

**Comments on Proposed Regulation over
Virtual Assets Trading Platform Operator in Hong Kong**

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Question 1:

Do you agree that licensed platform operators should be allowed to provide their services to retail investors, subject to the robust investor protection measures proposed? Please explain your views.

Comments:

Yes, I agree that licensed platform operators should be allowed to provide their services to retail investors, subject to the robust investor protection measures proposed, as such as transaction model can essentially save transaction costs, subject to robust investor protection.

Question 2:

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

Comments:

Basically, I agree on the proposed criteria for general token admission, but I recommend to add one criteria that 'if the given virtual asset is proposed to be trade internationally, how the application of law/conflict of law is arranged'. This is important as more and more jurisdictions are developing their own regulatory/legal regime of virtual asset markets, clarification of application of law will reduce potential dispute in future.

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?

Comments:

In addition to the proposed requirement, I recommend that the background of custodian (if any) should also be disclosed to clients in detail.

Question 4:

Do you have any comments on the proposal to allow a combination of third-party insurance and funds set aside by the licensed platform operator or a corporation within its

same group of companies? Do you propose other options?

Comments:

Yes, I agree on this proposed approach in terms of insurance, however, I don't think that to combine insurance within a single is safe enough for investor protection, diversified and independent insurers should be introduced.

Question 5:

Do you have any suggestions as to how funds should be set aside by the licensed platform operators (for instance, under house account of the licensed platform operator or under an escrow arrangement)? Please explain in detail the proposed arrangement and how it may provide the same level of comfort as third-party insurance.

Comments:

Definitely, I suggest that clients' funds should be held by a third-party (trustee/custodian), which refers to the escrow arrangement, as this model will enhance the protection of investors in terms of mixed-funding or embezzlement by the operator.

Question 6:

Do you have any suggestions for technical solutions which could effectively mitigate risks associated with the custody of client virtual assets, particularly in hot storage?

Comments:

I admitted that currently this is a difficult problem, but potentially we can suggest to develop 'floating insurance' (compared to floating charge) which means that a statistical or mathematical calculating method can be developed to link the current value of the virtual asset with insurance premium.

Question 7:

If licensed platform operators could provide trading services in VA derivatives, what type of business model would you propose to adopt? What type of VA derivatives would you propose to offer for trading? What types of investors would be targeted?

Comments:

Yes, I agree that it is necessary to develop VA derivatives, however, any potential step in this area should be taken very carefully as the price of virtual asset is always fluctuating, therefore, in order to mitigate potential spread of risk, VA derivatives should avoid 'naked trading' model. Please consider the systematic risk spread by CDS during the GFC 2007. Definitely only institutional investors should be permitted to engage in such risky derivative transactions.

Question 8:

Do you have any comments on how to enhance the other requirements in the VATP

Terms and Conditions when they are incorporated into the VATP Guidelines?

Comments:

I agree on the proposed requirement which currently I do have further comments or suggestions.

Question 9:

Do you have any comments on the requirements for virtual asset transfers or any other requirements in Chapter 12 of the AML Guideline for LCs and SFC-licensed VASPs?

Please explain your views.

Comments:

I agree on the proposed requirement which currently I do have further comments or suggestions.

Question 10:

Comments:

I agree on the proposed requirement which currently I do have further comments or suggestions.