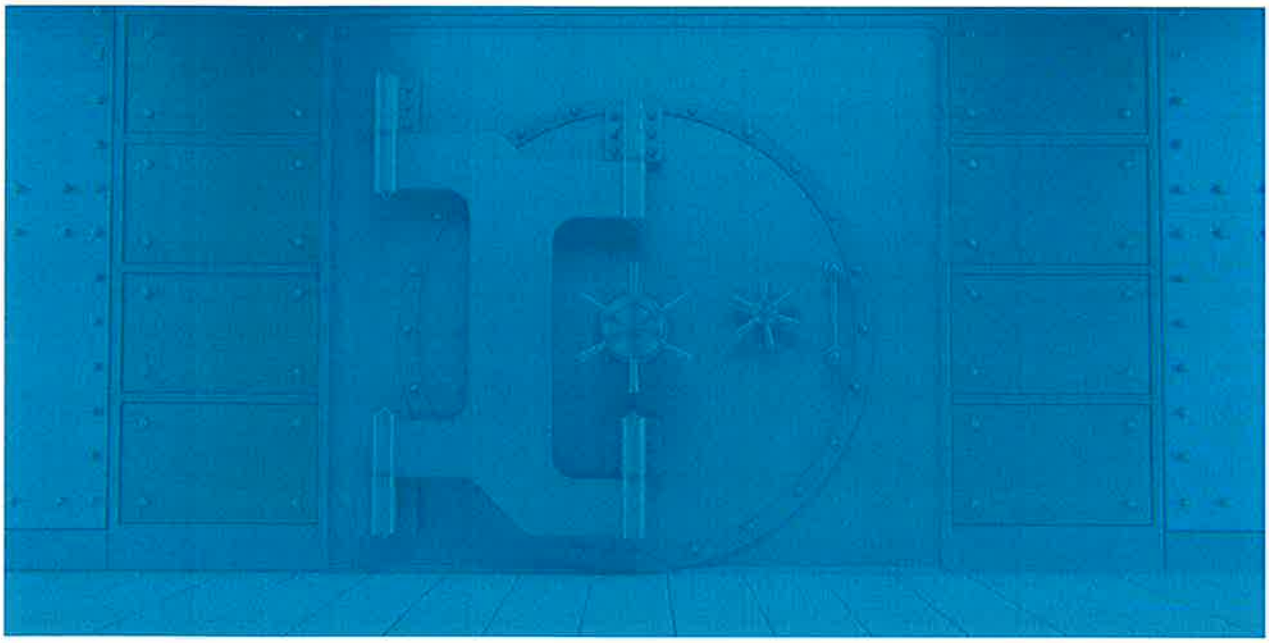
BitGo

THE MARKET LEADER IN INSTITUTIONAL CRYPTOCURRENCY FINANCIAL SERVICES



BitGo's Feedback to the HK SFC's "Consultation Paper on the Proposed Regulatory Requirements for Virtual Asset Trading Platform Operators Licensed by the Securities and Futures Commission"

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Background to BitGo

BitGo provides regulated crypto asset custody, non-custodial wallets, staking, prime brokerage, and other crypto asset wallet infrastructure. As a global leader in crypto asset security, custody, and liquidity, BitGo provides the operational backbone for more than 1,500 institutional clients in over 52 countries – a list that includes many regulated entities, and governments, as well as the world's top cryptocurrency exchanges and platforms.

Founded in 2013, BitGo pioneered the first commercially ready multi-signature crypto asset wallets, and for the past decade has provided the most secure, compliant, and scalable crypto asset custody infrastructure solution in the market with a proven track record of processing over US$2 trillion in total transactions and 20% of all Bitcoin transactions as the custodian for Wrapped Bitcoin (wBTC).

BitGo is regulated in various jurisdictions and holds itself to high regulatory and compliance standards. In the USA, BitGo is regulated in South Dakota and New York, and registered with FinCEN. In Europe, BitGo holds regulatory licenses and registrations in Germany, Switzerland, Italy, Poland and Greece. BitGo is also awaiting regulatory approval for a license in Singapore.

BitGo would be happy to meet with the HK SFC to provide you with a further overview of what we do, and to share our thoughts on best practices and regulating the crypto asset industry.

Feedback to Consultation

Requiring a Platform Operator to Use an Associated Entity for Custody of Client Assets

With regard to safe custody of client assets, we note that the HK SFC is proposing that platform operators should hold client money and client virtual assets on trust through a wholly-owned subsidiary, ie, an "associated entity". BitGo would like to propose that platform operators also be allowed to hold client money and client virtual assets with an **independent custodian** that is not an associated entity, i.e. is not part of the same corporate group as the platform operator, and is not a parent, subsidiary, sister, or affiliated company of the platform operator.

In addition to not being part of the same corporate group as the platform operator, an independent custodian should be an entity that is legally and operationally distinct and separated from the platform operator, does not have any common persons from the platform operator helping run the business, and which is not controlled by (either directly or indirectly) the platform operator in any way.

This separation between exchange trading and custody provides a strong set of checks and balances to prevent the platform operator from misusing or losing customers' assets, similar to the traditional finance world where securities exchanges are not allowed to also custody the securities that trade on them. As the recent FTX saga showed, allowing a platform operator to also custody client assets within the same group poses risks.

An independent custodian also helps ringfence and segregate client assets from the platform operator and its corporate group should the platform operator or its group face insolvency, and can help reduce financial contagion risks. It may also be easier for a liquidator to administer customers' assets if they are held by an independent custodian rather than with the platform operator or its group which is facing liquidation. An associated entity, being a subsidiary of the platform operator, may become entangled in the liquidation proceedings, making it harder to recover client assets quickly and easily. In addition, the platform operators' clients are exposed to concentration counterparty risk as they are essentially trading on an exchange and custodying their assets within the same corporate group.

Having an independent custodian can also reduce the risk of employee fraud, collusion or malfeasance should custody be done fully within the same group by the platform operator and its associated entity.