

## Japanese Regulatory holds the First Meeting of the New Study Group on Virtual Currency Exchanges

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As a response to the fallout resulting from the hacking of Japanese cryptocurrency exchange Coincheck Inc., which resulted in \$530 million worth of digital currencies being stolen, on April 10, 2018, the Financial Services Agency of Japan (**FSA**) hosted the first meeting of the Study Group on Virtual Currency Exchange Service Providers (**Study Group**).

By way of background, beginning April 2017, Japan required virtual currency exchange service providers (**Virtual Currency Exchange(s)**) to be registered with the Japanese authority. Registered Virtual Currency Exchanges are subject to certain operational requirements and conduct regulations such as verification of customers' identities and customer disclosure.

*Hacking of Coincheck and Establishment of the Study Group on Virtual Currency Exchanges*

In response to the hacking of Coincheck Inc., the FSA and local Finance Bureaus conducted on-site inspections and examinations on certain Virtual Currency Exchanges, and issued suspension and/or correction orders. In addition, the FSA has also recognized the needs to revisit the current regulatory framework over virtual currencies, which the FSA now sees as the subject of investment rather than means for payment. On March 8, 2018, the FSA established the Study Group on Virtual Currency Exchanges consisting of academic and industry experts, and on April 10, held the first meeting. Notably, observers to the Study Group include the newly formed trade association consisting of all of the 16 registered Virtual Currency Exchanges.

While the minutes of the first meeting have not been released, it was reported that the participants discussed, with respect to leveraged trading, the need for a margin requirement with a limit on maximum level of leverage and, with respect to ICOs, appropriate regulatory framework.

The Study Group will meet again and continue discussions in coming months. Importantly, the FSA intends to consider the results of these meetings and take steps for additional rulemaking as it sees appropriate. In this regard, discussions at the Study Group could have a great impact on the future Japanese regulatory framework involving virtual currencies and ICOs.

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