

# LCQ21: Over-the-counter trading of virtual currencies

Following is a question by the Hon Chan Chun-ying and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (March 17):

Question:

It has been reported that the price of bitcoins, one of the virtual currencies, has surged recently, arousing investors' interest in trading virtual currencies. At present, investors may conduct, in cash and without using any trading platform, over-the-counter (OTC) trading of virtual currencies. Taking advantage of the anonymity inherent in virtual currencies and the absence of regulation of such tradings by the authorities, some lawbreakers, posing as a trading counterparty, deceived and even robbed investors who traded virtual currencies with them. In this connection, will the Government inform this Council:

- (1) whether it has grasped the current situation of OTC trading of virtual currencies in Hong Kong (including the average daily turnover); if so, of the details, and whether it will release the relevant information; if it will not release such information, the reasons for that;
- (2) whether it has plans to regulate OTC trading of virtual currencies; if so, of the details; if not, the reasons for that; and
- (3) whether it will take measures to raise public vigilance about the risks involved in conducting OTC trading of virtual currencies; if so, of the details; if not, the reasons for that?

Reply:

President,

In consultation with the Securities and Futures Commission (SFC) and the Security Bureau, our reply to the Hon Chan Chun-ying's questions is as follows:

(1) and (2) Virtual currencies are not legal tender and not recognised as a means of payment in Hong Kong. In response to the Financial Action Task Force's regulatory suggestion on virtual asset services providers' anti-money laundering and counter-terrorist financing (AML/CTF) measures, the Government launched a three-month public consultation in November 2020, proposing the introduction of, under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615), a licensing regime for operators of centralised virtual asset trading platforms and the requirement for licensees to offer services only to professional investors in order to ensure market

stability and protect investors.

Currently, virtual asset activities outside virtual asset exchanges are not common in Hong Kong. Over-the-counter trading activities often involve interface with financial institutions (for conversion into fiat currencies), and the relevant money flow can be traced through the financial institutions' AML/CTF measures. We will closely monitor the development of such trading activities, and consider the appropriate regulation.

(3) The Financial Services and the Treasury Bureau and the Investor Education Centre (IEC), a subsidiary of the SFC, have launched a public education campaign since 2018 on the risks associated with initial coin offerings and cryptocurrencies. The financial education platform of the IEC, The Chin Family, has also developed a dedicated series of relevant educational articles and infographics at its website ([www.ifec.org.hk/web/en/financial-products/fintech/ico-bitcoin/index.page](http://www.ifec.org.hk/web/en/financial-products/fintech/ico-bitcoin/index.page)).

The Police also closely monitor the crime trend relating to virtual assets, and have taken corresponding enforcement actions and enhanced crime prevention promotion and education. The Police's Cyber Security and Technology Crime Bureau and the Anti-Deception Coordination Centre have put in place a mechanism to help track the relevant funds, make stop-payment requests and intercept payment to fraudsters systematically upon receiving suspected fraud complaints, thus minimising victims' losses.

Members of the public should pay special attention to the risk when trading or engaging in related investment activities. If they come across any property known or suspected to be crime proceeds, or suspect that they have fallen victim to fraudulent acts, they should contact the Police immediately. The financial regulators and law enforcement agencies will continue to promote and raise public awareness.