Dear SFC VATP Consultation team,

We are writing to you from Linklogis, a Hong Kong-listed Supply Chain Financing SaaS company with an active interest in developing Web3 technology. Recently, we served as the technology solutions providers for the Monetary Authority of Singapore's Project Guardian initiative, working alongside with Standard Chartered in tokenising trade finance assets into transferable instruments that are more transparent and accessible to investors.

We have carefully reviewed the 'Consultation Paper on the Proposed Regulatory Requirements for Virtual Asset Trading Platform Operators Licensed by the Securities and Futures Commission' and would like to provide our feedback on Questions 2 and 3.

Question 2: Do you have any comments on the proposals regarding the general token admission criteria and specific token admission criteria?

Regarding the specific token admission criteria, it specifies that only 'large-cap virtual assets' that are included in at least two reputable indices can be offered to retail investors, we believe that the definition appears to be narrowly focused on mainstream cryptocurrencies such as Bitcoin, Ethereum and Solana that are commonly included in digital indices. We understand SFC's primary objective in ensuring investor protection, retail investors in particular, and hence may be restricting the scope of virtual assets tradable by retail investors.

Yet, at the same time, we also observed that Hong Kong has been supportive in Security Token Offering (STO), with the HKSAR government issuing the first tokenized green bond and OSL Digital Securities issuing and distributing the first bitcoin-linked, couple-rate USD bond to professional investors.

As a company committed to tokenising tangible assets, we are considering leveraging Web3 technology for tokenisation and securitisation, with a long-term goal of broadening liquidity for quality assets, which may include sales of the token to retail investors.

Our focus is on issuing real economy asset-backed tokens with Fungible Token (FT) and Non Fungible Token (NFT) technology. The underlying real economy assets are originated by regulated financial institutions (FI), which are loans and trade financing assets FIs hold against facilities to their customers. The tokens can be structured with different risk-reward characteristics, similar to the tranching structure used in traditional Asset-Backed Securities (ABS) business. The senior tranches in traditional ABS business are often structured to have lower risk characteristics and are backed by high-quality underlying assets. This is achieved by allocating the cash flows generated by the underlying assets to the senior tranches first, providing a buffer to absorb any losses before the junior tranches. As a result, the senior tranches are usually considered to be more stable and less risky than the junior tranches.

We believe that a similar approach can be applied to the digital tokens backed by real economy assets, where senior tranches can be structured to have lower risk characteristics and in the form of 'collective investment scheme' that may be considered as 'non-complex' and thus suitable for retail clients. However, it is important to note that this is dependent on the quality and diversification of the underlying assets and the structure of the tokenised assets. We will ensure that relevant Securities and Offering regulations and licensing requirements are complied with, including the Prospectus requirement, to ensure that investors are provided with sufficient information about the tokenised securities to make informed investment decisions.

As such, while we understand that the current scope of the token admission criteria under the consultation paper is confined to 'Non-security token', we would like to suggest to consider broadening the scope of the specific token admission criteria or the future regulatory guidance under the SFO Licensing Regime on non-complex 'Security token' for retail access, to include real-life backed asset tokens that are potentially classified as ‘Security Token’ or structured as ‘Collective investment scheme’, but are otherwise (i.e., without using a digital way) investible by retail investors.

This could promote innovation in the virtual asset industry and provide greater opportunities for investors (both local and overseas) to access a wider range of quality asset-backed tokens. We believe that by broadening the criteria, it would also encourage the development of a more diverse and robust virtual asset ecosystem in Hong Kong.

Question 3: What other requirements do you think should be implemented from an investor protection perspective if the SFC is minded to allow retail access to licensed VA trading platforms?

We believe that investor protection is of the utmost importance, particularly with regards to retail access to licensed VA trading platforms. We concur that requirements shall be implemented, including mandatory disclosure of risks associated with virtual asset investments, mandatory suitability assessment of investors, and a cap on the percentage of investment amount out of their total wealth, for retail investors.

We thank you for considering our comments and suggestions.

Best regards,

Linklogis International Company Limited