Response to Consultation on the Proposed Regulatory Requirements for Virtual Asset Trading Platform Operators Licensed by the Securities and Futures Commission by the Securities and Futures Commission on 20 February 2023 (the "Consultation").

New Huo Technology Holdings Limited ("New Huo Tech") welcomes the continued endeavours of the Securities and Futures Commission ("SFC") to enhance and create a robust, transparent, and predictable regulatory framework for virtual assets market activities We are grateful to have the opportunity to respond to this public consultation; the scope of which is focused on the proposed licensing regime for Virtual Asset Services Providers ("VASPs"). The following response to the Consultation has been drafted and led by the compliance and legal department. Should you have any questions regarding this submission, New Huo Tech remains at the disposal of the SFC to respond as required and can be reached at:

About New Huo Tech

New Huo Technology Holdings Limited ("New Huo Tech", Stock Code: 1611.HK) is committed to leading the compliant development of virtual assets and creating inclusive value for society with Web 3.0 technology.
New Huo Tech understands the importance of compliance. We have been actively involved in promoting digital assets compliance. Up to now, New Huo Tech's subsidiaries have successfully obtained: (i) approval from the Securities and Futures Commission of Hong Kong to conduct Type 4 (Advising on Securities) and Type 9 (Asset Management) regulated activities and to manage portfolios that invest 100% in virtual assets and offer virtual asset discretionary account management services to professional investors; (ii) obtained a Trust or Company Service Provider ("TCSP") License (Hong Kong) and registered as a Trust Company in Hong Kong; (iii) registered the Money Services Business (MSB) from the Financial Crimes Enforcement Network (FinCEN) in the United States.

Consultation Response

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?

1. We agree that licensed platform operators should be allowed to provide their services to retail investors as otherwise, it would encourage retail investors to resort to the unregulated platform which exposes themselves to larger risk.

2. Allowing retail investors would also enhance the commercial incentive for major virtual asset player to set up their business in Hong Kong and their experiences in handling a sophisticated platform with significant volume is valuable from a technical perspective and would help to drive a higher technological standard, especially in automation, internet security and risk control.

3. Also, allowing retail access helps to showcase that Hong Kong has the determination to become the leading, compliant virtual asset hub globally.

4. Regarding the proposed robust investor protection measures, we agree with the SFC's view that hard limits for retail investors' maximum dollar amount exposure to virtual assets may not be appropriate.

Question 2: Do you have any comments on the proposals regarding the general token admission criteria and specific token admission criteria?

5. Regarding the Specific Token admission criteria for Retail investors, an index can be thematic and be divided into different sub-categories, for example, Gaming, So-Fi, Marketing, education, NTFs and collectables etc. Certain tokens may hold the highest liquidity and the largest market categories in their category yet may not be significant in the whole virtual asset markets.

6. We hereby seek SFC clarification on whether in considering what would constitute an acceptable index and whether it would allow an index measuring certain sub-categories.

7. We opine to allow sub-categories index as it is helpful to educate investors to understand the utility and value of tokens and therefore to better understand the risk and what they are investing into.

Question 3: What other requirements do you think should be implemented from an investor protection perspective if the SFC is minded to allowing retail access to licensed VA trading platforms?

8. We believe mandatory incorporation of some simple risk mitigating tools and functions, e.g., stop loss function, on the VA trading platforms to allow investors to set at their own discretion would be helpful.

Question 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?

9. We appreciate the SFC's proactive effort in understanding the difficulties the market players face and propose to allow a hybrid approach (i.e., third-party insurance and funds of the licensed platform operator or a corporation within the same group of companies as the licensed platform operator which are set aside on trust and designated for such purpose).

10. We, however, believe setting aside a separate fund held on trust can be potentially burdensome as the opportunity cost could be huge and in turn damage the company's long-term financial position.

11. We hereby propose to allow the funds being set aside, in part or in full, to be invested in low-risk products with a short lock-up period, for example, treasury bills, certificate of deposits, time deposits, money market funds or other cash management products,

provided if the VA trading platform has a cash and liquidity management policy in place and subject to a regular review.

12. We also propose to extend the Investor Compensation Fund to retail investors' holding at the licensed platform operator and the licensed platform operator is required to pay a premium per retail account to contribute to the Investor Compensation Fund.

13. It will be helpful to clarify whether the funds to be set aside must be in fiat or can be a combination of both fiat, virtual assets, and cash equivalent.

Question 5: Do you have any suggestions as to how funds should be set aside by the licensed platform operators (for instance, under the 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.

14. We opine to allow funds to be set aside under the house account of the licensed platform operator due to cost concerns. Also, the client's virtual asset value at the platform varies and licensed platform operators can adjust and transfer the 'surplus' easier for better cash management.

15. Third-party insurance has its own restriction in terms of the quantum and tokens coverage, and they are fixed at the point the insurance is subscribed. It lacks the flexibility to adapt to rapidly changing development and business expansion. Also, we observe the scenario the insurance would cover could be quite restrictive and limited, and the insurance claim process can be lengthy.

16. Regular reporting of the house account can help mitigate the concerns of misappropriation.

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?

17. We have no further comment.

Question 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?

18. We observe the virtual asset market commonly offer futures (e.g., perpetual, long, short), structured product (e.g., shark notes), dual currency products, and options.

19. We believe at this stage, the inclusion of derivatives in a controlled manner would be extremely helpful in developing the proper regulatory and supervision regime.

20. We suggest the underlying products of the VA derivatives be the virtual asset having fulfilled the Special Token admission criteria and subject to the same prior approval arrangement as well as a regular reporting obligation.

21. We believe, at the initial stage, investors with the following characteristics would be appropriate, to begin with

    - Corporate and Institutional Professional Investors

    - Over a certain asset size

    - With a direct VA derivatives investment experience

    - Having completed the mandatory VA derivatives education program provided by the licensed platform operators.
        - Such VA derivatives education program shall be designed to include, but not be limited to, the risk characteristic and the legal relationship of the VA derivatives product that the licensed platform operators offered.

22. We welcome the opportunity to arrange a meeting to further elaborate on the market practices as well as the risks associated with each type of derivative commonly available in the virtual asset market.

Question 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?

23. Clause 13.2 of the VATP guidelines provides proprietary trading is limited to off-platform back-to-back transactions entered by the Platform Operator and other limited situations SFC approved.

24. We propose SFC to further provide examples, clarifications or directions on what would constitute a limited situation.

25. We opine relaxing the proposed restriction on proprietary trading would be necessary as licensed platform operators possess far less liquidity in terms of no. of clients and trading volume as compared to unregulated platforms. Clients would need to transact at a very unfavourable price. Clients may choose to resort to the foreign unregulated platform at the expense of lesser client asset protection.

26. We propose the relaxed proprietary trading be subject to the following disclosure and reporting requirements:

- All proprietary trading transactions with clients be identified, documented, and reflected on clients' portfolio records and statements.

- Details of all proprietary trading transactions with clients will be subject to monthly or even weekly reporting to the SFC.

- The results of all proprietary trading transactions with clients, regardless of whether profit or loss has been made, will be disclosed to the public regularly, e.g., on a quarterly basis.

Question 9: Do you have any comments on the requirements for virtual asset transfers or any other requirements in Chapter 12 of the AML Guideline for LCs and SFC-licensed VASPs? Please explain your views.

27. We have no further comment.

Question 10: Do you have any comments on the Disciplinary Fining Guidelines? Please explain your views.

28. We have no further comment.

Other comments

Staking

29. We seek the SFC's view on staking and whether to allow staking as part of the business for VASP.

30. Staking constitutes a fundamental pillar in keeping client involvement in the virtual asset market and it facilitates the development of Web3 infrastructure.

31. The industry wishes to open a dialogue with the SFC to iron out the technical aspect as well as a suitable governing framework.

32. We welcome the opportunity to arrange a meeting to further elaborate on the market practices as well as the risks associated.

Margin Trading

33. We propose to allow margin trading in a controlled manner to as to promote professional institutional players involvement.

34. We propose the margin trading will be subject to the same arrangement provided in points 20 to 22 above.