

Summary of Report from Study Group on Virtual Currency Exchange Services

Thefts of customers' virtual currencies have occurred

Virtual currencies are highly fluctuating in price, and being traded based on speculation

Service providers have failed to develop appropriate internal management capabilities in response to rapid business expansion

New types of transactions involving virtual currencies (trading on margin and ICOs) have emerged

As a precondition of the proper principle of self-responsibility

Issues with Virtual Currency Exchange Service Providers

- ◆ **Addressing risks of leakage of virtual currency**
 - Where private keys for customers' deposited virtual currency are managed online, require service providers to maintain net assets and funds for reimbursement at the same or greater amount. The funds must consist of the same kinds as the deposited virtual currency
 - Develop framework to entitle customers to the statutory lien that secures their claim to deposited virtual currency
 - Require service providers to disclose financial statements
- ◆ **Ensuring proper business operations**
 - Require service providers to disclose information regarding trading price
 - Prohibit service providers from advertisements/solicitations that encourage speculative trading
 - Cooperate with self-regulatory organization's rules (Refuse/cancel registration of non SRO members that have not established internal rules equivalent to the SRO's rules)
- ◆ **Restricting problematic virtual currencies**
 - Prohibit service providers from dealing in virtual currencies that could impede user protection or proper and reliable business operations
 - Require service providers to notify each change of a line of virtual currencies dealt in by them in advance

Virtual Currency CFDs, etc.

- ◆ **Measures based on attributes of CFDs**
 - Impose a registration requirement on service providers dealing in virtual currency CFDs as foreign-exchange margin trading (Forex trading), and apply conduct regulations such as the prohibition of unrequested solicitation
 - Set the appropriate maximum leverage limits based on actual virtual currency price fluctuations
- ◆ **Additional measures in light of characteristics of virtual currencies**
 - Require service providers to explain risks specific to virtual currencies
 - Set minimum margin amounts
- ◆ **Addressing virtual currency margin trading**
 - Apply regulations equivalent to ones on virtual currency CFDs, given that the functions/risks are similar to that of virtual currency CFDs

ICOs (Initial Coin Offerings)

Establish regulatory framework in light of numerous issues and future potential

- ◆ **Addressing investment-type ICOs**
 - Clarify that soliciting investments in exchange for virtual currency is subject to financial regulations
 - Develop the following frameworks in light of high transferability of ICO tokens and risks to investors
 - When soliciting 50 or more investors, require the issuer to provide offering disclosure and continuous disclosure
 - Regulate brokers/dealers of investment-type ICOs on the same level as securities companies, and require that they examine the business and financial conditions of the issuer
 - Apply current unfair trading regulations*

* Insider trading regulations are pending, and will be considered in light of cases accumulated in the future

 - Restrict solicitation to retail investors in the same manner as the restriction on unlisted shares
- ◆ **Addressing other types of ICOs**
 - Require virtual currency exchange service providers that deal in other types of ICO tokens to provide information including the feasibility of the project

◆ Addressing unfair acts in virtual currency spot trading

- Prohibit any person/entity from wrongful acts, spreading rumors and price manipulation
- Require virtual currency exchange service providers to screen transactions and prohibit transactions for the purpose of the benefit based on undisclosed information

◆ Addressing custodial services for virtual currencies

- Regulate as a part of virtual currency exchange services, and apply the regulations on the custody of customers' virtual currency that currently apply to virtual currency exchange service providers

◆ Transitional measures associated with the introduction of new registration requirements

- If transitional measures are established when introducing registration requirements on the virtual currency derivative trading and custodial services, prohibit providers (for whom registration examination is still on-going) from expanding business during the transition period before registration.

◆ Change the defined term of "virtual currency" to "crypto-asset"

- In light of international trends, change the name of the defined legal term from "virtual currency" to "crypto-asset"