

TRANSACTION RELATED TO CRYPTOASSETS

I. OVERVIEW

On 26 December 2024, the National Bank of Cambodia (NBC) issued a Prakas No. B7-024-735 Prokor on Transaction Related to Cryptoassets (“Prakas”). This Prakas is the country’s groundbreaking regulation, which has the purpose of managing the transactions and business activities related to cryptoassets with respect to the Law on Banking and Financial Institutions.

It is applicable to all commercial banks and payment service institutions under the authorized supervision of the NBC that intend to have cryptoasset exposure and/or to provide cryptoasset service as cryptoasset service providers (“CASPAs”). Any other legal entities intending to provide CASPs’ services are also included.

The following are the highlights of key provisions under this Prakas.

II. LEGAL DEFINITIONS

This Prakas defines “cryptoassets,” “cryptoasset exposures,” and “cryptoasset service providers” as follows:

Cryptoassets means “*a digital representation of value that depends on cryptography and distributed ledger or similar technology. Cryptoassets can be digitally traded, or transferred, and can be used for payment or investment purposes or to access goods or service. Cryptoassets include tokenized traditional assets, unbacked cryptoassets, stablecoins, utility token, and securities token. This does not include digital representations of fiat currencies (Central bank digital currency - CBDC). For the purpose of regulating CASPs in this Prakas, cryptoasset do not include digital representations of fiat currencies, securities and other financial assets.*”



Cryptoasset Exposures means “refer to on or off-balance sheet amounts of cryptoassets that give rise to credit, market, operational, and/or liquidity risks, as well as refer to certain types of activities, such as safekeeping or administration of client cryptoassets, that entail operational risks.”

Cryptoasset Service Providers (CASP)s means “refer to any entity that offers services or engages in activities related to cryptoassets on behalf of customers, namely (a) exchange against official currencies or other cryptoassets; (b) transfer services; and/or (c) custody and administration.”

III. CRYPTOASSET CLASSIFICATIONS

This Prakas classifies cryptoassets into two groups, including Group 1 and Group 2.

i-Group 1

Cryptoassets in Group 1 include cryptoassets that are “digital representation of traditional financial instruments or the value of which refers to traditional assets or to a pool of traditional assets known as reference assets.” Group 1 is divided into two groups:

Group 1a: includes “digital representations of traditional assets that have gone through tokenization, in particular tokenized securities, using DLT or a similar technology to record ownership.” The level of credit and market risk of this group is the same as the traditional assets such as corporate bonds, loans, deposits, or equities, derivatives, commodities, and cash in custody.

Group 1b: includes “stablecoins with an effective stabilization mechanism to traditional assets or a pool of traditional assets that aim to maintain a stable value of the reserve assets excluding any reference to cryptoassets of any kind or algorithm-based stablecoins.”

The detail conditions and requirements for the recognition of cryptoassets as Group 1a or Group 1b are set out in Article 6 of this Prakas.

ii-Group 2

The cryptoassets in Group 2 include those that do not meet Group 1’s criteria, such as unbacked cryptoassets that are neither tokenized traditional assets nor stablecoins, for instance.

IV. CRYPTOASSET EXPOSURES OF COMMERCIAL BANKS

Any commercial banks that intend to have cryptoasset exposure are required to comply with the governance framework, transaction conditions, and prudential treatments.

i. Governance Framework

This Prakas requires the board of directors (the “Board”) to establish, approve, and regularly review risk management policies, procedures, and processes as well as the system for the management of risk related to the operation of cryptoassets. The Board shall ensure the effectiveness of risk management implementations under the direct responsibility of senior management at the executive level. The senior management work herewith shall comply with the Board’s decisions.

The risk appetite and risk tolerance of cryptoasset activities to be addressed under the risk management policies and procedures include:

- Credit risk;
- Market risk; and
- Operational risks: includes cryptoasset technology risk, ICT risk, cyber risk, legal risk, money laundering risk, combating the financing of terrorism and the proliferation of weapons of mass destruction risks, and valuation risks.

The Board shall also conduct effective oversight of cryptoasset activities. This can be done by ensuring that the commercial bank has procedures and staff for cryptoassets’ categorization and approval as per this Prakas, an available compliance arrangement for internal exposure limits, qualified human resources for duties’ performance and keeping updated with the area’s new development and international standard, and an appropriate reporting mechanism.

ii. Conditions on Conducting Transactions

The Commercial Bank shall comply with the following conditions for any services or activities related to cryptoassets:



- **Prior Authorization from NBC:**

- **The bank's own account:** the commercial bank that intends to conduct cryptoasset-related activities shall obtain prior approval from the NBC. The NBC shall provide written notice to the bank on the approval's status within 60 (sixty) days after the receipt of sufficient documents. The conditions for this approval are set out in Article 13 of this Prakas.
- **The bank's customer:** the commercial banks that intend to provide cryptoasset services for their customers shall apply for prior authorization from the NBC as detailed in the following part (Cryptoasset Services).

- **Prohibitions:** the NBC prohibits any commercial banks from (a) issuing cryptoassets and (b) carrying out either directly or indirectly any cryptoasset exposure with Group 2 for their own account, including any transaction on organized derivative or future markets as long as such asset is in Group 2.

iii-Prudential Treatment

The commercial bank is required to implement the existing prudential treatment on exposures to Group 1 with respect to the general principle of the traditional assets: “same activities, same risks, same regulations” for both banking and trading books. The detailed implementation shall be set out under a separate guideline. A stringent prudential treatment related to capital requirements on cryptoassets may also be applied by the NBC if necessary.

The Prakas also set out the limit of exposures (before risk-weighted). Article 16 stated that “Group 1a exposures (before risk-weighted) shall not exceed 5 percent of Common Equity Tier 1 Capital (CET1 Capital). Group 1b exposures (before risk-weighted) shall not exceed 3 percent of Common Equity Tier 1 Capital (CET1 Capital).”

The additional capital charges to individual banks may also be imposed for risks that are not sufficiently captured under minimum capital requirements, like infrastructure risk, which is not under the existing operational risk, credit risk, or market risk.

The existing reporting requirements shall be applicable to the reporting of cryptoasset exposures. The commercial bank is also required to provide an additional quarterly report on the nature and value of the cryptoasset exposures as per the provided form.

V. CRYPTOASSET SERVICES

i. Types of Cryptoasset Services

The Cryptoasset Service Providers (CASP) may provide one or more cryptoasset services as stated in Article 20 of the Prakas as follows:

- **Exchange of cryptoassets:** means “any service in exchanging cryptoassets against fiat currencies (known as off-ramp transaction) or exchanging fiat currencies against cryptoassets (known as on-ramp transaction) or exchanging cryptoassets to other cryptoassets.”
- **Transfer of cryptoassets:** means “the conduct of a transaction that moves a cryptoasset from one cryptoasset address or account to another.”
- **Safekeeping or administration of cryptoassets or instruments enabling control over cryptoassets:** means “services such as (i) safeguard the customer's cryptoassets wallet; and/or (ii) manage the customer's cryptoasset wallet. CASPs could execute transactions or transfer from its platform on behalf of the customer. CASPs may have exclusive or independent control of the private key associated with cryptoassets belonging to customers or exclusive and independent control of smart contracts that involve cryptoassets of customer.”

ii. Prohibitions

CASP are not allowed to (a) use cryptoassets of customers for their own business purposes as well as the lending and staking facilitation of such, (b) act or provide any service in a way that promotes, supports, or encourages the use of cryptoassets as a means of payment for goods and services, and (c) advertise specific cryptoassets except their own service advertisement.

iii. Procedure

The commercial bank or payment services institution that wishes to involve or offer any or all of the above cryptoasset services requires prior authorization from the NBC. Any other entities that wish to operate such activities require a license from the NBC. The details are subject to separate NBC regulations.



VI.NON-COMPLIANCE

The entity that fails to comply with this Prakas shall be subject to disciplinary sanctions under article 52 of the Law on Banking and Financial Institutions as follows:

- Caution;
- Reprimand;
- Prohibition on the execution of certain operations and any other limitations on the carrying on the business;
- Temporary suspension of one or more of the executives, with or without appointment of a provisional administrator;
- Compulsory resignation of one or more of the executives, with or without appointment of a provisional administrator;
- Setting up a provisional administration; and
- Withdrawal of the license and liquidation.

The NBC may also impose the following fines as stated in Article 23 of this Prakas in addition to the above disciplinary actions:

- *“Commercial bank failing to comply with the provision of Article 12 (Commercial Bank’s Prohibition on Cryptoasset Exposures) of this Prakas shall be liable for transactional fines KHR 500,000,000 (five hundred million riel) per transaction.*
- *Commercial bank breaching threshold set forth in Article 16 (Exposure Limits) of this Prakas shall be liable for transactional fines from KHR 20,000,000 (twenty million riel) to KHR 500,000,000 (five hundred million riel).*
- *Commercial bank failing to comply with the reporting obligation set forth in Article 18 (Reporting Obligations) of this Prakas shall be liable for transactional fines KHR 1,000,000 (one million riel) per day.*
- *Commercial banks, payment services institutions, and licensed CASPs failing to comply with this Prakas except items 1, 2 and 3 of this Article shall be subject to transactional fines KHR 3,000,000 (three million riel) per day counting from the deadline the NBC requires the Institution to take corrective action”.*

*This Legal Update is a general information only and is not considered as legal advice or opinion. If you require any further information or have any questions, please contact **Mr. HOUN Vannak**, managing partner of **RHTLaw Cambodia**.*

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