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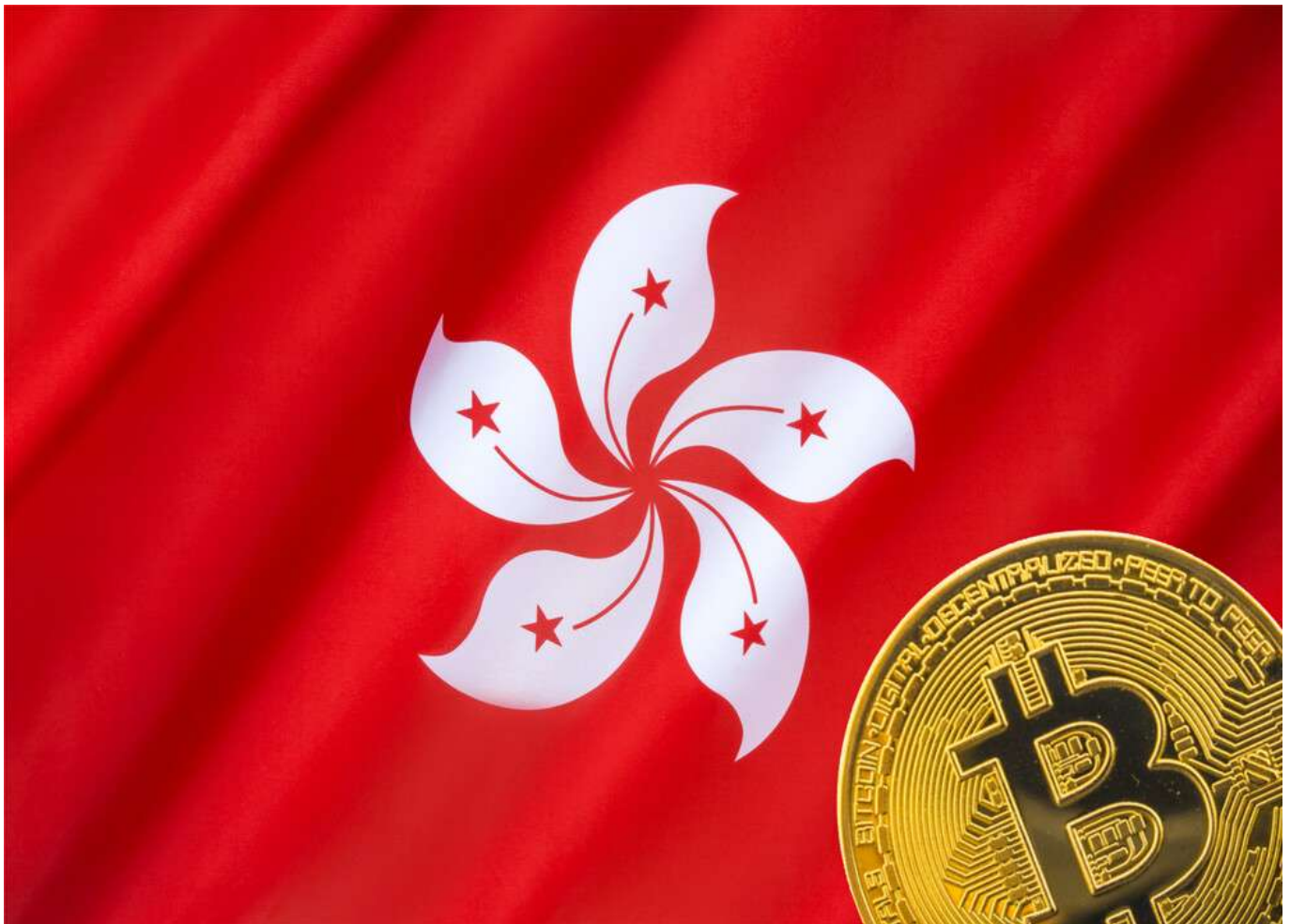
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Overview of Hong Kong Cryptocurrency Regulations in 2024, What Should Investors Know?



Hong Kong is known for its openness to technology and is currently aiming to become a key player in the [cryptocurrency](#) market. According to the Global Cryptocurrency Readiness Report, Hong Kong is the most “cryptocurrency ready” region in 2023, ranking first in all categories, including the number of blockchain startups per 100,000 people and crypto in proportion to population Currency ATM quantity. This puts Hong Kong ahead of the United States and Switzerland in the rankings. Nonetheless, those who want to start a crypto business in Hong Kong and those who invest in cryptocurrencies still need to be aware of crypto-related regulations. The Hong Kong Legislative Council passed amendments to the Anti-Money Laundering and Counter-Terrorism Financing

Ordinance (AMLO) in December 2022, introducing a virtual asset service provider (VASP) licensing system. These requirements and others take effect in June 2023. With new policies aimed at establishing a solid regulatory framework for digital assets, now is the perfect time to explore Hong Kong's cryptocurrency scene.

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Overview of Hong Kong Cryptocurrency Regulations

Hong Kong's approach to cryptocurrencies involves a nuanced regulatory framework. Cryptocurrencies, although not considered legal tender here, are classified by the Securities and Futures Commission (SFC) and the Hong Kong Monetary Authority (HKMA) based on the international Financial Action Task Force standards. These digital representations of value serve a variety of purposes and are classified as security tokens or non-security tokens. Security tokens are governed by the Securities and Futures Ordinance, while non-security tokens are considered virtual commodities. This system ensures comprehensive and flexible regulation of Hong Kong's cryptocurrency market.

Hong Kong's Securities and Futures Commission (SFC) also strictly regulates virtual asset service providers (VASPs) that handle digital tokens. VASPs must comply with the mandatory VASP licensing regime, which imposes strict requirements such as compliance with anti-money laundering (AML) and counter-terrorism financing (CTF) rules and being licensed by the Securities and Futures Commission (SFC). In May 2023, the Securities and Futures Commission issued a circular highlighting the documents and information required by license applicants and providing guidance on the new regulatory requirements. This includes:

- "Anti-Money Laundering and Counter-Terrorist Financing Guidelines" (applicable to licensed corporations and SFC-licensed virtual asset service providers), which includes chapters on the regulation of virtual assets. It provides guidance on money laundering risks, related regulatory requirements and standards for addressing the risks. These include risk factors that should be considered when conducting risk assessments, virtual asset-specific requirements when conducting customer due diligence and ongoing monitoring, and requirements related to virtual asset transfers, third-party deposits and payments.
- Guidance for Virtual Asset Trading Platform Operators, which applies to all platform operators (whether or not they are licensed under the Securities and Futures Ordinance and/or the Anti-Money Laundering Ordinance) and clarifies the investor protection requirements and asset security of VA platforms. Expected standards and requirements for custody, segregation of client assets, avoidance of conflicts of interest and cybersecurity.
- The "Guidelines on the Prevention of Money Laundering and Counter-Terrorist Financing" issued by the Securities and Futures Commission for licensed corporations and associated entities of SFC-licensed virtual asset service providers subscribe to the relevant anti-money laundering and counter-terrorist financing (AML/CTF) regulations and regulatory requirements, as well as the Anti-Money Laundering/Combating Financing that licensed corporations and virtual asset service providers licensed by the Securities and Futures

Commission under the Anti-Money Laundering Ordinance (SFC-licensed value-added service providers) should comply with Terrorism” standards to comply with the Anti-Money Laundering Regulations and the statutory requirements of the Anti-Money Laundering Regulations. This guidance is intended for use by affiliated entities (AEs) of financial institutions and their officers and employees who are not authorized to do so.

- FAQs about licensing matters and conduct-related matters.
- “Virtual Asset Trading Platform Operator Licensing Manual” details the procedures for how to apply for a license as well as relevant notifications and other applications that need to be made after obtaining a license.

In the circular, the SFC also designated an email address for licensing inquiries, financial returns and related forms, reporting of material breaches and non-compliance incidents, and an SFC webpage dedicated to virtual asset activities. In addition, VASPs engaged in algorithmic trading will face restrictions on their activities, and entities that handle a portfolio of virtual assets exceeding 10% of their total value must obtain a Category 7VA license. This comprehensive licensing framework covers regulations for funds and risk management as well as reporting obligations, thereby covering a wide range of crypto-related activities from trading to investing.

Latest Developments in Hong Kong’s Cryptocurrency Regulations

Hong Kong has been actively shaping its cryptocurrency regulatory environment, with some key developments occurring in recent months. On July 29, 2024, the Hong Kong Securities and Futures Commission issued a warning to the public about the suspected fraudulent cryptocurrency platform Proxinex, emphasizing the importance of investors remaining vigilant. Just a day earlier, politician Johnny Ng proposed that Hong Kong should explore the possibility of storing crypto assets, signaling the region’s growing interest in the potential of digital currencies in the region.

Earlier in the same month, on July 17, CertiK’s proposal for a comprehensive stablecoin regulatory framework was accepted by the Hong Kong Monetary Authority (HKMA) and the Financial Services and the Treasury Bureau. This marks an important step forward for the region in regulating these digital assets and ensuring market stability and transparency.

Hong Kong lawmakers also began reviewing existing cryptocurrency regulations on July 3, aiming to address concerns that existing rules could hinder exchanges from operating in the region. This review process is expected to bring clarity and certainty to the cryptocurrency industry, attracting more businesses to set up shop in Hong Kong.

In late May, the grace period for cryptocurrency exchanges to obtain operating licenses ended, and unlicensed entities were required to cease operations. The move is part of the government’s efforts to ensure that all crypto-related businesses in Hong Kong adhere to strict regulatory standards.

Just a few days ago, on May 24, OKX withdrew its application to provide digital asset services in Hong Kong. The decision could pave the way for other exchanges to enter the market, providing investors and traders with more options.

At the beginning of this year, the Monetary Authority launched a consultation on stablecoin issuers on January 2, 2024, to solicit opinions from industry stakeholders on how to best regulate these digital assets. This consultation process is expected to lead to the establishment of a strong

regulatory framework that will promote the growth and stability of Hong Kong's stablecoin market. Overall, these developments demonstrate Hong Kong's commitment to creating a vibrant and well-regulated cryptocurrency industry that promotes innovation while protecting the interests of investors.

Hong Kong launches new cryptocurrency tax framework

In Hong Kong, the Departmental Interpretation and Practice Note No. 39 (DIPN 39) issued by the Inland Revenue Department in early 2020 clearly outlines the taxation of cryptocurrencies. Cryptocurrencies are divided into security tokens and utility tokens. Gains from security tokens are treated as capital assets and are not subject to tax. Utility token earnings will be subject to tax if they are sourced in Hong Kong. Digital assets used for long-term investment are considered capital assets, so proceeds from their sales are not taxed. For businesses dealing with cryptocurrencies, receipt of new tokens (such as airdrops or forks) will be considered business income and taxed. Cryptocurrency received as employee salary is also taxable. DIPN 39 does not cover recent developments such as staking and NFTs.

Is cryptocurrency mining legal in Hong Kong?

The cryptocurrency mining scene in Hong Kong remains in a gray area, and it is unlikely to be profitable to start a cryptocurrency mining operation in Hong Kong due to the high cost of electricity and limited land in the region. Cryptocurrency mining is a process that requires a large supply of electricity. High operating costs affect the survival of the company. If you are considering starting a cryptocurrency mining business, it is crucial to ensure that your facility complies with the requirements of the Energy Efficiency of Buildings Regulations.

The Evolution of Cryptocurrency Regulation in Hong Kong: Timely Insights into the Transforming Landscape

A timeline of the evolution of cryptocurrency regulation in Hong Kong shows a gradual tightening of rules and regulations. In June 2023, the Securities and Futures Commission (CSRC) implemented a mandatory licensing system for virtual asset trading platforms, marking an important step in regulating the cryptocurrency market. Earlier in January of the same year, the Securities and Futures Commission and the Hong Kong Monetary Authority (HKMA) jointly issued a notice expanding the scope of supervision to include the distribution, trading and advisory services of virtual assets. In addition, in January 2023, the Monetary Authority proposed a mandatory stablecoin licensing system aimed at controlling entities engaged in stablecoin transactions. Prior to this, the Legislative Council approved the Anti-Money Laundering and Counter-Terrorism Financing (Amendment) Bill in December 2022. Hong Kong's journey towards a more regulated cryptocurrency environment began in October 2019, when the Securities and Futures Commission established a Class 9VA licensing regime for businesses that manage large virtual asset portfolios. This

development highlights Hong Kong's commitment to a balanced approach between promoting innovation and ensuring market stability.

In November 2018, the Hong Kong Securities and Futures Commission (SFC) took an important step in cryptocurrency regulation by establishing the SFC Regulatory Sandbox. The initiative provides a controlled environment for testing new financial technologies, clearly distinguishing between utility tokens and security tokens. Prior to this, the Securities and Futures Commission made it clear in September 2017 that digital tokens can be classified as "securities" if they represent equity, debt, or provide dividend-like returns, as stated in its ICO guidelines. This regulatory evolution follows the launch of the FinTech Regulatory Sandbox by the Hong Kong Monetary Authority in September 2016, which aims to facilitate piloting of FinTech innovations before wider implementation.

Hong Kong's cryptocurrency regulatory timetable demonstrates a proactive approach to adapting to the changing digital asset landscape, ensuring market stability and investor protection through a series of strategic initiatives.

Summarize

Hong Kong's proactive cryptocurrency regulatory strategy for 2024 marks a significant step in its financial journey. By embracing digital asset ETFs and dabbling in the tokenization of traditional securities, the city is solidifying its position as an innovation leader in Asia. This regulatory transparency attracts global fintech investment while also supporting local cryptocurrency businesses.