



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 944 Series of 2017

Subject: **Guidelines for Virtual Currency (VC) Exchanges**

The Monetary Board, in its Resolution No. 121 dated 19 January 2017, approved the following rules and regulations governing operations of VC exchanges in the Philippines, which shall be incorporated as Section 4512N of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI).

Section 1. Section 4512N shall read as follows:

“Section 4512N Guidelines for Virtual Currency Exchanges; Statement of Policy.

It is the policy of the Bangko Sentral to provide an environment that encourages financial innovation while at the same time ensure that the Philippines shall not be used for money laundering (ML) or terrorist financing (TF) activities and that the financial system and financial consumers are adequately protected. Thus, the Bangko Sentral recognizes that Virtual Currency (VC) systems have the potential to revolutionize delivery of financial services, particularly for payments and remittance, in view of their ability to provide faster and more economical transfer of funds, both domestic and international, and may further support financial inclusion. These benefits, however, should be considered along with the corresponding risks in VCs considering the higher degree of anonymity involved, the velocity of transactions, volatility of prices and global accessibility. In particular, VCs pose ML and TF risks, information technology risks, and consumer protection and financial stability concerns, among others.

The Bangko Sentral does not intend to endorse any VC, such as bitcoin, as a currency since it is neither issued or guaranteed by a central bank nor backed by any commodity. Rather, the BSP aims to regulate VCs when used for delivery of financial services, particularly, for payments and remittances, which have material impact on anti-money laundering (AML) and combating the financing of terrorism (CFT), consumer protection and financial stability.

This Section shall govern the operations and reporting obligations of VC exchanges in the Philippines.

Subsec. 4512N.1 Scope.

These guidelines shall cover VC exchanges in the Philippines offering services or engaging in activities that provide facility for the conversion or exchange of fiat currency to VC or vice versa. The Bangko Sentral recognizes that once fiat currency is exchanged or converted into VC, it becomes easily transferrable, facilitating expedient movement or transfer of funds and payment services, among others. In this manner, they are considered similar to remittance and transfer companies, as provided for under Section 3 in relation to Section 11 of Republic Act No. 9160 or the Anti-Money Laundering Act of 2001, as amended, and its Revised Implementing Rules and Regulations (RIRR), as well as implementing regulations issued by the Bangko Sentral.

Subsec. 4512N.2 Definition of terms.

The terms as used in this Section shall be defined, as follows:

- a. *VC* refers to any type of digital unit that is used as a medium of exchange or a form of digitally stored value created by agreement within the community of VC users. VCs are not issued nor guaranteed by any jurisdiction and do not have legal tender status. VCs shall be broadly construed to include digital units of exchange that (1) have a centralized repository or administrator; (2) are decentralized and have no centralized repository or administrator; or (3) may be created or obtained by computing or manufacturing effort. It shall not be construed to include e-money as defined under Sec. X780 of the Manual of Regulations for Banks, digital units used solely within online gaming platforms and are not convertible to fiat currency or real-world goods or services, digital units with stored value redeemable exclusively in goods or services and limited to transactions involving a defined merchant such as rewards programs;
- b. *VC exchange service* refers to the conversion or exchange of fiat currency or other value into VC, or the conversion or exchange of VC into fiat currency or other value;
- c. *Fiat currency* refers to government-issued currency that is designated as legal tender in its country of issuance through government decree, regulation, or law;
- d. *Remittance and Transfer Company (RTC)* refers to any entity that provides money or value transfer service;
- e. *Money or value transfer service (MVTS)* refers to financial services that involve the acceptance of cash, cheques, other monetary instrument or other stores of value and the payment of a corresponding sum in cash or other form to a beneficiary by means of a communication, message, transfer or through a clearing network; and
- f. *VC exchange* refers to any entity that offers services or engages in activities that provide facility for the conversion or exchange of fiat currency to VC or vice versa.

It is understood that duly registered VC exchanges may perform other MVTS, but other RTCs may not engage in VC exchange services unless registered as an RTC operating as a VC exchange.

Subsec. 4512N.3 *Requirements for the issuance of a Certificate of Registration.*

A VC exchange shall obtain Certificate of Registration (COR) to operate as a remittance and transfer company, pursuant to and upon compliance with the requirements of Subsec. 4511N.2.

A VC exchange shall adhere to the registration procedures under *Appendix N-8-a* and submit the Application for Registration and Notarized Deeds of Undertaking (*Appendices N-8-b-1* and *N-8-b-2*) to the Bangko Sentral through the appropriate department of the Supervision and Examination Sector (SES).

The provisions of Subsec. 4511N.2 on issuance of Bangko Sentral COR, accreditation of remittance sub-agents, registration with the Anti-Money Laundering Council Secretariat and mandatory training shall also apply to VC exchanges.

Subsec. 4512N.4 *Registration and annual service fees.*

A VC exchange shall pay the registration and annual service fees as provided under Subsec. 4511N.8.

Subsec. 4512N.5 *Transactional requirements for VC exchanges.*

Large value pay-outs of more than P500,000 or its foreign currency equivalent, in any single transaction with customers or counterparties, shall only be made via check payment or direct credit to deposit accounts.

Subsec. 4512N.6 *Technology risk management.*

Depending on the complexity of VC operations and business models adopted, a VC exchange shall put in place adequate risk management and security control mechanisms to address, manage and mitigate technology risks associated with VCs. For VC exchanges providing wallet services for holding, storing and transferring VCs, an effective cybersecurity program encompassing storage and transaction security requirements as well as sound key management practices must be established to ensure the integrity and security of VC transactions and wallets. For those with simple VC operations, installation of up-to-date anti-malware solutions, conduct of periodic back-ups and constant awareness of the emerging risks and other cyber-attacks involving VCs may suffice.

Subsec. 4512N.7 *Internal control.* All VC exchanges shall maintain an internal control system commensurate to the nature, size and complexity of their respective businesses.

All VC exchanges shall adhere to the guidelines issued by the Bangko Sentral on the minimum control standards that VC exchanges are expected to observe on their operations.

Subsec. 4512N.8 Notification and reporting requirements.

- a. Required reports. A VC exchange is required to comply with the notification and reporting requirements under Subsecs. 4511N.3 to 4511N.5.

In addition, a VC exchange shall maintain records and submit the following reports to the appropriate department of the SES:

| Nature of Report | Frequency | Due Date |
|---|-----------|--|
| 1. Audited financial statements (audited by any of the Bangko Sentral-selected external auditors) | Annually | Not later than 30 June following the reference calendar year |
| 2. Quarterly Report on Total Volume and Value of VCs transacted* | Quarterly | Ten (10) business days from end of reference quarter |
| 3. List of operating offices and websites* | Quarterly | Ten (10) business days from end of reference quarter |

**Duly certified by the Proprietor/Managing Partner/ President or any officer of equivalent rank*

A VC exchange shall adhere to the guidelines issued by the Bangko Sentral on the maintenance of records and the manner of submission of required reports in such forms as may be determined and required by the SES, Bangko Sentral.

- b. Delayed/Erroneous/Unsubmitted Report. Violation of the foregoing reporting requirements, consisting of erroneous, delayed or unsubmitted reports, shall subject the VC exchange concerned to the appropriate penalties after observance of due process.

Submission of a report that, upon validation by the Bangko Sentral, is found to be non-compliant with the reporting requirements prescribed herein or in subsequent guidelines may be considered as willful failure or refusal to comply with a regulation and the report shall be classified as *“Erroneous”*. On the other hand, submission of a report that was able to comply with the reporting requirements or guidelines after the submission deadline, and within thirty (30) business days therefrom, may be considered as willful delay and the report shall be classified as *“Delayed”*. Finally, non-submission of a report or submission of a report, that is found to be non-compliant with the reporting requirements or guidelines, by the time the next report becomes due or upon the lapse of thirty (30) business days from the submission deadline, whichever comes first, may be considered as willful failure or refusal to comply with a regulation and the report shall be classified as *“Unsubmitted”*.

Subsecs. 4512N.9 - 4512N.14 (Reserved)

Subsec. 4512N.15 Sanctions. Appropriate monetary penalties, sanctions and other enforcement action/s shall be imposed for the following violation/s:

| Nature of Violation/Exception | Possible Sanctions/Penalties |
|--|--|
| a. Operating without prior Bangko Sentral registration | <ul style="list-style-type: none"> • Applicable penalty prescribed under Section 36 of R.A. No. 7653 (New Central Bank Act) • Disqualification from registration |
| b. Violation of any of the provisions of R.A. No. 9160 (Anti-Money Laundering Act of 2001), as amended, and its RIRR | <ul style="list-style-type: none"> • Written reprimand • Disqualification from holding any position in any Bangko Sentral-supervised or regulated institution • Applicable penalty prescribed under the AMLA, as amended • Cancellation of registration |
| c. Erroneous/delayed/unsubmitted report | <ul style="list-style-type: none"> • Monetary penalty of P60 for each occurrence (in case of Erroneous report) or for each day (in case of Delayed or Unsubmitted reports) which will accumulate until such time the report has been determined compliant with the reporting requirements prescribed herein or in subsequent guidelines; and/or • Cancellation of registration |
| d. Violation of any provisions/requirements of this Section | <ul style="list-style-type: none"> • Penalties and sanctions under applicable laws, rules, and regulations • Cancellation of registration |

For a report initially considered *Erroneous* but subsequently determined to be compliant with the reporting requirements or guidelines within the prescribed deadline, the penalty shall be derived by multiplying the penalty of P60 with the number of times the subject report was submitted before being considered compliant.

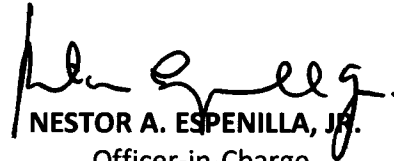
For *Delayed* reports, the penalty of P60 shall be multiplied by the number of calendar days delayed. If the report is initially considered *Erroneous* but was able to comply with the reporting requirements or guidelines but after the prescribed deadline (i.e., *Delayed*), the penalty shall be the sum of the penalty for being *Erroneous* before deadline and the penalty for being *Delayed* as previously described.

For *Unsubmitted* reports, computation of the penalty shall be based on three times (3x) the number of days applied for determining a report to be unsubmitted (i.e., Thirty (30) days). “

Section 2. Appendix N-1 shall be amended to include the required reports for VC exchanges as provided under Subsection 4512N.8.

Section 3. Effectivity Clause. This Circular shall take effect fifteen (15) calendar days following its publication in the Official Gazette or any newspaper of general circulation.

FOR THE MONETARY BOARD:



NESTOR A. ESPENILLA, JR.
Officer-in-Charge

06 February 2017