

Legal Commentary

May 26, 2025

Crypto's Global Surge: Mapping China's Stance

Authors: Yin GE | Marshall LIU

Part 1: The worldwide wave of virtual asset trading

The period from 2022 to early 2023 witnessed a profound slump in the cryptocurrency market, as the collapse of FTX and U.S. regulatory scrutiny into Binance and Coinbase negatively impacted sentiment. Bitcoin, the bellwether of virtual assets, plunged in price to US\$20,000, dragging down the global virtual asset trading industry. Skepticism and disillusionment mounted over this type of digital financial product, with its value proving notoriously elusive. A growing chorus of voices declared the dawn of a crypto ice age, with many convinced that the sector had entered an irreversible decline.

Yet, 2023 marked a striking turnaround. As multiple jurisdictions adopted more lenient regulatory stances toward virtual assets, coupled with rising global inflation and geopolitical safe-haven demand, institutional investors accelerated their entry into the digital asset market. This influx ignited bullish sentiment, ultimately driving bitcoin to double in value for two consecutive years (2023 – 2024) — even surpassing this threshold — with its price peaking near US\$110,000. The total market capitalization of global cryptocurrencies surged to US\$4 trillion, with 2024 seeing nearly US\$45 billion in net inflows¹.

Meanwhile, in the realm of decentralized finance (DeFi), regulatory oversight is guiding an orderly convergence of traditional finance and blockchain technology. Institutional investors, guided by regulators, have begun rolling out tokenized funds and real-world asset (RWA) tokens (e.g. BlackRock's BUIDL fund). Concurrently, several commercial banks are also experimenting with digital representations of deposits. This emerging symbiosis between market participants and regulators is fostering a compliant fusion of legacy finance and blockchain innovation.

The global pursuit of virtual assets and their wealth-generating allure have led to divergent responses across nations, broadly crystallizing into three distinct approaches.

I. The bold advocates

The U.S. government maintains measured enthusiasm in cryptocurrency regulation. A number of

¹ <https://cryptonews.com/news/digital-asset-inflows-hit-3-2b-marking-10th-consecutive-week-of-positive-flows/>.

institutions, as pioneers in regulation, have proactively launched spot Bitcoin ETFs² or other innovative crypto-related investment vehicles. Although the government remains cautious about the systemic risks of virtual assets, U.S. President Trump's pro-crypto administration has made significant progress on regulatory framework development (e.g. establishing the Working Group on Digital Asset Market and promoting the legislation of Stablecoins³) and has declared that the U.S. government will include Bitcoin and Ethereum in its proposed "National Strategic Cryptocurrency Reserve"⁴.

II. The regulatory pioneers

Hong Kong is actively exploring virtual asset ETFs, licensed exchange and tokenization financing regulatory frameworks⁵. The Stablecoin Bill, which was passed on 21 May 2025, further solidifies Hong Kong's leading position in global stablecoin regulation. This positive push aims to attract global capital in new Hong Kong crypto market while also prioritizing investor safeguards and regulatory infrastructure with its sandbox system. On top of Hong Kong, several major jurisdictions, like Singapore, Switzerland, Japan and United Arab Emirates are respectively creating the regulatory frameworks to promote the sound development of the crypto market.

III. The prohibition holdouts

Some jurisdictions, including China mainland, continue to ban digital currencies, and institutional interest remains stifled as a result. Despite palpable investment demand, most market players are confined to the sidelines — save for a handful accessing the market through indirect investment vehicles (funds, trusts, or offshore subsidiaries).

Part 2: Boundaries of Chinese regulation

I. Onshore business: comprehensive prohibition

In China⁶, regulators have long been cautious and have been closely monitoring the trading of cryptocurrencies and crypto-related investments. While a unified legal and regulatory regime governing cryptocurrencies and crypto-related products has yet to be established, the Chinese authorities have successively promulgated several notices to regulate cryptocurrencies and crypto-related products. The most critical one, which completely prohibits relevant onshore business, is Circular on Further Preventing and Resolving the Risks of Speculation in Virtual Currency Trading ("**Circular No.237**") (《关于进一步防范和处置虚拟货币交易炒作风险的通知》), issued on 15 September

² <https://beincrypto.com/us-spot-bitcoin-etfs-inflows-hit-an-all-time-high-in-november/>.

³ On 20 May 2025, the U.S. Senate voted 66 in favor and 32 against to pass the cloture motion on the GENIUS Act. Although the bill itself has not yet been approved, the GENIUS Act will now proceed to full Senate debate and amendment procedures.

⁴ Fact Sheet: President Donald J. Trump Establishes the Strategic Bitcoin Reserve and U.S. Digital Asset Stockpile, accessible at: <https://www.whitehouse.gov/fact-sheets/2025/03/fact-sheet-president-donald-j-trump-establishes-the-strategic-bitcoin-reserve-and-u-s-digital-asset-stockpile/>.

⁵ Please see SFC's Regulatory Roadmap for Hong Kong's Virtual Asset Market issued by SFC on 19 February 2025, accessible at <https://www.sfc.hk/-/media/EN/files/ER/ASPIRe/ASPIRe-roadmap-for-Hong-Kongs-virtual-asset-market-Eng.pdf?rev=1ff2b9ab976f482e924b1d911c55b27a&hash=ABF3EDC5C737FE8435568222D04417EA/>.

⁶ "China" and "PRC" used in these articles refer to China Mainland, excluding the Hong Kong SAR, Macao SAR and Taiwan Region.

2021 by the People's Bank of China and other central authorities⁷.

Pursuant to Circular No.237, cryptocurrency-related business activities are classified as illegal financial activities, including, among others, cryptocurrency derivative trading, providing information intermediation and pricing services for cryptocurrency transactions, activities of exchanging legal tender with cryptocurrency, exchanging cryptocurrencies, acting as a central counterparty for buying and selling cryptocurrencies, and token issuance financing. Related marketing and sales activities are also prohibited. Within only one month after the promulgation of Circular No.237, more than 10 cryptocurrency exchanges had announced their withdrawal from the mainland Chinese market. Under Circular No.237, some local regulators have taken regulatory measures to target promotional websites or self-media platforms related to cryptocurrencies.

Currently, the regulatory attitude toward prohibiting digital currencies has not changed, although certain regulatory authorities have made forays into virtual asset trading (e.g. Shanghai Data Exchange issued the first data asset-backed financing instrument (RDA) on 25 November 2024)⁸.

II. Cross-border business development: service model matters

In principle, any offshore entity that intends to conduct business in China must first obtain relevant approval/registration from the competent Chinese authority. This holds regardless of whether the business activity is an offshore transaction or is merely marketing to China-based clients, either directly or via an onshore agent or presence. Unfortunately, under the current Chinese regulatory framework, there is no such systematic licensing regime available for any offshore entity to market offshore services/products in China.

With respect to financial regulation, considering the investment nature which may be deemed as the financial business subject to the specific financial license in China, cross-border crypto-related services are generally prohibited without a license. In addition, Circular No.237 defines any business activity that is related to virtual currencies as illegal financial activities, including virtual currency derivatives trading services and services provided by an overseas entity to Chinese clients.

Despite this prohibition on virtual currencies, Chinese regulators have not denied the legality of individuals (even companies) in China holding and trading virtual assets to the extent they do not act in violation of foreign exchange, fundraising, money laundering, or other laws or regulations. In fact, China has around 58 million cryptocurrency holders, second only to India, and even higher than the 45 million in the U.S.⁹.

However, the relatively opaque legal status of virtual assets in China means Chinese law generally will not recognize or protect the rights of ownership in virtual assets or recognize virtual currencies as legal tender. Additionally, due to the practical limitations of enforcing Circular No.237 in cross-border

⁷ Specifically, the other nine central authorities are the Cyberspace Administration of China, the Supreme People's Court, the Supreme People's Procuratorate, MIIT, the Ministry of Public Security, the State Administration for Market Regulation, CBIRC (replaced by NFRA), CSRC and the State Administration of Foreign Exchange.

⁸ https://www.chinadep.com/bulletin/news/CTC_20250410140337672498.

⁹ Top 10 Countries and Governments Holding the Most Cryptocurrency, accessible at <https://graphlinq.io/blog-posts/top-10-countries-and-governments-holding-the-most-cryptocurrency>.

scenarios, the document is generally considered to set out general principles and regulatory positions on virtual currency-related cross-border activities, rather than providing a direct legal or regulatory basis for taking enforcement actions. Therefore, to the extent an offshore cryptocurrency exchange's service model involves no proactive marketing within China, the Chinese regulatory risks due to engaging with Chinese citizens should be relatively lower in practice. The commonly-seen business models by offshore cryptocurrency service providers are discussed in Part III.

Part 3: Key issues involving China-related business development

I. Key opinion leaders and the online Chinese community

Considering the above Chinese regulatory principles, cryptocurrency service providers generally face certain risks if they directly conduct cryptocurrency marketing within China. Thus, the most-used approach to increase exposure is to post soft advertisements on self-media platforms or Chinese communities via key opinion leaders (KOLs) or media partners.

Major Chinese social platforms — including WeChat official accounts and Rednote — have rolled out stringent community guidelines to curb cryptocurrency marketing and promotions. The WeChat platform maintains arguably the most rigorous enforcement — accounts involved in virtual currency issuance, trading, or fundraising activities (such as providing transaction gateways, guidelines, or issuance channels) may be imposed with penalties such as corrective orders, access restrictions, or permanent bans. There are also potential regulatory risks against such marketing activities.

In light of the above, offshore cryptocurrency service providers that intend to market in China should attend to the following critical issues: (i) how to design the promotional content to avoid violating Chinese regulations; (ii) how to properly engage with onshore KOLs and media partners to reduce compliance risks and related contractual disputes. The resolution of these issues usually relies on cryptocurrency service providers establishing external user policies, content review and marketing vendor management mechanisms, as well as robust documentation with proper disclaimers.

II. Reverse solicitation

Direct solicitation by cryptocurrency service providers is considered high-risk in the field of Chinese regulation, which may result in employees in China being directly subject to regulatory measures. However, the relevant risks will be significantly reduced if they only engage in reverse solicitation. Reverse solicitation refers to responding to a specific request or inquiry made by a prospective Chinese client on the client's own initiative, not as a result of proactive marketing targeted toward Chinese clients. Reverse solicitation is not an express regulatory "safe harbor", but rather a practical exception based on our understanding of market practice and enforcement. In our experience, the practical risks of reverse-solicitation marketing are generally low, which is acceptable for most mainstream market players.

It is advisable for offshore cryptocurrency service providers to set clear parameters to guide their employees when they engage in marketing, negotiation, anti-money laundering, education activities, etc. in China.

III. On- and off-ramps under Chinese foreign exchange regulation

Due to the stringent foreign exchange regulation over cross-border payments and remittances in China, onshore entities are generally prohibited from investing in offshore assets. Typically, any unauthorized currency exchange involving onshore RMB constitutes illegal foreign exchange trading and may lead to criminal liability for illegal business operations. Therefore, the regulatory risks associated with foreign exchange would be significant for an offshore cryptocurrency service provider if such services could give rise to foreign exchange violations with respect to Chinese clients.

We have seen different models offered by cryptocurrency service providers, e.g., the C2C model and the direct counterparty model. Under the C2C model, the cryptocurrency service provider only acts as an intermediary to match clients with reverse demands for Fiat-USDT exchange and introduce a third-party payment institution to conduct settlement. Under another model, the cryptocurrency service providers directly deal with their clients with their proprietary USDT and fiat as the central counterparty. The Chinese regulatory risk level will be different depending on various factors under these models.

Part 4: Outlook for future landscape and policy shifts in the Chinese virtual asset market

I. Delicate balance of regulatory tolerance: China-fund company's RWA financing and tokenized fund experiments

Despite maintaining a stringent regulatory prohibition on cryptocurrencies in principle, Chinese regulators have adopted a strategically nuanced stance toward blockchain's underlying technology. The approval of China's first real-data assets (RDA) by the Shanghai Data Exchange in late 2024 signaled a subtle policy shift — financial innovations like RWAs, which leverage blockchain and digital technologies for their traceability and auditability, are quietly emerging as a tolerated gray zone¹⁰. Major state-owned financial institutions, including China Asset Management and CPIC Group, have begun experimenting with tokenized funds through their Hong Kong subsidiaries. This model of “offshore piloting, onshore observation” reflects regulators' tightrope walk between fostering financial innovation and preventing systemic risks.

II. Three catalysts for a policy shift

1. Technological imperative: recognition to DeFi

Amid the global wave of DeFi, RWA is fundamentally transforming traditional asset liquidity. The blockchain technology has now reached a stage of maturity, and with the PBOC actively promoting cross-border settlement pilots for its digital currency¹¹ and implementing blockchain-based invoice systems¹², the existing DeFi infrastructure has provided technological validation for the growth of other

¹⁰ <https://j.eastday.com/p/1744172456040497>.

¹¹ https://www.gov.cn/lianbo/bumen/202402/content_6929482.htm.

¹² <http://beijing.chinatax.gov.cn/bjswj/c104271/c104280/c104311/c104312/202101/74908d9e09e14cfabf57d8a1d27481cf.shtml>.

tokenization products. Under the maturity of DeFi technology, the “controlled blockchain” may become the regulators’ preference and RWA financing may act as the primary conduit for these technological dividends – provided tokens remain pegged to physical assets rather than virtual assets.

2. Demand dynamics: ‘regulatory arbitrage’ of high-net-worth individuals

With Chinese family funds’ offshore asset allocation growing at 12% annually and Hong Kong family offices overseeing virtual asset funds exceeding US\$8 billion in 2024, this capital outflow presents regulators with a paradox: outright restrictions inadvertently drive funds toward underground banking channels, whereas measured liberalization could establish more transparent capital flow monitoring mechanisms.

3. Regulatory mimicry: Hong Kong’s pioneering pilots

Hong Kong’s VASP licensing regime and crypto-regulation sandbox serve as a de facto regulatory testing ground for mainland authorities. Should these initiatives successfully demonstrate how to balance innovation with risk containment, Hong Kong’s template could gradually erode mainland resistance to tokenized financial infrastructure — much like how the territory’s Stock Connect program paved the way for incremental cross-border capital account liberalization in China.

III. Long-term scenario expectations

In the long run, China’s gradual liberalization of crypto technologies and virtual assets appears inevitable. The more optimistic scenario suggests that if Hong Kong’s RWA pilots swiftly demonstrate effective risk controls, mainland regulators may emulate the approach by introducing an “approved institution whitelist”, permitting domestic market trials of asset-backed tokens or other digitalization assets. The regulatory philosophy would then shift from “comprehensive prohibition” to “nationalization of critical infrastructure”.

A more conservative outcome remains plausible, however, where nominal bans persist but “offshore participation” is tacitly tolerated, with enforcement priorities focused on curbing capital flight rather than suppressing the technology itself. In this scenario, regulatory arbitrage opportunities would increasingly favor licensed institutions — for instance, securities companies might be allowed to issue virtual asset index-linked structured notes through their Hong Kong subsidiaries.

Ultimately, the fate of China’s virtual asset market hinges on a fundamental compromise: whether to confine blockchain or unleash its financial efficiency to serve the real economy. The latter approach may well prove to be the true breakthrough for “DeFi with Chinese characteristics”.

We will keep monitoring the developments on this front and sharing our insights while we observe the markets and advise market players on business developments.

Important Announcement

This Legal Commentary has been prepared for clients and professional associates of Han Kun Law Offices. Whilst every effort has been made to ensure accuracy, no responsibility can be accepted for errors and omissions, however caused. The information contained in this publication should not be relied on as legal advice and should not be regarded as a substitute for detailed advice in individual cases.

If you have any questions regarding this publication, please contact:

Yin GE

Tel: +86 21 6080 0966

Email: yin.ge@hankunlaw.com