial Centre) while operating alongside and in coordination with the UAE's federal financial regulators, the Central Bank, the Securities and Commodities Authority, the Dubai Financial Services Authority, and the Abu Dhabi Financial Services Regulatory Authority [18]. VARA describes itself as the world's first standalone regulator dedicated exclusively to virtual assets, with a mandate built on four pillars: investor and consumer protection, market integrity, anti-money-laundering and counter-terrorist-financing compliance, and support for responsible innovation [18].

Institutionally, VARA is governed by an executive board under a chairman and operates through licensing, supervision, and enforcement functions supported by a published rulebook and a public register of licensed Virtual Asset Service Providers (VASPs) [19]. Regulated activities are defined on an activity-specific basis: exchange services, broker-dealer services, custody, lending and borrowing, transfer and settlement, and advisory services with capital, governance, and conduct requirements calibrated to the risk profile of each activity category. VARA's Rulebook Version 2.0, in force since 19 June 2025, recalibrated capital adequacy, governance, and AML/CFT expectations for licensees, and by end-2025 VARA had granted a total of 71 authorizations spanning major global exchanges as well as a growing cohort of real-world-asset tokenization platforms and institutional custodians [20]. For the KRG's purposes, VARA demonstrates two things simultaneously: that a credible, internationally respected virtual asset regulator can be built at a sub-national level within a federal system and that doing so requires close, formalized coordination with the federal monetary and securities authorities rather than independence from them.

11. European Union: The Markets in Crypto-Assets Regulation

The EU's Markets in Crypto-Assets Regulation, Regulation (EU) 2023/1114 (MiCA), was adopted in April 2023 and became fully applicable across all 27 member states in December 2024, replacing a previously fragmented patchwork of national regimes with a single harmonized framework [21]. MiCA classifies crypto-assets into three categories with distinct regulatory treatment: asset-referenced tokens, referenced to a basket of underlying assets; electronic money tokens, a stablecoin category pegged to a single fiat currency and designed to replicate the stability of bank-issued electronic money; and a residual category of other crypto-assets, covering utility tokens and similar instruments subject to lighter-touch transparency obligations. Authorization granted by a single national competent authority, such as Germany's BaFin, France's AMF, or Malta's MFSA, confers passporting rights that allow a licensed firm to operate across the entire EU single market, and standard retail crypto-asset service providers face capital-adequacy minimums scaled to operational risk, with a baseline of EUR 150,000 in initial capital for firms operating a trading venue [21].

MiCA's principal relevance to this paper is structural rather than substantive: it demonstrates a workable model for a multi-jurisdictional or federated system in which a license granted by one competent national authority is recognized across a wider union, an approach with clear analogical relevance to any future coordination arrangement between a KRG regulator and Iraqi federal authorities.

12. Cyprus: The Cyprus Securities and Exchange Commission

CySEC offers the clearest template of the four benchmarks for a smaller, resource-constrained jurisdiction building a national securities and crypto-asset regulator largely from first principles. CySEC is governed by a seven-member board comprising a full-time chairman and vice-chairman together with five non-executive members and organizes its supervisory work through dedicated authorization, supervision, and enforcement functions [23], [24]. Its principal duties include examining license applications and granting or revoking operating authorizations, supervising the Cyprus Stock Exchange and other organized markets, ensuring regulated entities' ongoing compliance with their legal obligations, and conducting investigations in support of its supervisory mandate [24].

CySEC introduced a national Crypto-Asset Service Provider (CASP) registration regime in September 2021, requiring any firm providing crypto-asset services in or from Cyprus to register before commencing operations, subject to an initial application fee of EUR 10,000 and a EUR 5,000 annual renewal fee, alongside governance requirements including a minimum four-member board with at least two independent, non-executive directors [22]. This national regime operated as a bridge until MiCA became directly applicable; as of 17 October 2024 CySEC stopped accepting new applications under the national regime and began transitioning existing registrants into the harmonized MiCA framework, which took full effect on 30 December 2024 [21], [22]. For the KRG, the CySEC precedent shows that a national regulator can be stood up relatively quickly using a registration-first, license-later sequencing, and that such a national regime can later be aligned with or absorbed into a larger regional framework without discontinuity for compliant market participants.

13. Comparative Summary

Table 1 summarizes the governance structure, legal basis, licensing approach, and core supervisory functions of the four benchmark jurisdictions reviewed above.

Table 1. Comparative Summary of Benchmark Regulatory Authorities

Jurisdiction	Legal Basis	Governance	Licensing / Core Functions
United States (SEC) [15],[16]	Securities Act of 1933; Securities Exchange Act of 1934	Multi-member Commission; functional divisions (Corp. Finance, Enforcement, Examinations, Trading & Markets)	Disclosure-based registration; Howey-based token taxonomy; Crypto Task Force
UAE - Dubai (VARA) [18],[19]	Law No. 4 of 2022	Executive Board under a Chairman; independent legal personality	Activity-based VASP licensing (exchange, broker-dealer, custody, lending, advisory); public register
European Union (MiCA) [21]	Regulation (EU) 2023/1114	National Competent Authorities (e.g., BaFin, AMF, MFSA) under ESMA coordination	Passportable licence across 27 member states; ART/EMT/other token categories
Cyprus (CySEC) [22],[23],[24]	National CASP regime, transitioning to MiCA	7-member Board (Chairman, Vice-Chairman, 5 non-executive members)	Authorisation, Supervision, and Enforcement departments;

			registration-first sequencing

14. Transferable Lessons and KRI-Specific Constraints

Three lessons transfer directly from this comparative review. First, in every benchmark jurisdiction, licensing and supervisory authority is organized around clearly separated functions: authorization, ongoing supervision, and enforcement rather than concentrated in a single undifferentiated office; the KRG's institutional gap described in Part I is, in effect, a case of these functions existing nowhere at all rather than being poorly separated. Second, VARA's experience demonstrates that a credible subnational virtual-asset regulator is achievable within a federal system, provided it is built through formal coordination with federal monetary authorities rather than in place of them. Third, CySEC's registration-first sequencing offers a realistic, resource-appropriate starting point for a KRG regulator that will not, at least initially, have the SEC's budget or VARA's Dubai-scale investment.

Two constraints are specific to the KRI context and do not transfer from the benchmarks. First, unlike Dubai (operating within the UAE's federal system, where the Central Bank and Securities and Commodities Authority already maintain clear, published coordination protocols with VARA) or Cyprus (operating as a full EU member state with direct MiCA passporting rights), the KRG does not yet have a comparable, formalized coordination instrument with the Central Bank of Iraq; establishing one is a precondition for credibility, not a detail to be resolved later. Second, none of the four benchmarks operates in a market where the starting position is a blanket prohibition on the activity being regulated; the KRG's proposed authority must therefore manage a transition from prohibition to licensing, not merely design a licensing regime from a neutral starting point.

Part IV: Legal Alignment and Institutional Coordination

15. Constitutional Context and the Case for Coordination

Iraq's 2005 Constitution reserves a limited number of matters to exclusive federal authority under Article 110, including the formulation of fiscal and customs policy, the issuance of currency, the formulation of monetary policy, and the establishment and administration of a central bank [29]; Article 115 provides that all powers not enumerated as exclusively federal belong to the regions and governorates [29]. Read together, these provisions place currency issuance and national monetary policy within the Central Bank of Iraq's federal remit, while leaving meaningful scope for regional authorities to regulate matters not enumerated in Article 110, including, on a reasonable reading, the licensing and conduct supervision of forex intermediaries and virtual-asset service providers operating within the Kurdistan Region, as distinct from currency issuance or monetary policy itself.

This paper does not propose, and does not need, a constitutional confrontation to justify the KFMA. The VARA precedent is instructive here: VARA does not issue currency or set UAE monetary policy and does not compete with the UAE Central Bank; it licenses and supervises market conduct for virtual-asset activities, operating alongside the Central Bank, the Securities and Commodities Authority, and other federal regulators under coordinated, published protocols [18], [19]. A KFMA built on the same logic, licensing market conduct and protecting consumers in the forex and virtual-asset space while explicitly leaving currency issuance, exchange-rate policy, and monetary policy to the CBI, fits comfortably within the space Article 115 leaves to regional authorities and gives the KRG a natural, cooperative frame for engaging federal counterparts rather than a contested one.

The recommended pathway is therefore a Memorandum of Understanding between the KRG and the CBI, formalizing the KFMA's scope as complementary to federal monetary authority, alongside KRG primary legislation establishing the KFMA's domestic legal basis. This sequencing allows the KRG to move forward on the substantial areas of the problem that are uncontroversially within its competence: licensing, consumer protection, market-conduct supervision, and coordination among existing KRG institutions while pursuing federal coordination in parallel rather than as a blocking precondition.

16. Alignment with Existing Anti-Money-Laundering Law

Iraq's Anti-Money Laundering and Counter-Terrorism Financing Law No. 39 of 2015, and the associated AML/CFT Office, already establish a baseline framework applicable to suspicious financial flows, including those linked to unlicensed forex and virtual-asset activity; this framework was raised directly by the Sulaimani Court Directorate during the research underpinning this paper as one of the few existing legal instruments available to it [14]. The KFMA's supervisory and reporting obligations should be designed to interlock with, rather than duplicate, this existing framework, with the KFMA serving as the sector-specific licensing and conduct authority while suspicious-transaction reporting continues to route through established AML/CFT channels.

Part V: Proposed Institutional Design: The Kurdistan Financial Markets Authority

17. Mandate and Objectives

The KFMA's proposed statutory mandate is to license, supervise, and enforce conduct rules for forex intermediaries, virtual-asset service providers, and security-token issuers operating in or from the Kurdistan Region; to protect consumers through disclosure, leverage, and marketing standards; to maintain a public register of licensed entities; and to coordinate with the Central Bank of Iraq, the Ministry of Interior's Economic Security Division, the Directorate of Company Registration, and the judiciary to close the institutional gaps documented in Part I.

18. Governance

Drawing on CySEC's board model and the SEC's multi-member commission [16], [24], the KFMA should be governed by a board of between five and seven members, comprising a full-time chair and vice-chair together with independent, non-executive members holding financial, legal, and technology expertise. Board members should serve fixed, staggered terms, be subject to explicit conflict-of-interest rules, and be appointed through a KRG legislative process that insulates day-to-day licensing and enforcement decisions from short-term political direction.

19. Organizational Structure

The KFMA's internal structure synthesizes elements of all three non-US benchmarks reviewed in Part III, organized into six functional units:

- Licensing and Authorization, modeled on VARA's activity-based licensing and CySEC's authorization function [19], [22], is responsible for vetting and licensing forex bureaus, virtual asset service providers, custodians, and security token issuers.
- Supervision and Examinations, modeled on the SEC's Division of Examinations and CySEC's Supervision Department [16], [23], are responsible for ongoing compliance monitoring, capital-adequacy verification, and periodic on-site inspections.
- Enforcement and Investigations, modeled on all three benchmarks, is responsible for sanctions, license suspension and revocation, and formal coordination with the Economic Security Division and the courts.
- Consumer Protection and Financial Education, modeled on the SEC's Office of Investor Education and Assistance [16], is responsible for public warnings, maintaining a public blacklist of unlicensed operators, and leverage and lot-size literacy campaigns directly responsive to the "why traders lose" evidence in Part II.
- AML/CFT compliance is responsible for the interface between KFMA-licensed entities and Law No. 39 of 2015 obligations.
- Legal, International Affairs, and Policy, modeled on the SEC's Office of General Counsel and Office of International Affairs [16], responsible for secondary-rule drafting and coordination with the Central Bank of Iraq and other federal counterparts.

A seventh, smaller Corporate Services and Registry unit maintains the licensing portal and the public register of licensed entities, modeled directly on VARA's public VASP register [19].

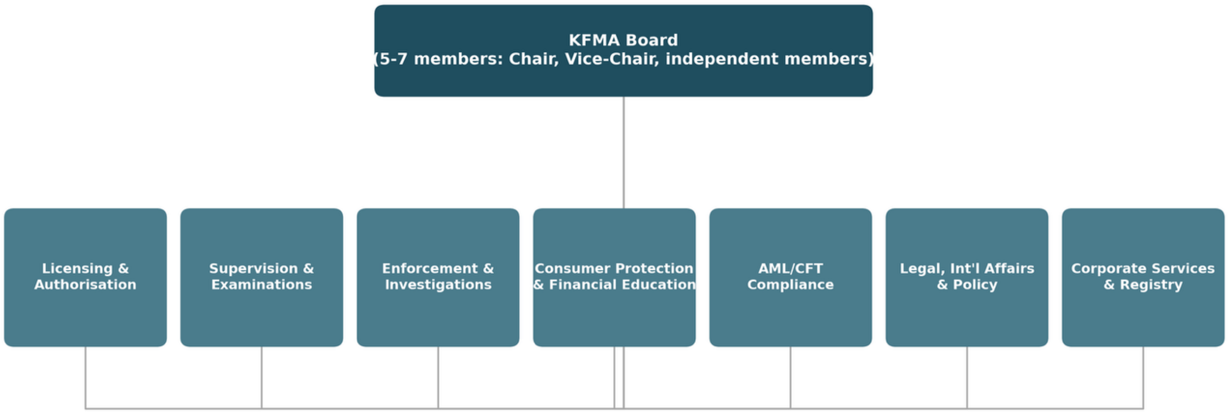


Figure 3. Proposed Organizational Structure for KFMA.

20. Funding Model

Consistent with the CySEC precedent [22], the KFMA should be funded primarily through licensing and annual registration fees scaled to license category and firm size, supplemented by initial KRG government seed funding during the establishment phase. This avoids reliance on transaction-based taxation that could distort market behavior or create a KFMA revenue incentive at odds with its consumer-protection mandate.

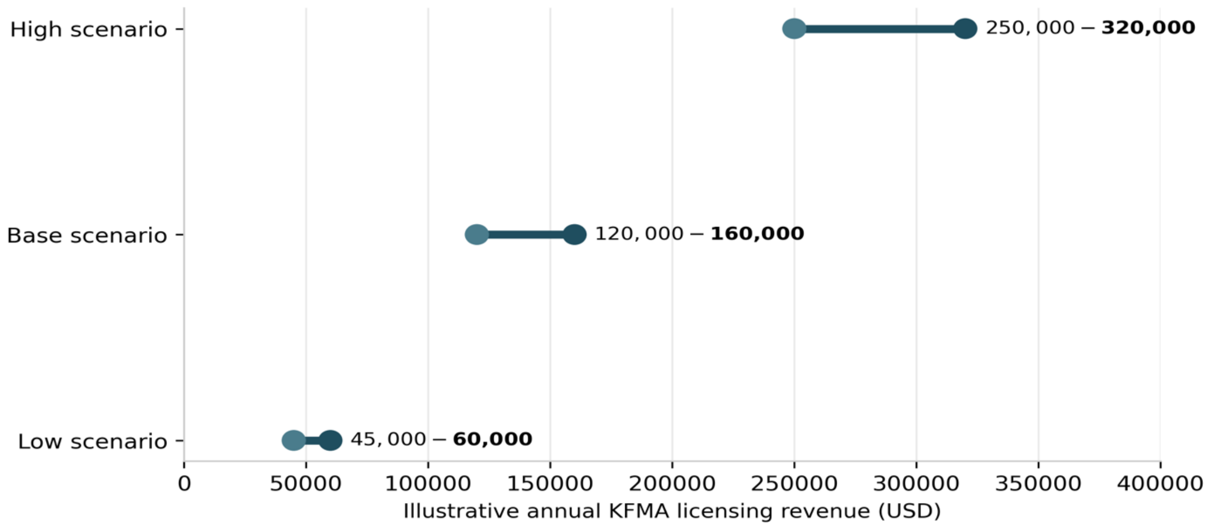


Figure 4. Revenue projection scenario.

21. Regulatory Scope and Licensing Tiers

The KFMA should operate a tiered, activity-based licensing regime directly modeled on VARA's approach [19]: a foundational tier for money-exchange bureaus and forex introducing brokers, requiring minimum capital, fit-and-proper checks on principals, and basic disclosure obligations; an intermediate tier for forex brokers and virtual-asset exchanges, adding capital-adequacy requirements scaled to trading volume, client-asset segregation rules, and mandatory reporting; and an advanced tier for custodians and security-token issuers, requiring the highest capital, governance, and audit standards. Each tier should require explicit, written risk disclosure to clients covering leverage, lot sizes, and margin mechanics, addressing directly the literacy gap identified independently by money-exchange offices, trading experts, and forex companies in the Part II research [14].

22. Consumer Protection Rules

Core consumer-protection rules should include leverage limits calibrated to retail client sophistication (consistent with the empirical finding that leverage constraints materially reduce retail losses [11]), a prohibition on guaranteed-profit marketing of the kind identified by trading experts as a major driver of retail harm [14], mandatory cooling-off periods for new retail accounts, and a publicly accessible register allowing any prospective client to verify a firm's license status before depositing funds.

Part VI: Implementation Roadmap

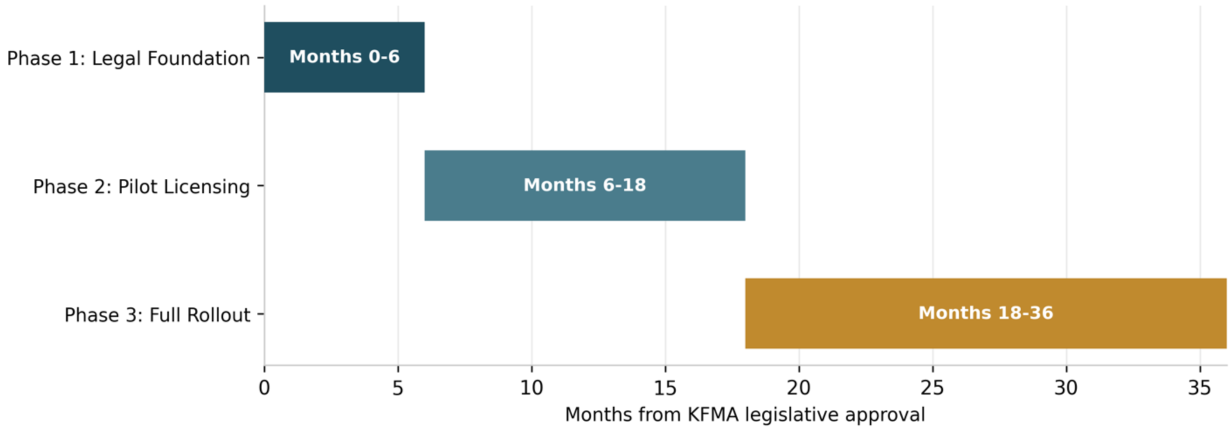


Figure 5. KFMA Roadmap.

23. Phase 1: Legal Foundation (Months 0 to 6)

This phase comprises drafting and enacting KRG primary legislation establishing the KFMA's legal basis and powers, negotiating the coordination memorandum of understanding with the Central Bank of Iraq described in Part IV, and appointing the initial KFMA Board.

24. Phase 2: Pilot Licensing (Months 6 to 18)

This phase launches foundational-tier licensing for money-exchange bureaus and forex introducing brokers, publishes the KFMA's first public blacklist of identified unlicensed operators, and begins the consumer financial-literacy campaign on leverage and lot sizing.

25. Phase 3: Full Rollout (Months 18 to 36)

This phase extends licensing to virtual-asset service providers and security-token issuers, completes staff recruitment and technical-assistance partnerships for the Supervision and Enforcement units, and conducts the first full external review of the KFMA's operation.

26. Stakeholder Consultation Plan

Consistent with the research base underpinning this paper, the KFMA's design and rollout should be developed in ongoing consultation with the same eight stakeholder groups engaged in the 2026 focus-group research [14]: the Directorate of Banks, the Economic Security Division, money exchange offices, Forex and crypto trading experts, the Sulaimani Court Directorate, the Directorate of Company Registration, victims and consumer representatives, and Forex companies operating in the local market, ensuring continuity between the evidence base and the institution it justifies.

27. Risk Mitigation and Review

Key implementation risks include delayed federal coordination, under-resourcing of the enforcement and supervision units relative to market scale, and continued informal-market activity during the transition period. These risks should be managed through a phased licensing amnesty for existing operators willing to register, a formal annual review of the KFMA's resourcing against licensed-entity growth, and a standing coordination committee with the Central Bank of Iraq and the Ministry of Interior.

28. The Cost of Continued Inaction

It is useful to state plainly what continuing the current prohibition-only approach costs, since this figure is what the KFMA's establishment costs should be weighed against. The documented 2025 cases alone, the USD 15 million Duhok scheme [4] and approximately IQD 16 billion (USD 12 million) in federal court recoveries from exchange-rate fraud schemes [30], [31], [32] total more than USD 27 million in confirmed losses and recoveries in a single year, before accounting for the far larger volume of smaller, undocumented losses described qualitatively by every stakeholder group in the Part II research [14]. Each of these losses currently generates no licensing revenue, no tax receipts, and no recoverable consumer-compensation pool, while consuming scarce investigative and judicial capacity that a licensing-based system would substantially reduce by shifting routine disputes out of the criminal system and into a regulatory compliance and complaints process. Set against this, the KFMA's establishment cost is primarily the board and initial staffing budget for Phase 1, an amount that is recoverable within a small number of years through licensing and registration fees once the foundational licensing tier described in Section 21 is operational, following the same fee-funded model CySEC uses today [22].

29. Limitations of the Evidence Base

This paper's recommendations rest on two evidentiary pillars, the 2026 KRG focus-group research and the comparative review of four international regulators, and both have acknowledged limits that should inform how the KFMA's design is refined once it is operational. The focus-group research is qualitative and was conducted with a limited number of participants per stakeholder group; it establishes a clear directional consensus and a rich account of institutional mechanics, but it does not provide a statistically representative estimate of market size, aggregate losses, or trader demographics across the whole of the Kurdistan Region, and the Money Exchange Offices' and Victims' groups' specific responses are held in summary form only, consistent with the anonymity terms under which they participated [14]. The international benchmarking in Part III describes each regulator's framework as of mid-2026 based on publicly available regulatory and news sources; regulatory frameworks in all four jurisdictions continue to evolve, and the KFMA's design should be revisited periodically against the current state of each benchmark rather than treated as fixed. Future work should prioritize a quantitative household or trader survey to establish a representative estimate of market size and loss incidence and a follow-up institutional capacity assessment once the KFMA's Phase 1 legislation is drafted.

Conclusion

The evidence assembled in this paper points to a single, consistent conclusion: continued prohibition without licensing has not protected KRI's forex and digital-asset users and has left every relevant KRG institution operating with incomplete mandates and no coordination mechanism. An estimated 20 to 30 platforms currently market forex, commodity, and cryptocurrency trading services to Kurdistan Region residents, and self-reported figures gathered directly from forex company representatives during this paper's research point to a combined active user base in the tens of thousands, all of it operating with no licensing regime, no capital requirements, and no consumer-protection backstop of any kind. Against this backdrop, documented 2025 fraud cases and court recoveries exceeding USD 27 million are not isolated incidents but predictable outcomes of a market structure in which a generic commercial registration is routinely presented to the public as though it were sector-specific regulatory approval.

Most significantly, this conclusion is not simply this paper's own assessment: it is the assessment of the institutions and market participants closest to the problem. Every one of the eight stakeholder groups engaged in the 2026 focus-group research banks, security services, the courts, the company registry, market practitioners, forex companies, money-exchange offices, and victims of forex and investment fraud independently converged on the same recommendation: that the KRG replace prohibition with licensing and supervision. Regulators do not typically find enforcement agencies, courts, registries, banks, industry participants, and consumers in full agreement on a specific policy instrument; this paper treats that convergence as decisive evidence that a licensing and supervisory model is both the technically correct and the politically viable path forward.

The international benchmarking in Part III demonstrates that credible, resource-appropriate regulatory models already exist and can be adapted to KRI's specific legal and economic context, from the United States' disclosure-based securities framework to the UAE's activity-based virtual-asset licensing, the European Union's passportable single-market regime, and Cyprus's registration-first approach for smaller jurisdictions. The coordination-based approach set out in Part IV provides a realistic legal pathway that works with Iraq's federal constitutional structure rather than against it, treating the Central Bank of Iraq as a coordination partner rather than an obstacle. And the phased implementation roadmap in Part VI, together with the illustrative revenue projections in Section 20, shows that a Kurdistan Financial Markets Authority can be funded largely through its own licensing activity within a small number of years rather than requiring an open-ended government subsidy.

Taken together, this paper offers the KRG a concrete, phased, and evidence-based mechanism to convert a currently ungoverned forex and digital asset market, one already operating at meaningful scale, already generating documented harm, and already the subject of unanimous institutional concern, into a licensed, supervised, and consumer-protective one.

Appendix A: Illustrative KFMA Organizational Structure

The organizational structure proposed in Part V is summarized in Table 2 below, mapping each functional unit to its primary benchmark precedent and core responsibilities.

Table 2. Illustrative KFMA Organizational Structure

UNIT	**PRIMARY BENCHMARK PRECEDENT**	**CORE RESPONSIBILITIES**
LICENSING & AUTHORISATION	VARA activity-based licensing and CySEC authorization functions [19], [22]	Vets and licenses forex bureaus, VASPs, custodians, security-token issuers
SUPERVISION & EXAMINATIONS	SEC Division of Examinations; CySEC Supervision Dept. [16], [23]	Ongoing compliance monitoring, capital-adequacy checks, on-site inspection
ENFORCEMENT & INVESTIGATIONS	SEC, VARA, and CySEC enforcement functions	Sanctions, license suspension/revocation, coordination with security services and courts
CONSUMER PROTECTION & FINANCIAL EDUCATION	SEC Office of Investor Education and Assistance [16]	Public warnings, blacklist of unlicensed operators, leverage/lot-size literacy campaigns
AML/CFT COMPLIANCE	Iraq AML/CFT Law No. 39 of 2015	Interface between licensed entities and existing AML/CFT reporting obligations
LEGAL, INTERNATIONAL AFFAIRS & POLICY	SEC Office of General Counsel / International Affairs [16]	Secondary-rule drafting; coordination with CBI and federal counterparts
CORPORATE SERVICES & REGISTRY	VARA public VASP register [19]	Licensing portal and public register of licensed entities

Appendix B: Illustrative Licensing Tier and Fee Schedule

Table 3 sets out an illustrative, indicative fee and capital structure for the three licensing tiers described in Section 21, adapted from the CySEC and VARA precedents reviewed in Part III. Final figures should be calibrated by the KFMA Board during Phase 1 based on local market capacity assessment.

Table 3. Illustrative Licensing Tier and Fee Schedule

Tier	Applies To	Illustrative Minimum Capital	Illustrative Fees
Foundational	Money-exchange bureaus, forex introducing brokers,	IQD equivalent of USD 15,000-25,000	Application fee + modest annual renewal, in line with CySEC's registration-first model [22]
Intermediate	Forex brokers, virtual-asset exchanges	IQD equivalent of USD 75,000-150,000	Higher application fee; annual supervision fee scaled to trading volume
Advanced	Custodians and security-token issuers	IQD equivalent of USD 250,000+	Highest application and annual fees; periodic external audit requirement

Appendix C: Glossary of Abbreviations

Table 4. Abbreviations

Abbreviation	Definition
AML/CFT	Anti-Money Laundering and Countering the Financing of Terrorism
CASP	Crypto-Asset Service Provider (Cyprus/EU terminology)
CBI	Central Bank of Iraq
CFD	Contract for Difference
CySEC	Cyprus Securities and Exchange Commission
KFMA	Kurdistan Financial Markets Authority (proposed)
KRG	Kurdistan Regional Government
KRI	Kurdistan Region of Iraq
MiCA	Markets in Crypto-Assets Regulation, Regulation (EU) 2023/1114
SEC	United States Securities and Exchange Commission
VARA	Virtual Assets Regulatory Authority (Dubai, UAE)
VASP	Virtual Asset Service Provider

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