

Legal Commentary

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China Tightens Rules for Crypto, RWA Tokenization Included

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PRC¹ regulators have long been cautious and closely monitoring the issuance and trading of cryptocurrencies² since the advent of Bitcoin in 2008. Aside from the digital yuan (e-CNY) issued by the People's Bank of China (“**PBoC**”), China continues to reject cryptocurrencies as legal tender and strictly prohibits their circulation in the onshore market. On September 15, 2021, PBoC, along with nine other governmental, party, and judicial organs, issued the *PBoC Circular [2021] No.237* (the “**2021 Circular**”), clearly prohibiting all onshore “cryptocurrency-related business activities”. However, the 2021 Circular was silent on real-world asset (“**RWA**”) tokenization, which has since invited curiosity from market participants.

On February 6, 2026, eight PRC regulatory authorities, including PBoC, the National Development and Reform Commission (“**NDRC**”), the National Financial Regulatory Administration, the China Securities Regulatory Commission (“**CSRC**”), and the State Administration for Foreign Exchange (“**SAFE**”)³, jointly released the *Notice on Further Preventing and Dealing with Virtual Currency and Other Related Risks* (the “**2026 Notice**”), which has superseded the 2021 Circular.

At a glance, the 2026 Notice sets forth a rigorous regulatory framework with a strict stance against the circulation of cryptocurrencies and RWA tokens within China as currencies or speculative tools. On the other side, Chinese regulators have placed under their oversight offshore-circulated RWA tokens that function as securities or debt financing tools.

We outline key regulatory highlights and takeaways as follows.

- **Regulatory realignment with a shifting regulator lineup.** The 2026 Notice reaffirms the strict prohibitory stance against any cryptocurrency-related activities within China as seen in the 2021 Circular. However, the regulatory structure is adjusted compared to the 2021 Circular. Most notably, the 2026 Notice does not include as co-issuers party organs (the Central Cyberspace

¹ For the purposes of this article only, “China” or “the PRC” refers to the People’s Republic of China, excluding the Hong Kong Special Administrative Region (“**Hong Kong**”), the Macau Special Administrative Region, and the province of Taiwan.

² In this article, “cryptocurrency” is used interchangeably with “virtual currency” as used in legislative or regulatory documents in the PRC.

³ Other agencies include the Ministry of Industry and Information Technology, the Ministry of Public Security, and the State Administration for Market Regulation.

Affairs Commission) and the judiciary (the Supreme People's Court and the Supreme People's Procuratorate). NDRC, as the PRC's top macroeconomic management and planning agency, is included as a co-issuer, with a view toward regulating RWA tokenization products that operate as debt finance tools.

In this case, the issuing authorities of the 2026 Notice are all under the State Council, indicating that its scope has shifted from general policies to detailed regulatory guidelines. The newly added penalties further signify that the 2026 Notice will be a regulator-led, full-fledged regulation with "teeth" allowing for enforcement actions.

- **Currency-based jurisdiction over stablecoins.** Stablecoins remain categorized as strictly prohibited cryptocurrencies. The 2026 Notice emphasizes that, because stablecoins perform the functions of legal tender, no onshore or offshore entity is permitted to issue a CNY-pegged stablecoin without explicit approval from relevant PRC authorities.
- **Distinct classification of "foreign debt" and "securitization" RWA tokens.** For the first time, the 2026 Notice explicitly places RWA tokenization under a separate regulatory framework from those governing traditional, speculative cryptocurrencies such as Bitcoin.

The 2026 Notice clarifies that RWA tokens (i) backed by onshore proprietary rights, rights to proceeds, and other onshore rights; (ii) offered overseas; and (iii) which operate as equity interests or debt financing tools are now regulated by CSRC, NDRC, and SAFE under their respective rules governing securitization or debt finance. For these RWA tokens, it is noteworthy that PRC regulators adopted the principles of "same business, same risks, same rules"; such principles are also shared by the Securities and Futures Commission of Hong Kong as its regulatory philosophy over RWA tokens.

- **Expanded restrictions on offshore entities.** The 2026 Notice further expands the scope of restrictions on cryptocurrency/RWA token issuers and the products. Under the 2026 Notice, offshore entities and individuals are now broadly prohibited from providing virtual currency-related services to domestic entities in any form, expanding the restriction beyond the onshore employees or affiliates of such offshore entities.

This expanded restriction over offshore entities has similarities to the "effect" test found in many U.S. laws, which gives U.S. federal courts jurisdiction over behaviors that have effects in the United States. As such, the 2026 Notice may, in effect, empower PRC regulators to take actions against purely offshore entities that offer cryptocurrency/RWA tokens to PRC entities. Foreign entities should prudently monitor the latest enforcement developments and trends to avoid becoming regulatory targets of onshore regulators.

- **Restrictions on onshore entities' overseas RWA token issuances.** Onshore entities and their offshore subsidiaries are strictly prohibited from issuing RWA tokens backed by domestic assets in overseas markets without prior regulatory consent or filing with CSRC. With regard to the RWA approval criteria, CSRC has issued the *Regulatory Guidelines on the Offshore Issuance of Asset-Backed Securities Tokens Backed by Onshore Assets* (the "**CSRC Guidelines**") following

the publication of the 2026 Notice.

The CSRC Guidelines, on top of establishing a filing-based system for RWA tokenization, have mandated strict compliance with national regulations regarding cross-border investment, foreign exchange, and data security, while explicitly prohibiting the use of assets linked to national security risks or those involved in legal disputes. By distinguishing tokenized securities from prohibited cryptocurrency-related activities, CSRC aims to bring offshore RWA tokenization activities by onshore entities into a regulated framework that is aligned with general securitization transactions, prevents speculative bubbles, and safeguards national interests.

Notwithstanding the above, detailed filing requirements are yet to be further clarified by CSRC. It is expected that CSRC will impose relatively stringent requirements on the applications at the initial stage. Nevertheless, the CSRC Guidelines have paved the way for the long-term compliance framework of RWA tokenization.

- **Enhanced institutional and online information management.** The 2026 Notice has also strengthened the regulation of onshore financial, intermediary, and technical service providers. In addition to a general ban on issuing cryptocurrency/RWA-based financial products, such service providers are explicitly forbidden from offering or accepting cryptocurrency/RWA tokens, or their related financial products, as collateral or guarantees, or subjects of insurance policies.

Additionally, internet platforms, including social media platforms and public account platforms, are required to ban accounts that “provide online business space, commercial display, marketing and promotion, paid traffic redirection and advertisements” of cryptocurrency/RWA token trading activities. Therefore, the traditional promotion model via offshore key opinion leaders’ onshore social media accounts may face heightened risks of account ban and other restrictions.

Based on the new regulatory requirements set forth in the 2026 Notice and the CSRC Guidelines, offshore financial institutions, cryptocurrency exchanges, cryptocurrency investors, and other cryptocurrency service providers should consider the following actions:

- **Closely monitor regulatory developments and enforcement trends.** Routine monitoring mechanisms should be established to prudently track potential follow-up detailed rules, interpretations, or window guidance from PRC regulators, as well as specific enforcement directives communicated by local government agencies to financial institutions, internet platforms, and media outlets.
- **Comprehensively assess and adjust promotional strategies targeting the PRC market.** An immediate risk reassessment should be conducted on any current business models, marketing activities, or other engagements targeting PRC clients. In addition, any business dealings with PRC entities or individuals should be undertaken with extreme caution, and the potential regulatory implications and liabilities under PRC laws should be evaluated in advance.
- **Prudently evaluate and manage risks related to service providers within the PRC.** A compliance review should be made on all current service providers that are located within the PRC, including but not limited to those offering technological solutions, financial intermediation,

human resources support, marketing services, and other suppliers related to cryptocurrency operations. It is advisable to assess the sustainability of their services under the new regulations, determine whether their operations may be disrupted due to compliance pressures, and develop contingency plans.

- **Strictly avoid PRC nexus under RWA issuances to prevent risks of illegal fundraising.** The 2026 Notice has placed RWA tokens under stringent oversight, clarifying that such activities may constitute illegal financial operations, including unauthorized issuance of tokens, unauthorized public offering of securities, and illegal fundraising. For any RWA token issuance, any direct or indirect sales, fundraising, or promotional activities targeting PRC investors must be avoided.
- **Strengthen KYC and customer identification processes for RWA token issuance services.** When providing any services related to RWA tokens, it is essential to enhance due diligence and know-your-customer procedures and pay particular attention to identifying offshore entities that are controlled by PRC domestic entities or individuals. Any business activities should be avoided if they involve assisting PRC entities or individuals in circumventing PRC's foreign exchange or capital account controls, as well as violating the prohibitions in the 2026 Notice regarding assisting "domestic entities in conducting relevant business activities overseas".

The 2026 Notice is aligned with PRC's regulatory philosophy for novel financial instruments. PRC regulators are known to proceed with extreme caution to prevent disruption to the onshore financial landscape; as time goes by, novel financial instruments may be permitted in a manner that is most suitable to the PRC's unique and progressively maturing market.

While imposing strict restrictions on cryptocurrencies and RWA tokenization, the 2026 Notice provides much-needed clarity and eliminates regulatory gray areas. Market participants should remain vigilant toward future regulatory changes in this developing area of finance.

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