# Comments on Consultation Paper on the Proposed Regulatory Requirements for Virtual Asset Trading Platform Operators Licensed by the SFC

**30 March 2023**

| S/n | Consultation Question | Amber Group's Comments |
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| 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, we agree broadly that licensed platform operators should be allowed to provide their services to retail investors and the proposed investor protection measures look robust. |
| | | However, the proposed requirement for the token admission and review committee to report to the Board of Directors at least monthly may be too frequent. We respectfully propose to allow quarterly reporting instead of monthly reporting, subject to trigger events that warrants immediate reporting to the BoD. |
| | | With regard to the proposed onboarding requirements, we agree with the requirement to perform a risk assessment on all non-institutional and qualified corporate professional investors but we respectfully propose for the VA exposure limit requirement to be imposed only for retail clients and have the exception be applied to all professional investors (including individual and corporate) given their higher risk tolerance. |
| 2 | Do you have any comments on the proposals regarding the general token admission criteria and specific token admission criteria? | We agree broadly with the general token admission criteria. However, with respect to criteria (b) on the regulatory status of the VA in each jurisdiction in which the platform operator provides trading services, we are of the view that the criteria may be a little onerous given that the platform operator can be offering trading services to customers in a large number of jurisdictions. |
| 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? | Other criteria which SFC could consider is the level of decentralized ownership (at least x% is owned by various wallets instead of a few big token holders). |
| | | On the requirement for written legal advice to be obtained for VAs made available to retail investors, we respectfully propose for SFC to consider providing some exceptions for common, large-cap tokens such as BTC, ETH, etc which SFC would deem to be non- |

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| | | securities (similar to the approach in Singapore where the MAS has a list of tokens which do not require a legal opinion to be obtained). |
| 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? | It makes sense to allow platform operators to set aside funds for that purpose since insurance coverage is normally fixed at an amount for at least one year following the purchase. Ideally there should be flexibility for the platform operator to decide the type of "funds" to be set aside, for example being a combination of different fiat currencies and/ or Virtual Assets, as long as a full coverage of value is achieved. Otherwise, it might be burdensome for the platform operator to set aside sufficient fiat currency or an identical portfolio of Virtual Assets (corresponding to clients' assets on the exchange) considering the types and value of the Virtual Assets on the exchange can be volatile.

In addition, for platform operators that could provide proof of reserve (e.g. Merkle Tree proof) in the form and frequency to the satisfaction of SFC, it may be reasonable to apply a lighter obligation.

While daily monitoring of total value is required, adjusting the funds set aside may not need to be as frequent considering the volatility of the market, especially for platform operators with proper proof of reserve. We respectfully propose for SFC to consider applying a threshold, e.g. if the total value exceeds the coverage for 5%, supplements shall be made. |
| 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. | We have no further comments on this. |
| 6 | Do you have any suggestions for technical solutions which could effectively mitigate risks associated with | We agree that for both hot storage and cold storage, seeds and private keys should be generated and stored in a secure environment, such as Hardware Security Module (HSM). To ensure randomness and non-reproducibility, entropy sources should conform |

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| | the custody of client virtual assets, particularly in hot storage? | to NIST SP 800-90B or equivalent standards. It is widely adopted for cryptographic modules (e.g. HSM) to adhere to the latest FIPS 140-3 Level 3 validation program. A module listed in NIST's MIP (Modules-in-Progress) list indicates that it has completed all the required tests for the validation program, since the FIPS validation process typically takes 18 to 24 months.<br><br>We recommend that internal control and governance procedures be stored, and enforced in a trusted execution environment (such as HSM), and verified every time before transactions are signed.<br><br>Transaction sensitive information, such as withdrawal destination address and withdrawal amount, should be verified within trusted hardware HSM before private key signing and broadcasting, in order to prevent destination addresses tampering.<br><br>We believe it is crucial to implement the secret sharing algorithm for seed backup and recovery during seed generation inside HSM for both hot and cold storage. The Shamir Secret Sharing Scheme, for instance, allows multiple authorized personnel to hold seed backups without compromising seed security. |
| 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? | If licensed platform operators could provide trading services in VA derivatives, we would propose targeting professional investors first. Derivatives help sophisticated investors hedge risk, enhance the total market liquidity and bring more transparency to the price. We would propose Perpetual Futures with limited leverage (<=3x) to be offered first, given there is a very standard to design the mechanism behind and also eliminate the complexity of physical settlement. VATP could levy open/close position trading fees as their revenue. |
| 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? | We have no further comments on this. |
| 9 | Do you have any comments on the requirements for virtual asset transfers or any other requirements in | We agree broadly with the requirements though some requirements may not be viable to implement. For instance, for 12.11.21 it states the assets should be returned to the originator if it is missing the required information. However, if we do not have the |

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| | Chapter 12 of the AML Guideline for LCs and SFC-licensed VASPs? Please explain your views. | required information, by returning the funds, we may inadvertently also breach the requirements by sending it back to the originator. Furthermore, the originator source could be high risk or even potentially a sanctioned entity with transactions being prohibited, therefore making it unviable for the funds to be returned.<br><br>Similarly, as per 12.13.1 on due diligence of counterparties, the list of factors provided in carrying the risk assessment may be overly prescriptive and respectfully suggest that this should be calibrated according to the individual FI's risk management processes. We also suggest that due diligence on the VA counterparty should be conducted at the parent/ group level of the counterparty instead of branch level for practical reasons.<br><br>It would also be beneficial if the SFC can provide more guidance and clarity on what it deemed as "appropriate confirmation methods" regarding unhosted wallets. |
| 10 | Do you have any comments on the Disciplinary Fining Guidelines (Appendix D)? Please explain your views. | We have no further comments on the proposed Guidelines. |