



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE DEPUTY GOVERNOR FINANCIAL SUPERVISION SECTOR

MEMORANDUM NO. M-2022-Q51

To : **ALL BSP-SUPERVISED FINANCIAL INSTITUTIONS (BSFIs)**

Subject : **Reminder on Risk Management Measures Relative to Virtual Asset Safekeeping, Liquidity Requirements, and Third-Party Engagements**

The Bangko Sentral remains cognizant of emerging threats and developments in the virtual asset (VA) landscape, particularly on practices that endanger the safety and security of customer funds. In the wake of the FTX debacle, reports indicate that FTX allegedly misused customer assets to fund unauthorized business activities. As a result, FTX suffered from liquidity issues, prompting the exchange to cease further customer withdrawals, and subsequently file for bankruptcy.

In view thereof, the Bangko Sentral cautions all BSP-licensed Virtual Asset Service Providers (VASPs), particularly those providing safekeeping and/or administration services for VAs (i.e., VA Custodian), to ensure that **customer VAs are not being used for any business activities other than for safekeeping on the customers' behalf**. Pursuant to BSP Circular No. 1108, VA Custodians are expected to ensure adequacy of reserves for VAs held in custody and institute mechanisms to properly record and segregate customers' VAs from their proprietary VAs. Meanwhile, related-party transactions should comply with appropriate reporting and disclosure requirements in accordance with relevant regulations and standards.

Further, VASPs are reminded to employ robust risk management systems and practices in managing their liquidity, third-party, and operational risks, among others. VASPs that facilitate the conversion or exchange of fiat currency to VA or vice versa are expected to maintain sufficient unencumbered liquid assets to ensure that VA redemptions are adequately met at all times. Moreover, those engaging with third-party liquidity providers should adopt appropriate due diligence procedures and conduct periodic risk assessment. In determining the risk profile of liquidity providers, VASPs should consider important factors such as, the license/registration status, legal/supervisory framework of the jurisdiction from which the liquidity providers are domiciled, and

supervisory/enforcement capabilities of relevant regulatory bodies/enforcement agencies, among others. In addition, contingency funding plans should be established in the event of prolonged service delivery failure or untimely cessation of the third-party liquidity providers.

For strict compliance.

CHUCHI G. FONACIER
Deputy Governor

07 December 2022

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