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Hong Kong Monetary Authority

Greetings:

Bitquant Digital Services is a Hong Kong-based cryptocurrency and blockchain consulting firm. We are writing in response to the Discussion Paper on Crypto-assets and Stablecoins issued on 20 January 2022.

While we are pleased that HKMA is considering the regulatory aspects of crypto-assets and stablecoins, we are dismayed that HKMA has not considered the national security and foreign policy implications of crypto asset regulation, nor has it considered the implications of such regulation to Hong Kong's viability as an international financial center in a post-COVID world.

Since the consultation request was issued, Hong Kong has encountered two new crises which we believe fundamentally alter the regulatory landscape in ways that make it unwise to proceed with new regulations at the current time.

Ukraine crisis We are now facing a crisis in Ukraine which is causing global realignments in world power. The United States and the European Union are currently conducting economic war against the Russian Federation, it is likely that the United States and the European Union will attempt to use cryptocurrency and stablecoin regulation to conduct economic warfare in ways that may be prejudicial to the national security interests and foreign policy of the People's Republic of China.

COVID crisis Since the time the consultation request has been issued, Hong Kong has been hit badly by omicron, and both Hong Kong and Mainland China are forced to adjust to the economic consequences of a future in which COVID is a constant endemic reality. We have note that any discussion of new regulations and restrictions will decrease public confidence and increase economic and political uncertainty, thereby making Hong Kong an unattractive destination for foreign talent.

Given these new situations, we believe that any effort to discuss or implement new regulations that would harm both national security and the attractiveness of Hong Kong as a destination for overseas talent in a post-COVID world.

Regarding national security, we are concerned that any new regulations would encourage market concentration and encourage the creation of large, highly capitalized institutions and discourage the formation of local small and medium enterprises, which include "mom and pop" financial institutions such as ours.

Having a crypto-asset ecosystem in Hong Kong which is dominated by large global corporations would create a mechanism by which hostile foreign powers could attempt to pressure or influence these institutions to under policies to pressure the People's Republic of China to undertake economic policies, such as blockades and embargoes against third party nations, which may not be in the national security interests of the People's Republic of China.

Furthermore, Hong Kong has to manage the transition to a post-COVID world. We believe that adding any restrictions at this time would add to confusion and reduce market confidence and threaten the viability of Hong Kong as an international finance center.

We *strongly* believe that proceeding with any new regulations and licensing regarding stablecoins or any other virtual assets would increase uncertainty and lower investor confidence in Hong Kong and threaten Hong Kong's viability as an international financial center.

We therefore very strongly urge that HKMA suspend the current consultation process and publicly state that no new regulations or licensing requirements will be instituted until the international situation and the situation with COVID stabilizes, at which time HKMA may consider restarting the consultation

process from the very beginning.

Answers to questions

Q1: Should we regulate activities relating to all types of stablecoins or give priority to those payment-related stablecoins that pose higher risks to the monetary and financial systems while providing flexibility in the regime to make adjustments to the scope of stablecoins that may be subject to regulation as needed in the future?

We believe it is inappropriate to consider any new regulations on stablecoins and other virtual assets until the international situation stabilizes, and Hong Kong recovers from COVID.

We note that due to the Ukraine crisis, Western nations are using regulatory means to wage total economic war and impose strict sanctions against the Russian Federation. Moreover, we note that these efforts at imposing sanctions contradict the foreign and defense policy of the People's Republic of China, which is opposed to the use of sanctions and economic warfare.

We are therefore concerned that any regulatory structure that copies best practices from Western nations may be weaponized to impose sanctions against third-party nations or against China itself. In particular, we are concerned that any regulations and licensing requirements would encourage market concentration and require that crypto-asset operators are large global companies that can be pressured by hostile foreign policies to undertake policies that are not in the national security, foreign policy, and defense interests of the People's Republic of China, and would be contrary to one country, two systems and the free capital movement provisions of the Basic Law.

We, therefore, believe that it would be imprudent to continue with any development of a regulatory framework for stable coins until such time as the international situation stabilizes.

We also note that the omicron virus has very badly hit Hong Kong and that this has led to a large amount of uncertainty, which has created an exodus of overseas talent. Accordingly, we believe that proceeding with new regulation and licensing will increase regulatory confusion and decrease investor confidence, and HKMA should proceed with a conservative approach to maintaining regulatory stability.

Q2: What types of stablecoin-related activities should fall under the regulatory ambit, issuance and redemption, custody and administration, reserves management?

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Q3: What kind of authorisation and regulatory requirements would be envisaged for those entities subject to the new licensing regime?

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Q4: What is the intended coverage as to who needs a licence under the intended regulatory regime?

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Q5: When will this new, risk-based regime on stablecoins be established, and would there be regulatory overlap with other financial regulatory regimes in Hong Kong, including but not limited to the SFC's VASP regime and the SVF licensing regime of the PSSVFO?

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Q6: Stablecoins could be subject to run and become potential substitutes of bank deposits. Should the HKMA require stablecoin issuers to be AIs under the Banking Ordinance, similar to the recommendations in the Report on Stablecoins issued by the US President's Working Group on Financial Markets

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We are dismayed that the Hong Kong Monetary Authority appears to have given little thought to this national security and foreign policy issues and therefore strongly believe that HKMA should halt any new regulatory or licensing frameworks until these issues can be adequately addressed.

We note that the United States is has structured its financial regulation to allow it to conduct economic warfare against other nations, and note that there are those within the United States government that view financial regulation as a means to maintain American global hegemony and to conduct a second cold war through economic means.

In particular, we note that the continued use of the US dollar as the sole mechanism of international trade is in the interests of those who wish to maintain American global hegemony and that cryptocurrency policy in the United States has been focused on eliminating competitors to the US dollar, whether they be cryptocurrency or digital assets such as the e-CNY to be issued by the People's Bank of China.

We note that the aims of American cryptocurrency regulation may conflict with the national security and foreign policy interests of the People's Republic of China and may conflict with the efforts of the People's Republic of China to oppose the use of economic warfare and to resist attempts to establish a unipolar world and conduct a new cold war.

We therefore would advise extreme caution in adopting regulations from the United States, as they may not be in the national security interests of the People's Republic of China.

Q7: Would the HKMA also have a plan to regulate unbacked crypto-assets given their growing linkage with the mainstream financial system and risk to financial stability?

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Q8: For current or prospective parties and entities in the stablecoins ecosystem, what should they do before the HKMA's regulatory regime is introduced.

*****We believe that most current or prospective parties and entities will leave Hong Kong permanently unless the government makes it clear that no new regulatory changes are planned*****

We believe that proceeding with any new regulation and licensing activities would contribute to the crisis of confidence that currently exists within Hong Kong, and that should the HKMA proceed with its current strategy, current and prospective parties, and entities in the stablecoin ecosystem will leave Hong Kong.

Yours Faithfully,

A handwritten signature in blue ink, appearing to read 'Joseph C Wang', with a stylized flourish at the end.

Joseph Chen-yu WANG
Bitquant Digital Services