



WHAT DOES THE JPEX SAGA MEAN FOR HONG KONG'S CRYPTO AMBITIONS ?

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Until recently, you could barely move in Hong Kong without seeing JPEX's logo. From taxis and trams to online endorsements, it was hard to escape JPEX advertising. Only last month JPEX made a big splash at TOKEN2049, staking its claim as one of Asia's leading exchanges.

Now JPEX is in the public consciousness for all the wrong reasons. The Hong Kong Police and the Securities and Futures Commission (SFC) have exposed an alleged HK\$1.5 billion fraud scheme affecting over 1600 investors, the [largest financial fraud case](#) in Hong Kong's history.

The story has sent shockwaves around the global crypto community and has cast doubts over Hong Kong's ambitions to establish itself as a global Web3 hub. Hong Kong was barely three months into its new Virtual Asset Trading Platform licensing regime — designed in part to instil trust in the Web3 ecosystem — when the JPEX scandal broke.

With the VATP regulatory framework in its infancy, teething pains are to be expected. But the JPEX scandal is a make-or-break test for Hong Kong's regulators. The city state's long-term Web3 ambitions now hinge on how it manages the fallout and the extent to which it can rebuild trust in the still-nascent Web3 space.

Undermining confidence in a fragile ecosystem

The JPEX fallout is a clear setback in Hong Kong's global digital assets ambitions. Public opinion of cryptocurrency has [turned sour](#) in the aftermath of the saga, with the percentage of people preferring not to hold virtual assets rising 12% to 41%. And for JPEX users left unable to withdraw their funds, trust in cryptocurrency exchanges is at rock bottom.

It would be hard to characterise the incident as a positive one just looking at it on the surface. From the outside looking in, JPEX could be seen as another FTX, albeit on a vastly smaller basis — not an association any burgeoning crypto hub wants.

What is common between the two is that neither firm would have been able to obtain a licence. Both fall significantly short of the many requirements and controls needed to operate as a licensed centralised exchange in Hong Kong.

Despite claiming it was a registered exchange, JPEX never applied for a VATP licence. In fact, only [four little-known exchanges](#) have applied to be licensed. It could be that the

significant costs involved — estimated to be in excess of [US\\$ 7 million](#) — are putting off would-be applicants. Smaller businesses without these resources have also reported that they're struggling to navigate the system. These have perhaps provided convenient excuses for some industry players to avoid playing by the rules.

With so few live applications, it is clear that many operators have been taking advantage of the transitional arrangements. This is despite the SFC's warnings that a VATP is not expected to continue operating if they cannot demonstrate it is capable of complying with Hong Kong's regulatory regime.

JPEX has undeniably shone the spotlight on Hong Kong for all the wrong reasons. Despite the short-term negative impact on Hong Kong's global reputation, there are positive signs that the medium- to long-term picture does not look so gloomy. The silver lining is that by addressing the regulatory challenge the JPEX scandal has exposed, Hong Kong could potentially enhance the safety net for retail investors. It also reaffirms the necessity of Hong Kong's licensing regime for virtual asset trading platforms.

Robust regulatory response to protect Hong Kong's vision

Responding to this case appropriately and fine-tuning some of the requirements appears appropriate to prevent the same situation from recurring in the future. If Hong Kong is to stay on course to become a global centre for digital assets, having a safe and robust system that instils confidence that Hong Kong is a place to set up and invest in will be critical.

There have been some encouraging signs so far. After the JPEX case broke, we saw closer collaboration between different agencies, enhanced transparency, improved investor education and better market engagement. The government's approach has been applauded by the industry, with Web3 heavyweights — including Animoca Brands, OSL and Matrixport — publishing an [open letter](#) endorsing the government's Web3 commitment.

Taking a fresh look at some existing ways to protect investors, such as publishing companies on the SFC Alert List, has been a constructive initial step. This exposed JPEX's false claims that it was in the process of obtaining a licence with the SFC. The fact JPEX was able to incorrectly assert it was seeking a licence for so long provided a false sense of legitimacy to investors. Going forward, would-be digital assets investors can see for themselves who the licensed, unlicensed and suspicious VATPs are.

A crypto-focused working group has also been set up by the Hong Kong Police and the SFC to deal with illicit activities on exchanges. Fines and penalties are some of the outcomes that can follow a lengthy process of careful analysis and investigations.

These are all encouraging steps, but there is clearly more that could be done.

Further steps to rebuild confidence

JPEX is a case where a group of sophisticated actors have taken advantage of investors' inexperience in a complex and fast-evolving sector.

We do not expect that a verdict will be reached any time soon given the intricacies of the case and parties involved in multiple jurisdictions. But the response and any subsequent changes in regulations and policy directions will be telling.

The progress made to contain the incident and the enforcement actions taken so far are encouraging steps. However, more can be done from a regulatory perspective to rebuild confidence and to push forward the development of virtual assets.

The foundation of this is to create more concrete guidance on the definition of Web3 given how extensively and interchangeably the term is used. Without a tighter definition, it is near impossible for the general public to differentiate between the areas within Web3 and to identify higher-risk investments.

Enhancing requirements for marketing virtual asset products both on- and offline would also be prudent. Adopting a more conservative approach and applying policies similar to those in Singapore and [parts of Europe](#) to prohibit influencers from promoting crypto would not seem unreasonable, particularly given the role influencers are alleged to have played in the [JPEX case](#).

Investor education could also be broadened to include platform operation and network security. Web3 technology involves complex technical elements such as decentralisation, smart contracts and digital identities, which bring a whole host of new security challenges. System vulnerabilities are subject to abuse without proper understanding of how systems are operated and putting security controls in place. Education programs including those targeted at improving understanding of the risks associated with platform operation and security systems would be critical.

Another vital area is to ensure that authorities and supervisors such as Responsible Officers and Managers in Charge are equipped with the education, tools and resources they need to effectively regulate, supervise and oversee VA-related activities. There is a need to achieve a balance between learning lessons and protecting investors while preventing supervisors who don't always have Web3-specific knowledge from becoming overwhelmed or focusing on the wrong risks.

Conclusion: a brighter Web3 future on the horizon

JPEX is a short-term dent in Hong Kong's Web3 reputation, but with the right response and course of action, Hong Kong can preserve its digital assets ambitions over the longer term. Regulated institutions and more sophisticated investors will likely view the JPEX saga as a good development for the industry as it serves as a great example of how investors should deal with regulated platforms and products, especially those with a high-risk profile allegedly offering high returns.

In the medium to long-term, Hong Kong is well placed to build on its position as a leading global virtual asset hub, as it continues to develop a robust and comprehensive system to allow virtual assets to be incorporated into the broader financial system. By putting in place proper guardrails and cracking down on bad actors, Hong Kong can still attract quality companies and top talent as the industry continues to mature.

Given the significance of the case, the experience that comes out of JPEX will cause changes to regulatory frameworks and will have a marked impact on the virtual asset industry globally, not just in Hong Kong. In response to their new operating landscape, players remaining in the industry will have to re-assess and adjust their business strategies and models which will bring significant structural changes in the sector.

If regulators can act upon the lessons learned from the JPEX fallout, there is no reason why Hong Kong cannot build a resilient Web3 ecosystem that enables innovation while protecting investors.