

As an advanced financial city, Hong Kong must regulate crypto activities to ensure investor protection and promote the development of the virtual asset industry. However, regulation should also embrace innovation and allow for the growth of new and emerging technologies in the industry. This balance between regulation and innovation will foster a healthy virtual asset industry and strengthen Hong Kong's position as a hub for financial services. Retail investors are a vital part of the virtual asset industry and should be included in the regulatory framework. Opportunities for retail investors are essential for growth and innovation in the industry, and the regulatory framework should promote fair and equal access to virtual asset trading platforms for both institutional and retail investors. The promotion of foreign direct investment (FDI) in the virtual asset industry is also essential for the city's economy. The regulatory framework will provide a stable and predictable environment for investors, and Hong Kong's status as a hub for virtual asset trading in the region will attract FDI. Regarding non-custodian services, compliance requirements should be proportional to the level of risk associated with different types of virtual asset services. Non-custodian services should have different compliance requirements to follow as client assets are less at risk. This will encourage more players to enter the market and foster competition, ultimately resulting in better services for consumers. For custodian platforms, a risk-based approach should be taken rather than a hard requirement on the 2% hot wallet. This approach would allow platforms to have flexibility in complying with the regulatory requirements while ensuring that investor protection remains a priority. The regulatory framework should also include requirements for the storage of seeds and private keys in Hong Kong. This requirement is necessary to ensure that virtual asset trading platforms are secure, transparent, and accountable. Having regulatory oversight of virtual asset trading platforms operating in the city will help promote Hong Kong as a safe and trustworthy hub for the virtual asset industry. In conclusion, striking a balance between regulation and innovation is crucial for the development of the virtual asset industry in Hong Kong. The proposed regulatory requirements should promote a secure, transparent, and accountable environment for virtual asset trading platforms in the city, which will help build trust and confidence in the industry. With the right regulatory framework, Hong Kong has the potential to become a global leader in the virtual asset industry, attracting FDI and providing opportunities for retail investors, while promoting growth and innovation in the industry.