

Public Consultation on Legislative Proposal to Regulate Dealing in Virtual Assets

FOREWORD

1. This consultation document is jointly issued by the Financial Services and the Treasury Bureau (“FSTB”) and the Securities and Futures Commission (“SFC”) for seeking views on the legislative proposal to regulate dealing in virtual assets (“VAs”) through the introduction of a licensing regime for providers of VA dealing services.

2. The FSTB and the SFC welcome written comments on or before 29 August 2025 through any of the following channels –

By mail: Division 5, Financial Services Branch
Financial Services and the Treasury Bureau
24/F, Central Government Offices
Tim Mei Avenue, Tamar Central, Hong Kong

By email: vadealing-consult@fstb.gov.hk

3. The FSTB and the SFC may, as appropriate, reproduce, quote, summarise and publish the written comments received, in whole or in part, in any form and use without seeking permission of the contributing parties.
4. Names of the contributing parties and their affiliations may be referred to in other documents the FSTB and the SFC (as applicable) publishes and disseminates through different means after the consultation. If any contributing parties do not wish to have their names or affiliations disclosed, please expressly state so in their written comments. Any personal data provided will only be used by the FSTB and the SFC, other government departments/agencies for purposes which are related to this consultation.

CHAPTER 1

INTRODUCTION

Purpose

- 1.1 The Government conducted the first consultation from February to April 2024 on a legislative proposal to introduce a licensing regime for providers of over-the-counter (“OTC”) trading services of VAs¹. With reference to the views collected, we then revised the legislative proposal and set out in this document the conceptual framework and key parameters for public consultation. Under the revised legislative proposal, VA dealing service providers that fall within the scope will need to be licensed or registered, and will be required to observe anti-money laundering and counter-terrorist financing (“AML/CFT”) regulations and other regulatory requirements. Comments from relevant stakeholders are invited to facilitate our finalisation of the details of the legislative proposal.

Background

- 1.2 In October 2022, the Government issued a “Policy Statement on Development of VAs in Hong Kong”, setting out the Government’s vision and policy direction for the digital asset sector. In particular, the policy statement sets out the Government’s commitment to developing a comprehensive framework for the regulation of digital asset activities under the “same activity, same risks, same regulation” principle. On 26 June 2025, the Government promulgated the second policy statement, setting out the latest policy direction and initiatives as Hong Kong moves towards the next phase of development in digital assets.

¹ See the consultation paper at – https://www.fstb.gov.hk/fsb/en/publication/consult/doc/VAOTC_consultation_paper_en.pdf.

- 1.3 In December 2022, the Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Ordinance 2022 was enacted to provide for a licensing regime for VA trading platforms (“VATPs”), complying with the AML/CFT requirements² stipulated by the Financial Action Task Force (“FATF”)³, as well as providing for investor protection⁴. Under the licensing regime, which commenced operation in June 2023, any person carrying on a business of operating a VA exchange⁵ in Hong Kong or actively marketing such service to Hong Kong investors must be licensed by the SFC unless otherwise permitted by the law. Licensed VATPs are required to fulfil a fit-and-proper test, and AML/CFT and investor protection requirements, among others. The SFC is equipped with supervisory, investigative and intervention powers. Persons not complying with the requirements concerned are liable to administrative and criminal sanctions.

² Including requirements such as customer due diligence (“CDD”) and record keeping.

³ The FATF is an inter-governmental body established in 1989 that sets international standards for combating money laundering and terrorist financing. It comprises 40 members, including Hong Kong in the capacity of Hong Kong, China.

⁴ Including requirements on safe and segregated custody of clients’ assets, financial soundness and avoiding conflicts of interest imposed through regulatory requirements in June 2023.

⁵ Specifically, this refers to operating a VA exchange, this is to say, providing services through means of electronic facilities —

(a) whereby —

- (i) offers to sell or purchase VAs are regularly made or accepted in a way that forms or results in a binding transaction; or
- (ii) persons are regularly introduced, or identified to other persons in order that they may negotiate or conclude, or with the reasonable expectation that they will negotiate or conclude sales or purchases of VAs in a way that forms or results in a binding transaction; and

(b) where client money or client VAs comes into direct or indirect possession of the person providing such service.

- 1.4 As of end-June 2025, the SFC has formally licensed 11 VATPs under the Securities and Futures Ordinance (Cap. 571) (“SFO”)⁶ for carrying on Type 1 (dealing in securities) and Type 7 (providing automated trading services) regulated activities, and under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (“AMLO”) for providing the VA service of operating a VA exchange, with a number of such VATPs being allowed to provide services to retail investors. Save for these licensed VATPs, there are currently 10 VATP applicants whose licence applications have yet to be approved by the SFC, including four which are deemed-to-be-licensed VATP applicants.
- 1.5 The Government and financial regulators have kept in view the changing market landscape, risks and international regulatory discussion, in considering necessary changes to the scope of regulation of VA activities to ensure that the development of the sector could be properly managed. In view of public concerns over VA services offered by certain VA OTC shops that channeled funds to suspected fraudulent schemes, the FSTB conducted a public consultation from February to April 2024 on a proposal to make legislative amendments to the AMLO to broaden the regulatory scope to cover VA OTC trading services.
- 1.6 The salient points of the licensing regime proposed in the first consultation are recapitulated below –

⁶ Prior to the introduction of the licensing regime under the AMLO, the SFC introduced in 2018 an opt-in regime for VATPs to voluntarily come under the SFC’s regulatory remit under the SFO by trading at least one security token. With the licensing regime for VATPs commencing operation in June 2023, VATPs providing trading services for VAs (which exclude any security tokens) are required to be licensed under the AMLO. Given that the terms and features of a VA may evolve over time and change from a non-security token to a security token (or vice versa), to avoid contravening any of the licensing regimes under the SFO and the AMLO and ensure business continuity, VATPs are encouraged to apply for approvals under both ordinances and become dually-licensed. To ensure regulatory parity, the regulatory requirements and standards under the AMLO and the SFO have been aligned.

- (a) **Scope and coverage:** Any person who conducted a business in providing services of spot trade of any VAs in Hong Kong (including physical outlets and/or other platforms) would have to be licensed by the Commissioner of Customs and Excise (“CCE”).
- (b) **Eligibility:** A licensee would be required to be a locally incorporated company or a company incorporated elsewhere but registered in Hong Kong under the Companies Ordinance (Cap. 622). For physical outlets, applicants were required to identify suitable premises for its operation.
- (c) **Activities allowed:** Spot trade of VAs for any money would be allowed. In the event that remittance of fiat money would be involved in the course of business, a money service operator (“MSO”) licence would be required in addition to a VA OTC licence. Other than that, no other services would be permitted.
- (d) **Regulatory requirements:** A range of requirements would be put in place, including those on the AML/CFT conduct of licensees, competence, risk management and record keeping etc.
- (e) **Transitional arrangements:** There would be a six-month transitional period to enable pre-existing VA OTC service providers to continue their operations, on the condition that they had to submit within the first three months a licence application to the licensing authority. Options on whether a deeming arrangement should be provided for⁷ were included.

⁷ For option 1 without deeming arrangement, upon the end of the six-month transitional period, all VA OTC service providers had to be licensed to carry out the regulated activity. For option 2 with deeming arrangement, applicants that were able to meet the requirements specified by the regulatory authority would be granted a “deemed licence” in the interim for them to continue their operations beyond the transitional period, pending a final decision on the licence applications made by the regulatory authority.

Consultation Feedback

- 1.7 The two-month consultation received about 70 submissions from a wide range of stakeholders, including existing VA dealers, VATPs, professional bodies, business associations, academia and the general public. The views received generally supported regulating VA OTC activities, and concurred that a proper regulatory framework is needed to balance the needs of investor protection and market development.
- 1.8 Among the views received from written responses as well as industry engagement sessions ⁸, we have the following observations –
- (a) **Modus operandi:** While the original proposal was devised to address VA dealing activities mostly taking place in a physical setting (i.e. coin shops and ATM networks) with limited online presence, diverse modes of operation were observed during the consultation. Other than coin shops and ATM networks, broker-dealer-type establishments, operations with mixed mode of physical and digital presence, digital-only platforms, payment service providers and VA card networks were observed.
 - (b) **Services involved:** Other than the more straightforward activities, such as small-scale conversions and same-name transfers, industry feedback reflected more complex and diverse services offered, which include, among others, block trading, conversions for trade settlement purposes, and asset management-related activities.

⁸ The FSTB and the Hong Kong Customs and Excise Department had over 100 meetings with VA industry representatives during the public consultation period.

- (c) **Clientele:** Beside mainly serving individual investors as originally envisaged, it was observed that certain VA dealers on the contrary mainly served institutional investors (including family offices), as well as small-and-medium enterprises (“SMEs”), trading firms, market-makers, etc., which may have needs that vary from those of individual investors.
- (d) **Custody:** The original proposal in the consultation paper did not provide for service providers’ custody/escrow service involving clients’ VAs. However, as observed in the consultation, custody of client assets appeared to be a prerequisite for the more complex activities, particularly various types of VA dealing activities.

Latest Legislative Proposal

1.9 Building on the scope and coverage of the first public consultation, and taking into account the range of activities observed from the public consultation and industry feedback, we propose introducing a new licensing regime for providers of VA dealing services through legislative means. In line with the “same activity, same risks, same regulation” principle, taking reference from the VATP licensing regime, as well as that for traditional intermediaries offering VA dealing services⁹, the proposed licensing regime for VA dealing service providers will require licensees and registrants providing VA dealing services to meet a host of licensing/registration and regulatory requirements as well as AML/CFT obligations as set out in the ensuing sections.

⁹ Licensed corporations and registered institutions are currently allowed to offer VA dealing services by partnering with SFC-licensed VATPs.

1.10 Under the proposed regime, any person who carries on a business of providing the VA service of dealing in any VAs¹⁰ in Hong Kong is required to be licensed by or registered with the SFC, subject to a fit-and-proper test and other factors deemed relevant by the SFC. These services would include conversion as well as the more complex services such as brokerage activities, block trading activities and other relevant activities of advisors or asset managers, which will be further elaborated in Chapter 2. Licensed or registered VA dealing service providers will be subject to the AML/CFT requirements under Schedule 2 to the AMLO and other regulatory requirements. In respect of (i) banks¹¹ and (ii) stored value facilities (“SVFs”)¹², they need to be registered with the SFC (in consultation with the Hong Kong Monetary Authority (“HKMA”)) for providing services of dealing in any VAs in Hong Kong. The division of regulatory and supervisory responsibilities of the SFC and the HKMA over banks and SVFs in VA dealing will follow the approach in the regulation of the securities business of banks, where the HKMA will be the frontline regulator. In addition, it is proposed that stablecoin issuers who (i) are licensed by the HKMA and (ii) conduct offering¹³ or redemption¹⁴ of the stablecoins they issue in the primary market will be exempted, on the grounds that the relevant stablecoin issuer and its activities are subject to the HKMA’s regulation and ongoing supervision.

¹⁰ Adopting the definition of VA in the VATP licensing regime, as set out in section 53ZRA of the AMLO, which refers to a cryptographically secured digital representation of value that possesses a range of features (including being expressed as a unit of account or a store of economic value, used for payment for goods or services, discharge of a debt etc.).

¹¹ For the purpose of this paper, a “bank” refers to an authorized institution defined under the Banking Ordinance (Cap. 155).

¹² For the purpose of this paper, an “SVF” refers to a stored value facility licensee, i.e. a licensee defined under the Payment Systems and Stored Value Facilities Ordinance (Cap. 584).

¹³ For the purpose of this paper, “offering” has the meaning given to it in section 6 of the Stablecoins Ordinance (Cap. 656).

¹⁴ For the purpose of this paper, “redemption” has the meaning given to it in Schedule 2 of the Stablecoins Ordinance (Cap. 656).

- 1.11 This regime will cover all VA dealing services irrespective of whether the services are provided through a physical outlet and/or other platforms.
- 1.12 The SFC and the HKMA will be provided with powers for implementing the regime in accordance with the statutory requirements.

CHAPTER 2

REGULATION OF VIRTUAL ASSET DEALING SERVICES PROVIDERS

- 2.1 There is an emerging global consensus that VA regulations should address not only potential money laundering/terrorist financing (“ML/TF”) risks, but also investor protection concerns, given the growing prevalence of trading activities in VAs. Specifically, VAs are considered to be vulnerable to ML/TF risks because they could enable pseudonymity or anonymity, decentralization compared to centralized intermediation and transfer, and such features can be abused to facilitate layering of crime proceeds into fiat money through interfaces with the traditional financial system.
- 2.2 To address the ML/TF risks of VA activities, the FATF revised its standards under Recommendation 15 in February 2019 to require jurisdictions to regulate VA service providers (“VASPs”) for AML/CFT purposes and supervise their compliance. In essence, the FATF requires jurisdictions to impose on VASPs the full range of AML/CFT obligations that are currently applicable to financial institutions and designated non-financial businesses and professions (“DNFBPs”)¹⁵, through prohibition, or licensing or registration mechanisms which would subject VASPs to the same AML/CFT requirements as financial institutions and DNFBPs.
- 2.3 Further, VAs, many of which do not have any intrinsic value and are highly speculative and volatile, also pose considerable challenges to investor protection, as evident in their association of VAs with fraud, security breach and market manipulation, both globally and locally. This has drawn attention and led to calls for more robust investor protection measures.

¹⁵ DNFBPs include real estate agents, lawyers, notaries, accountants, trust or company service providers, and dealers in precious metals and stones.

- 2.4 The VATP licensing regime in Hong Kong came into effect on 1 June 2023, with 11 VATPs licensed as at end-June 2025. While the activities of VATPs have been put under the regulatory remit of the SFC through the regime, there remains other types of unregulated VA activities, exposing the public to ML/TF and misconduct risks, particularly those relating to frauds and cyberattacks.
- 2.5 Meanwhile, various economies continue to actively develop digital assets and other financial innovation. As an international financial centre, following the issuance of the first policy statement in October 2022, we have been actively nurturing a facilitating environment for the sustainable development of Web3 and digital assets in Hong Kong. On 26 June 2025, we promulgated the second policy statement, setting out our latest policy direction and initiatives as Hong Kong moves towards the next phase of development in digital assets, focusing on strategic measures to enhance liquidity in digital asset trading, diversify digital asset product offerings, and strengthen Hong Kong's position as a global digital asset hub.
- 2.6 To further facilitate the development of the VA market, the SFC announced a new roadmap (i.e. **ASPIRe**)¹⁶ in February 2025, which includes measures to facilitate further VA product offerings and services such as on staking, borrowing/lending, and derivatives trading, etc., with a view to putting forward a balanced regulatory approach that supports growth, mitigates vulnerabilities and solidifies Hong Kong's role as a trusted nexus for VA liquidity.
- 2.7 To strengthen Hong Kong's regulatory regime in respect of VA activities, taking into account the need for balanced regulation and market development facilitation, there is a strong need to bring VA dealing services into the regulatory remit to ensure that suitable AML/CFT measures are put in place and investor protection is catered for.

¹⁶ The roadmap comprises five pillars with 12 initiatives focusing on Access, Safeguards, Products, Infrastructure and Relationships.

Scope of Regulation

2.8 Building on the scope and coverage of the first public consultation, and taking into account the range of activities observed from public consultation and industry feedback, we propose introducing a new licensing regime for VA dealing service providers. Specifically, any person, by way of business¹⁷, making or offering to make an agreement with another person, or inducing or attempting to induce another person to enter into or to offer to enter into an agreement in respect of the following would require a licence granted by or registration with the SFC –

- (a) for or with a view to acquiring, disposing of, subscribing for or underwriting VAs; or
- (b) the purpose or pretended purpose of which is to secure a profit to any of the parties from the yield of VAs or by reference to fluctuations in the value of VAs.

2.9 The above scope would cover –

- (a) simple dealing services, including typically smaller scale VA-VA and VA-fiat (and vice versa) conversions;
- (b) more complex dealing services such as brokerage activities, block trading activities and other relevant activities of advisors¹⁸ or asset managers¹⁹; and
- (c) irrespective of whether the services are to be provided through a physical outlet and/or other platforms.

¹⁷ See section 53ZRD of the AMLO - a licence is required for carrying on a business of providing a VA service.

¹⁸ An advisor may, among others, provide advice and also take an order to purchase or sell VAs.

¹⁹ Asset managers may, among others, place trade orders to dealers in the course of managing their own clients' portfolios of VAs.

- 2.10 The definition will capture business activities involving the spot trading of VAs. The concept of “by way of business” will exclude peer-to-peer trading of VAs between individuals where no intermediary is involved²⁰. Such a scope is consistent with international standards such as the recommendations stipulated by the FATF.
- 2.11 The definition will also be broad enough to cater for the wide range of business models of VA dealing service providers. Under the “same activity, same risks, same regulation” principle, we see the need to ensure that all forms of provision of VA dealing services will fall under the regulation of the proposed regime.
- 2.12 Existing intermediaries licensed by or registered with the SFC providing VA dealing services and SFC-licensed VATPs (irrespective of whether they engage in off-platform transactions), as well as unregulated VA dealing operators and VA fund managers are all expected to obtain a licence or registration under this proposed licensing regime, with an expedited approval process available to existing intermediaries as mentioned in paragraphs 2.30 and 2.31 below.
- 2.13 It is envisaged that the range of VA dealing activities to be captured may involve some custodian services for client VAs. In this regard, we are conducting a separate public consultation exercise to gauge views on the proposed regulatory regime for VA custodian services. For any services provided by a VA dealing service provider in the course of its business whereby the licensee or registrant providing VA dealing services holds client VAs with a third party entity, we propose that the licensee or registrant will be required to hold client VAs with a licensed or registered VA custodian in Hong Kong²¹.

²⁰ Trading platforms facilitating peer-to-peer trading will need to be assessed on a case-by-case basis whether they have engaged in the business of providing VA dealing services, taking into account, for example, the remuneration model.

²¹ Please refer to the separate public consultation document on the proposed licensing regime for VA custodian service providers issued on 27 June 2025.

Q1 Do you agree with the proposed definition and scope of VA dealing services? Are there any potential exemptions which you consider appropriate?

Eligibility

- 2.14 To ensure sufficient nexus for effective supervision and monitoring, we propose that an applicant (except for banks) must be (i) a locally incorporated company with a permanent place of business in Hong Kong), or (ii) a company incorporated elsewhere but registered in Hong Kong under the Companies Ordinance (Cap. 622). For all applicants, they will be required to identify suitable premises for the storage of books and records.
- 2.15 Applicants and relevant persons (including substantial shareholders and individuals carrying out VA dealing functions for the corporate entity) will have to satisfy fit-and-proper tests as with other regulated entities under the AMLO. In determining whether an applicant is fit and proper, the SFC will consider all relevant matters, including, among others, whether the applicant (or its directors, substantial shareholders or ultimate owners) has been convicted in Hong Kong or elsewhere of a ML/TF offence or a serious offence²²; has been convicted in Hong Kong or elsewhere of an offence in which the person is found to have acted fraudulently, corruptly or dishonestly; has been the subject of any bankruptcy or liquidation proceedings; or has failed or may fail to observe the AML/CFT and other applicable requirements.
- 2.16 In line with the requirements under the SFO for intermediaries and the VATP regime, an applicant will have to appoint at least two responsible officers approved by the SFC (or two executive officers approved by the HKMA as the case may be) to assume the general responsibility of ensuring compliance with AML/CFT requirements and other regulatory requirements, and be held

²² Offences specified in Schedules 1 or 2 to the Organized and Serious Crimes Ordinance (Cap. 455) or similar offences elsewhere.

personally accountable in case of contravention or non-compliance of the requirements. All executive directors of a licensed VA dealing service provider must be made responsible officers upon approval by the SFC.

Regulatory Requirements - Activities Allowed

- 2.17 In respect of the allowed activities, licensees or registrants can generally provide VA dealing services in the course of their businesses, which involve making or offering to make, or inducing or attempting to induce another person to enter into or to offer to enter into, an agreement for the acquisition, disposal of, subscription for or underwriting of VAs, or an agreement the purpose or pretended purpose of which is to secure a profit to any of the parties from the yield of VAs or by reference to the fluctuations in the value of VAs.
- 2.18 This would already cover a considerable spectrum of services including simple conversions of a VA to another VA or fiat (and vice versa), as well as the more complex VA dealing activities (see paragraph 2.9(b) above).
- 2.19 As regards the types of VAs that clients can trade in, in line with the “same activity, same risks, same regulation” principle, the requirements are expected to broadly follow those applicable to VATPs²³. Specifically, for retail investors, licensees or registrants providing VA dealing services should align their token offering procedures with those of VATPs, which means that depending on the due diligence conducted by the licensees or registrants providing VA dealing services, the offered tokens would include

²³ Among other requirements, licensees or registrants will have to set up a token admission and review committee which will be responsible for establishing, implementing and enforcing the criteria for any VA to be made available for/withdrawn from trading. As a high level generally applicable principle, licensees or registrants should perform reasonable due diligence on all VAs prior to their inclusion.

tokens of high liquidity²⁴ and stablecoins issued by issuers licensed by the HKMA (upon implementation of the proposed licensing regime for stablecoin issuers²⁵).

2.20 For other services (e.g. advisory, asset management, staking, borrowing/lending, margin trading), separate sets of regulatory requirements based on the “same activity, same risks, same regulation” principle will be formulated, and may involve additional approvals from the SFC or the HKMA (where applicable). For deposits/withdrawals of client VAs to/from the licensees’ or registrants’ wallet addresses (including to/from third parties for settlement purposes), the licensees or registrants should, among others, ensure full compliance with the applicable AML/CFT-related standards.

2.21 Currently, an intermediary licensed by or registered with the SFC is required²⁶ to ensure that its VA dealing activities are conducted through an omnibus account established and maintained with an SFC-licensed VATP and that transactions for clients are only executed on the platform of the SFC-licensed VATP. An SFC-licensed VATP, on the other hand, is required to, among others, ensure that its client VAs are held on trust in wallet address(es) established by its associated entity.

²⁴ In assessing the liquidity of a specific VA for trading by retail clients, a licensee or registrant should, at a minimum, ensure that the VA is an eligible large-cap VA, i.e. the specific large-cap VA should have been included in a minimum of two acceptable indices issued by at least two different index providers, with the index providers being separate and independent from each other, the issuer of the VA (if applicable) and the licensee and with at least one index provider being in compliance with the IOSCO Principles for Financial Benchmarks and has experience in publishing indices for the conventional securities market.

²⁵ Following the Government’s introduction of the Stablecoins Bill into the Legislative Council (“LegCo”) in December 2024 and the LegCo’s passage of the Bill in May 2025, the regime is scheduled for launch in August 2025, subject to the negative vetting by the LegCo. After the regime comes into effect, stablecoins can only be offered by permitted offerors. Stablecoins issued by entities not licensed by the HKMA may only be offered to professional investors in view of the risks involved.

²⁶ See the joint circular on intermediaries’ virtual asset-related activities dated 22 December 2023 (the “Joint Circular”).

- 2.22 To enable licensees or registrants providing VA dealing services to bring global liquidity to Hong Kong, an option being considered is to allow licensees or registrants providing VA dealing services to acquire or dispose of VAs for clients via non-SFC-licensed VATPs that are subject to regulation in other jurisdictions or other liquidity providers, provided that there are sufficient investor protection safeguards in place (for example, conducting additional counterparty-related or AML-related due diligence, reducing clients' exposure to counterparty risks via back-to-back transactions, sufficient risk disclosures to investors and safekeeping client VAs acquired elsewhere with VA custodians licensed by or registered with the SFC in Hong Kong). These investor protection safeguards would be subject to a separate consultation as mentioned in paragraph 2.26 below.
- 2.23 In terms of AML-related due diligence, we note that SFC-licensed VATPs and SFC-regulated licensees already providing VA dealing services are currently required²⁷ to, among others, implement effective risk-based transaction monitoring procedures to detect the origin and destination of the VAs transferred from or to customers or other parties in relation to VA transactions conducted for customers and monitor the VA transfer counterparties on an ongoing basis (including by way of adopting appropriate technological solutions such as blockchain analytic tools). Under the proposed regime, licensees or registrants providing VA dealing services will also be subject to the same risk-based transaction monitoring procedures. At the same time, licensees or registrants providing VA dealing services will be required to hold client VAs with licensed or registered VA custodians in Hong Kong²⁸.

²⁷ See the SFC's Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations and SFC-licensed Virtual Asset Service Providers) dated June 2023.

²⁸ Please refer to the separate public consultation document on the proposed regulatory regime for VA custodian service providers issued on 27 June 2025.

- Q2 Do you have any comments on the proposed scope of allowed activities?**
- Q3 If licensees or registrants providing VA dealing services are allowed to acquire or dispose of VAs for clients via non-SFC-licensed VATPs or liquidity providers, what are your comments on the safeguards that should be put in place?**
- Q4 If licensees or registrants providing VA dealing services are required to hold client VAs via regulated VA custodians, what are your comments on a commercially viable and AML-compliant operational flow to conduct VA dealing activities?**

Other Regulatory Requirements

- 2.24 To keep the regulatory requirements applicable to licensees or registrants providing VA dealing services on par with those applicable to other regulated entities, we propose that they will be required to observe the AML/CFT requirements stipulated in Schedule 2 to the AMLO relating to CDD and record-keeping.
- 2.25 In line with the “same activity, same risks, same regulation” principle, and with reference to the regulatory requirements already applicable to licensed VATPs and traditional intermediaries currently offering VA dealing services (including the requirements in the Joint Circular), we propose setting the following regulatory requirements under the proposed regime –
- (a) **Financial resources:** except for banks which are subject to existing capital requirements of the HKMA, a licensee or registrant should have adequate financial resources for operating its VA business, this includes financial resource requirements such as a minimum paid-up share capital of \$5 million, minimum required liquid capital of up to \$3 million (depending on the business model) and excess liquid capital equivalent to at least 12 months of its actual operating expenses;

- (b) **Knowledge and experience:** a licensee or registrant is required to have a proper corporate governance structure staffed by personnel with the necessary knowledge and experience (for example, having passed a paper on regulatory knowledge) to enable the effective discharge of responsibilities;
- (c) **Risk management:** a licensee or registrant is required to have in place appropriate risk management policies and procedures for managing ML/TF ²⁹ and other risks ³⁰ arising from its activities that are commensurate with the scale and complexity of its business;
- (d) **Financial reporting and disclosure:** other than banks, a licensee or registrant should observe prescribed auditing and disclosure requirements and submit audited accounts;
- (e) **Conduct of business:** a licensee or registrant is required to act honestly, fairly, with due skill, care and diligence, in the best interests of its clients and the integrity of the market, as well as comply with all statutory and regulatory requirements applicable to the conduct of its business activities;
- (f) **Information and notifications:** a licensee or registrant is required to submit a wide range of information (for example, the details in respect of wallet addresses used in their course of business, the scope and nature of the business carried on or to be carried on, and the types of services provided or to be provided) as well as ensure that the submitted information remains up-to-date;

²⁹ Among others, a licensee or registrant has to adopt appropriate technological solutions (e.g. blockchain analytic tools) that enable the tracking of VAs and the associated wallet addresses and identification of potentially suspicious transactions.

³⁰ A traditional intermediary is currently required to ensure that its VA dealing activities are conducted through an omnibus account established and maintained with an SFC-licensed VATP and that transactions for clients are only executed on the platform of the SFC-licensed VATP. There may be additional risks associated with acquiring VAs for clients via non-SFC-regulated entities, including counterparty-related or AML-related risks and custody risks.

- (g) **Record keeping:** a licensee or registrant is required to maintain proper records in relation to its business activities, which will be accessible as part of the SFC's or the HKMA's ongoing monitoring;
- (h) **Proper protection of client assets:** client assets of the licensees and registrants should be properly protected and additional measures include proper segregation of client assets and may include safekeeping client assets with a licensed or registered VA custodian in Hong Kong; and
- (i) **Other investor protection safeguards:** measures should be put in place to ensure investor protection, such as those to assess clients' VA knowledge, to provide clients with adequate training, to conduct client risk assessments and risk profiling, to set client exposure limits, to ensure clients' suitability and to prevent, avoid and disclose actual or potential conflicts of interest.

2.26 On top of that, consistent with arrangements for the commencement of the VATP licensing regime³¹, the SFC will be conducting a separate consultation exercise on a range of regulatory requirements that will be in place for all licensees or registrants providing VA dealing services regarding the fitness-and-properness of the applicant and relevant persons, covering ability and experience, AML/CFT controls³², as well as conduct and risk management, among others.

2.27 The SFC will grant a licence or registration only when the specified requirements are met. Licensees or registrants providing VA dealing services will be subject to disciplinary and investigative proceedings and enforcement actions in case of non-compliance with the AML/CFT and other statutory and regulatory requirements.

³¹ Prior to the commencement of the VATP licensing regime, the SFC conducted a public consultation exercise on the proposed regulatory requirements for SFC-licensed VATPs from February to May 2023.

³² As stipulated In Schedule 2 to the AMLO relating to CDD and record-keeping.

Q5 Do you think the regulatory requirements proposed suffice in addressing potential ML/TF risks and offering adequate investor protection?

Licence Period and Transitional Period

2.28 In order to align with the existing SFC licensing policy for SFC-regulated intermediaries (viz. open-ended licences and registrations), we propose granting an open-ended licence or registration for a successful applicant for the provision of VA dealing services. That is to say, a licence or registration for providing VA dealing services will remain valid until it is revoked (e.g. due to misconduct or cessation of operation).

2.29 As regards transitional period, we are not inclined to provide a deeming arrangement to the pre-existing VA dealing service providers. Instead, we are inclined for the licensing regime to become fully effective on the commencement date of the relevant statutory provisions. We encourage all industry stakeholders already engaged in VA dealing activities to reach out to the SFC and the HKMA (as applicable) as soon as possible (e.g. for initiating pre-application processes)³³ and such industry feedback will be important in the final determination of the new licensing regime's commencement date. Industry stakeholders that are subject to the proposed licensing regime but fail to reach out to the SFC and the HKMA (as applicable) may suffer undue interruptions to their business operations due to having to cease business operations on the commencement date of the licensing regime. We will ensure that the industry is informed as the proposed licensing regime is to be taken forward, and conduct consultations as necessary.

Q6 Do you agree with the proposed transitional arrangement?

³³ For such enquiries, please contact the SFC FinTech Unit at fintech@sfc.hk.

Expedited licensing and registration process for relevant regulated entities

2.30 Based on the scope and coverage set out in paragraph 2.8 above, SFC-licensed VATPs as well as licensed corporations and registered institutions currently providing VA dealing services would be required to obtain a licence or registration (as applicable) under the proposed licensing regime.

2.31 Where relevant regulated entities have already undergone the SFC's or the HKMA's assessment process in relation to their provision of VA dealing services and are already engaged in providing VA dealing services, we will introduce an expedited approval process for them.

Q7 Do you agree with the expedited licensing or registration arrangement?

Licensing Fees

2.32 The processing of a licence application for VA dealing services is expected to be similar to a typical broker-dealer licence under the SFO. Following the "user-pays" principle, we propose that the licence application fee and annual fee for VA dealing services providers licensed or registered by the SFC should be benchmarked with the relevant fees for Type 1 regulated activity under the SFO. For reference, the current application fee for an application by a licensed corporation for Type 1 regulated activity under the SFO is \$4,740 and the annual fee is \$4,740. The application fee for an application by a registered institution for Type 1 regulated activity is \$23,500 and the annual fee is \$35,000.

Q8 Based on the "user-pays" principle, do you have any comments on aligning the licensing application fee and annual fee for a licensee or registrant providing VA dealing services with those for Type 1 regulated activity under the SFO?

Prohibition

- 2.33 To prevent the investing public from being exposed to risks associated with unregulated VA dealing activities, we propose to prohibit any person from actively marketing, whether in Hong Kong or elsewhere, to the public of Hong Kong the provision of, or holding out as providing in Hong Kong, VA dealing services, unless the person is licensed by or registered with the SFC for providing the VA dealing services.

Q9 Do you agree that, for the purpose of protecting the investing public, persons not licensed by or registered with the SFC should not be allowed to actively market VA dealing services to the public of Hong Kong?

Powers of the Regulatory Authorities

- 2.34 Similar to the existing arrangement under the SFO in relation to banks conducting securities business, the SFC will be the standard setter for regulatory requirements applicable to licensed or registered VA dealing service providers.
- 2.35 The SFC, being the licensing and registration authority, will also be empowered to impose licensing and registration conditions, and/or add to, vary or modify existing conditions (after consultation with the HKMA in the case of imposition, addition, variation or modification of registration conditions), enter licensees' business premises for conducting routine inspections and to investigate into suspected non-compliance with statutory and regulatory requirements by licensees. In addition, the SFC will be empowered to impose disciplinary sanctions (including civil penalty and suspension or revocation of licence) against non-compliance with statutory and regulatory requirements by all licensees or registrants.

- 2.36 The HKMA, on the other hand, will be the frontline regulator for banks and SVFs and will be empowered to supervise the VA dealing activities of banks and SVFs registered for VA dealing activities. Specifically, the HKMA will have the powers to enter registrants' business premises for conducting routine inspections and to investigate into their suspected non-compliance with statutory and regulatory requirements.
- 2.37 Given the potential interface of licensed or registered VA dealing service providers with other businesses (e.g. VATPs or VA custodian service providers, banks, other institutions regulated under the AMLO), the SFC or the HKMA will be able to obtain information from relevant authorities for the purpose of investigating into licensees or registrants' suspected non-compliances.

Q10 Do you agree that the SFC and the HKMA should be provided with the proposed powers?

Sanctions

- 2.38 To achieve the necessary deterrent effect and to ensure regulatory parity among different regimes relating to VA activities, we propose that the sanctions under the proposed licensing regime should make reference to those applicable to VATPs under the AMLO.
- 2.39 In particular, we propose that –
- (a) any person carrying out, holding out as carrying out and actively marketing VA dealing services without a licence or registration will be liable, on conviction on indictment, to a fine of \$5 million and to imprisonment for seven years;
 - (b) any person knowingly issuing an advertisement relating to an unlicensed or unregistered person's provision of VA dealing services will be liable to a fine at level 5 (currently at \$50,000) and to imprisonment for six months;

- (c) non-compliance of a licensee or registrant with the statutory AML/CFT requirements will be liable, on conviction on indictment, to a fine of \$1 million and to imprisonment for two years;
- (d) any person engaging in fraudulent or deceptive behaviour in transactions involving VA will be liable, on conviction on indictment, to a fine of \$10 million and to imprisonment for 10 years;
- (e) any person making fraudulent or reckless misrepresentations for the purpose of inducing another person to engage in a transaction involving VA will be liable, on conviction on indictment, to a fine of \$1 million and to imprisonment for seven years; and
- (f) a licensee or registrant be subject to suspension or revocation of licence or registration, reprimand, remedial order and/or a pecuniary penalty (not exceeding \$10,000,000), for misconduct (e.g. contravening other regulatory requirements) or fitness-and-properness issues;

Q11 Do you agree with the proposed sanctions, which are comparable to those under the existing regulatory regimes for VATPs?

Statutory Appeal

2.40 With reference to the Anti-Money Laundering and Counter-Terrorist Financing Review Tribunal, we propose that a review tribunal mechanism be put in place under the proposed licensing regime for VA dealing service providers so as to handle appeals against the decisions to be made by the SFC or the HKMA in implementing the regime.

Q12 Do you agree that a review tribunal mechanism should be put in place to handle appeals against the decisions to be made by the SFC or the HKMA in implementing the licensing regime?

CHAPTER 3

NEXT STEPS

- 3.1 We welcome comments from the public and sectors concerned to facilitate us in taking forward the legislative exercise. Respondents are invited to offer their comments on the proposals set out in this consultation document by 29 August 2025.
- 3.2 Taking into account the comments to be collected, and subject to the progress of the preparatory work³⁴, we aim to introduce a bill on the proposed licensing regime for VA dealing service providers into the LegCo as soon as practicable.

Overview of Consultation Questions

- Q1 Do you agree with the proposed definition and scope of VA dealing services? Are there any potential exemptions which you consider appropriate?**
- Q2 Do you have any comments on the proposed scope of allowed activities?**
- Q3 If licensees or registrants providing VA dealing services are allowed to acquire or dispose of VAs for clients via non-SFC-licensed VATPs or liquidity providers, what are your comments on the safeguards that should be put in place?**
- Q4 If licensees or registrants providing VA dealing services are required to hold client VAs via regulated VA custodians, what are your comments on a commercially viable and AML-compliant operational flow to conduct VA dealing activities?**

³⁴ Including the consultation outcome and preparatory work of the proposed regulatory regime for VA custodian service providers.

- Q5 Do you think the regulatory requirements proposed suffice in addressing potential ML/TF risks and offering adequate investor protection?**
- Q6 Do you agree with the proposed transitional arrangement?**
- Q7 Do you agree with the expedited licensing or registration arrangement?**
- Q8 Based on the “user-pays” principle, do you have any comments on aligning the licensing application fee and annual fee for a licensee or registrant providing VA dealing services with those for Type 1 regulated activity under the SFO?**
- Q9 Do you agree that, for the purpose of protecting the investing public, persons not licensed by or registered with the SFC should not be allowed to actively market VA dealing services to the public of Hong Kong?**
- Q10 Do you agree that the SFC and the HKMA should be provided with the proposed powers?**
- Q11 Do you agree with the proposed sanctions, which are comparable to those under the existing regulatory regimes for VATPs?**
- Q12 Do you agree that a review tribunal mechanism should be put in place to handle appeals against the decisions to be made by the SFC or the HKMA in implementing the licensing regime?**

- End -