

The Securities and Futures Commission (SFC) of Hong Kong has recently announced that it will regulate virtual asset service providers (VASPs) under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO). However, the SFC has also stated that it will not accept applications for futures contracts or other derivatives products based on virtual assets for hedging purposes. This decision has raised some questions and concerns among the industry and us. One possible advantage of regulating VASPs but not accepting futures for hedge is that it could reduce the risks and volatility associated with virtual asset markets. By imposing licensing requirements, due diligence obligations, and anti-money laundering measures on VASPs, the SFC could enhance the transparency, integrity, and security of virtual asset transactions and custody. This could also increase the confidence and trust of investors and the public in virtual assets as a legitimate asset class. Moreover, by prohibiting futures contracts or other derivatives products based on virtual assets, the SFC could prevent the potential manipulation, speculation, and leverage that could amplify the price fluctuations and systemic risks of virtual assets. However, there are also some possible disadvantages of regulating VASPs but not accepting futures for hedge. One drawback is that it could limit the innovation and development of the virtual asset industry in Hong Kong. By restricting the types of products and services that VASPs can offer, the SFC could discourage the entry and growth of new players and technologies in the market. This could also reduce the competitiveness and attractiveness of Hong Kong as a leading hub for virtual asset activities in the region and globally. Another drawback is that it could deprive investors of an important tool for risk management and diversification. By denying access to futures contracts or other derivatives products based on virtual assets, the SFC could prevent investors from hedging their exposure to virtual asset price movements and volatility. This could also reduce the liquidity and efficiency of the virtual asset market. In conclusion, regulating VASPs but not accepting futures for hedge has both pros and cons for the virtual asset industry and investors in Hong Kong. The SFC's decision reflects its cautious and prudent approach to balancing the promotion of innovation and the protection of investors' interests in this emerging and evolving sector. However, as the global regulatory landscape for virtual assets continues to evolve, the SFC may need to review and revise its stance in light of market developments and international standards for virtual assets for hedging purposes to risk management and diversification.