

## Responses to Consultation Paper on the Proposed Regulatory Requirements for Virtual Asset Trading Platform Operators Licensed by the Securities and Futures Commission

### 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.*

Yes, virtual assets trading platforms should be open to retail investors given virtual assets associate closely with the daily life of the mass public. Virtual assets are everything in metaverse which is considered by many as the next generations internet, web 3 or fourth industrial revolution. In other words, anyone who wants to participate in metaverse will have no choice but to be involved in the buying and selling of virtual assets. It is the basic needs of the mass public, there is no ground on prohibiting their participation. It is also irresponsible to force the mass public to go trading through unregulated platforms.

### Question 2:

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

a) Opinion on the methodology regarding “eligible large-cap virtual assets”

In determining “eligible large-cap virtual assets”, it is suggested to set a reasonable hard threshold on the minimum market capitalization, say HKD 500 million, like stock IPO, instead of referring to indices. If not, together with other stringent requirements, it is very difficult to see a virtual asset which is “made in Hong Kong”, contradicting to Hong Kong’s vision to be an international crypto hub.

b) Clarification regarding the example for acceptable indices

It is proposed that “eligible large-cap virtual assets” refer to virtual assets which are included in at least two acceptable indices. “For instance, an index which captures the top 10 largest virtual assets can be considered an acceptable index.” (note 20)

Please clarify whether platform providers can only provide services to a total of ten virtual assets such as BTC, ETH, USDT, BNB, USDC, etc. If yes, the requirement may be too stringent and may defeat the purpose of regulation on allowing innovation in a supported manner and providing diversified choices to retail investors. If no, clarification is required. Please consider whether to change the example to “For instance, an index which captures the top 10 largest virtual assets in a specific segment or category can be considered an acceptable index”, to avoid misunderstanding or misinterpretation.

c) Clarification regarding NFT trading

NFT are commonly denominated in ETH and USDT and NFT which do not fall within the definition of “securities” under the SFO will not be regulated.

If there is a centralized platform for the trading of NFTs which do not fall within the definition of “securities” under the SFO and are denominated and settled in ETH or USDT, as an ancillary service, the platform provides services for retail investors to buy and sell ETH or USDT and settle in fiat currencies such as HKD. In professional terms, the platform provides trading pairs of ETH/HKD and USDT/HKD. Please clarify whether the platform provides a regulated VA service? It is suggested to provide exemption for these ancillary services.

**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?*

*“Except for virtual assets only made available to professional investors, the licensed platform operator should obtain and submit to the SFC written legal advice in the form of a legal opinion or memorandum confirming that the virtual asset does not fall within the definition of “securities” under the SFO.” (Para 48c)*

Most platform operators are expected to engage in the trading of similar pool of large-cap virtual assets initially. It is suggested to provide a list of pre-approved virtual assets, which are exempted from the provision of legal advice, to reduce the application cost.

**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?*

It is suggested to provide certain exemption from insurance / compensation arrangement to applicants which provide “T+1” transaction service and ALL client virtual assets are safekept in cold storage.

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