The world is about to change its foundation
We are nothing, let us be all.

The Internationale

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22/F Room 2202
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Financial Services and Treasury Bureau
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Greetings:

Our company Bitquant Digital Services is a Hong Kong-based sole proprietorship conducting research and development in decentralised finance and cryptocurrencies on a contract basis. Our proprietor has a doctorate in computational astrophysics, as well as decades of experience in software development and investment banking and is currently conducting applied research in both computational particle physics as well as blockchain and cryptocurrency technologies, and we have enclosed a document with this letter outlining the expertise of our proprietor.

We are writing in response to the public consultation issued on 3 November 2020 on legislative proposals to enhance anti-money laundering and counter-terrorist financing regulation. Our response concerns the proposed regulations on virtual asset service providers. We have no expertise regarding regulation of dealers of precious metals and stones, although we believe that many of our concerns regarding the national security implications of mandatory licensing would apply also to DPMS's as well as VASP's.

We wish to express our strong opposition to any mandatory licensing of virtual asset service providers. We believe that any such licensing will have highly negative consequences to the national sovereignty and national security of the People's Republic of China as well as hindering the development of critical strategic technologies which are important for the national defense and foreign policy objectives of the People's Republic of China.

We are extremely alarmed that the Legislative Council are currently entertaining proposals that would vastly increase the ability of hostile foreign powers to impose economic pressure against the People's Republic of China as well as limit the ability of the People's Republic of China to develop capacity in vital strategic technologies such as cryptocurrency and blockchain.

Given that the People's Republic of China faces a complex and difficult geopolitical situation, we are extremely concerned that there has been no discussion or consideration of the extreme negative impact of the proposed licensing scheme on the national security and national sovereignty of the People's Republic of China and of the negative defense and foreign policy implications of such regulations.

These discussions are particularly important as foreign powers have made no secret of their intention to limit Chinese access to strategic technologies as well as to use global financial regulation including AML/KYC rules to apply economic pressure for the purpose of interfering in the internal affairs of the People's Republic of China as well as interfering with diplomatic and economic relationships that the People's Republic of China may undertake with other nations.

Examples of this misuse of financial regulation include the extradition case for Meng Wanzhou, as well as efforts by foreign powers to interfere with Chinese technology companies operating overseas. We note that senior officials of both the HKSAR government and the Central Government, including many of the recipients of this letter, have been directly impacted by these sanctions and are unable to conduct routine banking operations.

We also note that in the previous year there were serious discussions to cut off Hong Kong completely from global settlement systems as part of a sanctions regime against the People's Republic of China, and we note that control of the means of moving international capital is a major strategic vulnerability as would enable a hostile foreign power to blockade and cut international trade to China in a political or military crisis.

Given these strategic vulnerabilities, we are shocked to find that the Legislative Council is currently considering the implementation a mandatory licensing scheme on virtual asset service providers. We note that through use of economic regulations and bank licensing, foreign powers have been able to cut off banking services to officials of the HKSAR and Central Governments, and can be expected to use any new financial licensing systems in ways that are prejudcial toward the national interests of the People's Republic of China.

Cryptocurrencies offer an alternative to the traditional banking system and would allow for the use of new strategic technologies to circumvent economic sanctions, blockades, and other threats against the People's Republic of China and its trading and diplomatic partners. This will increase the ability of the People's Republic of China and its trading and diplomatic partners to more effectively resist foreign interference in both their internal affairs and in their economic and diplomatic interactions.

Without cryptocurrency, a foreign power in a political or military crisis could eliminate the ability of the People's Republic of China to move international capital and thereby cut off the ability of the People's Republic of China to conduct international trade. Using control of the international financial system, financial assets can be weaponized to attack, blockade, and sanction the People's Republic of China as effectively or even more effectively than missiles and fighter jets. As such cryptocurrency and blockchain should be considered vital strategic and defense technologies, the development and promotion of which are critical to national sovereignty, national defense, and national security.

The development of cryptocurrency and blockchain technologies would also enable other countries to freely decide based on their national interest and mutual benefit what diplomatic and economic relationships they wish to have with the People's Republic of China, and limit the ability of hostile foreign powers from being able to pressure other nations from taking actions against the People's Republic of China.

We note that some have spoken openly of creating an anti-China international bloc to deny China of international capital and technology, and we can expect those interested in creating such a bloc to use financial pressure to coerce nations into joining such a bloc against their will, and to interfere in the internal affairs as well as the diplomatic and economic relations of nations open to trade and cooperation with China. We can expect that AML/KYC and other financial regulations would be used in this project and believe that cryptocurrencies are essential in counteracting these pressures.

We note that cryptocurrencies are already heavily used in Hong Kong to facilitate trade with nations that the China wishes to maintain normal trading relations with but which are subject to sanction by foreign powers. We also note that cryptocurrencies has proven important for facilitating trade resulting from the Belt and Road Initiative would allow China to bypass any interference from foreign powers through their control of the international banking system. Access to cryptocurrencies would not only allow China to exercise economic sovereignty and resist economic pressure by foreign powers, but would also enable other nations to resist the exercise of hegemonic power and allow them to trade directly with China without interference from hostile foreign powers.

Although initiatives such as the digital Renminbi can mitigate these vulnerablities, we consider it likely that foreign powers will attempt to limit access to digital Renminbi, and would have the means to stop circulation of offshore digital Renminbi in a political or military crisis. Furthermore, having large amounts of offshore Renminbi would require that China maintain large and consistent trade deficits and large amounts of offshore Renminbi could be used by currency speculators and hostile foreign powers to destabilize the Chinese economy.

Settling international transactions through cryptocurrencies such as bitcoin would allow for the People's Republic of China to settle trade transactions without the risks of having large offshore currency pools, and the need to convert to and from fiat would provide a buffer that would prevent foreign powers from destabilzing the Chinese economy.

For the People's Republic of China to use these technologies to enhance its national security and national power, there must be a liquid market gateway to convert cryptocurrency to and from fiat currency which cannot easily be shut down, controlled, or manipulated by foreign powers, and as the traditional gateway between the global economy and the rest of China, Hong Kong is the natural location for such a gateway.

We are therefore extremely concerned that creating a mandatory licensing system for virtual asset service providers which would allow foreign powers to more effectively enforce economic sanctions against the People's Republic of China. The likely impact of the proposed VASP licensing system would be to create a cryptocurrency ecosystem within Hong Kong that resembles the current banking system. Mandatory licensing would have the effect of eliminating small local traders, and result in a cryptocurrency industry in Hong Kong which is dominated by large global firms, which are more vulnerable to economic pressure by foreign powers. This would allow foreign powers to more easily enforce foreign sanctions against the People's Republic of China in the same way that licensing of banks has created a situation in which the Chief Executive of Hong Kong and many of the recipients of this letter are unable to get a bank account in Hong Kong.

In addition, we note that requiring virtual asset service providers to collect AML/KYC information on their users, would provide a means by which foreign regulators and foreign intelligence services can more effectively enforce economic sanctions or an economic blockade against China as well as to gather sensitive economic information which can be analysed through machine learning and AI technologies to enable foreign interference in the Chinese economic and political system.

Furthermore, we note that the situation with regard to foreign powers is not symmetric. Because the global financial settlement system is controlled by foreign powers, any financial sanctions imposed by China would not deny banking services to the target of those sanctions, whereas without cryptocurrency, Chinese targets of Western sanctions can be denied access to basic banking services.

The Chief Executive of Hong Kong and many of the other persons this letter is addressed to, who are under sanction by the United States Treasury Department, are forced to collect their salary in cash whereas the persons in the United States who are sanctioned by China are under no such restrictions and can open bank accounts. Chinese banks and financial institutions are forced to comply with Western rules, but Western banks and financial institutions are not forced to comply wiht Chinese rules. This vividly illustrates the power imbalance inherent in the current hegemonic global economic system, and the absolute need for the People's Republic of China to encourage the development of a liquid cryptocurrency market in Hong Kong and to view cryptocurrency as a vital strategic technology.

Given these realities, we are preplexed as to why the Hong Kong government is proposing to maintain and even increase this political and economic imbalance rather than overcome them through the use of cryptocurrencies and blockchain.

We note that the pressure to impose regulations is purely external. We have seen no evidence that current regulations are insufficient to enforce the laws of the Hong Kong Special Administrative Region, and we have seen no interest in new virtual asset regulation from either Hong Kong or from Mainland China. It appears to us that both law enforcement and domestic security services are satisfied with current regulatory systems and have sufficient powers to carry out their responsibilities. It appears that the sole reason for contemplating new regulations is to comply with FATF recommendations, which would have the effect of increasing the vulnerability of the People's Republic of China to external economic pressure.

We also note FATF recommendations are merely recommendations and that Hong Kong has no legal or moral obligations to comply with these recommendations when they are against its interests. We note that FATF has in the past recommended to Hong Kong that it implement a mechanism for extradition to Mainland China, but efforts to implement this regulation have proven extremely disastrous and unwise.

We believe in a world of free trade and free movement of capital in which the nations of the world voluntarily cooperate with each other in matters of global interest for the common interest of humanity while refraining from interfering in the internal affairs of other nations.

We believe that the nations of the world should cooperate to fight terrorism and organised crime. We therefore are dismayed to see that main focus of international AML/CFT efforts has shifted away from the fight against terrorism and organised crime but rather have been used by certain nations to impose their will and foreign policy on other nations and to attempt to limit economic and technological development of other nations.

Because a liquid cryptocurrency market in the Hong Kong Special Administrative Region is of vital interest to the national security of the People's Republic of China, any effort to restrict this market would allow for undue foreign influence and limit the development of these strategic technologies. We are therefore highly opposed to implementing any mandatory licensing requirements on virtual asset service providers.

We believe that cryptocurrency and blockchain are critical strategic technologies whose development are vital for the future prosperity and economic development of the Hong Kong Special Administrative Region as well as the national security and prosperity of the People's Republic of China. We wish to see the Hong Kong Special Administrative Region take a both national and global leadership role in developing and promoting these new technologies for the good of all humanity in creating a truly multipolar world that is free from global economic and political hegemony.

We are living in the midst of revolutionary times, in which the world is moving from a hegemonic global financial and political system centered in New York, London, and Washington D.C. to a new decentralized system that exists in cyberspace and is based on new concepts and new technologies. Hong Kong has served as a bridge between the rest of China and the old financial system, as the old system disappears, let us be a bridge to the new system of cryptocurrency and blockchain.

We are seeing the last dying gasps of a old world that is ending, and the painful birth cries of a new world that is struggling to be born. I consider myself fortunate to live at the moment in which China's era of national humilation has at long last ended and the era of the great rejuvenation of the Chinese nation has begun.

The efforts of foreign powers to misuse global financial regulation to preserve the old world are a desperate and ultimately fruitless attempts to stop the tide of history, and to preserve a hegemonic economic and political system that has outlived its usefulness and cannot be preserved.

In deciding whether to comply with FATF requests, the Legislative Council can choose to ally itself with the failed past, or to go boldly into the bright future.

Regardless of what the Hong Kong government does, regardless of what the Central Government does, regardless of what the rest of the world does, I choose the future but I remember the lessons of the past.

Over two thousand years ago in era not unlike the one that we live in, the historian Thucydides recorded the statesman Pericles in speaking of Athens as saying “the laws of our city do not merely copy those of others, but rather we are an example for them.” The Legislative Council of the Hong Kong Special Administrative Region should reject efforts to merely copy others, but should be unafraid to undertake innovative and creative solutions when those solutions are in the interest of the people of Hong Kong within the Chinese nation.

We wish to work with both the HKSAR government as well as the Central Government bring in moving toward the new world, and look forward to dialogue with the HKSAR government and the Central Government on this matter.

We are a city upon a hill, and the eyes of the world are watching us.

Let us explore this strange new world and boldly go where no one has gone before.

Yours Faithfully,

Joseph C Wang

Joseph Chen-yu WANG
Bitquant Digital Services

encl: Background document on company proprietor

Answer to questions

Q1) Do you agree that Hong Kong should continue with efforts to strengthen the AML/CTF system having regard to international standards, in keeping with our status as an international financial centre that is safe and clean for doing business?

No. We believe that this approach violates the one country, two systems policy and endangers the national security and national sovereignty of the People's Republic of China.

In recent years, international standards and AML/CTF system have been misused by foreign powers to infringe on the internal affairs of the People's Republic of China. We note that the United States has placed many senior officials both in Hong Kong and Mainland China on the United States Treasury sanctions list, and is attempting to misuse AML/CTF rules to:

- to interfere with attempts by the People's Republic of China to acquire and develop technology
- to interfere with the internal affairs of the People's Republic of China
- to interfere with the Belt and Road initiative, and
- to prevent People's Republic of China from maintaining an independent foreign policy and normal trading and diplomatic relations with nations which are not subject to sanction by the United Nations

Through control of the US dollar settlement system and the global banking system, outside powers have attempted to apply economic and financial process to infringe on the national security of the People's Republic of China.

As a Special Administrative Region of the People's Republic of China, we believe that the compliance with international standards is secondary to safeguarding national security and maintaining national sovereignty. We are concerned that the proposed AML/CTF will result in the consolidation of the cryptocurrency industry into a small number of large institutions which may collude or be influenced by foreign forces to act in ways that are contrary to the national interests of the People's Republic of China.

Recent events such as the sanctions against Huawei and efforts to sanction senior Hong Kong officials have illustrated how AML/CTF regulations can be weaponized to attempt to endanger the national security of the People's Republic of China. We therefore are extremely concerned that a regulatory regime that likely eliminate small local companies and create a market consisting only of large global companies will allow foreign powers to enforce economic sanction rules as well as enhance the ability of foreign governments to collect information about financial transactions within Hong Kong and Mainland China and to use this information against the national interest of the People's Republic of China.

Having a vibrant local cryptocurrency market will make the People's Republic of China more resistant to potential economic sanctions by hostile foreign powers. An ecosystem consisting of a large number of small local service providers which are subject to local Hong Kong law and who can maintain financial privacy would create an ecosystem which would allow China to resist economic blockade and sanctions.

We note that the Hong Kong cryptocurrency ecosystem is very heavily involved in the settlement of trade with "one belt one road" countries and in addition is commonly used to settle trade with countries which are not subject to United Nations or Chinese sanctions but which foreign powers find objectionable. We also note that the local trading community is very law abiding and actively complies with the laws of the Hong Kong Special Administrative Region and cooperates with law enforcement to fight actual criminality. We have seen no evidence that current regulations are insufficient to maintain the national security and national interests of the People's Republic of China.

The effect of the new regulations will be to increase the ability of hostile foreign powers to apply economic pressure to the People's Republic of China, as well as eliminate the local trading market in favour of large global firms and interfere with the free movement of trade and capital. These new regulations therefore violate both *one country* and *two systems* and should be rejected.

Q2) Do you agree that a balanced approach should be adopted for the current legislative exercise, complementing the need to have an effective system for tackling ML/TF risks in the VASP and the DPS sectors in accordance with the FATF Standards, while minimising regulatory burden and compliance costs on the businesses?

No. We believe that a so-called "balanced approach" violates the Basic Law and the one country, two systems policy.

A "balanced approach" violates the one country policy as it places the national security of the People's Republic of China at risk. In issues of national security and national sovereignty there can be no balance and compromise.

As far as the "two systems" policy, the Basic Law requires that the Hong Kong Special Administrative Region undertake a policy of promoting capitalism and requires a minimal regulatory approach. The rationale behind this is that any regulatory system imposes burdens, and a regulatory system that involves negotiation with existing companies will create a situation in which the regulations will prevent new entrants which are not able to participate in regulatory discussions.

Cryptocurrencies and blockchain are vital strategic technologies whose development will determine the future geopolitical balance of power. A "balanced approach" will harm research and development into these technologies.

Given that external foreign powers have attempted to use financial regulation to interfere in the foreign policy and internal affairs of the People's Republic of China, we do not feel that it is appropriate at this time to make it easier for to impose economic sanctions on the People's Republic of China. This violates the one country principle.

Given that no stakeholder within the Hong Kong Special Administrative Region has raised a need for enhanced AML/CFT regulation independent of the FATF, and that any regulation will create burdens on any new businesses, we believe this also violates the two systems principle.

Hence we believe a balanced approach should be rejected in favour of a "principled approach" that begins with the Basic Law and the one country, two systems principle. There should be no new regulations unless there is a clear and overwhelming need for new regulation, and unless there the new regulations do not infringe on the national sovereignty and and national security of the People's Republic of China,

Q3) Do you agree with the proposed scope and coverage of the regulated activity of operating a VA exchange?

As we have stated before, we believe that new legislation involving mandatory licensing will be damaging to the national security of the People's Republic of China and economic prosperity of the Hong Kong Special Administrative Region.

In the event that the Legislative Council makes an unwise decision to pass this legislation we believe that the damage should be minimised by limiting the scope of the legislation. In particular, we are especially against an "blank cheque" grants of authority which would enable regulators to decide who they should regulate.

We are particularly concerned that should Hong Kong financial regulators receive "blank cheque" authority that hostile foreign powers may pressure global financial institutions to lobby local regulators into instituting rules which are harmful to the national security interests of the People's Republic of China, and that new regulations and expansions of authority may occur without review of the implications of those regulations to national security, foreign policy, or national defense.

Rather than a "blank cheque" grant of authority, the damage done by this legislation can be limited by using the same legal framework as the Securities Futures Ordinance in which the activities that are regulated are narrowly defined, and that any expansion of regulatory authority would require the agreement of a senior official such as the Financial Secretary who can only exercise their authority after required legal process and review is conducted.

Q4) Do you agree with the proposed definition of VA? Other than closed-loop, limited purpose items, are there other digital items that should be excluded from the definition?

We believe that the term virtual asset is over broad and has the potential to result on "blank cheque" authority which runs counter to the governing principles of Hong Kong and to the capitalist system envisioned under the Basic Law.

Q5) Should peer-to-peer VA trading platforms be covered under the licensing regime?

We believe that any restrictions that limit the access of Hong Kong residents to peer-to-peer virtual asset trading platforms would violate the free movement of capital provisions under Articles 112 and Article 115 of the Basic Law. We wish to give notice that should the Legislative Council adopt or appears likely to adopt restrictions on accessing or creating peer-to-peer virtual assets trading platforms that our company will seek judicial review and file for an injunction against the implementation of such restrictions.

As a fundamental right is being infringed, any agency that intends to enforce a restriction on peer-to-peer trading would have to demonstration before a court that the "proportionality principle" is satisfied and that the restrictions on movement of capital are proportionate to the public policy objective that is being undertaken.

We note that as this is a new type of restriction, the government would not be able to rely on existing precedent or practice to justify the restriction, and must defend the public policy rationale of these restrictions "de novo". Furthermore, fact that the government has failed to state a public policy rationale for restricting p2p trading before or during the public consultation would result in judicial skepticism on any post-hoc justifications to meet the requirements of the "proportionality principle." We are therefore confident that our company would prevail in our efforts to challenge restrictions on p2p trading through the Hong Kong judiciary.

We also note that most peer-to-peer trading platforms exist outside of Hong Kong. As a local government of the People's Republic of China, the Hong Kong Special Administrative Region is without sovereign power and hence the Legislative Council does not have authority to implement or enforce "long arm" statutes that would prevent P2P activities outside of Hong Kong and restricting access to such platforms from within Hong Kong would surely violate the free movement of capital provisions under Article 112 and 115 of the Basic Law and the one country, two systems principle.

Although we are confident that any efforts to restrict access to P2P platforms by Hong Kong residents would be struck down by the Hong Kong judiciary, the time, expense, and negative publicity of such a challenge would harm the development of the cryptocurrency industry in Hong Kong, and we therefore ask that the Legislative Council carefully consider the constitutional implications of any restrictions on P2P trading and the certainty that any restrictions would fail under judicial challenge.

Q6) Do you agree that only locally incorporated companies may apply for a VASP licence?

We believe that there is no reason to restrict licensing to local corporations. The corporate form of the exchange is irrelevant to the AML/KYC considerations, and forcing local corporations to obtain licenses will destroy any small traders.

Q7) Should other criteria be added to the fit-and-proper test given the nature and risks of VASPs?

No. We are against any new licensing requirements as they will infringe on the national security of the People's Republic of China.

Q8) Should other regulatory requirements be added to mitigate the risks of VASPs?

No. We are against any new licensing requirements as they will infringe on the national security and national sovereignty of the People's Republic of China.

We do not understand the need to considering business risks or consumer protection for VASP's when the legislation under consideration is considered with AML/KYC. Even given our strong objections to mandatory licensing, we are particularly against invoking AML/KYC requirements by FATF as a means for imposing restrictions on VASP's that have nothing to do with the prevention of criminal activity.

Q9) Do you agree that a VASP licence should be open-ended or should it be periodically renewed?

No. We are against any new licensing requirements as they will infringe on the national security and national sovereignty of the People's Republic of China.

Q10) Do you agree with the exemption arrangement and the 180-day transitional period for application of a VASP license.

No. We are against any new licensing requirements as they will infringe on the national security and national sovereignty of the People's Republic of China.

Q11) Do you agree that, for investor protection purpose, persons without a VASP licence should not be allowed to actively market a VA exchange business to the public of Hong Kong?

No. We are against any new licensing requirements as they will infringe on the national security and national sovereignty of the People's Republic of China.

Q12) Do you agree that the penalty level for carrying out unlicensed VA activities should be sufficiently high to achieve the necessary deterrent effect?

No. We are against any new licensing requirements as they will infringe on the national security and national sovereignty of the People's Republic of China.

Q13) Do you agree with the proposed sanctions, including that it shall be a criminal offence for a person to make a fraudulent or reckless misrepresentation to induce someone to acquire or dispose of a VA?

No. We are against any new licensing requirements as they will infringe on the national security and national sovereignty of the People's Republic of China.

Q14) Do you agree that the Tribunal be expanded to hear appeals from licensed VASPs against future decisions of the SFC?

No. We are against any new licensing requirements as they will infringe on the national security and national sovereignty of the People's Republic of China.

Q25) Do you agree with the miscellaneous amendments proposed by the Government to address some technical issues identified in the Mutual Evaluation Report and other FATF contexts?

No. We believe that in the current geopolitical environment, FATF rules are being misused to enforce sanctions against the People's Republic of China and the Hong Kong Special Administrative Region, to limit the ability of the People's Republic of China, to prevent the People's Republic of China from conducting an independent foreign policy, and to allow foreign powers to more easily interfere in the internal domestic affairs of the People's Republic of China.

We believe that the issues identified by the FATF are not mere "technical issues" but concern extremely important aspects of national security, national sovereignty, and access to strategic technologies.

Given the current complex and difficult geopolitical situation in which FATF regulations are being used in ways that violate both the letter and the spirit of the United Nations Charter and the Mandate of the FATF, we do not believe it would be appropriate to institute any new legislative changes at the current time to comply with FATF recommendations.

We believe that before instituting new legislation it would be vital to have a frank and open discussion with other FATF members concerning misuse of anti-money laundering and counter terrorism financing regulation to harm the national security and national sovereignty of the People's Republic of China and to align the objectives of FATF recommendations to comply with letter and spirit of the United Nations Charter and the Mandate of the FATF.