



## HKMA Urges Banks to Provide Banking Services to Virtual Asset Service Providers

In its circular promoting [“Access to Banking Services for Corporate Customers”](#) (the **Circular**), Hong Kong’s Monetary Authority (the **HKMA**) encourages banks to *“support virtual asset service providers licensed and regulated by the Securities and Futures Commission (SFC) on their legitimate need for bank accounts in Hong Kong”*. Published on 27 April 2023 ahead of the implementation of Hong Kong’s new licensing regime for virtual asset service providers (**VASPs**) on 1 June 2023, the Circular paves the way for VASP licensing applicants to meet the SFC’s requirement that it receives applicants’ bank account details before approving their licensing applications. However, bank account details do not need to be submitted at the same time as the VASP licensing applications.<sup>1</sup>

Supporting the Hong Kong Government’s push to become a global Web3 and crypto hub (as detailed in its October 2022 [“Policy Statement on Development of Virtual Assets in Hong Kong”](#)) the HKMA Circular urges banks to adopt *“a forward looking approach ... and strengthen their understanding of new and developing sectors”* and a risk-based approach (**RBA**), rather than *“a wholesale de-risking approach”*.

For further details of Hong Kong’s New VASP licensing regime, please see Charltons’ newsletters [“SFC Circular on Implementing new Licensing Regime for Virtual Asset Trading Platform Operators”](#) (June 2023) and [“Hong Kong Licensing Regime for Virtual Asset Exchanges to Take Effect on 1 March 2023”](#)<sup>2</sup> (July 2022).

The HKMA has also revised its [Guideline on Anti-Money Laundering and Counter-Financing of Terrorism \(for Authorized Institutions\)](#) effective 1 June 2023. The revised Guideline requires authorized institutions (i.e. banks) that are SFC-licensed VASPs to additionally comply with the anti-money laundering and counter-terrorist financing obligations provisions relating to virtual assets which are set out in Chapter 12 of the SFC’s newly issued [SFC Guideline on Anti-Money Laundering and Counter-Financing of Terrorism \(For Licensed Corporations and SFC licensed Virtual Asset Service Providers\)](#).

### Three Key Areas for Banks’ Attention

In the Circular, the HKMA asks banks to review their account opening procedures and customer due diligence (**CDD**) measures to balance their management of money-laundering / financing of terrorism risks with the provision of inclusive access to banking services. The HKMA draws banks’ attention to three areas in particular.

- **Initial Customer Contact**

The HKMA recommends that banks provide relevant training and up-to-date information to their

staff, which should take into account customer feedback and complaints. The HKMA expects banks to establish processes that adequately support applications from specialised industries, for example by equipping dedicated teams with appropriate training and knowledge.

- **Understanding of Market Developments**

Given the rapid developments in technology, the HKMA encourages banks to adopt a forward-looking approach and improve their understanding of new and developing sectors and related market developments, to help them differentiate individual customers with different risk characteristics. It specifically urges banks to open bank accounts for SFC-licensed VASPs.

- **Risk Management vs Wholesale De-risking**

The HKMA cautions banks against a wholesale de-risking approach that precludes potential customers with a common background (e.g. customers from particular industries or countries) from target customer segments. Instead, it encourages banks to gain an understanding of the risks and adapt their operational approaches consistent with a risk-based approach.

The HKMA also suggests that banks support the Tiered Account Services initiative and offer Simple Bank Accounts to meet the needs of SMEs and start-ups where appropriate. The HKMA's Tiered Account Services initiative was set out in its April 2019 Circular "[Introduction of Tiered Account Services](#)" and encouraged banks to offer a limited set of banking services (**Simple Bank Accounts**) requiring less extensive CDD measures to small- and medium-sized enterprises, start-ups and some offshore companies establishing a presence in Hong Kong. Guidance on the HKMA's RBA is set out in Chapter 2 of its Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Authorized Institutions).

## **Key Observations and Good Practices**

The Annex to the HKMA Circular sets out observations and good practices for on-boarding corporate customers.

- **Processing Account Opening Applications**

The HKMA expects banks to have a guideline and control measures in place to ensure that customers' applications are processed in a timely and appropriate manner. Banks should notify customers of the expected timeframe for processing their applications and update them if the expected timeframe cannot be met.<sup>3</sup> Banks should also ensure that a risk-based approach is adopted in customer account opening and that account-opening applications are not rejected outright solely on the basis of an applicant's industry sector. To facilitate consistent and effective implementation of this approach, frontline staff need to be given training and practical guidance.

- **Requesting Information from Customers**

Banks are expected to explore pragmatic and flexible approaches and to be reasonable in requesting customer information and documents, taking into account customer backgrounds and circumstances, and their status as entities under the supervision of the SFC.<sup>4</sup>

- **Individual Risk Assessment**

Banks are told not to reject an account opening application outright on the basis of the applicant's industry sector. Instead, they are encouraged to adopt a risk-based approach to assess the risks associated with individual customers and implement appropriate and effective measures proportional to the risks identified. Practical guidance and adequate training should also be provided to frontline staff.<sup>5</sup>

- **CDD Measures**

### **Additional CDD Measures**

The additional CDD measures for VASPs set out in the HKMA Circular "[Regulatory Approaches to Authorized Institutions' Interface with Virtual Assets and Virtual Asset Service Providers](#)" of 28 January 2022, apply only when banks offer correspondent services (e.g. an account to settle clients'

transactions) to overseas VASPs. In other words, the additional CDD measures are *not* required for SFC-licensed VASPs. Banks need to provide practical guidance and training to their frontline staff to ensure they understand the requirements applicable in different situations.<sup>6</sup>

### **Less Extensive CDD Measures for a Narrower Set of Banking Services**

CDD measures should be proportionate to the risk level of customers and the functionalities of the services provided. For instance, if a technology firm only opens an account for its own corporate use (e.g. for payment of salaries and rent) and does not yet provide any regulated activities in Hong Kong, banks can consider providing a Simple Bank Account arrangement. In determining whether to open an account for a VASP, banks can consider opening an account once a VASP applicant has received the SFC's "approval-in-principle" of its licence application, rather than insist on waiting until the actual grant of the licence.<sup>7</sup>

### **Persons Connected with Grey-list Jurisdictions**

The Circular notes that FATF's grey list (i.e. countries identified as "[Jurisdictions under Increased Monitoring](#)") does not call for entire classes of customers to be cut off from banking services, or for enhanced due diligence to be applied consistently, based solely on customers' connection with a grey list jurisdiction. Banks should instead apply a risk-based approach, taking into account a customer's connection with a grey list jurisdiction in building the customer risk profile, and adopt CDD measures proportionate to the particular risks.<sup>8</sup>

## **Updated Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (for Authorized Institutions)**

Since the publication of the April 2023 Circular, the HKMA has published an updated version of its [Guideline on Anti-Money Laundering and Counter-Financing of Terrorism \(for Authorized Institutions\)](#). With the implementation of Hong Kong's new licensing regime for virtual asset service providers, the revised guideline requires banks (i.e. authorized institutions) to additionally comply with the requirements of the [SFC Guideline on Anti-Money Laundering and Counter-Financing of Terrorism \(For Licensed Corporations and SFC licensed Virtual Asset Service Providers\)](#) for:

- securities, futures and leveraged foreign exchange businesses (e.g. definition of customer, provisions on cross-border correspondent relationships, illustrative indicators of suspicious transactions and activities in the securities sector, etc.); and
- addressing the risks relating to virtual assets set out in Chapter 12 of that Guideline.

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[1] SFC. (June 2023). '[Licensing Handbook for Virtual Asset Trading Platform Operators](#)'

[2] The implementation date for the VASP licensing regime under Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Ordinance 2023 was postponed to 1 June 2023 by the Legislative Council's '[Report of the Bills Committee on Anti-Money Laundering and Counter-Terrorist Financing \(Amendment\) Bill 2022](#)'

[3] Paragraph 1 of the Annex to the Circular

[4] Ibid. at paragraphs 2 and 5

[5] Ibid. at paragraph 3

[6] Ibid. at paragraph 4

[7] Ibid. at paragraph 6

[8] Ibid. at paragraph 7

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