

Written Opinions in Response to the *Consultation Paper on the Proposed Regulatory Regime for Virtual Asset Trading Platforms Operators Licensed with the Securities and Futures Commission*

Accumulus GBA Technology (Hongkong) Co., Ltd. (hereinafter referred to as “Accumulus (Hong Kong)”) has carefully studied the *Consultation Paper on the Proposed Regulatory Regime for Virtual Asset Trading Platforms Operators Licensed with the Securities and Futures Commission* (“Consultation Paper”) issued on February 20, 2023 by the Securities and Futures Commission (“SFC”), and is grateful to have the opportunity to issue opinions on the questions discussed in the *Consultation Paper*. The details of the Written Opinions are provided for informal reference, and the response to the solicited questions is as follows:

Q1	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.
A	<p>We agree that the SFC approves licensed platform operators to provide services to retail investors subject to the robust investor protection measures. Accumulus (Hong Kong) believes that regulatory policies can safeguard a sound investment environment for retail investors, such as ensuring that virtual assets are under safe custody, market prices will not be manipulated and transactions match with their risk tolerance, to avoid the risks that investors may face on unregulated overseas trading platforms.</p> <p>Currently, the investor protection measures proposed by the SFC have significantly reduced the investment risk for retail investors and the consideration of a reasonable regulatory flexibility is essential to promote the market innovation and diversity. In order to adequately protect retail investors, the suggestions for the current protection measures are as follows:</p> <p>1. SFC set the limit rule of virtual assets for retail investors</p> <p>In Article 29 b) of the <i>Consultation Paper</i>, the SFC suggests that virtual asset trading platforms (“VATPs”) set a limit for each client with reference to the client’s financial situation and personal circumstances. Accumulus (Hong Kong) holds that there is still room for improvement in setting a limit for clients by the platform operators, mainly including: (1) If operators are allowed to independently set the limit, the standards implemented by operators in the industry will be inconsistent; and (2) operators may cause cut-throat competition by setting looser standards.</p> <p>Suggestions of Accumulus (Hong Kong): The SFC should adopt a tiered approach to specify the maximum amount of virtual assets that can be held by investors under different levels of financial status and risk tolerance (such as the maximum amount of virtual assets that can be held by a retail investor who issues a certificate of assets exceeding RMB100 000, RMB500 000, RMB1 million, RMB3 million, RMB5 million and above, respectively). At the same time, the SFC may clearly list the information that could be used to prove investors’ financial status to ensure that platform operators</p>

	<p>enforce unified standards for judging the financial status of investors.</p> <p>2. It is proposed to allow marketing activities for specific tokens</p> <p>Paragraph 9.18 of the draft VATP Guideline prohibits platform operators from “posting any advertisement in connection with specific virtual assets”. Considering that regulations already allowed platform operators to offer virtual assets trading services to retail investors that meet specific token admission criteria, could the corresponding marketing regulation be eased? We respectfully submit that, general forms of marketing activities in relation to specific virtual assets by platform operators should be allowed provided that:</p> <p>(1) the relevant invitations and advertisements do not contain information that is false, disparaging, misleading or deceptive; and</p> <p>(2) the relevant virtual assets have passed the general and specific token admission criteria and become eligible to be admitted by the licensed VATPs for retail trading.</p>
Q2	<p>Do you have any comments on the proposals regarding the general token admission criteria and specific token admission criteria?</p>
A	<p>We understand the requirement in the <i>Consultation Paper</i> that VATPs should shoulder their compliance responsibilities and fulfill their obligations of token review, information disclosure, and investor protection, and the following suggestions are proposed:</p> <p>1. The SFC may issue a list of tokens that are compliant with the token admission criteria</p> <p>It is proposed to issue a white list of general tokens and specific tokens (eligible large virtual assets) based on the token admission criteria, which should be universally applicable to major VATPs, so as to assist platform operators in clearly classifying tokens, unifying token review standards, enhancing the regulatory efficiency of the SFC and optimizing the business environment of the virtual asset trading industry.</p> <p>2. In terms of the token admission criteria, the SFC should focus on the consensus mechanism and governance mechanism of virtual assets</p> <p>At the technical level, it is proposed to focus on the degree of decentralization and security of the consensus mechanism for tokens, i.e., the more dispersed the network resources that determines consensus and the more decentralized the process of reaching consensus are, the more secure the network will be. Meanwhile, a threshold for gaining network control should be set to ensure system security by increasing the cost of malicious attacks. At the governance level, it is proposed to focus on whether the governance mechanism is not controlled by the minority by assessing its openness and transparency as well as the democracy of decision-making in terms of design reasonableness and implementation effectiveness. For admitted tokens, it is proposed to publicly disclose the community governance mechanism and clarify the governance content and methods. In addition, the decision-making mechanism should be scientific and democratic and the governance result should reflect the will of the majority of stakeholders.</p>

	<p>3. In terms of the token admission criteria, the SFC should focus on the token ecosystem</p> <p>The token ecosystem includes technology ecology, user ecosystem, application ecosystem, transaction storage ecosystem, etc. The token or the chain it belongs to has a value of wide application, i.e., the token is financially valuable for investment or the public blockchain has the technical value to support the construction of the ecosystem. The robustness of the ecosystem of the platform for issuing tokens ensures the long-term value of tokens and promotes the benign development of the platform.</p>
Q3	<p>What other regimes do you think should be implemented from an investor protection perspective if the SFC is minded to allow retail investors' access to licensed VATPs?</p>
A	<p>To adequately protect retail investors, the following suggestions are proposed:</p> <p>1. Platform operators may be prohibited from accepting credit card payments from retail investors</p> <p>Virtual asset prices are highly volatile and there is a great deal of speculation in the market, making investment risk high. Compared to professional investors, retail investors are less resilient to risk. If they rely on credit card overdrafts to access investment opportunities, they will be passive for financial strain and increased repayment pressure if the market fluctuates. Therefore, it is proposed that the SFC prohibit platform operators from accepting credit card payments from retail investors to avoid retail investors making investments beyond their risk tolerance, while imposing regulatory requirements on loan institutions, i.e., loan institutions are prohibited from lending funds to natural persons for virtual asset transactions.</p> <p>2. An age limit for the registration of retail investors should be set</p> <p>Virtual asset investment, as an emerging industry, has attracted many young people. Young people with little investment and social experience and weak self-control are more likely to invest impulsively and even invest in virtual assets by borrowing and financing. If young people about to enter the labor market become indebted due to the fluctuations of the virtual asset market, the economy will face losses. Therefore, it is suggested that even if retail investors are allowed to use licensed virtual asset trading platforms, an age threshold should be set to avoid young people being trapped by virtual assets. In South Korea, for example, on January 23, 2018, the Financial Services Commission (FSC) announced that minors under the age of 18 and foreigners shall not open new bank accounts for deposits for transactions related to virtual assets from January 30, 2018. However, the threshold of 18 years old fails to effectively prevent young people from entering the virtual asset market early. According to the FSC, as at the end of 2021, there were nearly 5.6 million users of virtual asset trading in Korea, including 3.08 million between the age of 20 and 39, accounting for 23% of Korea's population in this age group (13 431 000). The Bank of Korea has said that the household debt of young people between the age of 20 and 39 has increased by more than 17%.</p>

Q4	Do you have any comments on the proposal to allow a combination of third-party insurance and funds set aside by licensed platform operators or a corporation within its same group of the company? Do you propose other options?
A	<p>We support the proposal to allow a combination of third-party insurance and funds set aside by licensed platform operators or by a corporation within the same group of the company and believe that such a method can better meet the needs of small- and medium-sized platform operators, while providing overall protection for investors' assets.</p> <p>To further protect clients' assets, it is suggested that other protection measures be added to the above plan. For example, the SIPC Fund of the US Securities Investor Protection Corporation (SIPC) is designed to compensate relevant investors when a financial broker or dealer faces bankruptcy or a financial crisis. Therefore, it is proposed that an investor protection fund (investor protection account), which operates under the supervision of the SFC, be established by each licensed VATPs of Hong Kong SAR Government on a voluntary basis to compensate aggrieved clients who have a legitimate claim against licensed platforms in some extreme circumstances (e.g., failure to compensate investors due to bankruptcy and liquidation).</p>
Q5	Do you have any suggestions on how licensed platform operators should allocate these funds (e.g., allocating into licensed platform operators' corporate account, or an escrow arrangement)? Please provide details of your proposed arrangements and how they would provide the same security and safety level as third-party insurance.
	<p>Considering that in addition to setting aside funds in trust to provide an appropriate level of protection, we respectfully suggest two ways of safekeeping of these funds:</p> <p>1. (Proposal 1) The funds should be kept in a designated house account ("Segregated Account") with an authorised institution and fully segregated from other assets of platform operators (or their associated entity/entities) provided that:</p> <p>(1) Platform operators should provide an undertaking to the SFC that:</p> <p>① the funds can only be withdrawn upon the occurrence of a compensation event (such event will need to be reported to the SFC as soon as it takes place) or in any other circumstances approved by the SFC; and</p> <p>② the funds in the Segregated Account should be held in cash or other high liquidity and low risk investments.</p> <p>(2) Platform operators will report all transactions and activities in the Segregated Account to the SFC on a periodic basis by submitting the account statements of the Segregated Account and financial returns to the SFC to facilitate its supervision.</p> <p>2. (Proposal 2) The SFC may consider setting up a wholly-owned subsidiary to hold these funds for platform operators in the capacity as a trustee. This would be a more</p>

	ideal approach to guard against the risks of misappropriation of the funds.
Q6	Do you have any suggestions for technical solutions which could effectively mitigate risks associated with the custody of clients' virtual assets, particularly in hot storage?
A	<p>We believe that in the context of centralized custody of investors' virtual assets, there are two main types of risks related to the private keys of virtual assets being held by operators of trading platforms, namely, credit risk and hacking risk. Our industrial R&D team proposed an idea to develop a decentralized custody solution that can reduce the hacking risk through technical features while eliminating the credit risk of the platform. The solution is briefly described as follows:</p> <p>The decentralized custody solution records all transactions and distributes them on multiple nodes, avoiding monopoly and manipulation by a single institution or individual. This means that the regulation of investors' virtual assets will be granted to a decentralized assets custody system, which will decide when to unlock the assets and where to allocate them. When an investor deposits tokens, the decentralized assets custody system will identify the investor's transfer to the custody wallet and record it on a distributed ledger. When an investor withdraws tokens, the decentralized assets custody system will verify the relevant information and construct the corresponding on-chain transfer. In addition, the custody system can run on a consortium blockchain system of multiple trusted parties. Only custodians licensed with regulatory authorities can join and become consortium nodes, with each holding a private key fragment of the hot wallet and the cold wallet of the consortium. Investors' deposits and withdrawals should be voted on and agreed upon with consensus within the consortium before the corresponding account movement of the consortium hot wallet is triggered. When the balance of the consortium hot wallet is insufficient, a "cold-to-hot" fund allocation will be generated, which requires each consortium node to perform a manual off-chain review of the transaction, use the private key fragment of the cold wallet to sign for the allocation in a completely offline environment, and manually submit it to the consensus consortium blockchain. After the majority of consortium nodes have approved the allocation, the "cold-to-hot" transaction will be triggered on the chain. To ensure the fairness and transparency of the system, the trading platform will regularly submit matchmaking results and order records to the consortium. Therefore, when an investor initiates arbitration with the consortium, each consortium node can complete the arbitration by reviewing the matchmaking results and order records provided by the trading platform, so as to maintain the decentralized feature of the custody system and safeguard the fairness and transparency of the system.</p>
Q7	If licensed platform operators could provide trading services in virtual asset derivatives, what type of business model would you propose to adopt? What type of virtual asset derivatives would you propose to offer for trading? What types of investors would be targeted?

A	<p>We support the gradual liberalization of trading in virtual asset derivatives in the Hong Kong market with restrictions, as derivatives can perform functions, such as risk hedging, value discovery and diversified assets portfolio, in the virtual asset market. The suggestions for business models are as follows:</p> <p>1. Priority may be given to launch perpetual contracts and options</p> <p>(1) Perpetual contracts: First, perpetual contracts are simple to operate and do not require steps, such as delivery and position exchange, lowering the professional investment threshold for investors; second, perpetual contract products do not require borrowing of assets and investors do not have to bear interest expenses on borrowed assets, which can meet extensive investment needs; third, perpetual contracts have no delivery time and investors may hold them for a long term and obtain higher investment returns; fourth, the price of perpetual contracts remains highly anchored to the spot market price and the price volatility is relatively consistent with spot volatility, making the risk and price deviation much lower than that of delivery contracts for investors. In short, perpetual contracts have lower thresholds, higher potential returns, higher market correlation and more controllable risks.</p> <p>(2) Options: The crypto market is highly volatile and options are investment tools based on the judgment of investors of future market changes, which can effectively hedge against the risks of the crypto market, with tradable scenarios regardless of the bull and bear markets.</p> <p>2. It is proposed to offer derivatives trading to professional investors only</p> <p>Professional investors have professional knowledge in the financial and crypto sectors as well as diversified investment portfolio needs. They can take advantage of the positive function of derivatives and financially take risks of derivatives. Therefore, it is suggested that derivatives trading be open to professional investors only at the early stage.</p> <p>3. If the SFC proposes to open up derivatives trading to retail investors, the suggestions for enhancing the protection of retail investors are as follows:</p> <p>(1) impose requirements on platform operators similar to the investor characterisation requirement under paragraph 5.1A of the <i>SFC's Code of Conduct for Persons Licensed by or Registered with the SFC</i> as part of its suitability obligation;</p> <p>(2) adopt the principles applicable to the regulatory regime for public offering of unlisted structured investment products under the <i>Code of Unlisted Structured Investment Products</i> ("SIP Code") of the SFC, by confining the eligible underlying virtual assets to those meeting certain criteria (e.g., liquidity, market turnover);</p> <p>(3) distinguish complicated virtual asset derivatives from those of simple types (e.g., simple option) in determining their suitability to the retail investors.</p>
Q9	<p>Do you have any comments on the provisions of Chapter 12 of the <i>Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations and SFC-licensed Virtual Asset Service Providers)</i> ("AML Guideline for LCs and SFC-licensed VASPs") regarding virtual asset transfers or any other</p>

	provisions? Please explain your views.
	<p>The suggestions for Chapter 12 of the <i>Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations and SFC-licensed Virtual Asset Service Providers)</i> (“AML Guideline”) with respect to LCs and SFC-licensed VASPs are as follows:</p> <p>1. Technological solutions for compliance with travel rules</p> <p>We note that paragraph 12.12 of the AML Guideline allows financial institutions (“FIs”) to adopt any technological solution to comply with the travel rule as set out in paragraphs 12.11.5 to 12.11.23. According to paragraph 12.11.9, an ordering institution must submit information (as required under paragraph 12.11.5 or 12.11.6) in relation to the virtual asset transfer to the beneficiary institution immediately and securely.</p> <p>It appears to us that compliance with this requirement calls for a secure and reliable instant messaging system which should ideally connect all institutions (including licensed institutions in Hong Kong and even overseas institutions which are subject to local virtual asset regulations). In banking industry, SWIFT (Society for Worldwide Interbank Financial Telecommunications) provides messaging services for financial institutions through which payment instructions can be transferred quickly, accurately, and securely from one financial institution to another.</p> <p>In the absence of a global messaging system like SWIFT, a more practical approach is for an FI to enter into bilateral data sharing agreement with another FI [as stated in paragraph 12.11.12(b)]. However, this approach will substantially limit the number of participating FIs and therefore significantly restricting the transfer of virtual assets from one platform to another. If the clients of platform operators are only able to transfer their virtual assets to accounts held by a very limited number of platforms, virtual asset trading activities will be made much more difficult and the competitiveness of the virtual asset sector in Hong Kong would be undermined.</p> <p>Therefore, we respectfully suggest that, as a long-term goal, the SFC initiate a proposal to set up a unified messaging system among licensed platform operators. Once the system is in place, it can serve as an intermediary to exchange data with regulated overseas institutions.</p>
Q10	Do you have any comments on the SFC Disciplinary Fining Guidelines? Please explain your views.
A	<p>We have no opinions on the factors in the Guidelines that the SFC considers when imposing penalties on regulated persons for misconduct. We respectfully suggest that the <i>Anti-Money Laundering and Counter-Terrorist Financing Ordinance</i> clarify that the provision of services by VATPs to residents inside the Chinese mainland via the Internet is listed as misconduct.</p> <p>On September 24, 2021, the People’s Bank of China, in conjunction with ten ministries and commissions, issued the <i>Notice on Further Preventing and Resolving the Risk of Virtual Currency Trading and Speculation</i>, which clarifies that the provision of services by VATPs outside China to residents inside the Chinese mainland via the Internet also</p>

considered to be an illegal financial activity. Given that the travel of residents between Hong Kong and the Chinese mainland is convenient as the two places are close, the VATPs in Hong Kong have conditions to be promoted among residents inside the Chinese mainland. Therefore, we respectfully suggest that, in the regulatory regime, it clarify that trading platforms should be prohibited from actively providing services to residents inside the Chinese mainland.

Accumulus (Hong Kong) strictly complies with the regulatory requirements of Chinese mainland, and the prevention measures to be implemented to avoid residents inside the Chinese mainland trading on our platform include, but are not limited to:

1. Restrictions on user registration: (1) Mobile numbers of the Chinese mainland are prohibited from registering on our trading platform (restriction for +86); (2) there are no restrictions on email registration, but text prompts are used to inform that it is only for users outside the Chinese mainland when a Chinese email account is used for registration.
2. Restrictions on identity verification: Users holding identity certificates inside the Chinese mainland, such as ID cards, police officer's cards, military ID cards, driving licenses, passports, Mainland Travel Permit for Hong Kong and Macao Resident, and Mainland Travel Permit for Taiwan Resident are prohibited from passing identity verification, and accounts of such users are actively cancelled.
3. Restrictions on IP address: Access to our trading platform from IP addresses inside the Chinese mainland is prohibited.
4. Restrictions on channels: No apps or applets of VATPs at app stores inside the Chinese mainland.
5. Obvious prompts that the service is not available to residents inside the Chinese mainland: We obviously prompt on the website, app and Terms of Use of our trading platform that the service is not available to residents inside the Chinese mainland.
6. Restrictions on page language: No "Simplified Chinese" option is available on the page for users.
7. Restrictions on browser language: Use in a browser language of Chinese is prohibited.
8. Restrictions on marketing: Any form of promotion activities to residents inside the Chinese mainland is prohibited.