

Press Release

LCQ1: Monitoring the use of bitcoins

Wednesday, January 8, 2014

Following is a question by the Hon Chan Kam-lam and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (January 8):

Question:

It has been reported that speculation on bitcoins, a virtual currency, is rife all over the world at present, with their prices surging by a hundred-fold within a short period of one year. In his reply to a question raised by a Member of this Council on December 18 last year, the Secretary for Financial Services and the Treasury advised that such a product generated from the virtual world was not an electronic currency (e-currency) and it was not qualified to be an e-currency as a medium of payment since its value persistently surged and plunged substantially. The Secretary also reminded members of the public of the risks of investments in bitcoins and said that the Government would monitor its development closely. In this connection, will the Government inform this Council:

(1) given that the Notice on Precautions Against the Risks of Bitcoins, issued on December 5 last year jointly by five mainland ministry/commissions such as the People's Bank of China, has pointed out that bitcoins have no legal status equivalent to that of a currency, and the Notice has expressly required that at the present stage all financial institutions and payment institutions must not embark on any bitcoin-related businesses, including the provision of services such as payment, clearing and settlement for transactions involving bitcoins, whether the Government has approached the mainland authorities to understand these policies and measures regarding bitcoins; whether it will consider implementing similar policies and measures in Hong Kong; if it will not, of the reasons for that; and

(2) as it has been reported that the Hong Kong Monetary Authority advised earlier that bitcoins were outside its regulatory ambit but it would monitor the use of bitcoins in Hong Kong, whether the authorities know the current situation concerning the use of bitcoins in Hong Kong; whether they have drawn up contingency measures to deal with the situation where speculation on

bitcoins has impacted on the financial system of Hong Kong?

Reply:

President,

With the rapid development of the Internet and information technology, the use of "bitcoins" or other virtual currencies for trading has emerged in recent years, causing concerns from all over the world and the local community. It would be quite risky to convert, trade or hold such virtual currencies as their value is not backed by any physical items, issuers or the real economy. There are specified upper limits to the overall size of the issue of such virtual currencies, but no guarantee of their convertibility into a legal tender or commodities in the real economy. Also, the price of virtual currencies may be susceptible to significant fluctuations due to individual speculative activities.

In fact, the value of a single bitcoin was only US\$20 in early 2013. It surged to US\$1,000 in November 2013 before slumping to US\$600 - US\$700 in end-2013. It could be up by a fifty-fold within half of a year or so. It could also be down by nearly a half in just a month or so. Virtual currencies are by nature a kind of virtual commodities created in the virtual world. Given its volatility in price, it appears difficult for this kind of virtual commodity to have mature conditions to become a commonly-used medium of payment or an e-currency. As such, the Government has been reminding the public of the nature of virtual currencies and to be aware of the security and risks involved. My reply to the two parts of this question is as follows:

(1) We note that the development and use of bitcoins vary from place to place. Supervision also varies, depending on the market development of bitcoins. In Hong Kong, the Government and the relevant regulators have been keeping a close watch on the use of bitcoins locally, and the latest global development of relevant regulatory requirements, including the Notice on Precautions Against the Risks Associated with Bitcoin (Notice) jointly released by the People's Bank of China and four other authorities.

According to the regulatory requirements of the Hong Kong Monetary Authority (HKMA), banks in Hong Kong are required to assess stringently the risks brought by any new businesses and services they provide. So far, the

HKMA has not received any report from banks concerning the development of business associated with bitcoins or other virtual commodities. As such, HKMA has not implemented measures in relation to the banking sector to the similar effect of the Notice.

(2) In Hong Kong, bitcoins and other virtual currencies have not yet been widely accepted as alternative mediums of payment or e-currencies. We note that only a very small number of local vendors would be willing to accept bitcoins as a medium of payment, and some had not yet received any payment in bitcoins. The HKMA's enquiry with some of the major banks in Hong Kong reveals that neither bitcoin transactions nor bitcoin-related investment products have been launched. At present, the acceptance of bitcoins by local vendors as a medium of payment is so limited that it is unlikely that bitcoins will pose a significant threat to Hong Kong's financial system. Nevertheless, the regulators will remain vigilant about the development of such virtual currencies to ensure that their use will not undermine the financial stability of Hong Kong.

In general, as virtual currency transaction data contains no information on the identity of the trading parties, it is very difficult to trace a transaction. As a result, the virtual currency may be used for criminal activities, such as transactions relating to money laundering or illegal fund raising. Like many other regions, Hong Kong at present has no legislation directly regulating bitcoins and other virtual currencies of similar kind. However, our existing laws (such as the Organised and Serious Crimes Ordinance) provide sanctions against unlawful acts involving bitcoins, such as fraud or money laundering.

Also, local regulators have maintained close liaison with their counterparts all over the world, including the regulatory bodies on the Mainland, and exchanged views on the development of bitcoins and the ways of addressing the issue. We note that European countries and the United States do not have any specific legislation on bitcoins. Regulators of these countries are still monitoring the developments and have not taken further actions. The Government and the regulators will continue to monitor closely the use of bitcoins in Hong Kong as well as the latest global development of regulatory requirements (particularly in relation to the money laundering risk posed by virtual currencies) and will consider if any further follow-up actions are required.

Finally, I would like to take this opportunity to remind those who intend to use bitcoins for trading or investment to exercise extra caution, given the highly speculative nature of bitcoins. Consideration must be given to the risk factors such as the price volatility and the lack of backing by any physical items, issuers or the real economy to avoid losses from the use of or investment in bitcoins.

Thank you.

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