16 January 2014

Circular to Licensed Corporations and Associated Entities

Anti-Money Laundering / Counter-Terrorist Financing

Money Laundering and Terrorist Financing Risks Associated with Virtual Commodities

In view of the recent attention of overseas and local regulators\(^1\) over the money laundering and terrorist financing ("ML/TF") risks associated with virtual commodities such as Bitcoin, the Commission would like to remind licensed corporations ("LCs") and associated entities ("AEs") to take all reasonable measures to ensure proper safeguards exist to mitigate the ML/TF risks that they may face in this regard taking into consideration the related developments.

As provided in paragraph 3.5 of the Guideline on Anti-Money Laundering and Counter-Terrorist Financing ("Guideline on AML/CFT"), services that inherently have provided more anonymity present higher ML/TF risks. Virtual commodities that are transacted or held on the basis of anonymity by their nature pose significantly higher inherent ML/TF risks.

Where relevant to their business, LCs and AEs should therefore guard against the ML/TF risks associated with potential or existing customers that are operators of schemes related to virtual commodities ("VC operators")\(^2\), by increased vigilance in assessing the ML/TF risks of customers as well as monitoring and detecting unusual or suspicious transactions.

In particular, LCs and AEs when accessing ML/TF risk should take into account the ML/TF risks associated with virtual commodities mentioned above and all other relevant factors\(^3\) including, where relevant, whether the customer that is a VC operator has established and implemented effective controls against ML/TF involving the virtual commodities. Where a high ML/TF risk situation is identified as a result of the assessment, LCs and AEs should take additional measures to mitigate the ML/TF risk involved. Such additional measures, as provided in paragraph 4.11.1 of the Guideline on AML/CFT, may include:

(a) obtaining additional information on the customer and updating more regularly the customer profile including the identification data;

(b) obtaining additional information on the intended nature of the business relationship, the source of wealth and source of funds;

(c) obtaining the approval of senior management to commence or continue the relationship; and

---

\(^1\) For example, on 9 January 2014 the Hong Kong Monetary Authority issued a circular to Authorized Institutions regarding ”Risks associated with virtual commodities” (http://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2014/20140109e1.pdf).

\(^2\) 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).

\(^3\) Please refer to paragraph 3.5 of the Guideline on AML/CFT for factors that may be relevant.
(d) conducting enhanced monitoring of the business relationship, by increasing the number and timing of the controls applied and selecting patterns of transactions that need further examination.

LCs and AEs are also reminded of their statutory obligations to make a report to the Joint Financial Intelligence Unit if customer due diligence and ongoing monitoring reveal any suspicious activity related to ML/TF on a customer account.

Should you have any queries regarding the contents of this circular, please contact Ms Kiki Wong on 2231 1569.

Intermediaries Supervision Department
Intermediaries Division
Securities and Futures Commission

End

SFO/IS/002/2014