

HKMA encourages provision of banking services to licensed virtual asset service providers

May 2023

Introduction

On 27 April 2023, the Hong Kong Monetary Authority ('HKMA') issued an [announcement](#) in which it encouraged banks to provide banking services to virtual asset service providers ('VASPs') and related entities ('Announcement'). In this News Flash, we will provide a summary of the Announcement and provide insights into what it means for market participants.

HKMA's discussions with banks

In the Announcement, the HKMA revealed that it has actively discussed with banks and reminded them that they are not prohibited by any laws or regulations from providing banking services to VASPs and related entities. The HKMA also noted that banks should:

- (i) adhere to a 'risk-based approach' when conducting customer due diligence ('CDD');
- (ii) avoid unnecessary processes; and
- (iii) refrain from adopting a 'one-size-fits-all' approach to reject account opening applications.

Risk-based approach

According to the HKMA, a 'risk-based approach' means that banks should differentiate the risk levels of customers and apply proportionate CDD measures without adopting a 'one-size-fits-all' or de-risking approach. In implementing effective anti-money laundering measures, the HKMA reiterated that banks should treat customers fairly and enhance access to basic banking services for businesses through transparent, reasonable and efficient procedures. In particular, the HKMA encouraged banks to use the Simple Bank Account ('SBA') arrangement¹.

VA development

Apart from reminding banks to adopt a risk-based approach in conducting CDD, the HKMA commented that banks should keep abreast of latest market trends in order to meet customers' new operational needs.

¹ SBAs are a tier of accounts derived from traditional deposit accounts focusing on the provision of basic banking services (e.g. deposits, withdrawals, local and cross-boundary remittances) to eligible corporates based on their actual operational needs. Given the lower risks associated with the lower transaction volume and narrower service scope, banks are able to apply less extensive CDD measures.

News Flash

In particular, the HKMA's expectations are that regulated VASPs should be able to successfully apply for a bank account through a reasonable process, as the banking industry develops a better understanding of the Virtual Asset ('**VA**') industry in line with a strengthening of the supervisory systems in Hong Kong (through the work being done by the Securities and Futures Commission ('**SFC**')).

What this means for market participants

This recent announcement by the HKMA urging Hong Kong banks to be open to conducting business with VASPs (licensed or otherwise) marks an important development in the city's financial landscape. Historically, Hong Kong banks have been hesitant to engage with crypto-related businesses, and this change in stance is a significant step forward. By fostering a more inclusive banking environment for digital assets, Hong Kong is well on its way to solidifying its position as a leading crypto hub. This progressive approach will not only benefit local exchanges, but also attract international investors and innovators. It is hoped that the next important development will be the provision of banking services to crypto funds, a large number of which are set up from and managed/advised out of Hong Kong.

Next steps

In relation to the implementation of a VA trading platform licensing regime ('**VATP Licensing Regime**') as part of the plan to promote a 'sustainable and responsible development of the VA sector in Hong Kong', we anticipate that the SFC's public consultation conclusions on the VATP Licensing Regime will be published this month. As usual, we will continue to monitor and share our views on the VA developments in Hong Kong.

Let's talk

For a deeper discussion of how this impacts your business, please contact us.

Tiang & Partners



Gaven Cheong

Partner
Tiang & Partners
+852 2833 4993
gaven.cheong@tiangandpartners.com

PwC Hong Kong



Duncan Fitzgerald

Financial Services
Risk and Crypto Leader, Partner
+852 2289 1190
duncan.fitzgerald@hk.pwc.com

www.pwchk.com

www.tiangandpartners.com

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