



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B10/1C
B1/15C

9 January 2014

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Risks associated with virtual commodities

In view of recent global attention over virtual commodities such as Bitcoin and their associated money laundering and terrorist financing (“ML/TF”) risks, I would like to remind all authorized institutions (“AIs”) the need for exercising prudent risk management taking into consideration the related developments.

As provided in paragraph 2.3 of the Guideline on Anti-Money Laundering and Counter-Terrorist Financing, AIs should assess the extent to which their services are vulnerable to ML/TF abuse. This issue is especially relevant where emerging technological developments may facilitate anonymity. Virtual commodities that are transacted or held on the basis of anonymity fall into this category and pose significantly higher inherent ML/TF risks, including risks associated with potential or existing customers that may use AIs’ accounts or other services for any activities relating to virtual commodities¹. AIs should therefore ensure an escalated level of vigilance commensurate with these risks when considering whether to establish or maintain business relationships with customers who are operators of schemes related to virtual commodities. Among other controls, AIs should critically take into account whether such operators have established continuously effective controls against money laundering involving the virtual commodities when assessing the ML/TF risks associated with the operators.

As in the case of any new business development, we also expect AIs to conduct comprehensive risk identification and assessment, taking into account potential regulatory requirements locally and overseas, when considering to offer any new banking or investment products relating to virtual commodities. Specifically, before an AI offers to customers any product that involves or is linked to any virtual commodity (irrespective of

¹ Examples are entities operating virtual commodities-exchange, brokerage or transaction-processing services (including provision of machines/channels that facilitate the sale and purchase of virtual commodities)

whether the link has economic substance or is simply for marketing purposes), it should notify and discuss with the HKMA.

Should you have any question on this matter, please do not hesitate to contact your usual supervisory contacts.

Yours faithfully,

Henry Cheng
Executive Director (Banking Supervision)