31 March 2023

Sent to: VATP-consultation@sfc.hk

To whom it may concern,

Re: Consultation Paper on the Proposed Regulatory Requirements for Virtual Asset Trading Platform Operators Licensed by the Securities and Futures Commission (SFC)

This submission is made by Kaiko, a company headquartered in Paris and with presence in Hong Kong SAR, Singapore, London and New York. We welcome the opportunity to respond to the above mentioned consultation paper from the SFC. Our vision is to provide trusted information, from all markets, on all networks. Our mission is to bridge traditional and blockchain ecosystems by providing reliable and actionable financial data and services. We hope that we can contribute to the work the SFC is doing in this area and would welcome the opportunity to support the SFC by sharing our experience with you.

About Kaiko

Kaiko is the leading source of cryptocurrency market data, providing businesses with industrial-grade and regulatory-compliant data. Kaiko empowers market participants with global connectivity to real-time and historical data feeds across the world's leading centralized and decentralized cryptocurrency exchanges. Kaiko's proprietary products are built to empower financial institutions and cryptocurrency businesses with solutions ranging from portfolio valuation to strategy backtesting, performance reporting, charting, analysis, indices, pre-and post-trade.

The Consultation Paper

We have set out our responses to the questions in the consultation paper in the following pages. We have not chosen to respond to all of the questions, but have focused on those where we have the most developed perspectives and experience. We would also like to make the following general observations:

- We believe that traditional finance ('TradFi') has developed, over many years, robust and proportionate regulations and standards. Blockchain based technology and ecosystems are, in our view, the technology of the future but the data used by participants in that ecosystem should still be of the best possible quality.

- Protecting retail investors is of course the most pressing concern for financial services regulators. The natural extension of this is to ensure the institutions serving those investors (and the wider market) are implementing robust risk management and compliance processes. Across any institution operating in any ecosystem, bad data facilitates bad decision making. Using high quality data helps to lift standards across the board. We would welcome the opportunity to discuss what TradFi standards and norms could easily be implemented in digital asset markets

We hope you find our response to the consultation paper helpful. We are very keen to contribute to the discussion and evolution of the regulatory framework in Hong Kong SAR. We remain at your disposal should you wish to discuss any element of our response in more detail.

Yours faithfully

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?

In our view, if there are robust investor protection measures in place, such as those proposed, then we are of the opinion that licensed platform operators should be allowed to provide their services to retail investors. Digital assets should be available to all, indeed inclusivity is one of the core ideologies at the heart of decentralized finance and that should not be lost when bridging the digital asset and TradFi ecosystems.

Q2 - Do you have any comments on the proposals regarding the general token admission criteria and specific token admission criteria?

We believe a token admission and review committee (TARC) is something that could be very useful and ensures accountability and visibility within the platform operator's senior management. We would observe that, whilst a documented decision making process is helpful, TARCs should be directed to ensure that any criteria / rules they set for admission of tokens is fundamentally rooted in analysis of robust and independent data. Indeed, we would suggest that such data-led analysis should continue following a decision to admit a token and that the TARC should be responsible for ongoing monitoring of the suitability of the tokens for trading (and where relevant, engaging directly with involved third parties such as index and data providers).

In respect of "eligible large-cap virtual assets" (ELCVA), we support the addition of such a criteria. However we have some observations on the definition proposed by the SFC. Inclusion in two "acceptable indices" may unnecessarily limit the universe of tokens considered ELCVA. This is because the definition of acceptable indices may be too narrowly defined.

We would agree that the criteria in paragraphs 44 a) - d) are a sensible start point but would suggest expanding the criteria very slightly. By limiting to only investible indices, the SFC is ruling out all benchmark reference rates as being unacceptable, which we think sets the wrong precedent. Investability is a factor of course, but in our view, benchmark rates are a reliable and robust indicator of liquidity, price and market depth regarding a specific asset, and are subject to significant oversight, particularly when produced by a regulated index provider. We also believe that by requiring one index to be provided by a TradFi index provider, there is a risk that high quality digital asset data is not a primary concern. We would therefore make the following amendments -

- Make the criteria in paragraph 44 ***examples*** of the factors that make an index acceptable, and add to the list "the index/rate is capable of being replicated by the platform operator";

Kaiko

- We would also suggest stating that, for the avoidance of doubt, single asset rates are capable of being considered acceptable indices should the other criteria be sufficiently met;
- We would suggest requiring TARCs and platform operators to consider the regulated status of the index provider; and
- We would suggest providing guidance to TARCs that, whilst it is preferable for one of the acceptable indices to have been provided by a TradFi index provider, regulated status and professional experience of key personnel at an index provider can be taken into account when making such judgments.

Q3 - 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?

We would only suggest that the platform operator also disclose the acceptable indices used to determine admission of a virtual asset.

Q7 - 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?

Kaiko is not a platform operator or derivatives trader so are not best placed to comment on the type of business models or derivatives that may be offered. We are, however, supportive of the development of a digital assets ecosystem and a key element of that is inevitably going to be derivatives and the ability to hedge risk. We believe that risk management and good governance are absolutely vital when offering derivatives linked to digital assets. Therefore we would urge the SFC to strongly consider implementing rules and requirements that are not dissimilar to TradFi, particularly regarding leverage, clearing and regulatory reporting, and importantly the quality of reference and trade data must be paramount for all market participants and regulators.