Support for the Provision of Trading Services In Virtual Asset Derivatives

Dear Securities and Futures Commission Hong Kong,

I am writing to express my support for the provision of trading services in virtual asset derivatives in Hong Kong. As a member of the global financial community, I strongly believe that enabling virtual asset derivatives trading will offer significant benefits to the financial market and the Hong Kong economy as a whole.

Firstly, the virtual asset market has grown significantly over the years and has become an increasingly important asset class for many investors. The global virtual asset derivatives market is expected to grow at a CAGR of 32.8% between 2021 and 2028, reaching a market size of $4.4 billion by 2028. This indicates a strong demand for virtual asset derivatives and suggests that there is significant potential for growth in this market. Hong Kong is currently one of the largest virtual asset trading hubs in the world. Existing Hong Kong people can freely to trade virtual asset derivatives without any restriction including Bybit and Gateio cryptocurrency exchange. Allowing trading services in virtual asset derivatives would build upon this existing infrastructure and further strengthen Hong Kong's position as a leading financial hub in the region.

By providing trading services in virtual asset derivatives, Hong Kong can attract a new group of investors, who were previously unable to invest in this asset class. In particular, institutional investors such as hedge funds, family offices, and pension funds have been hesitant to invest in virtual assets due to the lack of regulated trading venues and derivative products. By providing regulated trading services in virtual asset derivatives, Hong Kong can provide institutional investors with a more secure and familiar investment channel, which could lead to increased investment inflows into Hong Kong's financial market.

This would be beneficial for Hong Kong's financial industry in several ways. Firstly, increased investment inflows would lead to increased liquidity and trading volume in the virtual asset market, which would support the growth of Hong Kong's financial market. Secondly, attracting institutional investors would improve the overall quality of the investor base, which could help to stabilize the market and reduce volatility. Finally, attracting a new group of investors would enhance Hong Kong's reputation as a global financial hub, which would attract even more investors in the future.

In terms of operating model, non-professional investors should be allowed for virtual asset derivatives. Here are the reasons:

1. Increased Market Participation: Allowing non-professional investors to trade virtual asset derivatives can increase market participation and liquidity. This can lead to a more efficient market and better price discovery, benefiting both investors and the market as a whole. According to a survey conducted by the Cambridge Center for Alternative Finance, the global market for virtual asset derivatives grew from $10.8 billion in 2017 to $319.5 billion in

2020. Allowing non-professional investors to participate in this market can lead to increased liquidity and better price discovery. This can benefit both investors and the market as a whole.

2. Diversification of Investment Portfolio: Non-professional investors may benefit from having a wider range of investment options to choose from. Virtual asset derivatives can provide an alternative investment option that may complement traditional investments, allowing investors to diversify their portfolio.A study conducted by the Federal Reserve Bank of St. Louis found that diversification is an important component of successful investing. By allowing non-professional investors to trade virtual asset derivatives, they have a wider range of investment options to choose from, allowing them to diversify their portfolio and potentially reduce risk.

3. Potential for Higher Returns: Virtual asset derivatives can offer the potential for higher returns compared to traditional investments. While this comes with increased risk, non-professional investors who are willing to take on the risk may benefit from the potential for higher returns. or example, the price of Bitcoin, one of the most well-known virtual assets, increased from around $1,000 in January 2017 to over $40,000 in January 2021. Non-professional investors who are willing to take on the risk may benefit from the potential for higher returns.

4. Innovation and Technological Advancements: The development of virtual asset derivatives has the potential to drive innovation and technological advancements in the financial industry. Allowing non-professional investors to trade these instruments can encourage further development and growth in this area. According to a report by the World Economic Forum, virtual assets and blockchain technology have the potential to revolutionize the financial industry by increasing efficiency, reducing costs, and improving transparency.

5. Increased Financial Inclusion: Allowing non-professional investors to trade virtual asset derivatives can promote financial inclusion by providing access to investment opportunities that were previously unavailable to many investors. This can help to level the playing field and provide opportunities for a wider range of investors. A study by the World Bank found that financial inclusion can help reduce poverty and promote economic growth. Allowing non-professional investors to trade virtual asset derivatives can promote financial inclusion by providing access to investment opportunities that were previously unavailable to many investors. This can help to level the playing field and provide opportunities for a wider range of investors.

The number of virtual asset derivatives should be limited according to market cap. It is suggested to limit the top 100 market cap virtual asset derivatives. Here are the reasons:

1. Increased Liquidity: The top 100 market cap virtual asset derivatives are generally more liquid than smaller or less well-known instruments. Allowing non-professional investors to trade

these instruments can increase market participation and liquidity, leading to better price discovery and a more efficient market.

2. Greater Transparency: The top 100 market cap virtual asset derivatives are generally more well-known and have greater transparency compared to smaller or less well-known instruments. Allowing non-professional investors to trade these instruments can provide them with greater access to information, enabling them to make more informed investment decisions.

3. Professional Trading Infrastructure: The top 100 market cap virtual asset derivatives are generally traded on professional trading platforms and have established trading infrastructure. Allowing non-professional investors to trade these instruments can provide them with access to the same infrastructure and trading tools as professional investors, potentially leveling the playing field and providing more equal opportunities.

4. Regulatory Oversight: The top 100 market cap virtual asset derivatives are generally subject to regulatory oversight in many jurisdictions. Allowing non-professional investors to trade these instruments can provide them with greater protection and ensure that trading is conducted in a safe and fair manner.

Some examples of the top 100 market cap virtual asset:

1. Bitcoin (BTC): Bitcoin is the most well-known virtual asset and has a market capitalization of over $1 trillion. It is traded on many professional exchanges and has established trading infrastructure.

2. Ethereum (ETH): Ethereum is the second-largest virtual asset by market capitalization, with a market capitalization of over $200 billion. It is also traded on many professional exchanges and has established trading infrastructure.

3. Binance Coin (BNB): Binance Coin is the native token of the Binance exchange, one of the largest virtual asset exchanges in the world. It has a market capitalization of over $50 billion and is traded on many professional exchanges.

4. Dogecoin (DOGE): Dogecoin is a virtual asset that gained significant attention in 2021, largely due to social media and celebrity endorsements. It has a market capitalization of over $5 billion and is traded on many professional exchanges.
5. Cardano (ADA): Cardano is a virtual asset that has gained popularity due to its focus on sustainability and environmental impact. It has a market capitalization of over $30 billion and is traded on many professional exchanges.

However, it is important to note that virtual asset derivatives come with risks, and non-professional investors should be made aware of these risks before they begin trading. Proper

regulation, investor protection measures, and education resources are important to ensure that non-professional investors are able to participate in the virtual asset derivatives market in a safe and responsible manner.
Here are some suggested support which can be provide to non-professional investors:

1. Education and Awareness: The Securities and Futures Commission could provide educational resources and awareness campaigns to help non-professional investors understand the risks and opportunities associated with trading virtual asset derivatives. These resources could include information on how virtual asset derivatives work, their potential risks and benefits, and strategies for managing risk.

2. Investor Protection: The commission could establish safeguards to protect non-professional investors, such as setting limits on the amount of leverage that can be used, requiring trading platforms to disclose key information about the products and risks associated with trading them, and setting standards for transparency and fairness in the virtual asset derivatives market.

3. Risk Management: The commission could require trading platforms to implement risk management measures that are designed to protect non-professional investors. This could include setting limits on the amount of margin that can be used, implementing automatic stop-loss orders, and requiring trading platforms to monitor the market for potential risks.

4. Access to Information: The commission could require trading platforms to provide non-professional investors with access to information about the virtual asset derivatives market, including real-time prices and trading volumes. This would enable investors to make informed decisions about their investments.
5. Support Services: The commission could also provide support services to non-professional investors, such as a hotline or email support service where investors can seek advice or report any suspicious activity in the virtual asset derivatives market.

In conclusion, I strongly support the provision of trading services in virtual asset derivatives in Hong Kong. This will not only benefit the financial market but also enhance the competitiveness of Hong Kong's financial industry in the global arena. I urge the Securities and Futures Commission to carefully consider this proposal and take necessary steps to enable virtual asset derivatives trading in Hong Kong.

Thank you for your attention to this matter.

Sincerely,