



THE LAO PEOPLE'S DEMOCRATIC REPUBLIC

TECHNICAL ASSISTANCE REPORT – REGULATION AND SUPERVISION OF CRYPTO ASSETS

August 2023

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TECHNICAL ASSISTANCE REPORT

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Regulation and Supervision of Crypto Assets

May 2023

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GLOSSARY

BoL	Bank of Lao People's Democratic Republic
DoDT	Department of Digital Technology
IMF	International Monetary Fund
MoF	Ministry of Finance
MCM	Monetary and Capital Markets Department
MTC	Ministry for Technology and Communications
PSD	Payment Systems Department
SCO	Securities Commission Office
USDT	Tether

PREFACE

At the request of the Bank of Lao People's Democratic Republic (BoL), the Monetary and Capital Markets (MCM) Department carried out a virtual seminar on the risks and approaches to regulation and supervision of crypto assets in June 2022. A mission also visited Vientiane from October 18–October 25, 2022 to assist the authorities in their implementation of newly passed legislation on crypto assets.

The mission held meetings with representatives from BoL, the Lao Securities Commission, the Ministry of Technology and Communications (MTC), and the private sector. The mission wishes to thank the Laotian authorities and private sector entities for their warm hospitality, cooperation, and productive discussions.

EXECUTIVE SUMMARY

As part of national efforts to transform into a digital economy and pursue growth, Lao People's Democratic Republic (Lao P.D.R.) has recently enacted legislation to pilot the licensing of mining and crypto trading activities. The country has a surplus of electricity generated by hydro power, which the government hopes can generate more income in foreign currencies. A recent Ministerial Decision has entrusted the BoL with the licensing and supervision of crypto trading firms, while the Ministry for Technology and Communications (MTC) is in charge of licensing crypto mining firms and supervising both mining and trading firms from a technological perspective.

Crypto uptake in Lao P.D.R. seems to be limited so far, and so consumer protection risks appear contained. Currently, there is limited engagement in crypto trading by the public and none by financial institutions. The development of domestic trading platforms seems largely to absorb crypto from the mining industry and ensure there are domestic entities to exchange and store crypto assets rather than provide a market for retail users.

The authorities are in the process of considering an appropriate regulatory and supervisory framework for mining and trading activities. BoL has granted its first crypto trading license and is assessing a second applicant, while the MTC has issued eleven licenses for crypto mining firms. Both authorities are now also considering developing guidelines to support their regulation and supervision of these firms. The mission team understands these guidelines will reflect recommendations set out here. In this context, BoL has requested MCM technical assistance to enhance its understanding of crypto asset risks, as well as its capacity to manage those risks through its regulatory and supervisory activities.

The current regulatory framework for crypto trading platforms is a positive step to managing risks but would benefit from key prudential and conduct additions. While key important requirements to manage risks are included in the regulatory framework, the mission has provided several recommendations to BoL on the need to expand the requirements to address key risks, particularly, asset segregation and market abuse.

From a supervisory perspective, the focus for BoL should be on identifying risks from complex interconnections and potential market abuse. Due to the novelty of the industry and the limited size of the Lao PDR market, the most prominent risks arising from crypto trading in the short term are likely to be generated by complex interconnections within crypto markets and broader financial markets. BoL should also be ready to develop a more proactive approach into supervision of conduct related matters (market abuse, fair treatment of clients, etc.), as the market expands and attracts more retail participation.

Authorities should continue their efforts to coordinate domestically and cooperate with foreign peer regulators. The mission commends the authorities in their coordinated approach to this new regime, and would like to encourage them to continue deepening that coordination. Furthermore, increased bilateral cooperation with foreign counterparts, participation by BoL in

international fintech forums and through membership of standard setting bodies, will enable it to strengthen its understanding of crypto related issues and with foreign counterparts, provide valuable ties with foreign peers for the regulation, supervision, and enforcement of rules in this global market.

Table 1. Lao P.D.R.: Key Recommendations

Recommendations and Authority Responsible for Implementation	Timeline¹	Responsible Authority
Consider expanding the regulatory framework to include key prudential and conduct requirements, particularly safekeeping of clients' assets, market integrity, and crypto marketing given that many crypto exchanges will be offering wallet services	ST	BoL
Continue to deepen understanding of business models of licensed entities and ensure complex interconnections can be effectively supervised	Ongoing	BoL
Ensure effective management of operational risk at domestically licensed trading platforms	ST	BoL
Consider leveraging experiences of the global community through fintech cooperation agreements and/or joining global or regional supervisory forums	MT	BoL
Put together an updated approach to communication and investor education regarding crypto assets	ST	BoL
Ensure educational efforts by the private sector address key elements for consumer protection	ST	BoL

¹ ST= *short term*, 6–12 months; MT= *medium term*, 12–24 months.

I. INTRODUCTION

1. **BoL has requested the assistance of MCM to strengthen their knowledge regarding crypto assets for the purposes of implementing recently enacted legislation.** MCM provided an initial online webinar in June 2022 covering the key concepts and main risks of crypto assets, as well as general considerations for the regulation and supervision of crypto asset service providers. Additionally, an in-person mission visited Vientiane in October 2022, to better understand the approach of BoL in implementing the new legislation and licensing crypto service providers, and to provide advice to BoL staff on how to enhance their approach to regulating and supervising these services to manage risks to consumer protection, market integrity, and financial stability. The October mission also provided a one-day seminar to staff of BoL, Ministry of Finance (MoF), and the Securities Commission Office (SCO) on regulating and supervising crypto asset service providers.

2. **This report reflects the main findings and recommendations from the October 2022 mission to Vientiane.** It is based on information the mission obtained from meetings with authorities and the private sector, as well as from reviewing available regulatory documents.

II. BACKGROUND

A. Fintech and the Digital Economy

3. **The government of Lao P.D.R. is focused on turning Lao into a digital economy to improve economic outcomes as part of a 5-year digital strategy, which supports a broader 30-year strategy.** Lao P.D.R. has a population of 7.2 million with a GDP per capita of \$2,551 and uses the Kip as its national currency.² The government would like to improve economic growth and reduce the poverty rate which sits at 7.1 percent. Recently, the pandemic has created several additional challenges, and so the government hopes to leverage digital technology to improve the broader economy. The government recognizes that technology driven innovation in financial services (fintech) is growing rapidly across the world, and is scrutinizing specific technologies, such as distributed ledgers, and observing different approaches around the world.

4. **Lao P.D.R. has access to renewable energy and wants to generate revenue to help support economic growth.** The country has a surplus of electricity generated by hydro power and is not able to generate as much income as hoped, given the investment needed for infrastructure to export energy through gridlines; they are therefore trying to generate more income in foreign currencies through alternative methods. Following the ban in People's Republic of China of crypto asset activities, many mining entities have moved to neighboring countries. The government is piloting programs in crypto assets: crypto mining and crypto trading to achieve the above-mentioned aims. At the same time, the government has tasked

² [Lao PDR | Data \(worldbank.org\)](https://data.worldbank.org/)

regulatory authorities to consider necessary regulation, so that these activities do not impact the broader economy.

B. Legal and Regulatory Framework

5. **The MTC issued Decision No. 888 on November 2021, establishing the main rules for a pilot test of crypto asset activities.** The “Ministerial Decision on a Trial of Digital Asset Transactions No. 888” is the key regulation governing crypto transactions in Lao P.D.R. The Decision provides a framework for a 3-year pilot program, and sets out two types of crypto business that are allowed to operate under the pilot: crypto mining and crypto trading. The Department of Digital Technology (DoDT) is the relevant department leading the work in the MTC. A blockchain research center sits within the DoDT focusing mainly on macro level implications for blockchain. For more detailed and technical resources, the DoDT relies on external studies to provide information. Their focus is on the technological structure, background, testing and auditing, general and specific standards, and risk management.

6. **The Decision defines a “digital asset”, as one that is created with electronic data, in order to act as a medium of exchange.** It then divides digital assets into two categories, (i) cryptocurrencies, or “*digital information created on electronic networks in many forms, such as Bitcoin, Ethereum, Litecoin, and others*”; and (ii) digital token, or electronic data created as “*a digital token system for some specific purpose of the creator or to establish the right of an individual to receive goods or services or make joint ventures*”, which are divided further into two types: investment tokens and utility tokens.

7. **The Decision also sets out the main requirements that applicants would need to meet to be licensed under the pilot, as mining entities or crypto trading platforms.** The main criteria for both mining operators and crypto trading platform operators include being financially stable and with sufficient capital, meeting relevant fit and proper standards, and having minimum operational requirements to ensure the safe provision of business, including in respect of cyber-attacks and money-laundering, and complying with reporting requirements. Trading platforms need to pay a one-off royalty fee of \$1 million, pay a lump-sum tax at a rate of 15 percent of the fees that the exchange collects from buyers/sellers at the time of each sale, to be contributed to the government budget in four installments per year. Trading platforms are further required to deposit \$5 million with the BoL and cooperate with stable commercial banks in Lao P.D.R. to fulfill the payment duties in accordance with the regulations set forth by the BoL. They also must be able to ensure the safety of customers’ assets, use an accounting system and reports of financial position in accordance with the accounting framework of Lao P.D.R., and have statements audited by independent auditors. The Decision also specifically limits the number of crypto trading platforms to be licensed under the pilot to two entities. The mining provisions of the Decision also include the waiving of fees and tariffs, as well as special conditions for their power purchase agreement with the electricity operator.

8. **BoL mandate and powers.** According to the Law on the Bank of The Lao P.D.R. (article 10), BoL has among its duties, both to disseminate law and regulation relating to financial and banking to the public, as well as to supervise and inspect the operation of financial institutions. According to Article 3, a financial institution means “commercial banks, microfinance institutions, saving and credit unions, pawnshops, leasing companies and other financial institutions that are under the supervision of the BoL as defined in relevant laws and regulations”. Further to the Law, BoL must also carry out any other duties entrusted to it by Law and Regulations, and BoL understands the Ministerial Decision automatically triggers an extended mandate for the BoL to carry out new duties, including those related to crypto assets.

9. **BoL has further developed Decision 777³ to set out minimum criteria for crypto trading platforms.** Authorities have moved quickly to ensure that the impact of crypto mining does not adversely impact consumers, markets, and financial stability, and have issued requirements to a relatively comprehensive licensing framework. The framework focuses on protection of consumers, markets, and financial stability, and is a sensible first step for managing risks. Decision 888 is the overarching regulatory approach that sits with the MTC, with Decision 777 a narrower regulatory framework focused on crypto asset trading platforms that sits with the BoL. Further to this Decision, firms are assessed based on their compliance around three areas: (i) governance, (ii) financial resources and readiness, and (iii) risk management processes. The Decision also requires firms to have appropriate liquidation processes, and provides BoL with supervisory and enforcement powers, including economic sanctions for non-compliance.

10. **Decision 777 aims to provide a comprehensive regulatory framework for crypto asset trading activities.** Definitions are taken from Decision 888 to provide consistency and all trading platforms must meet the basic conditions of 888, but 777 focuses more deeply on the activities of crypto asset trading platforms. It requires that that crypto asset trading platforms are licensed with the BoL and are partnered with a commercial bank that is regulated by the BoL to facilitate money transfer, payment, and foreign exchange (acting as a fiat settlement rail, as well as on-ramp for customers wishing to interact with crypto markets). Unlike crypto asset mining entities that must be 100 percent Lao owned, crypto asset trading platforms must have majority Lao national ownership (51 percent) and have at least one Lao national executive that is a resident of Lao P.D.R. Decision 777 sets out document requirements which are substantive and comprehensive to ensure BoL have sufficient understanding of the business operations of the trading platform as well as its management. In addition to payments set under Decision 888, Decision 777 sets out further necessary payments such as a service fee of 20 million Kip, business license issuing fee of five million Kip, license extension fee of one million Kip, and an annual management fee of 0.1 percent of annual income—all payable to BoL.

11. **Consumer protection is an important part of the BoL’s regulatory approach to crypto assets.** Crypto is not to be used as a means of exchange, and there are currently no restrictions on crypto promotions, although BoL is considering developing these. BoL carries out

³ BoL Decision 777, December 2021.

social media monitoring of advertising by unlicensed firms and will take action unilaterally or with relevant government departments and sector regulators where necessary. Decision 777 imposes requirements on trading platforms to carry out high-level suitability tests, for example, users must be over 18 years old, capable financially and mentally, and if they pay in Kip, they need to withdraw in Kip. It also imposes basic data protection requirements on crypto asset trading platforms, as well as imposing a requirement to transparently disclose fees. However, there is currently no fund segregation requirements, either between the funds of mining entities and retail consumers, or between users and the trading platforms themselves.

12. **The BoL has also tried to manage risks to financial stability through prudential requirements.** The BoL has imposed capital requirements of \$5 million on crypto asset trading platforms to be held at BoL, with total capital requirements of \$10 million, of which \$5 million can be used for own business, and \$5 million to be held with the central bank. It also requires trading platforms to partner with regulated commercial banks to manage risks to foreign exchange rate fluctuations.

13. **Decision 777 also aims to ensure trading platforms have robust operational resilience mechanisms in place.** The Decision imposes business continuity conditions, internal control including audit, risk management and security, IT maintenance, and rules on third party service providers in relation to IT administration.

14. **BoL is developing guidelines to support these Decisions.** BoL staff has been working with two neighboring peer regulatory authorities to ensure these guidelines will provide substantial detailed guidance for entities operating in this sector. We believe this is a sensible next step to ensure gaps in regulation are filled. The mission team understands that early drafting already reflects some of the recommendations we are proposing, and hope authorities will reflect on the mission's conclusions throughout the drafting process.

C. Organization within BoL and coordination with other authorities

15. **Both the MTC and BoL share responsibilities for regulating and supervising crypto asset service providers and related activities.** MTC is entrusted with regulating, monitoring, and approving crypto mining entities and the use of technology for crypto asset trading platforms. The BoL is directly responsible for regulating and monitoring crypto asset trading platforms, as well as regulating Lao P.D.R. foreign currency inflows and outflows in connection with crypto mining and trading activities. Authorities have engaged openly and diligently among each other, as well as with government departments, to manage some of the most pertinent risks of increased crypto activity.

16. **The Payment Systems Department (PSD) is the main group within BoL entrusted with crypto asset regulation and supervision.** The PSD has around 25 staff, dealing with all issues related to payment services, including licensing, supervision, policy, and legal areas. The PSD is being split into three functional divisions, a division focused on fintech developments

including crypto assets, and Central Bank Digital Currencies, a division focused on payment service providers and payments oversight, and a division that will look at licensing and policy.

17. **The PSD works closely with other key departments within the BoL to deliver crypto regulation.** For licensing, the PSD works closely with the Bank Supervision Department and the Monetary Policy Department. For supervision there is collaboration with the MTC, particularly in areas of cyber and technological resilience.

18. **A Government-led Joint Committee (JC) for Crypto Assets was set up in 2021 to consider the possibility of regulating crypto activities in Lao P.D.R.** The members of the Committee are the MoF, MTC, Ministry of Energy and Mining, Électricité du Laos, and BoL. Initial research by this Committee about the benefits and challenges of regulating crypto activities in the country was the basis for the Ministerial Decision that provided the framework for the Pilot licensing of crypto mining and trading service providers. The JC regularly meets to discuss issues arising during the process of licensing both mining and trading firms, as well as other topical matters related to crypto assets.

19. **The JC holds meetings within the capital, but also across different regions.** The government mandates, through strategic decisions, the placement of mining entities in specific parts of the country to take advantage of energy resources while minimizing the impact on local economies. To reflect this distributed industry, meetings involving key agencies within the JC are held in the capital, but also affected regions across the country.

D. Market Size and Monitoring of Crypto Asset Activity

20. **The extent of crypto asset activities in Lao P.D.R. is unclear, but based on discussions held by the mission, uptake seems to be limited so far.** There has been no official research published on the demand for and use of crypto in Lao P.D.R., but authorities believe the uptake so far is limited, although there seems to be growing interest. Based on anecdotal evidence, crypto users are younger and more tech-savvy and their numbers are limited. While banks are not expressly prevented from buying and selling crypto assets, BoL understands this is not an activity they are engaging in and would discourage them to do so given the large volatility of certain types of crypto assets. In the future, banks may increase their exposure to crypto assets.

21. **Given the small size of the retail market, the development of crypto trading platforms is geared toward crypto mining.** The development of domestic trading platforms seems largely to absorb crypto from the mining industry and ensure there is a domestic marketplace to exchange and store those crypto assets rather than provide a marketplace for retail users. These crypto asset trading platforms will play an important role to ensure that mining operations do not lead to capital outflows in the form of crypto assets that are block rewards from mining operations.

22. **The monitoring of crypto activities is carried out by authorities of the JC for Crypto Assets.** The individual members of the JC carry out different research and monitoring activities (outreach events, discussions with domestic and foreign industry and international regulatory authorities, etc.) to understand the key issues regarding crypto assets and the implications for Lao P.D.R. BoL has engaged with neighboring peer authorities to understand their regulatory and supervisory regimes regarding trading of crypto assets and to assist with determining BoL's own approach. The DoDT of the MTC has organized several events to discuss crypto asset developments and hear from different private sector entities. It also organizes educational forums in different provinces to provide information about crypto activities, including implications of mining for those rural areas that may be more exposed to it.

E. Pilot Licensing of Firms

23. **So far, the MTC has licensed eleven mining companies under the Ministerial Decision.** These licenses have been granted for a period of three years and their cases will be re-evaluated when this period has elapsed. They can potentially be renewed for a subsequent three-year period. Further to the Ministerial Decision, all companies are domestic and have been assessed to comply with fit and proper, governance, and financial requirements. Furthermore, the MTC decides where they will be located and the type of power supply they will be provided with. This is a strategic decision to not impact local people or economies while ensuring entities have access to hydro power. The MTC monitors the operations of these companies and their compliance with their licensing conditions.

24. **BoL has issued its first license for a crypto trading platform and is in the process of assessing a second applicant.** The Ministerial Decision sets a limit of two licenses for the provision of trading services under the Pilot, to allow BoL to adequately supervise their operations, and determine the viability of the framework. Like crypto mining, licenses are granted for an initial period of three years. The first licensed platform is part of a bigger group with business in the energy, digital, and financial sector, and started operating on a limited basis at the beginning of October. The company offers trading and wallet services, as well as online training on crypto trading, and in person outreach events in their offices. It also runs a news website focusing on crypto market developments. The BoL felt that a lack of back-end technical readiness meant that the firm is limited to an initial soft launch. The second application is at the early stages of assessment and discussion by BoL.

25. **Trading platforms that are part of the pilot offer only a single activity, spot trading.** The single licensed firm currently lists 20 of the largest tokens by market capitalization. To list further tokens, they will require additional regulatory clearance. The entity provides both exchange and storage services. Currently, licensed trading platforms in the pilot can carry out a single activity domestically, crypto spot trading, and would require further regulatory clearance to diversify their activities. For spot trading, the platform accepts customer deposits only from a single domestic bank, although they have plans to support funds from other banks in the future. Trading pairs are all linked to the stablecoin Tether (USDT) and the user must purchase USDT

before trading. Likewise, when cashing out the user needs to convert crypto to USDT, to minimize FX risks from high Kip fluctuation in value. For each trade a domestic user must exchange Kip for US dollar, and then US dollar for a dollar denominated stablecoin (currently USDT), before exchanging that for their desired crypto asset.

26. **Domestic trading platforms are likely to have significant third-party dependencies.** Anecdotal evidence suggests that skills to develop local blockchain software is limited, and so domestic entities are likely to partner with overseas firms to deliver certain services, for example wallet provision. Furthermore, given the small size of the Lao crypto market, domestic trading platforms are likely to suffer from poor liquidity and large spreads making them uncompetitive in a global marketplace. Therefore, trading platforms are likely to need to tap into the liquidity pools of larger global exchanges through partnerships and master account access using Application Programming Interfaces (APIs).

27. **Many entities in financial services have complex links with other entities within the market.** It is common in Lao P.D.R. to have interconnections between different companies operating in financial services, and so the owner of one firm might have a significant ownership stake or place on the board of another firm. This is equally true in crypto markets which might quickly build links between crypto markets and broader financial services.

F. Ability of BoL to Supervise and Enforce

28. **The authorities are still in the process of defining their approach to supervision of firms to be licensed under the Decision.** The licensing process has provided BoL with initial insight in the activities of the first Pilot platform, which will be key to complete their approach to supervision. As mentioned earlier, BoL has also been working with several peer regulatory authorities and leveraging on their crypto asset regulatory experience to develop guidelines for supervision to assist them in the process of overseeing the operations of licensed entities, both off-site and on-site.

29. **Initially, the supervision of licensed firms will be carried out by the Development Division of the PSD due to technology concerns.** The Policy Division will carry out initial enforcement activities, while the Development Division carries out ongoing supervision through continuous monitoring using onsite and offsite supervision to manage key risks. The department is relatively small, and while it might be able to respond to risks from the planned two licensees, it would need to quickly increase resource if BoL decides to expand licenses at the conclusion of the pilot.

30. **Managing capital flows is considered the most important element of the pilot.** Regulating the flow of money and ensuring there aren't capital outflows in line with foreign exchange flow goals of the country is considered a key element of the crypto regulation. To manage these risks, if non-residents register with a domestic crypto trading platform and invest a large amount of capital, then the trading platforms must ensure that these individuals have balanced inflows and outflows. Where foreign residents are withdrawing significant liquidity

from Laotian trading platforms, they must get the relevant permissions as part of broader foreign exchange control regulations. If a local resident invests Kip, they must also withdraw Kip.

31. The potential use of stablecoins as a store of value could also impact capital flows.

While the use of US dollar is ubiquitous in Lao P.D.R., residents are encouraged and incentivized to use the Kip for transactions, however the Kip is subject to large fluctuations in value. For a resident to transfer Kip to US dollar, there are two main ways: foreign exchange bureaus or banks. The latter provides more competitive rates for conversion but requires significant documentation and relevant reasons for making the exchange. The former requires less checks but provides poorer rates. The ability to store value in dollar denominated stablecoins provides additional challenges for the government. Authorities believe that broader requirements on trading platforms to balance their foreign exchange holdings may limit the risk of capital outflows by limiting the amount of US dollar trading platforms can hold or exchange. The trading platforms therefore limits how much USDT a user can hold, and it can suspend balances if this limit is breached.

32. The BoL, together with the MTC, can directly access wallet details and funds.

While crypto assets sit on decentralized networks, they are often stored with centralized entities. By licensing domestic trading platforms, authorities have made sure they can have effective oversight, including requesting direct access to wallet data and the funds held by these trading platforms. This is done to manage capital flow risk, ensure that mined crypto is being stored in domestic exchanges, and manage financial integrity risks. However, considering the impact on users, it is important that authorities and crypto trading platforms are effectively disclosing this ability to users.

33. Users can still buy and sell crypto assets from foreign trading platforms.

While authorities do not allow crypto to be used for payments, they do not stop users buying or selling crypto assets. Authorities are guiding the nascent local market to deal with locally licensed trading platforms through public communications that focus on the unregulated nature of foreign trading platforms. However, competitive spreads and fees might entice users to deal with foreign exchanges rather than local ones. This might limit the effectiveness of authorities to manage risks through domestic regulatory frameworks from a retail user perspective.

G. Financial Literacy and Communication

34. Financial literacy in Lao P.D.R. is low and scams are not infrequent.

Anecdotal evidence suggests that considerable global scams involving crypto assets are carried out by entities and individuals located in Lao P.D.R. and neighboring countries, the impact of which is felt largely by users in other countries.

35. Domestically, BoL has carried out some communications to the public on crypto assets.

BoL has warned the public about the risks of crypto assets when it became aware of there being significant social media activity around them in the country. It is planning to introduce rules in relation to the marketing and promotion of crypto assets. To manage the risks of foreign

trading platforms entering the market, the BoL has issued notifications to the public to guide them to only deal with licensed firms, and note that overseas entities are not regulated.

36. **The private sector might also have a role to play in improving blockchain literacy.** The first trading platform license holder for crypto trading activities holds on-line and in-person training activities at no cost, and open to the public. These initial courses seem to be well attended, with training material provided in Laotian.

III. FINDINGS AND RECOMMENDATIONS

A. Regulatory Framework for licensing and supervision

37. **The existing regulatory framework is set up largely to absorb and manage the risks of crypto mining operations.** We think is a sensible first step given the limited domestic retail and institutional involvement in crypto assets. However, the presence of local trading platforms and a regulatory framework has the potential to legitimize the market, which could lead to rapid growth. In this scenario, authorities will need to take further steps to manage risks to consumers, markets, and financial stability. Authorities should be prepared to continue developing the regulatory framework further, as needed, as the market evolves. Particularly, authorities should closely monitor developments in the industry and the uptake of crypto by the general public to make sure its framework is up to date with a broader retail use and its potential implications. This includes potentially more specific guidelines on the provision of wallet services, which are currently part of the requirements on crypto trading platforms.

38. **BoL should ensure any regulatory frameworks are consulted on and shared widely with the public.** Developing regulatory frameworks should be a relatively open process that considers the views of a wide variety of stakeholders, including public authorities, academia, industry, the public, and other relevant stakeholders. Final decisions should be communicated at the same time across various media in local languages. We recommend that the BoL ensures that Decision 777 is available freely and transparently to provide regulatory certainty for trading platforms, and ensure consumers can identify what protections are available to them. We also propose that supporting guidelines are shared publicly.

39. **The regulatory framework currently used for licensing and supervision of crypto trading platforms could be enhanced with additional prudential and conduct provisions.** While the framework issued under Decision 777 includes relevant provisions around capital requirements, governance and risk management, consideration should be given to amending the Decision or developing subsequent guidance to include the following important requirements:

- a. **Provide greater clarity on the taxonomy:** currently the definition of a crypto asset and a digital asset are extremely broad, and while not the intent, could encompass digital money such as electronic money and mobile money. Including references to distributed ledger technology can narrow the scope of the regulatory framework while providing clarity to various stakeholders. While there doesn't seem to be a market for security

tokens, BoL should work closely with the SCO to ensure that security tokens are subject to securities regulation. Finally, the BoL should consider creating a separate category for stablecoins, which could allow it to quickly deliver regulation in the future, should a domestic issued stablecoin be launched, or a dollar denominated stablecoin become systemic. To manage risks of “cryptoization” and dollarization, it might consider banning payments in dollar or Kip denominated stablecoins.

- b. Asset safety and segregation requirements:** while Decision 777 contemplates a fine for “combining money from end users into the platform’s account” and “utilizing clients’ money without approval”, the Decision should expressly require trading platforms that hold clients’ assets, to make adequate arrangements to safeguard clients’ ownership rights.⁴ In particular, clients’ assets should be identified and held separately from the platform’s own assets, to provide protection from misuse of clients’ assets as well as to assist in orderly winding up of the insolvency of the relevant platform and the return of client assets. The platform should also be required to keep complete and reliable records to ensure clients’ positions can be adequately identified. Client assets should be restricted from reuse and/or lending without explicit consent from the users and appropriate compensations. This includes ensuring that wallet addresses for users are different to the entity’s own wallet address. Given the disproportionate role the mining sector is likely to play, authorities might consider taking a further step of segregating the assets of mining firms and retail users to limit contagion risk. Finally, authorities might expressly require trading platforms to hold a proportion of client assets in cold wallets to manage risks from cyberattacks, as well as ensuring trading platforms have cyber insurance policies. For this, it is important that BoL staff are able to determine the terms and conditions of the policies themselves, as coverage can be poor in many circumstances. This should be packaged as part of more specific guidelines on the provision of wallet services.
- c. Conduct of business rules.** The Decision should require that platforms treat their customers fairly and don’t put the interests of the platform before those of its clients. It might also consider that retail users are not treated worse than mining customers of these trading platforms. Consideration can be given to the need to expand suitability requirements for crypto trading platforms to encompass financial background and consider whether users are deploying borrowed funds, or do not understand relevant risks. Where trading platforms are part of a broader group, they must ensure that appropriate governance procedures are in place to ensure there are no conflict of interest from other group activities within the group. Trading platforms should provide for the best interest of their users, and this includes transparency and disclosure requirements whereby any potential conflicts of interest (such as connections to other businesses) are clearly communicated.

⁴ Generally, for legal clarity and to prevent court challenges, the Decision should make sure that it contains adequate requirements for trading platforms that match the prohibitions included in the articles regarding sanctions (i.e. when a behavior is sanctioned in the enforcement section, a clear requirement or expectation of how the entities should behave in that regard should also be included earlier on in the text).

- d. **Transparency requirements:** Currently Decision 777 requires trading platforms to provide customers with information about the way they operate, as well as sufficient information on fees and dispute resolution mechanisms available. When ensuring compliance with these rules through its supervision, BoL should ensure that trading platforms provide sufficient and clear information about the way they operate to ensure sufficient client understanding including of any market making arrangements, and any requirements and mechanisms to ensure orderly trading (e.g., how and when the platform can suspend trading; the platform’s trade cancellation procedures; treatment of assets where there have been irreversible changes to the distributed ledger protocol that makes previously valid ledgers or transactions invalid). This is particularly relevant for crypto trading platforms, since normally retail clients can access them directly and a lack of clarity on the platforms’ rules can bring up increased market integrity or fairness issues.
- e. **Market integrity provisions.** The Decision should make clear that market abuse (practices like pump and dump, insider trading, etc.) in crypto trading is a prosecutable offense and platforms are expected to put in place adequate mechanisms to monitor trading to ensure fairness and investor protection. BoL should consider whether a need exists for regulatory determination of the types of assets that can be accepted for trading, or if they should be otherwise involved in the process of product listing, particularly in the case of smaller illiquid crypto assets, those with little or no accompanying information, or the listing of privacy tokens.
- f. **External auditing of financial statements and IT processes.** While Decision 777 requires annual auditing of the crypto trading platform’s financial statements and IT systems, it only requires this auditing to be carried out by an external, independent auditor when the audit is unclear or BoL determines so. To ensure that both prudential and operational IT requirements are maintained appropriately, BoL could consider requiring external independent auditing of accounts and IT systems on a regular basis.
- g. **Outsourcing and third-party requirements.** Platforms may need to partner with third parties outside of Lao PDR to provide some of their services. Decision 777 provides a sensible framework for management externally dependent IT systems but should consider imposing requirements if domestic trading platforms partner with global trading platforms to get access to greater liquidity. It might be prudent for BoL to consider approaches, such as ensuring trading platforms can rely on domestic liquidity in times of market stress and are not completely reliant on having accounts at global platforms, particularly if these can be cancelled at short notice.

B. Supervisory approach and Global Cooperation

40. BoL should continue to deepen its understanding of the business models of licensed entities to adequately supervise their risks. As licensed entities start to operate, BoL should be engaging with them on an on-going basis to understand the implications of their business model to financial stability and consumer protection, and to ensure any changes to the way these entities operate is adequately covered by regulation and the supervisory approach developed. As BoL

deepens its understanding of trading platforms operations, it may need to adapt its regulatory and supervisory framework to cover new activities and manage any new risks. Furthermore, BoL is currently in a learning, and will need to ensure that staff are quickly upskilled to manage risks from complex new businesses.

41. BoL should ensure they can effectively supervise complex interconnections.

Domestically, BoL will need to identify interconnections between traditional financial institutions, broader institutions, and crypto asset trading platforms, and determine the type and size of risks, as well as any regulatory or supervisory responses. BoL needs to understand if banks are likely to be exposed directly or indirectly to risks from crypto trading platforms and whether there is any shared or pooled capital which could impact retail depositors of connected banks. Globally, BoL needs to determine interconnections between local trading platforms and foreign trading platforms and wallet providers to ensure domestically licensed entities have sufficient alternatives in place should issues (such as blocked transactions, increased fees, de-risking, etc.) arise at these foreign entities and ensure they do not impact domestic markets or consumers.

42. BoL should require existing financial institutions to improve their risk management in relation to their exposures to crypto assets.

Currently, commercial banks' exposure to crypto assets is limited, and there does not seem to be strong appetite for the banks to increase their exposures. However, in the future, some regulated financial institutions, including banks, may increase their engagements with crypto related activities, which may increase their exposures. BoL should continue to monitor crypto related activities among regulated financial institutions and impose proper risk management and prudential requirements once BoL detects increasing exposures among regulated entities. Such monitoring would also help to avoid the situation where banking provision to crypto markets is concentrated on a single, or small number of banks, which could create concentration risks.

43. BoL will need to manage operational risks at domestically licensed trading platforms, particularly if the market grows.

BoL already has some concerns about the technical readiness of local trading platforms, and if the market grows these issues could impact consumers, markets, and financial stability. Large global exchanges already struggle with operational resilience, particularly at times of market stress, and given the lower levels of financial literacy in Lao P.D.R., the inability to access funds might lead to disproportionately perverse outcomes. Authorities must continuously test and supervise operational resilience of domestic platforms. Additionally, BoL should ensure that its supervision of trading platforms pays sufficient attention to services provided via third parties, and to how the trading platforms monitor those services and manage any potential risks.

44. BoL can leverage experiences of the global community through fintech cooperation agreements and membership of global or regional supervisory forums.

While a dedicated team exists at the BoL, it is relatively small and still learning. BoL could leverage the experiences of other countries through signing fintech cooperation agreements to share learning,

exchange information and carry out joint research. Fintech cooperation agreements are not legally binding and have been successfully leveraged to improve the flow of information and learning between the fintech units of different authorities. Membership of global or regional supervisory forums (such as the Global Financial Innovation Network) can further aid their understanding, both through a platform where the BoL can raise issues and ask questions, but also through joining relevant workstreams and observing testing involving crypto asset trading platforms. The use of these multilateral forums can both be more cost-effective than ad-hoc bilateral engagement and provide an ability for BoL to determine the level of participation it desires.

45. **We encourage BoL to refer to guidance produced at the international level when developing their supervisory framework.** Policy guidance developed by global standard setters around crypto assets can be a very useful resource for BoL, particularly the paper by the International Organization of Securities Commissions (IOSCO) “Issues, Risks and Regulatory Considerations Relating to Crypto-Asset Trading Platforms”, and the consultation report by the Basel Committee on Banking Supervision “Prudential Treatment of Crypto Asset Exposures”. Furthermore, Financial Stability Board’s reports “Assessment of Risks to Financial Stability from Crypto Assets” and “Regulation, Supervision and Oversight of Global Stablecoin Arrangements”, as well as its consultation on “International Regulation of Crypto-asset Activities” can also provide very useful guidance.

C. Financial literacy and communications

46. **BoL needs to put together an updated approach to communication and investor education regarding crypto assets.** While BoL has issued warnings regarding crypto assets in the past, it has not put out any outreach initiative since the Ministerial Decision entered into force, and it became the key actor in the regulation and supervision of crypto trading platforms under the Pilot. It would be important for BoL to clearly communicate to the public its approach under the Pilot, together with the main risks and challenges around crypto assets more generally. This should be part of a wider investor education plan on what crypto assets are, how they can affect the public and what protections exist in the country.

47. **BoL should ensure educational efforts by the private sector address key elements for consumer protection.** As part of its ongoing supervision of trading platforms, BoL should assess whether the educational materials provided by them discuss the most significant risks for consumers and explain these in simple, accessible language. These private sector-led trainings are likely to be the first point of contact for the general public, when engaging in crypto trading activities, and it is important to understand what they cover and to make sure the key risks and consumer rights are adequately explained.

48. **Crypto marketing and promotions can generate consumer risk and we are encouraged to see BoL’s approach to managing this risk.** BoL is in the process of developing a framework around limiting inaccurate or unclear crypto promotions. We commend authorities

on this positive step which can limit risks to consumers, particularly in a country where financial literacy rates are relatively low. Developing crypto restrictions can differ between jurisdictions based on mandates and desired outcomes, and we stand ready to provide more detailed advice in this aspect if required.