



# BANGKO SENTRAL NG PILIPINAS

## OFFICE OF THE GOVERNOR

### CIRCULAR NO. 1108 Series of 2021

#### **Subject: Guidelines for Virtual Asset Service Providers (VASP)**

The Monetary Board, in its Resolution No. 78 dated 21 January 2021, approved the following rules and regulations governing the operations of VASPs in the Philippines, which shall amend in its entirety Section 902-N of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI).

**Section 1.** Section 902-N on Virtual Currency Exchanges shall be replaced by Virtual Asset Service Providers (VASP), and is amended in its entirety to read, as follows:

#### **902-N VIRTUAL ASSET SERVICE PROVIDERS (VASP)**

**Policy Statement.** It is the policy of the Bangko Sentral to provide an environment that encourages financial innovation while safeguarding the integrity and stability of the financial system. The Bangko Sentral recognizes that virtual asset (VA) systems have the potential to revolutionize the delivery of financial services by providing faster and more economical means to transfer funds, both domestic and international, and may further support financial inclusion. These benefits, however, should be considered along with the attendant risks in VAs considering the higher degree of anonymity involved, the velocity of transactions, volatility of prices, and global accessibility. It is for these reasons that the Bangko Sentral shall ensure that the VA systems shall not be misused and that the Philippines shall not be used for money laundering (ML), terrorist financing (TF) and proliferation financing (PF) activities. In addition, VA transactions also pose other risks, such as information technology (IT) risks, consumer protection, and financial stability concerns, among others.

Furthermore, the Bangko Sentral recognizes that once fiat currency is exchanged or converted into VA, it becomes easily transferrable, facilitating expedient movement or transfer of funds and payment services, among others. In this manner, VASPs are considered as money service businesses that are subject to the regulatory authority and examination powers of the Bangko Sentral under R.A. No. 7653, as amended by R.A. No. 11211.

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

**Scope.** These guidelines shall cover VASPs, as defined in this Section, that offer their services or engage in VASP activities in the Philippines. These guidelines do not cover businesses involved in the participation and provision of financial services related to an issuer's offer and/or sale of a VA, which fall within the jurisdiction of Securities and Exchange Commission, and entities solely acting on their own behalf (i.e., not engaged in the business of actively facilitating VA-related activities for the account of others).

The guidelines outlined in this Section are based on leading standards such as the Financial Action Task Force Recommendations on anti-money laundering and counter-terrorist financing standards, as well as other recognized risk management principles, and shall serve as Bangko Sentral's baseline requirement for all VASPs.

**Definition of Terms.** The terms as used in this Section, shall be defined, as follows:

- a. *Virtual asset* refers to any type of digital unit that can be digitally traded, or transferred, and can be used for payment or investment purposes. It can be defined as a "property", "proceeds", "funds", "funds or other assets", and other "corresponding value". It is used as a medium of exchange or a form of digitally stored value created by agreement within the community of VA users. VAs shall be broadly construed to include digital units of exchange that (i) have a centralized repository or administrator; (ii) are decentralized and have no centralized repository or administrator; or (iii) may be created or obtained by computing or manufacturing effort. VAs are not issued nor guaranteed by any jurisdiction and do not have legal tender status.

For purposes of these guidelines, digital units of exchange that is used for (i) the payment of goods and services solely provided by its issuer or a limited set of merchants specified by its issuer (e.g., gift checks); or (ii) the payment of virtual goods and services within an online game (e.g., gaming tokens) shall not be considered as VAs. Also, virtual currencies as previously defined in Bangko Sentral Circular No. 944 (Guidelines for Virtual Currency Exchanges) shall now be referred to as VAs.

- b. *Virtual Asset Service Provider (VASP)* refers to any entity that offers services or engages in activities



that provide facility for the transfer or exchange of VA, which involve the conduct of one or more of the following activities:

- (1) exchange between VAs and fiat currencies;
- (2) exchange between one or more forms of VAs;
- (3) transfer of VAs; and
- (4) safekeeping and/or administration of VAs or instruments enabling control over VAs.

Virtual Currency Exchanges as previously defined in Bangko Sentral Circular No. 944 (Guidelines for Virtual Currency Exchanges) shall now be referred to as VASPs.

- c. *VA Custodian* refers to a VASP performing the act of Item b(4) above.
- d. *Fiat currency* refers to government-issued currency that is designated as legal tender in its country of issuance through government decree, regulation, or law.
- e. *Money Service Business (MSB)* refers to financial services that involve the acceptance of cash, checks, other monetary instruments 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 to which the service provider belongs.

**Requirements for issuance of Certificate of Authority (COA).** A VASP shall secure a COA to operate as an MSB, pursuant to and upon compliance with the requirements under Section 901-N. In the course of COA application, the Bangko Sentral shall take into account and extend its evaluation over the fitness and propriety of the VASP's beneficial owners.

A VASP shall also adhere to the registration procedures under *Appendix N-7* and submit the Application for Registration and Notarized Deeds of Undertaking (*Appendices N-8 and N-9*) to the Bangko Sentral through the appropriate supervising department of the Bangko Sentral.

The VASP shall comply with pertinent Bangko Sentral rules and regulations on Outsourcing (*Section 102-N*), Liquidity Risk Management (*Section 124-N*), Operational Risk Management (*Section 125-N*), IT Risk Management including the area of IT Outsourcing/Vendor Management Program (*Section 126-N*), Business Continuity Management

(Section 127-N), Internal Control (Section 131-N), Anti-Money Laundering (Sections 601-N and 602-N), Financial Consumer Protection (Sections 701-N, 702-N and 703-N), and sound corporate governance principles, among others.

**Capitalization.** VASPs shall have a minimum paid-in capital as follows:

<b>Category</b>	<b>Minimum Required Capital</b>
VASP with safekeeping and/or administration services for VAs (i.e., VA Custodian) as defined in this Circular	P50.0 million
VASP without safekeeping and/or administration services for VAs	P10.0 million

**Registration and Annual Service Fees.** A VASP shall pay the registration and annual service fees as provided under Section 901-N.

**Wallet Security.** VASPs providing wallet services for holding and storing VAs must establish an adequate cybersecurity framework and adopt appropriate security measures/controls in their VA platform to ensure confidentiality, integrity and availability of data/information uploaded, stored, processed and transmitted into and out of the system and protect the infrastructure from malware, cyber-attacks and other evolving and emerging threats. Likewise, the framework shall cover provisions on the protection of fiat currency, if any, and VA wallets against cyberthreats and other technology risks.

**Technology Outsourcing.** VASPs shall adopt a sound risk management system to mitigate risks arising from outsourcing (i.e., confidentiality of information, data privacy, data management, contract management, security, performance monitoring and business continuity, among others). The VASP shall be responsible for the performance of the service in the same manner and to the same extent as if it were directly performing the said activity.

**Internal Control.** All VASPs shall maintain an internal control system commensurate to the nature, size and complexity of their respective businesses. Critical control functions such as risk management, audit, compliance, anti-money laundering, information security and other essential roles must be performed by competent officers. The suitability of the board of directors and management must also be assessed in adherence to sound

corporate governance procedures (e.g., fitness and propriety tests).

**Financial Consumer Protection.** VASPs shall adopt customer awareness measures to educate their customers which includes, among others: (i) safeguarding of VA and/or fiat currency wallets as well as protection of client information such as log-in credentials; (ii) use of the mobile platform and wallets; (iii) actual fees and charges related to the use of the mobile platform and withdrawal transactions; and (iv) problem resolution procedures.

VASPs shall clearly communicate and explain to their customers the terms and conditions prescribing the manner on how the losses and liabilities from security breaches, system failure, or human error will be settled between the VASP and its customers.

VASPs shall disclose, prior to entering into an initial transaction and on an ongoing basis, all material risks to their clients in a manner that is clear, fair and not misleading. Disclosure shall provide information regarding the risks associated with the acquisition, possession, and trading of VAs. VASPs shall also disclose whether they are holding VAs in custody and the attendant risks or whether the customers have full control and responsibility of protecting and safeguarding their VAs. Lastly, VASPs shall adopt a mechanism in handling customer complaints and ensure that effective controls are in place for timely resolution thereof.

**Customer due diligence.** VASPs shall conduct customer due diligence when (1) it establishes business relations with any customer; (2) undertakes any occasional but relevant business transaction for any customer who has not otherwise established business relation with the VASP; (3) where there is suspicion of money laundering or terrorist financing; or (4) where there is doubt about the veracity or adequacy of previously obtained customer identification data.

Relevant business transaction shall mean any single transaction amounting to P5,000 or more, or two or more transactions believed to be linked and with an aggregate value of P5,000 or more. For this purpose, the VASP should have appropriate system to identify and determine occasional customer or transaction.

**Additional Requirements.** A VASP shall only engage with other VASPs, financial institutions, and/or remittance and transfer companies that are duly authorized and licensed by the appropriate regulatory authorities. VASPs shall establish a robust due diligence

and accreditation process in selecting the VAs that will be listed or traded in their platform. In addition, VASPs shall adopt a fraud risk management system which sophistication and effectiveness are commensurate to the risks associated with particular VA types or specific VA activities. VASPs shall also comply with the requirements, rules and regulations of the Bangko Sentral regarding the application for registration and activities requiring prior Bangko Sentral approval or notification.

Clearing and settlement of transactions of VASP, as well as other activities inherent to their business models, shall only be undertaken with regulated VASPs and platforms to ensure that all VASP activities are executed within an unbroken chain of regulated entities.

A VASP that creates and maintains fiat wallets to facilitate the conversion or exchange of fiat currency to VA or vice versa shall maintain sufficient unencumbered liquid assets to ensure that VA redemptions are adequately met at all times. The VASP shall have in place control mechanisms to ensure prompt recording of receipt of fiat money.

VA Custodians wholly responsible for custody of customers' VAs, either through proprietary or outsource arrangements, shall adopt measures to ensure adequate reserves for the VAs held in custody. Said VA Custodians shall adopt effective mechanism to properly record and segregate customers' VAs from their proprietary VAs.

In cases when the conduct of in-depth studies and further data collection pursuant to the Bangko Sentral's mandates be warranted, VASPs shall comply with additional requests to submit specific data and information thereon through surveys, questionnaires or other means.

VASPs shall also comply with applicable rules that may be issued by other regulatory authorities.

**Transactional Requirements for VASPs.** VASPs and other BSFIs that engage in or facilitate VA transfers shall consider all VA transfer transactions as cross-border wire transfers and shall comply with pertinent rules on wire transfers as stated in Part Six (AML Regulations) of this Manual.

For VA transfers amounting to P50,000.00 or more, or its equivalent in foreign currency, the originating institution in a VA transfer must obtain and hold the required and accurate originator information as well as the required beneficiary information, and transmit said information to the beneficiary institution. Beneficiary

institutions must obtain and hold required originator information as well as required and accurate beneficiary information. All the information gathered shall be made available on request to competent authorities.

The required information for VA transfers, including transactions associated with a VA transfer, includes the following:

- a. originator's name (*i.e.*, the sending customer);
- b. originator's account number used to process the transaction (*e.g.*, the VA wallet);
- c. originator's physical (geographical) address, or national identity number, or customer identification number (*i.e.*, not a transaction number) that uniquely identifies the originator to the ordering institution, or date and place of birth;
- d. beneficiary's name; and
- e. beneficiary account number where such an account is used to process the transaction (*e.g.*, the VA wallet).

The required information must be transmitted immediately and in a secure manner. VASPs shall uphold the confidentiality, integrity and availability of the required information to facilitate recordkeeping and use of such information by receiving VASPs or other covered entities, as well as to prevent unauthorized disclosure. Entities should also submit the required information simultaneously or concurrently with the transfer itself.

For large value pay-outs of more than P500,000 or its equivalent in foreign currency, in any single transaction with customers or counterparties, enhanced due diligence shall be conducted and said pay-outs shall only be made via check payment or direct credit to deposit accounts or account to account transfer using electronic fund transfer facilities.

**Notification and Reporting Requirements.** A VASP shall comply with the notification and reporting requirements as prescribed under Section 901-N.

In addition, a VASP shall maintain records and submit the following reports to the appropriate supervising department of the Bangko Sentral:

Nature of Report	Frequency	Due Date
1. AFS (audited by an external auditor included in the List	Annually	Not later than 120 calendar days after the close of the reference calendar or

of Selected External Auditors for BSFIs)		fiscal year subject to the provisions under Section 901-N (Reports)
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 VASP shall ensure that transaction and due diligence records are maintained for a period of at least five (5) years and adhere to other guidelines issued by the Bangko Sentral on the maintenance of records.

**Sanctions.** Appropriate monetary penalties, sanctions and other enforcement action/s specified under Section 901-N shall be imposed on the VASP, their directors and/or officers for the noted violations.

**Section 2.** Appendices in the MORNBFIs that made reference to "Virtual Currency Exchanges" are revised as follows:

Appendix	Existing Phrase	New Phrase
N-Regulations – List of Appendices	N-8 Deed of Undertaking on Compliance with the Requirements on Money Service Business Operations and Virtual Currency Exchanges	N-8 Deed of Undertaking on Compliance with the Requirements on Money Service Business Operations and <del>Virtual Currency Exchanges</del> Virtual Asset Service Providers
Appendix N-7 (REGISTRATION PROCEDURES FOR RTC/MC/FXD)	(Appendix to Sec. 901-N on Money Service Business Operations and Sec. 902-N on Virtual Currency Exchanges)	(Appendix to Sec. 901-N on Money Service Business Operations and Sec. 902-N on <del>Virtual Currency Exchanges</del> Virtual Asset Service Providers)
Appendix N-8 (DEED OF UNDERTAKING)		
Appendix N-9 (DEED OF UNDERTAKING)		

**Section 3. Transitory provisions.** Bangko Sentral-registered Virtual Currency Exchanges, as well as VASPs currently operating without Bangko Sentral approval, shall apply for a Certificate of Authority not later than three (3) months from effectivity of this Circular. Upon submission of the application, said entities may continue to operate their business unless instructed otherwise.



All VASPs must also comply with the applicable requirements prescribed herein within six (6) months from effectivity of this Circular. Failure to comply with these requirements shall subject the entity to the appropriate enforcement action provided under Section 001-N.

**Section 4. 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



**BENJAMIN E. DIOKNO**  
Governor

26 January 2021