

Regulation of Cryptoassets in Mainland China, Hong Kong, Macau and Taiwan

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The regulation of digital financial assets has been a topic of discussion for many countries over the last decade. China is among the world leaders in the digitalization and blockchain technologies. Under the “one country, two systems,” two different approaches to the digital financial assets have been implemented in the PRC. Although the COVID-19 pandemic has stimulated many investors to diversify their investment portfolios to include digital financial assets, the People’s Bank of China has not changed its prohibitive position on tokens and cryptocurrencies and even launched a campaign against miners and crypto exchanges. Macau and Taiwan have also prohibited initial coin offerings and the transfer of cryptocurrencies due to the risks of money laundering connected with the citizens of mainland China. Macau, Taiwan, and the Monetary Authority of Hong Kong have implemented less stringent regulations of digital financial assets. Comparative analysis demonstrates that Hong Kong acts as an intermediary for China to the digital financial assets.

Keywords: Digital Currencies, Bitcoin, Cryptocurrency, Money Laundering, ICO

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1. Introduction

The economic crisis caused by the COVID-19 pandemic has a significant impact on financial markets, rapidly increasing the prices of various digital financial assets (bitcoin, ether, etc.). According to Coindesk, in March 2021, the Bitcoin exchange rate reached USD 60,000 and the Ether exchange rate rose to more than USD 1,600. Given that their respective rates were USD 8,700 and USD 162 in January 2020,¹ this situation can be explained as the high liquidity of the cryptocurrency markets.² Actually, cryptocurrencies are not a safe haven for investors. Bitcoin is extremely volatile which can bring exceptionally high profits or terrible losses, seemingly due to market manipulations.³ Cryptoassets are very attractive for scammers who use “Ponzi Scheme” methods and even create fake currencies.⁴ Many experts are warning against cryptocurrencies. For example, a global economist Nouriel Roubini told the US Senate Committee on Banking, Housing and Community Affairs that “Crypto is the mother or father of all scams and bubbles.”⁵

In principle, cryptocurrencies are not assets with any backing so that they are easy to be manipulated. Price manipulations on crypto exchanges are based on the pump-and-dump scheme which involves the use of bots coordinating the purchase of inexpensive cryptocurrencies to inflate their value and attract new investors.⁶ This has been demonstrated many times. For example, after a long period of growth, in May 2021, the Bitcoin rate declined by approximately 45 percent.⁷ In only a single day the largest cryptocurrency dropped 11 percent after news from China that the PRC Development Commission of the State Council was going to crack down on Bitcoin mining and trading in order to prevent speculative financial risks and severely punish financial crimes.⁸

China is among the world’s leaders in e-commerce and FinTech. Thus, the question of legal regulation of cryptoassets in China is highly topical. In addition, Hong Kong, Macao, and Taiwan have their own legal systems, which allow them to serve as a bridge between capitalist economies and socialist mainland China.

The primary purpose of this research is to find common and special approaches applied by mainland China, Hong Kong, Macao, and Taiwan in the regulation of digital financial assets. Comparative legal study will provide a better understanding of the interaction between the financial systems of mainland China and those of its special administrative regions such as Hong Kong, Macao and Taiwan. This

paper will demonstrate concepts of digital assets regulation prevalent in Chinese law. The analysis of the Chinese approach may be useful for the competent authorities of other countries to create the rules and strategies for transactions of cryptocurrencies and digital tokens with China. This paper is composed of seven parts including a short Introduction and Conclusion. Parts two-five will examine the cryptoasset regulation in mainland China, Macao, Taiwan and Hong Kong, respectively. Part six will compare them.

2. Cryptoasset Regulation in Mainland China

Despite that the PRC supports innovations in the field of digital technologies and finance, its monetary authorities do not promote blockchain-based private transactions. The People's Bank of China (PBOC), together with other departments, consistently prohibit investment in digital financial assets and have a negative attitude to both cryptocurrencies and digital tokens issued to attract investment in various projects.⁹ This policy aims to prevent the uncontrolled withdrawal of capital from mainland China; resist money laundering and illegal financing; and impede the legalization of proceeds from criminal activities.¹⁰

A. Cryptocurrency Regulation

According to the Notice on Precautions against the Risks of Bitcoins jointly issued by PBOC with four other state bodies in 2013 (hereinafter Notice 2013),¹¹ financial institutions are prohibited from making any transactions with Bitcoin and may not provide services related to cryptocurrencies. Banks are obliged to notify the Anti-Money Laundering Monitoring and Analysis Center of the PBOC and police departments about all suspicious transactions potentially involving Bitcoin.

The Notice 2013 does not prohibit individuals from performing operations with cryptocurrency and mining. At first glance, the ban of Bitcoin and the freedom to mine it looks strange. In fact, however, mining is also strictly regulated. Provinces of the PRC are empowered to control effective electricity consumption. In 2018, China's Leading Group of Internet Financial Risks Remediation required local governments to take mining under control. Therefore, for example, in May 2021, Inner Mongolia established the Virtual Currency Mining Enterprise Reporting

Platfor.¹² Its targets comprehensively clear: to give full competence of mass supervision and protection and to improve the reporting channels for virtual currency mining enterprises, all of which aims to shut down virtual currency “mining” projects.

B. Why Mainland China Prohibits Bitcoin?

Bitcoin raises many challenges to the financial system, while affecting the criminal justice system and judicial practice.¹³ Anonymity of cryptocurrency and the difficulties in controlling associated Bitcoin transactions gives many benefits to those who use it for illegal activities such as money laundering,¹⁴ financing of terrorism, and drug trafficking. All of these obstacles significantly complicated the implementation of the anti-corruption campaign, which was announced in 2013 by the Chinese authorities.

Chinese criminals often use Bitcoin to legalize their gains through financial institutions located in other jurisdictions, Macau in particular. For example, an accused person exchanged via a trading platform illegally gained money for 1,200 Bitcoins and transferred them to his cryptowallet, after which he asked a financial intermediary in Macau to convert Bitcoins into HKD, and then exchanged HKD into RMB, transferring the money back to mainland China.¹⁵ Also, in order to trick currency control authorities and overcome limits on cash withdrawal on UnionPay cards, Chinese citizens, with the help of Bitcoin Vending Machines located in Macau, would transfer RMB from mainland China and cash it in Macau under the guise gambling earnings.¹⁶

Thus, the PBOC decided that the only way to decrease the risk of financial and other types of crimes related to cryptocurrency was to prohibit Bitcoin’s exchange for fiat money.

C. Initial Coin Offering as a Financial Offence in Mainland China

The restrictive approach of the PBOC is caused by the fact that digital tokens can be used as an analogue of companies bonds and shares, thereby undermining securities law by illegally raising capital.¹⁷ In 2017, the PBOC, the Office of the Central Leading Group for Cyberspace Affairs, and the Ministry of Industry and Information Technology jointly published the “Announcement on Preventing the Financing Risks of Initial Coin Offerings.”¹⁸ (hereinafter The Announcement) The

PBOC declared that as financing through digital tokens is equivalent to illegal financing, persons issuing tokens in the PRC are considered as subjects of criminal or administrative offenses, depending on the consequences of their activities.¹⁹ Article 4 of the Announcement informs financial institutions that they could not provide services related to the Initial Coin Offerings (ICOs):

All financial institutions and non-banking payment institutions shall not conduct the businesses relating to ICO financing transactions. All financial institutions and non-banking payment institutions shall not, in an indirect or direct manner, provide account opening, registration, trading, liquidation, settlement and other products or services for ICO financing and “virtual currencies,” shall not undertake the insurance business relating to coins and “virtual currencies” or include coins and “virtual currencies” in the scope of insurance liability. If a financial institution or non-banking payment institution finds any clue to a violation of law or regulation in ICO financing transactions, it shall report it to the relevant department in a timely manner.

Since 2017, therefore, ICOs in the PRC have been completely prohibited. If a person launches an illegal fund-raising ICO and collects a large amount of money, s/he will be criminally liable and punished by imprisonment under the rules of Article 192 of the Criminal Code of the PRC.²⁰ According to the State Council of the PRC’s Regulation on the Prevention and Treatment of Illegal Fund, if fund raising is not connected with criminal activity, an illegal fund-raiser will be imposed a fine not less than RMB 500,000 and no more than RMB 5 million, and its business license or registration certificate will be suspended.²¹ Moreover, Article 35 establishes liability for financial institutions and non-bank payment institutions for failing to prevent illegal fund-raising:

[i]f there are serious consequences, the financial authorities of the State Council or their branches and field offices shall impose a fine of not less than 1 million yuan nor more than 5 million RMB on it, and give a warning to the directly liable person in charge and any other directly responsible person each, in addition to a fine of not less than 100,000 RMB nor more than 500,000 RMB.

In 2018, the PBOC and four other authorities issued a Notice on Risk Warning against Illegal Fundraising in the Name of “Virtual Currency” and “Blockchain.”²² (hereinafter Notice 2018) The PBOC warned investors that when they invest

their money in digital tokens, the only assurance they have of any financial return depends on the honesty of the offeror. The Notice 2018 stresses that in many cases ICOs have been used as tools for illegal fundraising, pyramid schemes, and fraud by hyping the blockchain concept.²³ It also warns investors about so-called innovations in the financial sphere, which in fact are renewed Ponzi schemes.²⁴

Notably, in order to discourage citizens from investing in projects based on digital tokens, Chinese courts do not protect the rights of investors, indicating that investors themselves are violators who expect to receive illegal income. For example, the Hangzhou Intermediate People's Court stated that the plaintiff's claims for recovery of the promised income from investing in digital tokens could be satisfied since the income was from illegal activities.²⁵ As a result, financial institutions, companies and individuals were informed about the consequences of their participation in fraudulent schemes.

Because of the ICO's prohibition, Chinese public authorities could avoid mass fraud and illegal earnings from digital tokens related scams. This measure protects unsophisticated investors from the fund-raisers because the fund-raisers do not give the investors any real guarantees.²⁶ Of course, the PBOC could apply securities legislation to ICOs and, thereby, support the financial market. However, Chinese officials seem to have decided that ICOs are just tools to show how not to fulfill requirements for an initial public offering.

3. Cryptoassets Ban in Macau

Macau closely cooperates with mainland China to prevent money laundering through digital financial assets. Therefore, in order to cease illegal actions of criminals from the mainland, the Monetary Authority of Macao (AMCM) issued announcements about the illegal activities by cryptocurrencies and ICOs.²⁷

A. Ban of Bitcoin

In 2014, the AMCM issued a Notice of "Caution against Engagement in Bitcoin Transactions."²⁸ (hereinafter Notice 2014) According to the Notice 2014, Bitcoin is a virtual commodity and the associated transactions would carry high risks of money laundering and terrorist financing. The AMCM also stressed that commercial

entities other than authorized financial institutions should be prohibited from using the words, expressions or any other terms having or implying the idea of operating the business of a credit institution, including “ATM,” in the course of their business.²⁹ However, the Notice 2014 did not entail significant consequences, except that “Bitcoin ATMs” were renamed into “Bitcoin Vending Kiosks.”

In 2018, the AMCM published a press release which reiterated that virtual currencies should not be legal tender urging the public to be vigilant against potential fraud.³⁰ Opposite to the Notice 2014, this document unambiguously obliged all financial institutions not to participate in or provide, directly or indirectly, any financial services related to the use of virtual currencies or virtual goods as means of payment.³¹ The AMCM emphasized that the exchange of money to or from Bitcoin, cross-border transfer of Bitcoins, or providing trading platform services constitute a violation of the Financial System Act.³² Thus, the AMCM applied a similar approach to that used by the PBOC. In this vein, Bitcoin was not actually banned for its difficulty, but its exchange was prohibited.

B. Prohibition of ICOs in Macau

Following the PBOC policy in 2017, the AMCM banned any services related to digital tokens.³³ According to the “Alert to Risks of Virtual Commodities” and Tokens, all banking and payment institutions in Macao are banned from participating in or providing, directly or indirectly, any financial services for activities related to digital tokens.³⁴

Accordingly, Macau completely adheres to mainland China’s unshakable line concerning digital financial assets and prohibits financial and banking organizations from exchanging currency and cash for any digital financial assets. It reduces opportunities for money laundering and protects investors from investing in projects that exist as a pyramid scheme. This is mainly due to the coordinated approaches to corruption and money laundering by both mainland China and Macau for the regulation of digital financial assets.

4. Cryptoassets Regulation in Taiwan

In comparison with Mainland China and Macau, Taiwan has a more liberal

approach to cryptoassets regulation. Taiwan restricts financial institutions from dealing with Bitcoin because it was gradually manipulated by Taiwanese and international criminals to make criminal investigations difficult.³⁵ At the same time, the Taiwanese Financial Supervisory Commission (FSC) strictly supervised issuance of digital tokens, but did not ban ICOs.³⁶

A. Bitcoin Related Restrictions in Taiwan

In December 2013, the FSC, jointly with the Central Bank of Taiwan, published a press release entitled, “Bitcoin is not a currency. The receiver should pay attention to the problem of risk-taking.”³⁷ Taiwan’s financial authorities warned that Bitcoin is not a currency or a generally accepted medium of exchange because its value is unstable.³⁸ In fact, Bitcoin is neither an accounting unit or value storage, nor real currency. When hackers thus steal Bitcoins stored in electronic wallets easily, there is a lack of exclusive legal protection. The FSC with the Central Bank of Taiwan noted that Bitcoin is a highly speculative digital virtual commodity and required financial institutions that deal with Bitcoin-related businesses to take necessary measures in accordance with relevant laws and regulations.³⁹ Moreover, in January 2014, the FSC announced that banks and other financial institutions should not be allowed to accept or exchange Bitcoin or provide services related to Bitcoin at bank ATMs.⁴⁰

Bitcoin related restrictions in Taiwan are targeted only at financial institutions and do not affect other businesses in the same way. According to *TAIPEI TIMES*, Taiwanese online shopping service operators have not stopped operations in Bitcoin⁴¹ and enthusiastically accepted cryptocurrency as currency from mainland consumers.⁴²

B. ICO Legality in Taiwan

ICOs are legitimate in Taiwan as long as fund-raisers obey the provisions of the Securities and Exchange Act of Taiwan.⁴³ According to the FSC’s “Reminder to the Public of the Risk of Investing in Virtual Goods Such as Bitcoin,” in the case of non-governmental fund raising activities, the FSC shall, within the scope of its statutory authority, deal with cases of fund raising activities which violate financial laws and regulations.⁴⁴ If the ICO involves illegal raising and issuance of securities, an issuer or seller shall be subject to inspection and treated as a

violator of the Securities and Exchange Act. If the issuer of virtual currency or ICO attempts to attract investment through dissimulation or deception, or attracts investors to participate in it with unreasonable high remuneration, it may involve criminal cases such as fraud or illegal gold absorption. In order to maintain financial order and investors' rights and interests, the prosecuting organ shall handle the case according to the law after investigating and adjusting specific business certificates.⁴⁵

Thus, the financial authorities of Taiwan did not develop special rules for ICOs, but rather chose to control and supervise them within the framework of securities legislation. In cases where digital tokens do not constitute bonds or shares, their issuance and turnover are unregulated. Therefore, companies are allowed to introduce so-called utility tokens, but will be punished when such digital assets have the characteristics of securities.

5. Hong Kong as a Crypto Bridge to Mainland China

The ban of ICOs and Bitcoin in mainland China and Macau pushed Chinese investors to find other jurisdictions comfortable for them, and favored the flourishing crypto exchanges in Hong Kong.⁴⁶ However, the Hong Kong Monetary Authority (HKMA) and Hong Kong Securities and Exchange Commission (SEC) did not create a very liberal offshore haven for crypto business.⁴⁷ Rather, they decided to establish strict rules for ICOs leaving Bitcoin unregulated.

A. Unregulated Cryptocurrency

For a long time Hong Kong did not make its policy concerning cryptocurrencies. In September 2018, the HKMA Chief Executive, Norman Chan, stated that "Bitcoin is not a means of payment and could not be qualified as a regulated asset."⁴⁸ Hong Kong officials do not recognize the legal status of Bitcoin, emphasizing that Bitcoin has no fixed value and may not be regulated by the HKMA, so the concept of 'money' is the key to the HKMA's jurisdiction.⁴⁹

Scholars note that the unregulated character of cryptocurrency exchanges may be problematic and create a gray zone in the financial sector.⁵⁰ It is unlikely that

half-measures will allow Hong Kong to protect unsophisticated private investors in a proper way.

B. SFC Policy towards Indicial Coin Offerings

If a cryptocurrency or digital token has the characteristics of securities or futures, they fall under the scope of the Hong Kong Securities and Futures Ordinance⁵¹ which should be supervised by the Hong Kong Securities and Futures Commission (SFC). The SFC pointed out that if the purpose of issuing tokens is to borrow money, the sponsor will repay the principal and interest to the token holders in the future, which may constitute the issuance of bonds.⁵²

Therefore, companies attracting investments through an ICO without fulfilling the obligations required by securities legislation are considered to be engaged in illegal securities activities in Hong Kong. In this case, the SFC will take regulatory actions against cryptocurrency exchanges and warns them to stop fund-raising and trading.⁵³ In March 2018, for example, the SFC stopped an ICO issued by Black Cell Technology Limited. In this case, Black Cell Technology publicly issued “kropcoin” to Hong Kong investors, claiming that collected funds would be used to build an Ethereum based agricultural products trading platform (krops) to provide farmers with relevant information about the market demand of agricultural products and matching transactions.⁵⁴ The company also promised that investors would be able to exchange their tokens for shares in Black Cell Technology in the future.⁵⁵ The SFC, determining that the nature of “krops” was equal to shares of a collective investment plan, stopped the project and asked the fund-raiser to return money to investors.⁵⁶ However, this approach introduced a risk of uncertainty for ICO investors.

In this regard, the SFC has issued some standards that clarify the licensing procedure for cryptocurrency exchanges and organizations that manage digital financial assets. In November 2018, the SFC issued the “Statement on Regulatory Framework for Virtual Asset Portfolios Managers, Fund Distributors and Trading Platform Operators,”⁵⁷ “Regulatory Standards for Licensed Corporations Managing Virtual Asset Portfolios” (hereinafter Regulatory Standards),⁵⁸ and “Conceptual Framework for the Potential Regulation of Virtual Asset Trading Platform Operators” (hereinafter Conceptual Framework).⁵⁹ In 2019, the SFC published a Position Paper on Regulation of Virtual Asset Trading Platforms.⁶⁰

All named regulations establish a procedure for turnover of digital financial assets which have features of securities or futures in accordance with the Securities and Futures Ordinance.

The Regulatory Standards set out the requirements for legal entities that provide services of intermediaries in attracting funding through an ICO. If a firm manages a portfolio of digital tokens which are, by their nature, securities or futures, it must obtain an asset management license or a license to deal in securities, as well as register with the SFC. The rules for obtaining a license for such corporations are no different from those who use traditional technologies for investment.

According to the Regulatory Standards, licensed corporations should only allow professional investors as defined under the SFO to invest in any portfolio. To ensure that potential investors can make an informed decision, licensed corporations should also clearly disclose all the associated risks to potential investors and distributors they have appointed for distribution of their virtual asset funds.⁶¹ In order to decrease cyber security risks, the SFC has also obligated licensed corporations to conduct periodic stress testing to determine the effect of abnormal and significant changes in market conditions on these portfolios.⁶²

The Regulatory Standards pay considerable attention to the financial sustainability of entities engaged in virtual asset management, fund distributors and trading platform operators. Licensed corporations are required to not only appoint an independent auditor to audit their activities, but also have a liquid capital of not less than HKD 3 million.⁶³ This undoubtedly provides protection for investors in Hong Kong by decreasing risks connected with activities of different financial pyramids in the sector.

The Conceptual Framework publication provides the rules for cryptocurrency exchanges and stipulates that the SFC, before granting a license to an operator of platforms for trading virtual assets, places it in a “regulatory sandbox” and determines through supervision whether such an operator complies with the high standards of the securities market.⁶⁴ If the SFC confirms the ability of an exchange to comply with regulatory requirements, it will consider granting the operator a license in accordance with the licensing conditions set out in the SFO. An important feature of this approach is that licensing is not obligatory and aims to separate operators who adhere to the high standards set by the SFC from those

who are unwilling or unable to comply. Accordingly, the granting of a license could be considered as a kind of marker that allows investors to determine the conscientiousness of the operator and confirm the safety of transactions through the crypto exchange.⁶⁵

According to Conceptual Framework, licensed operators shall comply with a number of specific rules aimed at protecting investors as follows:

1. provide services only to “professional investors”;
2. execute trades for clients only if there are sufficient fiat currencies or virtual assets in the platform’s account to cover a trade;
3. observe know-your-client procedures;
4. use systems that adequately manage money laundering and terrorist financing risks;
5. fully disclose and ensure investors fully understand the nature and risks that they may be exposed to in trading virtual assets and using their virtual asset trading services;
6. perform all reasonable due diligence on the virtual assets before listing them on its platform; and
7. prevent market manipulation and abuse activities; establish and maintain written policies and procedures governing employees’ dealings in virtual assets to eliminate, avoid, manage or disclose actual or potential conflicts of interest which may arise from such dealings.⁶⁶

Paragraph I (5) of the Conceptual Framework states:

A Platform Operator should only admit a virtual asset issued by way of an initial coin offering (ICO Tokens) for trading on its platform at least 12 months after the completion of the ICO or when the ICO project has started to generate profit, whichever is earlier. This ensures that there is sufficient market information and a performance track record for investors to consider whether an ICO Token is backed by a genuine and viable project. This also allows the Platform Operator to have more information to perform proper due diligence on any tokens that it permits to trade on its platform.

This rule allows the operator to study information about the funds raised, check the project, and exclude the entry on the exchange of digital tokens if it was deemed to be issued for fraudulent purposes. It seems that this experience of Hong Kong may also be attractive for official regulators from other jurisdictions where ICOs are legal.

Meanwhile, the Position Paper on Regulation of Virtual Asset Trading Platforms 2019 (hereinafter Position Paper 2019) supplements and clarifies the regulations

of the SFC adopted in 2018. This document, in particular, specifies types of virtual assets, including cryptocurrency, crypto assets, digital tokens, stable coins, as well as the methods of their issuance, i.e., the initial coin offering (ICO), the token-security offer (STO), and the initial exchange offer (IEO).⁶⁷ The Position Paper 2019 further contains a set of robust regulatory standards for virtual asset trading platforms which are comparable to those applicable to licensed securities brokers and automated trading venues.⁶⁸ These standards seek to address key regulatory concerns related to the safe custody of assets, know-your-client requirements, anti-money laundering and counter-financing of terrorism, market manipulation, accounting and auditing, risk management, conflicts of interest, and the acceptance of virtual assets for trading.⁶⁹ Based on the analysis of the risks associated with the legal regulation of the activities of cryptocurrency exchanges, the SFC also clarifies license terms and conditions for operators of virtual asset trading platforms and describes in detail the mechanism for obtaining a license. A significant part of the licensing conditions is devoted to how the operator must establish the identity of the client, interact with them, and provide information.⁷⁰

Even though Hong Kong has created the rules to regulate platform operators for trading virtual assets, the problem of unregulated cryptocurrency exchanges has not been resolved. These platforms neither have robust cybersecurity or sufficient internal control systems, nor guarantee protection from challenges arising from hacker attacks and market manipulation. In addition, unregulated platforms may allow retail investors to trade directly which can lead to significant losses for unqualified investors. The ease of retail access to unregulated virtual asset trading platforms, coupled with aggressive online advertising, raises many issues concerning investor protection.⁷¹ The SFC has clearly shown that only those investors who seek to participate in trading on licensed platforms can rely on legal protections, otherwise bearing all risk on their own.⁷²

6. Comparative Overview of Cryptoassets Regulations

If comparing the approaches of the PBOC, AMCM, Taiwanese, and Hong Kong regulators concerning cryptocurrencies and ICO, significant differences are found

in cryptoasset regulation. Mainland China and Macau provide a restrictive policy towards digital financial assets, while Taiwan and Hong Kong take a more liberal position and support the development of ICOs within the framework of securities law, leaving Bitcoin-related transactions unregulated or partly regulated (Table 1).

Table 1: Comparison of Regulations of Digital Financial Assets

Type of activities	Jurisdiction			
	Mainland China	Macau	Taiwan	Hong Kong
Bitcoin exchange	Prohibited	Prohibited	Restricted	Unregulated
Mining	Restricted	Unregulated	Unregulated	Unregulated
Bitcoin related transactions	Prohibited	Prohibited	Unregulated	Unregulated
ICO	Prohibited	Prohibited	Regulated under securities legislation	Regulated under securities legislation
ICO related intermediate services	Prohibited	Prohibited	Regulated under securities legislation	Regulated under securities legislation

Source: Compiled by the author

The ban on digital tokens in mainland China has provoked investors to redirect the flow of funds to countries with liberal regulatory schemes. The Internet allows crypto investing through electronic exchanges located abroad, including in Singapore and Japan, where Bitcoin and ICOs are legalized. The experiences of Hong Kong and Taiwan demonstrate that securities legislation may be applicable to ICOs. Therefore, it is rational not to prohibit ICOs, but incorporate and specify them into existing regulations.

As for prohibiting financial institutions from providing Bitcoin exchange services, the restrictions introduced in mainland China, Macau, and Taiwan seems to be more expedient than Hong Kong's decision not to regulate this area. The high volatility of cryptocurrencies, Bitcoin related risks to the stability of the sphere of investments, and cryptocurrency use with the aim to bypass legislation, all is showing that cryptocurrencies may not compete with fiat money with their

monetary function being limited only to those involved in illegal activities. In fact, they have turned into an exchange speculative commodity that traders use along with other types of assets which allow them to play on the difference in rates. In this regard, the prohibitions and restrictions imposed by the PBOC and AMCM are reasonable, even if they make tax collection from crypto-exchanges impossible.

7. Conclusion

Unlike the financial authorities of mainland China, Macau, and Taiwan, the HKMA has only partially regulated digital financial assets. If they have the character of securities or futures, the Hong Kong Securities and Futures Commission has implemented provisions of securities legislation and the licensing of virtual assets trading platforms to regulate these assets. As licensing of virtual assets exchanges is voluntary, it could be deemed as an indication of the fairness and ability to provide security within a trading platform. To maximize investor protection, licensed exchanges in Hong Kong are allowed to do business with non-professional investors, but limited to the trade of ICO tokens within the initial 12 months or until the ICO project has proven its effectiveness.⁷³ However, Hong Kong does not provide protection to investors when digital financial assets lack the characteristics of securities. Therefore, an entire segment of Hong Kong's digital assets market is in a "gray" area unregulated. As a result, there are two completely different approaches to digital financial assets in the PRC which fully fits into the principle of "one country - two systems." Hong Kong and Taiwan act as bridges for mainland Chinese investors to the world of digital financial assets. At the same time, however, they do not help to reduce the opportunities for legalizing the proceeds resulting from criminal activities.

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