Journal of Economic Criminology 8 (2025) 100150

Contents lists available at ScienceDirect

Journal of Economic Criminology

journal homepage: www.journals.elsevier.com/journal-of-economic-criminology

A tale of two jurisdictions: Contrasting cryptocurrency regulations in Hong Kong and the United Kingdom

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ARTICLE INFO

Keywords:
Hong Kong
United Kingdom
Comparison
Cryptocurrency
Regulation

ABSTRACT

This article examines the regulatory approaches of Hong Kong and the United Kingdom (UK) towards cryptocurrencies, highlighting their distinct regulatory philosophies and frameworks. Hong Kong has adopted a comprehensive and proactive regulatory approach, creating a dual-licensing regime for virtual asset trading platforms covering security and non-security tokens and tailoring the existing licensing framework under the Securities and Futures Ordinance to risks in managing and distributing portfolios that invest in virtual assets. This measured approach prioritises investor protection, market integrity, and financial crime prevention while fostering an innovation-friendly environment. Conversely, the UK has taken a conservative stance, integrating cryptocurrency regulation into existing financial systems and prioritising stability, consumer protection, and control over speculative risks. The UK's framework emphasises Anti-Money Laundering and Counter-Terrorism Financing compliance, registration for crypto-related activities, and restrictions on high-risk products for retail investors. Through comparative analysis, this article illustrates how both jurisdictions balance regulatory oversight with financial innovation and how their regulatory strategies reflect their economic and financial priorities. The findings suggest that Hong Kong's flexible, forward-looking approach, characterised by dedicated licensing, proactive regulation, and tailored investor protection, positions it as an agile player in the evolving crypto landscape. In contrast, the UK's framework leans heavily on stability and consumer safeguards. Ultimately, Hong Kong emerges as a rising Asian crypto hub, embracing growth and innovation, while the UK focuses on reinforcing its regulatory defences. This comparison sheds light on how regional priorities shape cryptocurrency regulation, offering insights into the broader global regulatory landscape.

1. Introduction

The cryptocurrency landscape has expanded rapidly in recent years, reshaping financial systems and regulatory priorities worldwide (Jackon, 2024, 40, 40). Among the most ambitious entrants into this evolving field, Hong Kong has positioned itself as a significant hub for digital assets in Asia (Xiyuan Li, 2024), strategically manoeuvring within the regional and international spheres to attract crypto investment. While the city boasts a regulatory framework that sets it apart from other global financial centres (Zhu, 2024), Hong Kong's approach is particularly intriguing when juxtaposed with the United Kingdom's regulatory stance, which has long been shaped by the country's robust financial laws and a conservative yet adaptive approach to financial innovation and financial security. Since the inception of cryptocurrency, financial hubs like New York, London, and Tokyo have played leading roles in fostering its growth (Huggins and Thompson, 2024). However, Hong Kong's recent regulatory milestones signal a serious bid to capitalise on its strategic location and economic environment to create a haven for crypto innovation. Meanwhile, the UK, which has historically embraced financial services and innovation, now faces challenges balancing its crypto ambitions with strong regulatory standards (Arnone, 2024a). This article delves into each jurisdiction's complex, nuanced relationship with cryptocurrency, considering how legal principles, market regulation, and specific policies shape their respective crypto landscapes.

This article analyses and compares Hong Kong's and the UK's approaches to cryptocurrency regulation, highlighting each jurisdiction's strengths and limitations in fostering a crypto-friendly environment. The article will examine how Hong Kong's constitutional and market principles underpin its recent crypto advancements, followed by the

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https://doi.org/10.1016/j.jeconc.2025.100150
Received 27 November 2024; Received in revised form 8 March 2025; Accepted 9 March 2025

applicable regulatory framework and licensing regimes. Similarly, the UK's regulatory strategy will be dissected to understand how its legal heritage, regulatory bodies, and policy frameworks have positioned it within the global crypto ecosystem. To answer this aim, the article will first delve into cryptocurrency, discussing its history, facets and components and how it is used today. This will then feed into a brief overview of the race to regulate, providing an overview of how different countries have attempted to regulate this unruly horse, focusing specifically in this short overview on the United States of America and Japan as both New York and Tokyo are also considered financial hubs that have fostered the growth of cryptocurrency. This article will also briefly discuss the prohibition-based standpoint held by China due to its added significance when considering the discussion on Hong Kong's regulatory approach towards cryptocurrency.

Following this, the article will begin its analysis of the United Kingdom's approach to cryptocurrency regulation by first providing an overview of the UK's Financial Market Regulation, discussing the three agencies with defined but interconnected roles that enable comprehensive oversight of the market, known as the Financial Conduct Authority, Her Majesty's Treasury, and the Bank of England. Following this, the section will discuss Key Regulations that address cryptocurrencies such as (The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (SI 2017/692) , the Crypto-asset Registration Scheme, 2023 (SI 2023/1114), the Financial Services and Markets Act, (2000) (c 8), and finally, the Economic Crime and Corporate Transparency Act, (2023) (c 29). To complement this, the Hong Kong section will first provide some historical and regulatory context of cryptocurrency regulation in the city. It then maps out the key regulators, namely the Hong Kong Securities and Futures Commission and the Hong Kong Monetary Authority, before delving into the definitions, classifications, and key regulatory frameworks that apply to cryptocurrencies in Hong Kong.

These discussions will then be used to provide a comparative understanding of how Hong Kong and the UK are shaping their crypto landscapes; this article will adopt a comparative analysis method that examines both jurisdictions across similar regulatory dimensions by aligning each country's approach to critical aspects, such as legal foundations, market regulations, the adoption and integration of crypto assets, historical regulatory developments, and licensing requirements. In undertaking this analysis, this article will highlight the unique regulatory models of Hong Kong and the UK and where their approaches diverge or converge, offering insights into the broader implications for global crypto regulation. This comparison will ultimately provide a clearer view of how different financial hubs navigate the fine line between promoting innovation and enforcing financial stability, offering key takeaways for stakeholders, policymakers, and market participants engaged in the evolving world of digital assets.

2. A Brief history and the regulatory stances to cryptocurrency

Cryptocurrency's journey commenced in 2009 with the introduction of Bitcoin (Geva, 2019), a decentralised digital currency created by an individual or group operating under the pseudonym Satoshi Nakamoto (Nakamoto, 2008). Bitcoin embodied a vision of transformation for the global financial landscape. It is seen as the world's first decentralised digital currency, with 'decentralised' referring to the lack of central administration, oversight, and authority, a core component in fiat currencies (Burgess, 2024). This reignition of the old concept of 'private money' (August von Hayek, 2008) with its first successful cryptocurrency created widespread interest among those who valued anonymity, privacy and control over their assets. This interest continued to grow and evolve as the value of Bitcoin increased, with numerous alternatives to Bitcoin and cryptocurrencies being introduced, such as "altcoins" (Arnone, 2024b), which encompass all cryptocurrencies other than Bitcoin and aimed to improve upon Bitcoin by addressing limitations or catering to specific use cases. One such example of an altcoin would be privacy coins that aimed to address the pseudo-anonymity of Bitcoin, such as Monero, introduced in April 2014 (Li, 2022), which provided enhanced privacy through features like stealth addresses and ring signatures (Chaum and Van Heyst, 1991, 257 - 265), making transactions more challenging to trace on the blockchain, with a focus on privacy that aimed to attract users seeking a higher level of anonymity than Bitcoin could offer (Rivest et al., 2001). Another privacy coin, Zcash, was introduced in October 2016 with built-in cryptographic privacy features, particularly its use of zero-knowledge proofs "zk-SNARKs" (Feige et al., 1987), which allows users to shield transaction details and allows for additional privacy or transparency.

Another example would be the introduction of Stablecoins, which addressed a significant concern of cryptocurrencies, which is their price volatility (Dyhrberg, 2016; Katsiampa, 2017), stablecoins maintain a stable value because they are often pegged to fiat currency, which makes them far less volatile than other altcoins and Bitcoin (Fiedler and Ante, 2023). One such example would be Tether, which initially brought Stablecoins into the spotlight as a result of the Tether Limited Inc. controversy (Burke, 2023, 107)(Burgess, 2024, 3), and another example is the Terra Ecosystem. The Tether Limited Inc. controversy was based on ongoing scrutiny in relation to the transparency and adequacy of Tether's reserves (Faux, 2021), with the controversy peaking when it was revealed that not all of the tokens were fully backed by fiat currency as they claimed (Burke, 2023), raising concerns about liquidity risks. However, despite facing significant controversy and regulatory scrutiny over the years, Tether has managed to maintain its position as one of the leading Stablecoins in the cryptocurrency market by improving its transparency efforts, reducing its Commercial Paper (Short-term corporate debt), and developing contingency plans to ensure it can manage large-scale redemptions or "bank runs" in times of market stress (Fenandez et al., 2024). Alternatively, the Terra Network created its Stablecoin by deploying two tokens, LUNA and Terra USD (UST), with the maintenance stemming from incentivising arbitrage (Stevens and Kelly, 2022). However, the viability of these tokens was co-dependent on an algorithmic circular relationship. When one section was exploited and abused, the Terra Stablecoin crashed (Burgess, 2024, 2).

Alongside the emergence of altcoins, the introduction of Initial Coin Offerings (ICOs) also followed (Ante et al., 2018), ICOs are becoming a popular fundraising mechanism for new projects. They allow startups to raise capital by issuing tokens to investors in exchange for established cryptocurrencies like Bitcoin. One such example is Ethereum, which took place from July 22nd to September 2nd, 2014. It introduced the concept of a programmable blockchain, allowing for the creation of smart contracts in the crypto world (Burgess, Forthcoming). Smart contracts are self-executing contracts with terms directly written into code, enabling developers to create decentralised applications (dApps) on its platform Ante et al., 2018, 80). The innovation behind Ethereum significantly expanded the potential use cases of blockchain technology beyond simple financial transactions, opening up decentralised finance (DeFi), NFTs, and more possibilities. However, as the cryptocurrency market grew and diversified, it quickly drew attention from regulatory bodies worldwide, primarily to curb concerns around fraud, money laundering, tax evasion, and investor protection. While some jurisdictions have sought to integrate digital assets within existing financial systems, others have imposed stringent oversight or outright bans, these divergent approaches reflect varying national priorities concerning financial stability, consumer protection, economic innovation, and the mitigation of illicit activities. So this section will examine three primary regulatory strategies, proactive oversight, balanced integration, and prohibition, before considering the unique case of Hong Kong, alongside its likeness to the UK, as Hong Kong has pursued a hybrid regulation model.

2.1. New York's proactive oversight: balancing innovation with investor protection

Taking a unique approach, the New York State Department of Financial Services (NYDFS) introduced BitLicense in 2015 (Awrey, 2024), a comprehensive regulatory framework designed to oversee the cryptocurrency sector. BitLicense requires crypto businesses operating in New York to adhere to strict compliance standards around anti-money laundering (AML) and know-your-customer (KYC) regulations. By prioritising transparency and accountability, New York has sought to mitigate risks for investors while encouraging the industry's growth. However, the stringent requirements of BitLicense have led to criticisms that it stifles innovation, with some arguing that smaller crypto businesses find it challenging to meet the high compliance costs associated with the license, effectively creating a barrier to entry (Ng, 2024). Despite these criticisms, New York remains a significant hub for crypto due to its robust financial ecosystem and access to capital, setting an example for other regions in the U.S. looking to balance innovation with consumer protection.

2.2. Tokyo's Balanced Integration: Establishing Comprehensive Oversight

Taking a proactive stance toward cryptocurrency regulation, positioning itself as one of the first major economies to recognise Bitcoin as a legal form of payment in 2017 (Troyanskaya et al., 2024). Japan's Financial Services Agency (FSA) has crafted a comprehensive regulatory framework for crypto exchanges, which includes stringent AML, KYC, and cybersecurity requirements (Kavaloski, 2024, 301 - 357). Following several high-profile hacks, including the infamous Mt. Gox incident in 2014 (Bhaskar and Chuen, 2024), the FSA has taken significant measures to strengthen the security requirements for crypto exchanges operating within Japan, prioritising regulatory compliance (Endo, 2024). The FSA continues to refine its oversight mechanisms to address emerging risks while supporting innovation. In contrast, the government encourages crypto businesses to operate within the law, leading to a structured environment that fosters trust. Overall, Japan's approach has established it as a secure yet forward-looking Asian crypto hub, attracting local and international companies looking for regulatory stability.

2.3. China: a prohibitionary approach

In stark contrast to New York and Tokyo, China has taken a prohibition-based stance towards cryptocurrency, banning all cryptocurrency transactions and initial coin offerings (ICOs) as early as 2017 (Hu, 2024), with Chinese authorities citing concerns over financial instability, capital outflow, and potential facilitation of illegal activities as primary motivations for the ban. While cryptocurrency trading and transactions are banned, China has simultaneously pursued the development of its own Central Bank Digital Currency (CBDC), the Digital Yuan (Ehlke et al., 2024), to retain control over digital payments and financial data. China's prohibition has significantly impacted the global crypto market, as the country was once a major hub for cryptocurrency mining (He, 2024). The 2021 mining crackdown forced many miners to relocate to other countries, altering the dynamics of the global crypto ecosystem (Hu, 2024). Despite this ban, there is potential that China's eventual goal may be to reintroduce state-controlled digital assets on its terms (Zelmanovitz and Salama, 2024), leveraging blockchain technology without the volatility and decentralisation characterising cryptocurrencies like Bitcoin.

While financial centres like New York and Tokyo have crafted frameworks that balance innovation with risk mitigation, China's approach underscores a clear preference for centralised control over financial systems. Each jurisdiction's approach reflects its broader regulatory philosophy, with New York and Tokyo demonstrating a willingness to accommodate and foster innovation, albeit with tight oversight, and China opting to preserve state control over financial innovation. These diverse regulatory landscapes illustrate nations' varying paths as they race to establish frameworks for the rapidly evolving world of digital assets. However, Hong Kong presents a unique case within this spectrum, governed under China's "One Country, Two Systems" constitutional principle (Zhu, 2024). This framework, designed to preserve Hong Kong's distinct legal and economic systems, has enabled the city to depart from mainland China's strict prohibition approach. Under this principle, Hong Kong retains a considerable degree of autonomy, particularly in financial and economic regulation, which has allowed it to carve out a role as a significant cryptocurrency hub within Asia.

Despite China's comprehensive crackdown on cryptocurrency trading, mining, and financial services linked to digital assets, Hong Kong has embraced a more open regulatory model (Xiyuan Li, 2024). This divergence aligns with Hong Kong's legacy as a former British colony, which continues to influence its legal and financial landscape (Law, 2024). The city operates under a common law system inherited from the United Kingdom, providing a strong foundation for financial regulation that balances innovation and investor protection (Yan-ho and Ming, 2024, 161 - 190). As a result, laws and regulatory practices established during British rule, such as the Securities and Futures Ordinance (Legislative Council of the Hong Kong Special Administrative Region, 2024), remain in force, blending with Hong Kong's modern regulatory measures. Therefore, Hong Kong's openness to cryptocurrency has made it an attractive destination for digital asset companies, which may find the strict regulatory environments in regions like mainland China incompatible with their business models. By permitting regulated cryptocurrency trading and promoting a stable legal framework, Hong Kong has emerged as a prime location for crypto exchanges, blockchain projects, and digital finance initiatives.

2.4. Comparing regulatory strategies: merits and limitations

Each regulatory stance presents distinct advantages and challenges. For example, New York's proactive oversight approach ensures investor protection and market stability but risks limiting competition due to high compliance costs. Japan's balanced integration strategy fosters innovation while imposing strong security measures, although it requires continuous adaptation to technological advancements. China's prohibition eliminates risks associated with decentralised assets but may stifle financial innovation and push crypto activities underground. Meanwhile, Hong Kong's hybrid autonomy approach allows it to benefit from financial openness while mitigating risks through a structured compliance regime. These varied regulatory strategies illustrate the complexities of global cryptocurrency governance and showcase how the choice of regulatory approach ultimately depends on national priorities, with how countries prioritising financial stability and security may lean towards stricter oversight or outright prohibition, while those seeking to foster innovation may opt for a more balanced integration.

3. The United Kingdom's approach to cryptocurrency regulation

Emerging as one of the more prominent jurisdictions exploring ways to regulate cryptocurrency, the United Kingdom (UK) attempts to balance innovation with the necessity for market integrity and consumer protection (Pravdiuk, 2021). As a global financial centre, the UK's regulatory framework for cryptocurrencies reflects its commitment to fostering technological progress and safeguarding economic stability (L'heureux and Lee, 2020). This section explores the UK's approach to cryptocurrency regulation. It covers an overview of the UK's financial market regulation with a discussion of key regulatory bodies, the current crypto regulation in the UK, and finally, the key regulations in the UK that deal with cryptocurrency regulation.

3.1. Overview of the UK's financial market regulation

The United Kingdom's financial market regulation is based on a framework that prioritises consumer protection, market integrity, and systemic stability (HM Treasury, 2010). This framework is upheld by a set of agencies with defined but interconnected roles that enable comprehensive oversight of the market, known as the Financial Conduct Authority (FCA), Her Majesty's Treasury (HMT), and the Bank of England. Each of these bodies has distinct but overlapping mandates to regulate the market, set policy, and ensure systemic stability, allowing these agencies to adapt to new developments, such as cryptocurrencies and creating a balanced regulatory approach that supports innovation while managing associated risks (Chang et al., 2020, 188).

- Financial Conduct Authority
  The FCA serves as the UK's primary regulatory body for financial markets and is charged with setting conduct standards, overseeing financial firms, and enforcing compliance. More recently, the FCA's remit has been expanded to include oversight of cryptocurrency exchanges and wallet providers (FCA, 2019a). This expansion of regulatory oversight is particularly relevant given the increasing prevalence of crypto-related fraud and the role of exchanges in facilitating transactions, which can be seen in Fetch.ai Ltd v Persons Unknown, (2021) . In this case, hackers unlawfully accessed *Fetch.ai's* Binance trading account and sold its assets at a fraction of their value. In this case, the courts confirmed that cryptocurrencies are a form of property under English law and ordered Binance to identify the fraudsters and freeze their accounts. This ruling underscores the role of exchanges in assisting with fraud investigations and the necessity for regulatory cooperation between crypto platforms and law enforcement authorities.
  The FCA's increased scrutiny over crypto exchanges aligns with the implications of the *Fetch.ai* case. With how this extension of authority, especially in the context of AML, KYC requirements and consumer protection, reflects the FCA's efforts to manage the challenges of integrating digital assets into traditional financial markets.
  In pursuit of consumer protection, the FCA has implemented public campaigns and advisories to inform citizens of the risks involved in cryptocurrency investments (FCA, 2023). Given digital assets' volatility and speculative nature, these measures aim to mitigate potential losses from misleading advertisements or fraudulent schemes. To address AML and counter-terrorist financing (CTF) issues, the FCA mandates that cryptocurrency businesses register with the authority, comply with AML regulations, and maintain stringent identity verification and transaction monitoring practices (FCA, 2022a). The FCA has also extended its regulations on financial promotions to cover cryptocurrencies, requiring firms to obtain regulatory approval for advertisements, thus ensuring they are clear and not misleading. The FCA strives to foster a secure and transparent environment for retail investors by enforcing these requirements.
  Furthermore, the FCA also focused on warning consumers of the risks inherent in cryptocurrency investments, given the market's speculative nature and susceptibility to fraud (FCA, 2021). As mentioned, the FCA took the lead in implementing consumer protection measures by publishing advisories highlighting the high-risk profile of crypto assets and cautioning against potentially fraudulent schemes. Over time, however, the FCA's role expanded from advisory functions to direct oversight as it required crypto businesses to comply with AML regulations (FCA, 2019b). This shift towards more rigorous regulation reflects the FCA's recognition of the potential for crypto assets to facilitate illicit activities, including money laundering and terrorism financing. Under the current framework, all crypto-asset firms operating in the UK must register with the FCA and adhere to AML and CTF protocols, ensuring a baseline of regulatory compliance and due diligence
  To complement this, the FCA also maintains and updates a 'Warning List' and an 'Unregulated Cryptoasset Providers List' to help investors and consumers identify firms that may pose risks. The 'Warning List' highlights firms that are suspected of operating without the necessary authorisations or engaging in fraudulent activities (FCA, 2016,), and serves as a cautionary tool for individuals and institutions considering investments in crypto-related services. On the other hand, the 'Unregulated Cryptoasset Providers List' identifies firms that are known to offer crypto services without being registered under the UK's AML and CTF framework (FCA, 2024). However, it is essential to note that including a firm on this list does not necessarily indicate illicit activity, but it warns consumers that these providers have not met the FCA's regulatory requirements. The FCA aims to enhance consumer protection and prevent financial crime by maintaining and updating these lists, with how investors are encouraged to consult these lists before engaging with crypto-related firms, as dealing with an unregistered or flagged entity increases the risk of fraud, money laundering, and incur financial losses.
  In addition to consumer protection and financial crime mitigation, the UK has sought to foster responsible innovation in the cryptocurrency space. The FCA's introduction of a regulatory sandbox is a notable example of this effort (FCA, 2022b), allowing crypto-focused startups to test their products and services in a controlled regulatory environment. This sandbox has positioned the UK as a fintech and crypto innovation hub, encouraging companies to develop blockchain-based solutions under regulatory oversight. By offering a structured environment for experimentation, the sandbox balances the need for regulatory compliance with the flexibility required for innovation, providing startups with an opportunity to navigate compliance requirements while refining their offerings. The FCA's efforts in this area illustrate the UK's commitment to establishing itself as a leading jurisdiction for fintech development while ensuring that new technologies align with regulatory standards.
  However, as innovation in the crypto sector accelerates, so do legal disputes surrounding digital assets, underscoring the need for clear regulatory frameworks. The case of Toma & True v Murray (2020) is a relevant example, where the claimants sought the return of misappropriated cryptocurrency funds following fraudulent misrepresentation. The case highlights the growing number of disputes in the crypto space and the application of traditional legal principles to digital asset transactions. By addressing such cases, UK courts have reinforced the need for greater industry transparency, regulatory oversight, and consumer protection.
- Her Majesty's Treasury
  HMT also plays a pivotal role in setting the overarching financial policies that shape the UK's economic and regulatory landscape (HM HM Treasury, 2011). As the economic and finance ministry, HMT is instrumental in formulating policies and introducing legislative measures incorporating cryptocurrency into the broader financial system. More recently, this role has included overseeing consultations on stablecoin regulation and drafting regulatory amendments to expand the oversight of digital assets (HM Treasury, 2021). HMT promotes a strategic approach to financial innovation through these initiatives, recognising the necessity of balancing technological advancements with appropriate safeguards. The Treasury is also involved in assessing the feasibility of introducing a central bank digital currency (CBDC) and has maintained a stance that seeks to establish the UK as a leader in digital finance (UK Parliament, 2021). Additionally, HMT's work with international organisations, such as the Financial Action Task Force (FATF), aligns the UK's crypto regulations with global standards (UK Parliament, 2022). This alignment is crucial for managing cross-border transactions and addressing regulatory arbitrage, where firms exploit jurisdictional gaps to bypass compliance requirements.
- The Bank of England (BoE)

As the UK's central bank, the BoE has taken an increasingly active role in cryptocurrency regulation, particularly in financial stability and monetary policy areas (Bank of England, 2021a). Although traditionally not a direct regulator of consumer-facing financial firms, the BoE monitors the systemic risks associated with the growing presence of digital assets (Bank of England, 2022), with the BoE being particularly concerned currently in relation to stablecoins, which it believes, if widely adopted, could affect traditional financial systems (Bank of England, 2023a). The BoE has accordingly proposed that large, systemic stablecoin issuers be treated similarly to traditional financial institutions, subjecting them to rigorous oversight. The Bank is also exploring the potential of a government-backed digital currency, or CBDC, to respond to the rapid rise of private digital currencies (Bank of England, 2021a). Often referred to as "Britcoin," this initiative envisions a digital currency that could coexist with traditional money, providing a regulated alternative to private cryptocurrencies (Bank of England, 2023b). As the overseer of the UK's payment systems, the BoE ensures these systems' resilience and security. Furthermore, as cryptocurrencies and digital assets increasingly intersect with payment systems, the Bank continues to evaluate their impact and implement standards for digital currency exchanges and stablecoin issuers operating within the payment infrastructure (Bank of England, 2021b).

Therefore, this close collaboration between the three regulatory bodies, the FCA, HMT, and BoE, characterises the UK's regulatory framework. This is important as given the multidimensional risks associated with cryptocurrency, including financial crime, market volatility, and potential challenges to monetary policy, the regulation of this sector requires coordinated interagency action. For instance, the joint statements and regulatory guidance, such as those addressing stablecoins and compliance expectations for crypto businesses, offer market participants clarity and a unified stance. Additionally, initiatives like the UK Cryptoassets Taskforce, composed of the FCA, HMT, and BoE, regularly assess crypto market developments and adjust the UK's regulatory approach as necessary, which is also an essential step that these regulatory bodies are taking. Through this interagency cooperation, the UK maintains a proactive, adaptive stance on cryptocurrency regulation, enabling it to respond effectively to the evolving financial landscape.

3.2. Key regulations that address cryptocurrency

The UK has taken a cautious yet progressive approach to cryptocurrency regulation, focusing on a structured integration of digital assets into the existing financial framework (Burgess, 2024, 3). The regulatory framework governing cryptocurrency in the UK aims to ensure compliance with AML standards, establish a robust registration system for crypto-asset firms, regulate financial promotions in the crypto space, and prepare for the anticipated integration of stablecoins into the financial system. Collectively, these regulations represent the UK's structured approach to cryptocurrency oversight, balancing market integrity and consumer protection with the flexibility required to support financial innovation.

A cornerstone of the UK's crypto regulatory landscape is the integration of anti-money laundering standards into crypto-asset operations, where following the EU's Fifth Anti-Money Laundering Directive "AMLD5" (Directive (EU) 2018/843, 2018), which the UK transposed into domestic law in 2020 amending sections of The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, stating that all cryptocurrency businesses are required to implement comprehensive AML measures. This directive mandates crypto-asset firms adopt rigorous identity verification and transaction monitoring practices to prevent using cryptocurrencies for money laundering and other illicit activities. As mentioned, the FCA oversees these compliance requirements with the Crypto-asset Registration Scheme (FCA, 2019b), which stipulates that all firms involved in crypto-asset activities within the UK must obtain FCA registration. Registration entails compliance with AML and CTF requirements, a comprehensive risk assessment, and ongoing monitoring of compliance standards. Additionally, this registration system enables regulatory oversight and promotes transparency within the sector by ensuring that all registered firms meet minimum operational security and financial conduct standards. The FCA's registration mandate reflects a commitment to consumer protection and market integrity, ensuring that only firms meeting these standards can legally operate within the UK. Additionally, by requiring firms to undergo a registration process, the FCA has established a form of reputational validation that gives consumers greater confidence in the registered firms. And by enforcing these AML regulations, the FCA seeks to mitigate the risks associated with the anonymity and global nature of crypto transactions, aligning the UK's framework with international standards and reducing the likelihood of financial crime within the sector.

As stablecoins continue to gain prominence within global financial markets, the UK has taken specific measures to regulate these assets, given their potential implications for monetary policy and financial stability (HM Treasury, 2010). HMT has developed a framework to integrate stablecoins into the UK's Financial Services and Markets Act, 2023, (c. 29), with the BoE assigned oversight of large, systemic stablecoin issuers. This approach recognises that stablecoins differ from other cryptocurrencies in their use cases and potential risks. Since stablecoins are designed to maintain a stable value, they are seen as possible alternatives to traditional fiat currencies, with implications for consumer transactions and the broader financial system. Under the proposed framework, stablecoin issuers that meet specific size, or systemic thresholds must comply with stringent financial and operational standards, ensuring their resilience and reliability (Banking Act, 2009, Part 5). This framework demonstrates the UK's forward-looking approach to digital finance, treating stablecoins not merely as speculative assets but as financial instruments that could play a significant role in future payment and financial systems. Furthermore, FSMA allows deals with the regulation of security tokens, with how, under FSMA, security tokens can be considered "specified investments" if they exhibit similarities to traditional securities such as shares or debentures. Alongside this is the requirement for firms dealing with security tokens to gain authorisation by the FCA under Part 4A FSMA to conduct regulated activities.

One of the more recent changes to existing UK regulatory frameworks is the Economic Crime and Corporate Transparency Act, (2023); significant measures were introduced to enhance the UK's ability to combat economic crime, particularly regarding the recovery of cryptoassets. One such example would be the amendments to the Proceeds Of Crime Act 2002 c. 29; when the act was extended to include cryptoassets in the confiscation and civil recovery regime, law enforcement agencies were granted the ability to more effectively seize, freeze, and recover cryptoassets linked to criminal activities. Multiple cases illustrate the increasing reliance on civil and criminal recovery mechanisms to address cryptocurrency-related fraud and financial crime. In *Liam David Robertson v Persons Unknown*, [2019], the court granted a proprietary injunction over stolen Bitcoin, reinforcing the principle that cryptocurrencies are legally recognized as property under UK law. Similarly, in *Ion Science Ltd and Duncan Johns v Persons Unknown & Ors*, [2020], the court issued a worldwide freezing order and disclosure orders against cryptocurrency exchanges in a fraudulent investment scheme, highlighting the judicial system's ability to adapt legal tools to asset recovery in the digital age. The case of *Elena Vorotyntseva v Money-4 Ltd*, [2018] demonstrates the courts' willingness to grant freezing orders over cryptoassets, recognising their tangible financial value and the necessity for legal mechanisms to prevent their dissipation. These cases, alongside *AA v Persons Unknown* [2019], where the court reaffirmed that Bitcoin is property and allowed an interim proprietary injunction to secure stolen assets, have played a crucial role in shaping the UK's approach to cryptoasset recovery. The amendments to POCA, reinforced by these legal precedents, grant law enforcement agencies clearer authority to act against illicit crypto transactions. Seizing and recovering digital assets is particularly crucial given the ease with which criminals can transfer and obscure crypto holdings across jurisdictions. By integrating such legal measures into the broader regulatory landscape, the UK continues to refine its approach to cryptocurrency regulation, ensuring that emerging financial technologies are not exploited for illicit purposes while preserving the financial system's integrity.

Therefore, the UK's approach to cryptocurrency regulation demonstrates a careful balancing act between innovation and security. By aligning with international AML standards, implementing rigorous registration and compliance requirements, and preparing for the integration of stablecoins, the UK has developed a regulatory framework that prioritises market integrity and consumer protection. The recent amendments under the Economic Crime and Corporate Transparency Act, (2023) further reinforce the UK's commitment to combatting financial crime within the crypto sector, allowing for a more robust response to the illicit use of digital assets. This framework positions the UK as a leader in cryptocurrency oversight, setting a clear standard for responsible innovation in the financial landscape. While it promotes growth in digital finance, the UK's regulation also ensures a safer, more transparent crypto market. As the crypto space evolves, the UK's regulatory measures may serve as a template for other jurisdictions, supporting a global framework that fosters financial security, accountability, and technological progress.

4. Hong Kong's approach to cryptocurrency regulation

Hong Kong's status as a prominent financial hub in Asia has positioned it as a central focus for cryptocurrency innovation and regulation. Its close ties to mainland China, combined with a dynamic tech and financial landscape, have prompted Hong Kong regulators to seek out the innovative benefits associated with cryptocurrency market activities while carefully addressing potential risks related to consumer protection and financial crimes (Financial Services and the Treasury Bureau, 2022). This section will examine the key regulators and regulations governing cryptocurrency-related activities in Hong Kong, allowing for comparisons to be drawn with the regulatory framework in the UK.

4.1. Overview of Hong Kong's financial market regulation

Hong Kong's financial market regulation can be broadly described as a sectoral regulatory model whereby regulators are designated specific financial sector activities (Arner et al., 2019). Under this regulatory model, the principal regulators are the Hong Kong Monetary Authority (HKMA), which is responsible for banking regulation and operates under the Financial Secretary, followed by the Securities and Futures Commission (SFC), the Insurance Authority (IA) and the Mandatory Provident Fund Schemes Authority (MPFA), each an autonomous statutory body responsible respectively for regulation of the securities and futures; insurance and retirement scheme industries. Each regulator has distinct statutory mandates but often cooperate on cross-sectoral issues. In particular, the HKMA and the SFC are the primary regulators on cryptocurrency-related activities.

This regulatory approach is based on an institutional approach through which a firm's legal status (for example, a bank, a broker, or an insurance company) determines which regulator is tasked with overseeing its activities (Securities and Futures Commission, 2024), and stands in contrast with the UK's Twin Peaks approach, where regulation is split between two main authorities: the FCA which oversees conduct and consumer protection, and the Prudential Regulation Authority (PRA) (Elliott, 2013), which focuses on financial stability and prudential standards. This distinction allows for specialized supervision based on the firm's activities and risks, offering a more focused regulatory framework compared to the institutional model.

4.2. From British colony to 'One Country, Two Systems'

Prior to Hong Kong's return of sovereignty to China in 1997, it was under colonial British rule. From the 1960s to the 1980s, the financial market regulations in Hong Kong, in a similar fashion to the UK's, gradually transitioned away from self-regulation as a response to a series of financial crises (Arner, 2016). This period saw Hong Kong create its first Banking Ordinance and gradually align its securities market infrastructure and regulatory framework with international standards, for instance, by creating a new, more effective regulatory agency for the securities and futures market, the SFC (Securities Review Committee, 1988). These regulatory developments steadily made Hong Kong the global financial hub it is today. Even upon the resumption of sovereignty to China, Hong Kong and mainland China remained effectively 'two markets, two monetary systems and two responsible monetary authorities' (Arner et al., 2019), each operating different regulatory frameworks for their respective financial markets. This is because Hong Kong's constitutional framework, neatly capsulated under the phrase 'One Country, Two Systems' (Information Office of the State Council of the People's Rebulic of China, 2014), provides a constitutional guarantee of 50 years during which Hong Kong was to retain its previous capitalist system and way of life (Basic Law of the Hong Kong, n.d.. Special Administrative Region of the People's Republic of China, art 5.; Constitution of the People's Republic of China 1982, art 31.). Accordingly, the laws previously in force in Hong Kong in relation to financial regulations continued to remain in force (Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China,). This distinction in market regulation philosophy underpins the difference in regulatory attitude towards cryptocurrency between Hong Kong and China.

4.3. Hong Kong Government's stance towards developing the city into a crypto hub

The Hong Kong Government is not directly involved in the day-to-day regulation of the financial market over non-banking financial activities. Rather, the Government, in the form of the Financial Services and the Treasury Bureau (FSTB), lays down general policies which influence the decisions made by financial market regulators. Hong Kong Government's enthusiasm to develop the city as a crypto hub began as early as 2015, when the Steering Group on Financial Technologies was established (Hong Kong Monetary Authority, 2015a). In 2021, the HKMA unveiled its plan to develop Central Bank Digital Currencies (CBDCs) under its "Fintech 2025" strategy (Hong Kong Monetary Authority, 2021). In 2022, the FSTB announced its official position on cryptocurrency regulation: Its vision is to establish a dynamic ecosystem for the development of Virtual Asset (VA) in the city while emphasising the importance of investor protection and financial crime prevention through stringent regulations and public education on the associated risks in view of the volatile nature of Vas (Financial Services and the Treasury Bureau, 2022). In the policy, the Government committed to establishing clear regulatory frameworks for VA activities under the principle of 'same activity, same risk, same regulation' including, notably, implementing licensing regimes for VA service providers (VASP) to ensure compliance with anti-money laundering and counter-terrorist financing requirements. These policy and regulatory moves demonstrate Hong Kong's eagerness to establish its position as a regional crypto hub fuelled by both the city's dwindling prominence as a key player in the provision of traditional financial services in the region and China's unwillingness to develop a welcoming regulatory stance towards cryptocurrency at the moment (Lo and Lau, 2025).

4.4. Securities and futures commission vs. hong kong monetary authority

While the HKMA is the primary regulator for monetary policy, banking regulation, and financial stability (Banking Ordinance, Cap 155, Laws of Hong Kong, ss 7, 16, 52, 56), it has primarily focused on stablecoin regulation, stating early on that other cryptocurrencies such as Bitcoins are not considered legal tender, thus generally outside of its regulatory remit (Hong Kong Monetary Authority, 2015b). In contrast, the SFC has been the primary regulator on a broad range of cryptocurrency-related activities. In the SFC's performance of its role where it broadly oversees activities in the securities and futures industry, its statutory powers include the general power to supervise, monitor and regulate activities in the industry and the authority to license corporations and individuals to conduct regulated activities and ensure compliance with relevant rules (Securities and Futures, n.d.. Ordinance (Cap 571), s. p. 116.; Securities and Futures Ordinance(Cap 571, Laws of Hong Kong), s 5(1) and Part V,). Its regulatory objectives include protecting public investors, preventing financial crimes, and promoting market transparency in the securities and futures industry (Securities and Futures Ordinance s 5). Since the rise of fraudulent activities through the cryptocurrency market (South China Morning Post, 2015), the SFC began to identify risks associated with cryptocurrency investment activities, including valuation and liquidity risks, money laundering and terrorist financing risks, fraud risks and market manipulation risks (Securities and Futures Commission, 2018a). The SFC, tasked with the responsibility to protect public investors and prevent financial crimes, has taken up the bulk of the responsibilities in mitigating these risks under the principle of 'same activity, same risk, same regulation' (Financial Services and the Treasury Bureau, 2022, para 4). Over time, it has gradually put cryptocurrency-related activities under its regulatory umbrella by, firstly, clarifying that cryptocurrency investments that amount to 'securities and futures contracts' under the definition of the Securities and Futures, n.d.. Ordinance (Cap 571), s. p. 116. (SFO) could be classified as 'regulated activities' and therefore fall under its supervision (Securities and Futures Commission, 2017a; Securities and Futures Commission, 2017c; Securities and Futures Commission, 2018c), and, secondly, indirectly regulating investment intermediaries' conduct in relation to the management and distribution of cryptocurrency-related products. Finally, after extensive consultation, a mandatory licensing regime for VASP came into effect on 1 June 2023. Prior to that, VASPs could only opt into the SFC's supervision by trading security tokens. This new regime is consistent with the Financial Action Task Force (FATF) recommendations and formally expands the SFC's scope of power to regulate even non-security tokens that are not classified as 'securities and futures contracts' under the SFO. The Anti-Money Laundering and Counter-Terrorist Financing Ordinance Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Ordinance 2022 (Hong Kong Legislative Council) (AMLO) has now vested the SFC with the power to oversee a broad range of functions for carrying on a business providing VA services (s 53ZRB(1) AMLO). Combining that with the specific enforcement powers the SFC has, under AMLO s 21(2), namely the power to order remedial action, fines and publicly reprimand, the SFC is given a wide suite of armoury to take enforcement actions against entities in violation of the new licensing regime.

4.5. Definition and nature of cryptocurrencies

In the Hong Kong regulatory context, the terminology used for cryptocurrency for regulatory purposes is 'virtual asset' (VA), This use aligns with global trends in digital finance regulation and the FATF standards. The statutory definition of 'virtual asset' under the AMLO is 'cryptographically secured digital representation of value' expressed as a unit of account or a store of economic value (AMLO s 53ZR(1)). In addition to that, the section goes on to require that a VA be intended to be used as a medium of exchange or to provide rights such as voting or governance rights. Finally, the statute recognises the property-like nature of virtual assets by requiring it to be capable of being transferred, stored or traded electronically (AMLO s 53ZRA). The broad definition, which would include common cryptocurrencies such as Bitcoin, Altcoins and stablecoin, reflects the legislative intention to capture the widest possible range of VAs and digital currencies under the Ordinance (Lo and Lau, 2025, 15).

Cryptocurrencies are currently considered to have distinct legal status from fiat money. However, there have been welcoming development and important clarifications on the nature of virtual assets as property in Hong Kong. The issue of whether VAs can be classified as property was first brought to the test in *Re Gatecoin Limited* [2023], where the Hong Kong Court of First Instance (CFI) decided in the affirmative. This case concerns the collapse of a cryptocurrency exchange which prompted retail investors to argue that the cryptocurrency tokens held in their wallets were, in fact, their own property and therefore not subject for general distribution under insolvency law. To resolve the issue, the court decided to adopt the flexible common law test on characterisation of property set out in *National Provincial Bank v Ainsworth* [1965]. The House of Lords in *Ainsworth* held that in order for something to be property, it must be, firstly, capable of definition, secondly, identifiable by the parties in question, thirdly, capable of being assumed by the parties, and finally, have some degree of permanence or stability. The CFI concluded that virtual assets satisfy all of the above requirements, therefore capable of being classified as property and held on trust. This decision provides critical legal certainty on the nature of cryptocurrency in Hong Kong, opening the avenue for investors to obtain some degree of protection in the event of bankruptcy, theft or loss through retaining proprietary rights in the cryptocurrencies. The UK Jurisdiction Taskforce affirmed that the Hong Kong position is also a correct view under English law (UK Jurisdiction Taskforce, 2024).

Meanwhile, the SFC has considered VAs capable of being classified as securities if they fall under the definition of 'securities and futures contracts' in Schedule 1, Part 1, Section 1 of the Securities and Futures Ordinance 2002. This would include cryptocurrency tokens that resemble the characteristics of traditional shares, debentures, collective investment schemes and other forms of instruments that give ownership rights (Securities and Futures Commission, 2017a; Securities and Futures Commission, (2017b)). Here, a distinction is drawn between security tokens and non-security tokens. Security tokens are tokens that meet the legal criteria to be classified as 'securities' under the SFO and are subject to laws therein due to their investment-like nature. Non-security tokens, such as utility tokens and payment tokens, are those that fall outside of the legal definition of SF. Traditionally, only those tokens that fall within the definition of SF lie within the remit of the SFC. Therefore, VA trading platforms had to trade a security token to opt into SFC's supervision. The practical implication of this distinction began to fade since the Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Bill 2022 (Hong Kong Legislative Council) ushered in a new mandatory licensing regime for non-security tokens. This move extended the SFC's regulatory scope to cover both SF and non-SF cryptocurrencies in a move to align with FATF Recommendation 15 which recommends a more comprehensive regulatory coverage for both types of tokens (Financial Action Task Force, 2023; Financial Action Task Force, 2022). Now, whether a cryptocurrency is a security or non-security token, it will be automatically subject to SFC supervision, which is further discussed below. To complete the discussion, the position is unclear on whether a VA can be classified as a commodity although the HKMA has stated that Bitcoin is a virtual commodity in its press release and the SFC stated the same in its policy statements (Hong Kong Monetary Authority, 2015b; Securities and Futures Commission, 2017a).

4.6. Key regulatory frameworks regarding cryptocurrency-related activities

Hong Kong has taken a welcoming yet prudent approach towards cryptocurrency regulation, focusing on investor protection and AML/CTF compliance in line with FATF standards. The regulatory framework evolved from an extension of securities law into a comprehensive and full-scale licensing regime in the city's bid to promote itself as a regional cryptocurrency hub, broadening the SFC's supervisory scope to cover both security and non-security tokens along the way. In parallel, the HKMA has developed a similar licensing regime for issuers of fiat-referenced stablecoins in Hong Kong that is currently in its first reading and expected to become law in a few months (Stablecoins Bill, 2024, Supp 3, 6). The following will discuss the transition and key features of these regulatory regimes:

(1) Securities Regulation: Early Steps Toward Investor Protection
Initially, the SFC relied on securities law to regulate cryptocurrencies with the characteristics similar to traditional investment products. This meant that SFO licensing obligations and traditional investor protection rules under the SFO are only triggered if an investments fund includes security tokens or funds holding such tokens (Securities and Futures Ordinance (Cap 571), s 116.; Securities and Futures Ordinance (Cap 571), sch 5, pts 1–2; Securities and Futures Commission, 2024d). Over time, the SFC recognised that non-security VAs also posed investor protection risks. As a result, it began closing regulatory gaps—for example, by regulating VA fund managers and distributors and imposing product suitability and retail restrictions. This evolvement reflects a more mature and risk-based approach towards investor protection in cryptocurrency regulation and is a precursor to the comprehensive VASP licensing regime.

(i) Regulating crypto fund managers and distributors
Regarding fund distributors, VA fund distributors that invest solely or partly in Hong Kong must obtain a licence for Type 1 regulated activity (dealing in securities)(Securities and Futures Commission, 2018a). Therefore, existing licensing conditions attached to Type 1 licence apply to all VA Fund distributors. However, under the traditional framework, fund managers who want to include VAs in their portfolios only need to apply for a Type 9 (asset management) licence if they include at least one security token in their portfolio (Securities and Futures Ordinance (Cap 571), Part 1 + 2). This framework is not straightforward and is potentially confusing for public investors: While a firm is required to be licenced for a Type 1 licence if it distributes the fund in Hong Kong (Securities and Futures Commission, 2018a), managing a portfolio solely investing in non-SF VAs does not require a Type 9 licence. This creates a regulatory gap in which a manager or distributor could avoid licensing (and associated investor safeguards) by simply dealing in non-security crypto assets, giving the false impression to investors that their funds' management is under SFC oversight, while in reality, it is not under such scrutiny. To offer better investor protection (Securities and Futures Commission, 2017a, 2), the SFC imposed additional requirements on VA fund managers who invested 10 % or more of portfolio assets in any VAs or otherwise markets themselves as a 'VA fund', whether or not the VA are classified as security or non-security tokens, and applied equivalent standards on fund distributors (Securities and Futures Commission, 2018a). These regulatory moves demonstrate the SFC's willingness to use a principle-based approach to harmonise the regulatory frameworks applied to cryptocurrency intermediaries in order to safeguard investor interests and lead to a more comprehensive regulatory regime for VASPs.

(ii) Product Suitability and Retail Restrictions
On top of the licensing requirements, the SFC requires VA fund managers and distributors to observe obligations in relation to suitability assessments, sales restrictions and disclosure in their management and distribution of VA funds to protect the interests of public investors. To start, VA fund distributors are required to ensure the product is suitable for a customer's investment objectives and risk tolerance under the SFC Code of Conducts and the Suitability FAQs (Securities and Futures Commission, 2020a, 5.1A). If a crypto-related product was deemed complex or high-risk complex, such as many crypto derivatives and highly leveraged products, heightened standards on suitability is required under the complex product regime and selling restriction limits the availability to professional investors (Securities and Futures Commission, 2022a; Securities and Futures Commission, 2023c; Securities and Futures Commission, 2023d). A client's lack of requisite knowledge of the complexity of the product would heighten the suitability obligations, which might include setting trading or position limits based on clients' financial situations (Securities and Futures Commission, 2020b; Securities and Futures Commission, 2018b). These moves are intended to safeguard retail investors against the risk of investment loss in cases where they did not fully appreciate the risks involved in those products. Additionally, the SFC clearly lays out expectations on VA intermediaries on disclosure (Securities and Futures Commission, 2018a, Appendix 1). Derivative products are assigned a higher degree of disclosure obligations, including the issue of a warning statement and a client risk disclosure statement which must disclose the speculative nature of VAs, security risks, and liquidity concerns and is subject to ongoing review (Securities and Futures Commission, 2023d, 12.2, 13; Securities and Futures Commission, 2024d, 5.1A, 5.3). These measures once again have a clear investor protection focus and are centred on ensuring clients fully understand the nature and risks of complex derivatives products related to VA.
In exercising its cautious approach towards investor protection, however, the SFC encourages retail access to some exchange-traded VA derivative funds that are deemed less risky to public investors due to a higher price transparency and lower risks of market manipulation. The SFC has approved those products for trading on regulated exchanges and retail access in some cases. These sanctioned products include VA futures Exchange-traded Funds (ETFs) like Bitcoin ETF (stock code: 3066), Ethereum ETF (stock code: 3068), and Samsung ETF (stock code: 3135), to which selling restriction and suitability requirements do not apply (Securities and Futures Commission, 2022a, 8; Securities and Futures Commission, 2023d, 7). The same applies to VA funds authorised by the SFC for public offering and listed and traded on the Hong Kong Stock Exchange (SEHK) (Chaum and Van Heyst, 1991). To enhance transparency, the SFC constantly publishes and updates a list of non-complex and complex products subject to the exemptions above (Securities and Futures Commission, 2023a). Accordingly, the SFC's approach towards cryptocurrency regulation can be seen as one mixing investor protection and the promotion of crypto innovation.
Overall, the SFC regulation regarding intermediaries' conduct towards VA portfolios, such as the requirement for a VA knowledge test, is heavily focused on information disclosure and, thus, investor protection. The investor protection objective is arguably even more apparent when viewing the dual regulation of portfolio management and fund distribution as 'catch-all measures', which aim to ensure that the SFC regulates crypto fund activities (Securities and Futures Commission, 2018b) (Huang, 2021, 330 - 331). Meanwhile, the SFC relaxes and tightens the licensing requirements according to the assessed risk level of the VA product and the investor's ability to bear such risks. This demonstrates the regulator's

acknowledgement and tacit approval of the rapid expansion of VA investment products and the willingness to allow VA products to thrive in the name of financial innovation. The SFC's approach reflects a clear motive to strengthen consumer protection and improve market transparency, balancing it with the priority of not jeopardising financial innovation.

(2) *Mandatory licensing regime for Virtual Asset trading platforms: Comprehensive Investor Protection & AML/CTF Measures*

As virtual asset trading platforms proliferated, the SFC attempted to put VAs under the regulatory umbrella using existing security law. However, it isn't easy to classify every token based on the features and terms which tend to evolve (Securities and Futures Commission, 2019, 4, 21). Furthermore, despite the SFC's attempts at clarifying its regulatory stance (Securities and Futures Commission, 2017a; Securities and Futures Commission, 2017c; Securities and Futures Commission, 2018c), some platforms deliberately engineer their products to make them fall outside the technical definition of securities and futures contracts, some of which offer highly leveraged and precarious VA futures contracts (Securities and Futures Commission, 2019), creating significant loopholes in investor protection. Therefore, the SFC started to study the possibility of developing a comprehensive regulatory regime for virtual asset trading platforms:

4.7. From an opt-in regime to a mandatory dual licensing regime

Since 2017, the SFC adopted a regulatory sandbox approach for financial services firms to test their innovative products, which was expanded to VA trading platforms in 2018. The SFC adopted an opt-in licensing regime in 2019 for platforms trading at least one security token, requiring licensees to comply with a range of AML, safe custody of assets, cybersecurity, private key management, internal audit and control measures. By the end of 2022, international regulatory efforts intensified, and jurisdictions like Singapore and the EU started introducing comprehensive frameworks. In December 2022, a bill was proposed to set up a mandatory licensing regime for all VASPs operating locally or marketing to Hong Kong investors and came into force on 1 June 2023. The dual licensing regime, effective from 1 June 2023, requires VASPs to be governed by two statutory instruments: Those trading VAs classified as 'securities' would still be governed by the SFO and anyone dealing in or managing funds investing in such VAs must obtain licenses for a Type 1 licence and a Type 7 (providing automated trading services) licence (Securities and Futures Commission, 2024d, chp 1.1). On the other hand, VASPs offering non-security tokens, which were previously unregulated, would now be bound by the amended AMLO, which requires anyone who carries on a business of providing VA service to obtain a licence (AMLO ss 53ZR,). Accordingly, whether a virtual asset trading platform offers security or non-security tokens, it is now bound by at least one statutory instrument governing investor protection and AML/CTF measures. The following will discuss how the investor protection objective and financial crime objective are achieved respectively.

(i) Enhanced AML/CTF measures

Prior to the introduction of a dedicated VASP licensing regime in 2023, there was not a comprehensive set of AML/CTF rules specifically tailored to non-security crypto activities. Entities that are licensed under the SFO, for instance, if they were managing or distributing funds holding security tokens, had to comply with existing AML/CTF obligations applicable to all SFC-licensed intermediaries, but a purely non-security crypto business fell outside direct AML/CTF supervision unless it operated in some other regulated capacity.

With that in mind, the new regulatory regime for VASPs was then developed based on prevailing international standards for addressing ML/TF risks, and is tailored to VA exchanges since it was considered the most prevalent and developed embodiment of such risks (Legislative Council Secretariat, 2024). Any VA activities conducted outside of exchanges were said to either have a scant local presence or could already have been subject to AMLO regulation. The legislation is therefore intended to fill this regulatory gap: Under the updated guidelines, VASPs must adopt a risk-based approach in implementing comprehensive AML/CFT policies, including customer due diligence, suspicious transaction reporting, record keeping, and ongoing transaction monitoring, to detect and prevent illicit activities (Securities and Futures Commission, 2023b). Under the AMLO, VASPs must conduct thorough customer due diligence to verify their clients' identities and risk levels. This measure aims to prevent using virtual assets for illicit purposes by requiring businesses to gather comprehensive client information and assess transaction risks. Additionally, platforms must adhere to suspicious transaction reporting protocols, promptly alerting the authorities to any activities deemed unusual or potentially linked to money laundering or terrorism financing. Under the AMLO, VASPs must implement appropriate AML/CFT systems, including appointing a compliance offer and a money laundering reporting officer, to fulfil their statutory duties. Detailed record-keeping of transactions and customer information for five years is mandatory (AMLO s 18(4)(b) schedule 2), ensuring audit trails are readily available for regulatory scrutiny. Furthermore, companies must monitor ongoing client transactions, allowing them to detect and report any emerging risks, irregularities, or suspicious patterns over time. Overall, the amendments to the AMLO focus on bringing VASPs under the existing AML/CTF regime to achieve the goal of financial crime prevention.

(ii) Enhanced investor protection measures

Another legislative purpose behind the regulatory framework is to enhance consumer protection for VA investors, which is reflected in the statute's wide scope, emphasis on individual responsibility and explicit establishment of criminal offence related to fraudulent practices related to crypto transactions. Under the new AMLO regime, providing 'VA service' is defined in a broad way such that it catches anyone either carrying on a business himself or performing on behalf of another one carrying out such business (AMLO s 53ZRB(2)). In Schedule 3B, the definition of VA service makes it clear that the statute not only targets VA exchanges in which sell and purchase of VAs occur, but also those in which persons are introduced to facilitate such transactions. This wide scope is to ensure that the widest possible range of VAs are capable of falling within the Act (Lo and Lau, 2025, 15).

Regarding individual responsibility, the legislative documents pointed to possible regulatory loopholes over the use of online key opinion leaders as part of the marketing and sales tactics (Legislative Council Secretariat, 2024, 13). The final statutory design reflects public suggestions on the assumption of 'self-responsibility' , through the inclusion of a fit-and-proper test as part of the licensing condition (AMLO ss 53ZRJ,53ZRP, 53ZRJ (Cap 615))(Securities and Futures Commission, 2024d, chp 3). To demonstrate compliance with the licensing conditions, the applicant must satisfy the SFC on the following: the financial status or solvency of the person, the education, qualification, and work experience relevant to their functions, ability to provide the VA service 'competently, honestly and fairly' as well as the reputation, character, reliability and financial integrity of the person (AMLO ss 53ZRJ, Cap 615).

Moreover, the AMLO creates several new offences specifically targeting frauds and misrepresentations related to the sale of cryptocurrencies on VASPs: For instance, an offence is established on the advertisement of unlicensed VA businesses (AMLO s 53ZRE (Cap 615)), use of deceptive or fraudulent schemes in a VA transaction (AMLO s 53ZRF (Cap 615)), and reckless misrepresentation in inducing VA transactions (AMLO s 53ZRG (Cap 615)), and extends accountability to beyond direct sellers to anyone making such representations. It is understood that these measures target the failure of VA exchanges caused by individual failures, such as the case of Sam Bankman-Fried and the FTX cryptocurrency exchange. Finally, the regulatory focus on investor protection is further confirmed by the licensing conditions related to risk management, which includes robust risk management, asset segregation, maintenance of liquid capital, risk disclosure and the restriction of retail access to large-cap non-security tokens included in at least two indices (Securities and Futures Commission, 2018a), which is intended to offer additional protection for retail investors against potential loss due to fraud or otherwise.

Hong Kong's dual licensing approach reflects the city's increasingly sophisticated and comprehensive approach to regulating the growing virtual asset market while maintaining investor protection and security. By requiring platforms to obtain licenses under both regimes where necessary, the regulatory framework provides a comprehensive solution that ensures consistent oversight across the virtual asset ecosystem. The additional requirements for a fit-and-proper test and the new criminal offences reflect special regulatory attention to public investor protection triggered by the frauds and scams associated with such platforms in the past. At the same time, the financial crime prevention objective is realised through aligning the regulatory standards for intermediaries with existing AML/CTF measures. Below, we will assess a test case where the SFC wields its enforcement powers under the new licensing regime.

4.8. The JPEX scandal: a test case for the mandatory licensing regime

In 2023, it was reported that Hong Kong authorities were investigating a major scandal involving JPEX, a Dubai-based cryptocurrency exchange that allegedly defrauded thousands of investors of over HK$1.5 billion (Guinto and Yip, 2023). Their advertising efforts included using social media influencers and giant billboards to promise high yields, and then subsequently refusing withdrawals due to 'liquidity shortage'. The SFC accused JPEX of failing to obtain a licence under section AMLO 53ZRD(1) and engaging in deceptive schemes, among others (Securities and Futures Commission, 2024b; Securities and Futures Commission, 2024c). After putting it on the Alert List for over a year (Securities and Futures Commission, 2022a), the SFC subsequently arrested JPEX officers, directors, and influencers who assisted in the commission of the offence in September 2023 and shut down several of its OTC shops.

The SFC's successful enforcement of the AMLO licensing regime against JPEX demonstrates how the new licensing regime, one that imposes criminal liability and emphasises individual responsibility, can result in a greater degree of protection for VA investors. As a result, some suggests this ought to create confidence in the consumer and encourage adoption of this VAs in the city and establish the city as a crypto hub through a virtuous cycle of adoption (Lo and Lau, 2025). However, certain loopholes in the licensing framework in Hong Kong have drawn criticism.

The first significant criticism lies in its jurisdictional limitations (Drylewski et al., 2023). The licensing scope only extends to crypto trading platforms 'carrying out business in Hong Kong' or 'actively marketing to the Hong Kong public' (AMLO ss 53ZRD (1)), which appears to make enforcement on foreign-based exchanges without a physical presence in Hong Kong a challenge. However, the threshold for satisfying 'active marketing' is a low one: The conditions would be met as long as one holds himself out as 'carrying on a business of providing that VA service' (AMLO s 53ZRB (4),), whether the services are 'marketed in Hong Kong or from a place outside Hong Kong' (AMLO s 53ZRB (5),). Therefore, perhaps the right issue is not the SFC's jurisdictional limits per se, but rather the difficulty in enforcing extraterritorial powers outside of Hong Kong (Lo and Lau, 2025, 22). The ETRADE case is a prime example of the difficulty in enforcement: It involves a US registered company, ETrade US, 'actively marketing' to the Hong Kong public without a license. The SFC took action against its subsidiary, ETRADE Securities (Hong Kong) Ltd, which is licensed under the SFO, for aiding and abetting the parent on its illegal activity without taking action against the primary offender.

Secondly, it has been suggested the legislative focus on VA exchanges rather than a broader range of VA service providers presents a significant gap, particularly in the regulation of Decentralised Finance (Defi**)** (Drylewski et al., 2023). Earlier on, regarding the SFC's opt-in regulatory regime, it has refused to accept applications from 'platforms which only provide a direct peer-to-peer marketplace for transactions by investors who typically retain control over their own assets' (Securities and Futures Commission, 2019, 33). While its stance has later relaxed to one that accepts DeFi platforms under the 'same business, same risk, same rule' principle (Choy, 2023), the currency regulatory framework, as explained above, solely targets centralised exchanges. Indeed, DeFi platforms would be much more difficult to monitor due to the lack of a centralised controlling body to act as an intermediary between the buyer and seller. Rather, the platform users rely on self-executing contracts to execute automated transactions, which increases the difficulty of identifying control in the operation of the exchange for regulatory purposes. Furthermore, the use of governance tokens to vote on decisions on a DeFi platform further increases legal ambiguity. Where a centralised exchange, as is the case in the JPEX scandal, offers governance tokens to its members, it has been considered by the SFC to be evidence of 'providing VA service'. Where governance tokens are distributed in a peer-to-peer manner, however, it becomes less clear whether the members are to be recognised as 'clients' or 'managers' of the platform (Lo and Lau, 2025, 23). There has been no case law in the common law world to guide this question, and as such, it presents a significant problem for the crypto regulatory framework in Hong Kong.

In conclusion, Hong Kong's regulation towards cryptocurrency has moved on from an extension of securities law to a standalone regulatory framework focused on investor protection and financial crime prevention. While there are unresolved theoretical and practical issues, the mandatory dual licensing regime in regulating VASPs is a welcoming move and signals more work to be done to enhance enforcement and keep the regulation up to date with the pace of financial innovation.

(3) Stablecoin Regulation

In Hong Kong, the regulation of stablecoins, which are digital assets designed to maintain a stable value typically through backing by fiat currency or high-quality collateral (Sunny Xiyuan Li, 2024), had been discussed as a possibility for some years. In January 2022, the HKMA published a discussion paper kickstarting public consultation on developing a 'risk-based, pragmatic and agile regulatory regime' for stablecoins (Hong Kong Monetary Authority, 2022), which concluded in July 2024. On December 6, 2024, the Hong Kong government published the Stablecoins Bill in the Gazette (Stablecoins Bill, 2024), aiming to establish a comprehensive regulatory framework for fiat-referenced stablecoins (FRS). The Bill seeks to enhance the regulatory environment for VA, address potential financial stability risks, and ensure adequate user protection, while providing the MA with necessary supervision, investigation and enforcement powers for effective implementation of the regime (Government of Hong Kong Special Administrative Region, 2024).

The Stablecoin Bill also requires any person "carrying on" or "holding himself out as carrying on" a regulated stablecoin activity to obtain a licence from the HKMA (Stablecoins Bill (Hong Kong Gazette, 6 December 2024), Supp 3, cl 8(1)). Regulated stablecoin activity includes both issuing an FRS in Hong Kong and issuing an FRS outside Hong Kong that purport to maintain a stable value with reference to Hong Kong dollars (Stablecoins Bill (Hong Kong Gazette, 6 December 2024), Supp 3, cl 5(1)). Interestingly, the statute defines the act of 'holding out' to include 'active marketing' of the activity 'whether in Hong Kong or elsewhere' (Stablecoins Bill (Hong Kong Gazette, 6

December 2024), Supp 3, cl 5(2)), which resembles the statutory language in the AMLO. As part of the licensing condition, issuers are also required to maintain sufficient high-quality, highly-liquid reserve assets that must always meet or exceed the total value of the stablecoins they have issued, ensuring stability and allowing for redemption at par value (Stablecoins Bill (Hong Kong Gazette, 6 December 2024), Supp 3, cl 5, sch 2.). In that connection, the Bill requires issuers to give holders an unconditional right of redemption at a reasonable fee, (Stablecoins Bill (Hong Kong Gazette, 6 December 2024), Supp 3, sch 2, s 6.), which is a crucial consumer protection mechanism to prevent issuers from trapping customer funds. The framework also emphasises strong governance, for instance, through the imposition of a fit-and-proper person test and mandating local presence or incorporation (Stablecoins Bill (Hong Kong Gazette, 6 December 2024), Supp 3, cl 14, sch 2, s 7.), and comprehensive risk management protocols to mitigate operational risks (Stablecoins Bill (Hong Kong Gazette, 6 December 2024), Supp 3, sch 2, s 9.). In addition, the HKMA requires licensed stablecoin issuers to adhere to AML and CTF measures in line with the standards applied to traditional financial institutions. It requires licensees to have adequate systems of controls in place for AML/CTF purposes and to comply with the AMLO (Stablecoins Bill (Hong Kong Gazette, 6 December 2024), Supp 3, cl 107, sch 2, s 10.). In short, stablecoin businesses are brought firmly within the scope of Hong Kong's AML/CFT regulatory regime. They must implement customer due diligence, transaction monitoring and reporting and other controls as required by the AMLO, just like banks or money service operators. These provisions are significant because they close potential regulatory gaps, mitigating the risk that stablecoins could become a haven for money laundering, terrorist financing, fraud, or other financial crimes.

Overall, Hong Kong's regulatory approach towards cryptocurrencies was initially piecemeal, based on existing securities law and regulation for investment intermediaries, but over time, it developed into a more proactive and comprehensive one by creating new licensing regimes for VA platform operators and stablecoin issuers. Throughout the regulatory development, a strong focus on investor protection and financial crime prevention emerged.

4.9. Hong Kong's relaxed approach vs the United Kingdom's conservative approach

The United Kingdom and Hong Kong have adopted distinct regulatory philosophies towards cryptocurrencies, reflecting their priorities and risk perceptions. For instance, the UK employs a cautious approach emphasising stability, consumer protection, and control over speculative risks. In contrast, Hong Kong adopts a more innovation-friendly stance, balancing market growth with regulatory safeguards. This contrast becomes evident when examining key regulatory dimensions:

- Classification of Cryptocurrency
  When considering the classification of cryptocurrencies, the UK narrowly categorises cryptocurrencies with characteristics that exhibit similarities to shares or debentures into security tokens under FSMA (FSMA), with the requirement on firms to gain authorisation from the FCA under Part 4 A of FSMA to conduct regulated activities, which also gives security tokens the same consumer protection afforded to regular securities. Alternatively, exchange tokens such as Bitcoin and altcoins are largely unregulated in the UK. The only applicable regulation is that firms that deal with these tokens must comply with AML and CTF regulations, with the FCA overseeing compliance. However, the FCA does not intervene for consumers who lose exchange token investments, except in AML/CTF compliance cases (Kaufmann, 2022).
  Coversely, Hong Kong regulates cryptocurrencies and cryptoassets under the broader category of 'virtual assets' (Securities and Futures Commission, 2017a; Securities and Futures Commission, 2017b). While traditionally, only the cryptocurrencies that fall within the definition of 'securities and futures contracts' under Schedule 1, Part 1, of the Securities and Futures Ordinance (CAP 571), Section 1 lies within the SFC's regulatory ambit, the legislature is much more willing to expand the regulator's scope of power to include the cryptocurrencies that lie outside of the strict statutory definition of securities and futures contracts through enhancing the SFC's regulatory power concerning intermediaries such as fund managers, fund distributors and trading platforms dealing with VA products. In contrast to the FCA's relatively hands-off approach, the SFC more actively regulates retail trading of exchange tokens by imposing licensing conditions on cryptocurrency exchanges operating in Hong Kong or actively marketing to Hong Kong investors. Overall, Hong Kong's approach towards defining and classifying cryptocurrencies reflects the city's willingness to devolve a broader scope of regulatory power to its regulator compared to the UK, which gives the Hong Kong regulator the power to take stronger enforcement actions.
- Licensing Requirements for Fund Managers and Distributors
  The UK's approach to this is succinct with how fund managers and distributors must obtain authorisation from the FCA if they deal with security tokens or engage in AML/CTF-related activities. The FCA's approach primarily focuses on rigorous compliance, particularly regarding KYC and AML/CTF. Furthermore, the FCA have limited access for retail investors towards 'high-risk' cryptocurrencies by implementing bans on the sale, marketing, and distributing of crypto-derivates and exchange-traded notes due to their high volatility, lack of reliable valuation, and potential for significant losses (FCA, 2020). This reflects the cautious approach of the UK, which is part of the FCA's broader efforts to ensure consumer protection in the rapidly evolving crypto market.
  In comparison, Hong Kong SFC's approach is more geared towards consumer protection having explicitly considered the inadequacy of light-touch regulation in other jurisdictions, which allows it to go beyond simple AML/CTF compliance by refining its licensing requirements for virtual asset fund managers and distributors (Securities and Futures Commission, 2023d). By expanding and refining the licensing conditions and requirements for VA fund managers and distributors, the SFC can set terms and conditions on risk management, custody of assets, disclosure, and other requirements that enhance overall protection for investors. Moreover, the SFC approach is also more nuanced, considering the different knowledge levels among investors, for instance, when setting selling restrictions on complex products. Moreover, instead of banning retail access to crypto-derivatives like the UK, the SFC takes into account the VA knowledge of non-professional investors; the SFC instead requires intermediaries to adhere to stringent guidelines when offering these products to retail clients, including heightened suitability assessments, risk disclosures, and VA knowledge test, thus opening more room for a retail investor to profit from financial innovation in the cryptocurrency market. These measures indicate a more tailored and risk-based approach towards investor protection in regulating cryptocurrency trading activities.
  The UK's framework focuses on registration and authorisation under existing financial regulations, integrating cryptoasset activities into the broader financial system. In contrast, Hong Kong has developed specific licensing requirements for virtual asset fund managers, reflecting a more tailored approach to the unique characteristics of virtual assets. Furthermore, Hong Kong's SFC imposes detailed requirements on risk management, custody, and disclosure specific to virtual assets, indicating a proactive stance in addressing the unique risks associated with these assets. At the same time, the UK's FCA emphasises compliance with existing financial regulations, with additional guidance for cryptoasset activities as needed.
- Trading Platform Regulation

The UK, overseen by the FCA, has specific regulations for trading platforms dealing in cryptocurrency. For example, any cryptocurrency exchanges that want to operate legally in the UK must register with the FCA and comply with The Money Laundering, Terrorism Financing and Transfer of Funds (Information on the Payer) Regulations 2017. This requirement has been created to prevent illicit activities and protect consumers by ensuring that trading platforms operate transparently and fairly, including requirements for clear disclosure of risks and adherence to business rules (HM Treasury, 2023). As discussed above, Hong Kong's dual-licensing approach involves a licensing regime tailored explicitly for virtual asset trading platforms. Effective from June 1, 2023, the SFC requires all VASPs operating in Hong Kong or actively marketing to Hong Kong investors to obtain a license. This licensing framework encompasses comprehensive requirements, including stringent AML/CTF measures, secure asset custody, and sound corporate governance practices. Similar to the last section, the SFC's regime also emphasises more vital investor protection, such as ensuring that retail investors have access to suitable products and that platforms conduct thorough due diligence on the virtual assets they offer. While both jurisdictions emphasise AML/CTF compliance, their regulatory approaches differ in scope and structure. The UK's framework is evolving towards integrating cryptoassets into its existing financial regulatory system, focusing on registration and compliance with financial crime prevention measures. In contrast, Hong Kong has implemented a dedicated licensing regime for VASPs, encompassing a broader range of regulatory requirements to ensure market integrity and investor protection. Since the platform licensing regime took effect in June 2023, the SFC has been actively issuing warnings and taking enforcement actions against unlicensed platforms (Securities and Futures Commission, 2024d)(Securities and Futures Commission, 2024c).

Ultimately, the UK's approach integrates cryptocurrency regulation into its existing financial system, prioritizing risk mitigation and consumer protection. Its conservative stance safeguards retail investors but may stifle innovation. Hong Kong, by contrast, adopts a more adaptive and expansive regulatory model—crafting bespoke virtual asset rules that balance innovation with strong enforcement and investor safeguards. These approaches reflect the two financial hubs' different regulatory philosophies and priorities. When considering, which of the two approaches is 'better' depends largely on the perspective and desires of an individual country. For those valuing innovation and market growth, Hong Kong's flexible, forward-looking framework appears more effective. For those prioritizing consumer protection and systemic stability, the UK's cautious, integrated model holds greater appeal. However, Hong Kong's dedicated licensing regime, proactive oversight, and nuanced investor protection strategies arguably position it as the more dynamic and adaptable regulator in the rapidly evolving cryptocurrency landscape.

5. Conclusion

This article compared the UK's and Hong Kong's approaches to cryptocurrency regulation, analysing the cautious and risk-averse approach of the UK and the measured and more welcoming approach of Hong Kong. As can be seen, the regulatory approaches of Hong Kong and the United Kingdom towards cryptocurrency reflect the distinct priorities and market philosophies of each jurisdiction. Hong Kong has taken a proactive stance by implementing a comprehensive dual-licensing regime that covers both security and non-security tokens, filling previous regulatory gaps and addressing investor protection, market integrity, and financial crime risks while allowing retail access to cryptocurrency products on conditions that change according to the investor's risk appetite and knowledge of the product. This approach enables the city to balance fostering innovation and ensuring a robust regulatory framework for the rapidly evolving virtual asset market. Overall, Hong Kong demonstrates its commitment to safeguarding investors while encouraging financial innovation by imposing tailored licensing conditions and requirements on fund managers, distributors, and trading platforms along the pipeline of virtual asset investment products. In contrast, the United Kingdom adopts a more cautious approach, integrating cryptocurrencies into its existing financial regulatory system, primarily focusing on stability, consumer protection, and control over speculative risks. The UK's emphasis on AML/CTF compliance, registration, and authorisation under existing regulations creates a more controlled environment for crypto firms, with a particular focus on restricting retail access to high-risk products. This more conservative framework aims to mitigate risks while allowing the broader financial system to adapt to the changing landscape of digital assets.

Overall, both jurisdictions acknowledge the need for regulation to keep pace with the rapidly growing cryptocurrency market, yet their approaches reflect distinct regulatory philosophies and attitudes toward innovation. Hong Kong adopts a flexible, innovation-driven strategy, while the UK takes a more traditional, risk-averse stance. These differences align with their broader economic and financial priorities, with how Hong Kong strives to establish itself as a hub for crypto innovation, and the UK emphasizing stability and consumer protection with its risk-averse stance. As the cryptocurrency landscape continues to evolve, the regulatory paths taken by both jurisdictions offer valuable insights into balancing innovation with effective oversight. Within this context, Hong Kong's dedicated licensing regime, proactive regulatory oversight, and tailored investor protection measures position it as a more agile and responsive regulator in the fast-changing world of cryptocurrency.

CRediT authorship contribution statement

Liu Jingru: Writing – review & editing, Writing – original draft. **Burgess Thomas:** Writing – review & editing, Writing – original draft.

Declaration of Competing Interest

The authors declare the following financial interests/personal relationships which may be considered as potential competing interests: Thomas Burgess serves as an Editor for the Journal of Economic Criminology. If there are other authors, they declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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