

## Question 2:

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

First thing first, the token admission criteria may vary depending on the platform and the types of tokens being traded.

The proposals for general token admission criteria typically outline broad principles and standards that platforms must adhere to, such as transparency, investor protections, and anti-money laundering measures. Crypto asset trading platforms can learn some lessons from the downfall of QuadrigaCX – a review by staff of the Ontario Securities Commission [1].

The specific token admission criteria, on the other hand, are more focused on the individual tokens themselves. Beyond the requirements proposed on the consultation paper, use case is also an important aspect of specific token admission criteria, as they help to ensure that the tokens listed on the platform have a legitimate purpose and provide value to users. Here are some key points that platforms might consider implementing:

1. **Clear purpose:** The token should have a clear and well-defined purpose, with a specific problem that it aims to solve or a particular need that it addresses.
2. **Utility:** The token should provide some sort of utility or function that adds value to users. This might include things like access to a particular product or service, discounts on fees, or voting rights on platform decisions.
3. **Adoption potential:** The token should have a strong potential for adoption, with a clear target market and strategy for attracting users.
4. **Network effects:** The token should be scalable, with the ability to handle a large number of transactions without experiencing performance issues.
5. **Stability:** The token should have a stable value, with low volatility and a predictable price trajectory.
6. **Interoperability:** The token should be interoperable with other blockchain networks and protocols, allowing for seamless integration with other decentralized applications.

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?

1. **Multi-Signature Wallets:** Multi-signature wallets require multiple approvals or signatures in order to access the assets. This helps to prevent unauthorized access to the assets, as it requires collusion among multiple parties to gain access. This can be particularly effective in hot storage, where assets need to be readily accessible but still need to be protected from unauthorized access.
2. **Hardware Security Modules (HSMs):** HSMs are specialized devices that provide secure storage and management of cryptographic keys. They are often used to store private keys in hot storage, as they provide a high level of security and protection against hacking and theft.
3. **Separation of Duties:** Separating the duties of those who have access to hot storage can be an effective way to mitigate risk. For example, a trading platform might have one person responsible for initiating transactions, another person responsible for approving transactions, and a third person responsible for monitoring transactions.
4. **Risk-based Authentication:** Risk-based authentication is a security technique that uses a range of factors, such as IP address, location, device, and user behavior, to determine the level of risk associated with a particular transaction or login attempt. By implementing risk-based authentication, a trading platform can identify and prevent suspicious transactions or login attempts before they can cause harm.
5. **Continuous monitoring:** Finally, continuous monitoring of hot storage can help to detect and respond to unauthorized access or suspicious activity in real time. This can be achieved through the use of advanced monitoring tools, such as intrusion detection systems or security information and event management (SIEM) solutions.

Overall, implementing a combination of technical solutions can help to effectively mitigate risks associated with the custody of client virtual assets in hot storage. By using a layered approach that incorporates multiple security measures, a trading platform can help to ensure the safety and security of client assets while still providing the flexibility and accessibility required for effective trading.

[1] QuadrigaCX - A Review by Staff of the Ontario Securities Commission  
<https://www.osc.gov.on.ca/quadrigacxreport/index.html#executive-summary>

Newton Wong

March 16, 2023