

China Bans Initial Coin Offerings and Cryptocurrency Trading Platforms

[CHINA REGULATION WATCH](#)¹

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On September 4, 2017, the People’s Bank of China (中国人民银行), Cyberspace Administration of China (国家互联网信息办公室), Ministry of Industry and Information Technology (工业和信息化部) (“[MIIT](#)”), State Administration for Industry and Commerce (国家工商总局) (“[SAIC](#)”), China Banking Regulatory Commission (银监会), China Securities Regulatory Commission (证监会) and China Insurance Regulatory Commission (保监会) jointly published the Announcement to Prevent the Risk of Initial Coin Offerings (关于防范代币发行融资风险的公告) (the “[Cryptocurrency Rules](#)”). The Cryptocurrency Rules impose a ban on the practice of raising funds from the public through the issuance of new cryptocurrencies (“[Initial Coin Offerings](#)” or “[ICOs](#)”), and also essentially shuts down the main business of cryptocurrency trading platforms in China.

1. Background

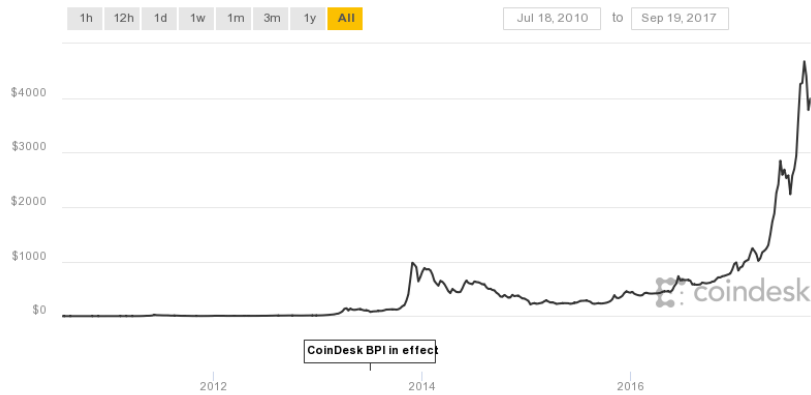
Bitcoin, the most popular cryptocurrency, was established in 2009 by an anonymous programmer known as Satoshi Nakamoto. A maximum of twenty-one million (21,000,000) Bitcoin units can be created, and such limited supply has contributed to investors bidding the price up as demand grows. In November 2016, China became the largest Bitcoin market in the world due in part to the country’s then permissive policies with respect to cryptocurrencies.²

On December 3, 2013, out of a deep concerns regarding money laundering and a threat to China’s financial stability, the People’s Bank of China and four (4) other government offices jointly issued the Notice to Prevent the Risk of Bitcoin (关于防范比特币风险的通知), in order to prohibit domestic banks from providing bank services for Bitcoin business (the “[2013 Bitcoin Notice](#)”). The price of Bitcoin plummeted after the release of the 2013 Bitcoin Notice but subsequently recovered and went on to reach a series of new price peaks.³

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² See “[Why has China Declared War on Bitcoin and Digital Currencies?](#)”, posted at The Street on September 18, 2017.

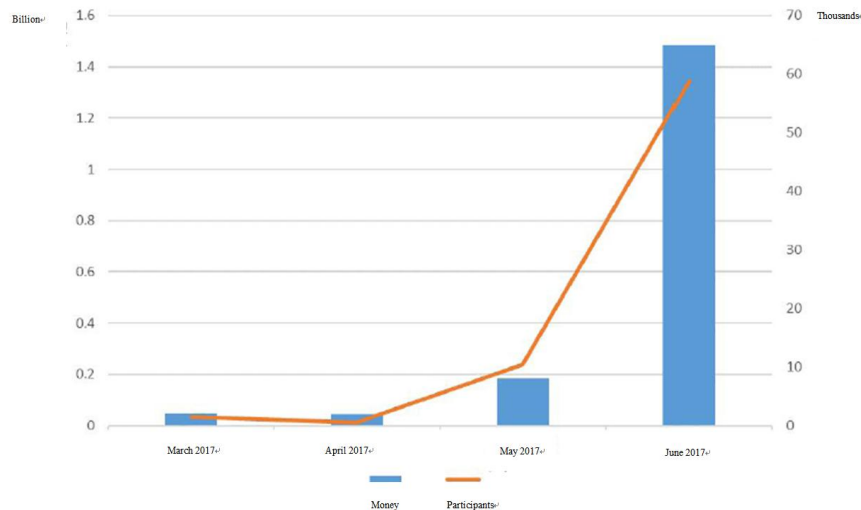
³ See “[China’s Bitcoin Trading Volume Rise Significantly despite Exchange Ban Talks](#)”, posted at Crypt-coins News on September 11, 2017.



Source: Coindesk⁴

During several closed-door meetings between the People’s Bank of China and cryptocurrency trading platforms at the beginning of 2017, the bank required the platforms to enforce anti-money laundering measures and foreign exchange regulations.⁵ Those closed-door meetings, however, did not have a substantial influence on the price of cryptocurrencies.

Since the beginning of 2017, the number of ICO platforms in China has also sharply increased. According to the China ICO Development Report for the First Half of 2017 (2017 上半年国内 ICO 发展情况报告), which was issued on July 26, 2017 by National Internet Finance Association of China (国家互联网金融安全技术专家委员会) (“NIFAC”), an association guided by MIIT, by July 18, 2017, an aggregate of RMB 2.62 billion, which is approximately equivalent to US\$400 million, was raised through sixty-five (65) ICO programs operated by forty-three (43) ICO platforms. Before 2017, only five (5) ICO programs were operated in China.



Source: National Internet Finance Association of China⁶

⁴ See “[Bitcoin \(USD\) Price](#)”, posted at Coindesk on September 19, 2017.

⁵ See “[China’s Central Bank Issues New Warning to Bitcoin Exchanges](#)”, posted at Coindesk on February 9, 2017.

⁶ See “[China ICO Development Report for the First Half of 2017 \(2017 上半年国内 ICO 发展情况报告\)](#)” (Chinese), posted at NIFAC on July 26, 2017.



Such growth of ICOs has caused concern among officials in China. Yang Dong (杨东), a professor at China's Renmin University (中国人民大学), offered the following series of explanations for the adoption of the Cryptocurrency Rules in an interview with China Central Television (中国中央电视台): (i) China's domestic cryptocurrency trading platforms are largely unregulated; (ii) cross-border payment via cryptocurrencies can be utilized to evade foreign exchange controls; (iii) the price of cryptocurrencies are easily-manipulated and can therefore potentially cause financial instability; and (iv) the anonymous nature of cryptocurrencies without strict protective measures make transactions difficult for the government to monitor.⁷

2. Bans on Raising Funds through Initial Coin Offerings

Over the past several months, numerous governments around the world have expressed concern over ICOs. The United States Securities and Exchange Commission, for example, released an investor bulletin on July 25, 2017 to warn consumers about the potential risks of ICOs.⁸ The United Kingdom Financial Conduct Authority, the Monetary Authority of Singapore and Hong Kong Securities and Futures Commission have also published similar consumer advisory reports.⁹ China, however, seems to have adopted the strongest regulatory measures with respect to ICOs – a complete ban and criminalization.

Pursuant to the Cryptocurrency Rules, ICOs are illegal fundraising activities without official authorizations, and ICO issuers, promoters and/or sponsors might be prosecuted for criminal offenses, including illegal issuance of cryptocurrency or securities, illegal fund-raising, financial fraud or pyramid selling.

The Cryptocurrency Rules also require ICO platforms and other relevant institutions to halt ICO activities in China immediately, and to return assets held in investors' accounts to such investors as soon as possible.

3. Increased Restrictions on Cryptocurrency Trading Platforms

The Cryptocurrency Rules not only ban ICOs in China, but also impose restrictions on cryptocurrency trading platforms. Pursuant to the Cryptocurrency Rules, cryptocurrency trading platforms shall not: (i) help clients convert legal tender into cryptocurrency, or vice versa; (ii) purchase or sell cryptocurrency or virtual currency; or (iii) set a price for cryptocurrency or virtual currency, or provide other related agent and commission services.

Further, MIIT will shut down the websites, and delist the mobile applications from app stores, of online cryptocurrency trading platforms, and will request that SAIC suspends the business licenses of such online trading platforms.

⁷ See "[Expert: Why Chinese Regulators Shut Down Bitcoin Exchange](#)", posted at Bitcoin.com on September 17, 2017.

⁸ See "[Investor Bulletin: Initial Coin Offerings](#)", posted at United States Securities and Exchange Commission website on July 25, 2017.

⁹ "[Consumer Warning about the Risks of Initial Coin Offering](#)", posted at Financial Conduct Authority website on September 12, 2017,

"[Consumer Advisory on Investment Schemes Involving Digital Tokens \(Including Virtual Currencies\)](#)", posted at Monetary Authority of Singapore on August 10, 2017, and "[Statement on Initial Coin Offerings](#)" posted at Hong Kong Securities and Futures Commission on September 5, 2017.



On September 15, 2017, the Beijing Internet Finance Risk Working Group (北京市互联网金融风险专项整治工作领导小组办公室) (the “Beijing Working Group”), a working group organized by the Beijing municipal government, held meetings with senior officials of cryptocurrency trading platforms in Beijing, and required each such platform to: (i) specify a deadline by which such platform will cease all cryptocurrency trading; (ii) immediately cease registering new clients; and (iii) prepare a detailed refund plan to return assets to clients. According to Caixin, a prominent news agency in China, the senior officer of the Beijing Working Group emphasized that the purpose of the meeting is to shut down all internet channels for cryptocurrency trading and exchanges, including not only the websites and internet forums, but also chat groups on Wechat and QQ, two of China’s most popular online communication platforms. Cryptocurrency trading platforms in Shenzhen and Shanghai have also received similar official notifications from competent authorities.¹⁰

Following the release of the Cryptocurrency Rules and the above-described working group meetings, China’s largest cryptocurrency platforms released announcements notifying their customers that such platforms would cease business:

- BTCChina (比特币中国), the world’s second largest Bitcoin exchange by volume as of October 2014, notified customers on September 14, 2017 that the exchange would completely shut down on September 30, 2017, and will transfer to customers the Renminbi, Bitcoin, Litecoin and Ethereum that are held in such customers’ accounts.¹¹
- Huobi (火币), one of the largest digital currency exchanges in China, notified customers on September 15, 2017 that the exchange will close its cryptocurrency business on September 30, 2017.¹²
- OKCoin, the largest Bitcoin exchange in the world with a volume of over sixteen (16) million Bitcoins traded per month as of August 2016, announced on September 15, 2017 that the exchange will cease all cryptocurrency trading on September 30, 2017.¹³
- ViaBTC (微比特), which has provided cryptocurrency trading services for nearly one hundred thousand (100,000) global users since its launch in June 2017, announced on September 15, 2017 that it will officially close the ViaBTC official website for Mainland China on September 30, 2017, and before such date will return the Renminbi or Bitcoins held in customers’ accounts to such customers.¹⁴

¹⁰ <http://finance.caixin.com/2017-09-16/101146166.html>

¹¹ See “[BTCChina Clarification on the Decision to Shut Down Its Exchanges](#)”, posted at BTCChina website on September 14, 2017.

¹² See “[Announcement about Huobi Closes CNY Trading Market](#)”, posted at Huobi on September 14, 2017.

¹³ See “[Announcement about Closing Renminbi Trading Business \(关于停止人民币交易业务的公告\)](#)” (Chinese), posted at OKCoin website on September 15, 2017.

¹⁴ See “[Announcement on Closing ViaBTC Exchange Platform](#)”, posted at ViaBTC website on September 15, 2017.



Executive management team members of some cryptocurrency platforms are also reportedly required to “report to the authorities and cooperate with the closing work at any time”, which generally means that such management team members are not permitted to leave China.¹⁵

4. Other Requirements under the Cryptocurrency Rules

The Cryptocurrency Rules also impose the following requirements for other market participants:

- Financial and Non-bank Payment Institutions. Financial institutions and non-bank payment institutions shall not: (i) directly or indirectly provide services for ICOs, including opening bank accounts or providing registration, trading, clearing or liquidation services; or (ii) provide insurance services for ICOs or cryptocurrency-related businesses. Financial institutions and non-bank payment institutions are also required to report suspected ICOs to relevant authorities in China. This rule is not technically a new rule since the People’s Bank of China implemented similar policies following the issuance of the 2013 Bitcoin Notice.
- Financial Industry Organizations. Financial industry organizations are required to supervise their members to avoid involvement with ICOs or other cryptocurrency businesses.
- Investors. Investors are also encouraged to report ICOs and other cryptocurrency businesses.

China’s new approach toward cryptocurrency sent global prices and domestic trading volumes into sharp decline. The price of Bitcoin fell below the symbolically significant level of US\$3,000 per coin on September 15, 2017 for the first time in over a month, and Bitcoin was down as much as 7.8% against the dollar at one point.¹⁶ In previous years, China’s market accounted for more than ninety percent (90%) of all Bitcoin trades. Today, China’s market now accounts for approximately ten percent (10%) of all Bitcoin trades,¹⁷ as many investors have shifted their cryptocurrency trading to exchanges in Japan, South Korea and the United States.¹⁸

¹⁵ See “[China Shuts Down Bitcoin Industry; Bans Executives from Leaving the Country](#)”, posted by Lisa Murray on Financial Review on September 18, 2017.

¹⁶ See “[Bitcoin \(USD\) Price](#)”, posted at Coindesk on September 15, 2017.

¹⁷ See “[China’s Three Largest Bitcoin Exchanges will all Stop Offering Local Trading](#)”, posted by Jon Russell on Techcrunch on September 15, 2017; and “[From Blockchains to Mooncakes: Two Chinese Crypto Founders on the ICO and Bitcoin Exchanges Ban](#)”, posted by Laura Shin on Forbes on September 19, 2017.

¹⁸ See “[China Shuts Down Bitcoin Industry; Bans Executives from Leaving the Country](#)”, posted by Lisa Murray on Financial Review on September 18, 2017.