

SUBMISSION VIA WEBFORM TO: vadealing-consult@fstb.gov.hk

To whom it may concern,

**Re: Public Consultation on Legislative Proposal to Regulate
Dealing in Virtual Assets**

About Global Digital Finance (GDF) & Web3 Harbour (W3H)

GDF is an open innovation community that works towards improving market standards and regulation for digital finance through engagement with industry, policymakers and regulators. W3H is a Hong Kong-based, member-led community of Web3 builders, users, investors and industry leaders committed long-term to promoting a pro-innovation, pro-collaboration and inclusive environment for the development of the decentralized internet and virtual asset economy.

GDF and W3H collaborate on areas of mutual interest and alignment across the two organisations' policy, regulatory and technical activities and the input to this response has been curated through a series of member discussions and industry engagement. Both organisations are grateful to all members who have taken part.

GDF and W3H remain at your disposal for any further questions or clarifications you may have and we would welcome a meeting with you to further discuss these matters in more detail with our members.

Yours faithfully,

Elise Soucie Watts – Executive Director – GDF
Jeffrey Tchui – Executive Director – W3H

Response to the Consultation: Executive Summary

Dear The Financial Services and Treasury Bureau and Securities and Futures Commission,

Global Digital Finance (GDF) & Web3 Harbour (W3H), (together, the “associations”) welcome the opportunity to respond to the formal Consultation on the regulation of virtual asset (VA) dealing services. We strongly support the Hong Kong Government, the Financial Services and the Treasury Bureau (FSTB) and the Securities & Futures Commission’s (SFC) continued leadership in developing a clear, risk-sensitive framework for digital assets, underpinned by the principle of “same activity, same risk, same regulation.”

We recognise that this Consultation forms part of the broader policy trajectory set out in the A-S-P-I-Re roadmap (Access, Safeguards, Products, Infrastructure, Relationships). Its emphasis on product diversification, cross-border connectivity and proportionate safeguards aligns closely with our recommendations. The associations support the timely implementation of these initiatives, which will strengthen Hong Kong’s position as a globally connected hub for digital assets and Web3 innovation.

We further note references to future consultations on activities such as staking, derivatives and other emerging models. Where our response touches on these, it is intended as high-level early policy input to support proportionate, commercially workable approaches when those consultations are undertaken.

Overall, we are supportive of the FSTB and SFC’s objectives and proposals. In particular, we welcome:

- Clarification of the scope of VA dealing services, including the treatment of VA-VA conversions and brokerage activities.
- Establishment of an expedited licensing pathway for firms already regulated by the SFC or HKMA.
- Alignment of licensing fees with Type 1 regulated activity under the SFO, consistent with the “user-pays” principle.
- The decision to grant open-ended licences, avoiding unnecessary renewal burdens.

At the same time, we recommend refinements to ensure the framework remains proportionate, competitive and internationally interoperable:

- **Retail and professional investors:** Differentiate obligations to reflect risk profiles. Retail access should be safeguarded by transparent, criteria-based expansion of token eligibility, while professional and institutional clients should be permitted broader access under appropriate safeguards.
- **Supervisory equivalence:** Incorporate explicit recognition of comparable overseas licences and supervisory regimes for dealers and custodians. This will mitigate concentration risk, reduce duplication and reinforce Hong Kong’s global connectivity.
- **Stablecoin offerors:** Amend the Stablecoin Ordinance in parallel so that licensed VA Dealers can be recognised as “permitted offerors” of HKMA-regulated stablecoins. Without this amendment, a period of misalignment would exclude VA Dealers from stablecoin intermediation despite meeting equivalent prudential standards.

- **Transitional arrangements:** Introduce a proportionate transition period allowing firms to operate while licence applications are under review, preserving market continuity and reducing processing bottlenecks.
- **Capital, custody and fee requirements:** Adopt tiered, risk-sensitive requirements aligned with FATF guidance and international comparators and ensure operational coherence between the custody and dealing regimes.
- **Marketing and cross-border access:** Provide clarity on “active marketing,” including explicitly preserving the reverse-solicitation carve-out for professional investors and enable recognition of credible foreign licences to support cross-border market integration.

Taken together, these measures will safeguard investors, preserve operational efficiency and enhance Hong Kong’s competitiveness as a leading international centre for digital assets.

The associations remain fully committed to engaging constructively with the FSTB and SFC in the development of a proportionate and globally coherent framework. We welcome continued dialogue, including through forthcoming consultations on derivatives, staking and other innovations.

Response to the 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?

The associations broadly welcome the proposed definition of “VA dealing services” as adapted from the Securities and Futures Ordinance (SFO). We recognise that it reflects the principle of “same activity, same risk, same regulation” and provides useful clarity on the range of services that would be covered. We particularly note the inclusion of VA–VA conversions, which were not explicitly addressed in previous consultations, as this provides regulatory certainty for firms conducting a range of client-facing transactions.

At the same time, we encourage the SFC to calibrate the scope of the regime to ensure proportionality, avoid duplication and support investor protection while enabling enterprise innovation.

1. Alignment with Existing Exemptions under the SFO

We recommend that exemptions for VA dealing should, as far as practicable, align with the existing exemptions available for Type 1 Dealing in Securities under the SFO. This ensures consistency across traditional and virtual assets, avoids unnecessary duplication and provides clarity for firms operating across multiple business lines.

In practice, this would mean that the full suite of exemptions under the SFO should be carried over to the VA dealing regime. These include, for example:

- Incidental exemptions: e.g. a Type 9 asset manager acquiring VAs on behalf of clients in the ordinary course of portfolio management or trustees acting as agents for tokenised funds (consistent with the treatment of trustees under the Trustee Ordinance).
- Proprietary trading: firms dealing on their own account should not be required to obtain a VA dealing licence.

- Professional services: lawyers, accountants or other advisers providing dealing services solely as an incidental part of their professional practice.
- Group company exemptions: intra-group transactions carried out as part of treasury management or corporate restructuring.

Without these exemptions, the regime risks inconsistency with the principle of “same business, same risk, same rules” and would create unnecessary barriers for firms whose VA activity is ancillary to their core regulated business.

2. Treatment of Stablecoin Offerors

Clarification is sought on whether “permitted offerors” under the Stablecoins Ordinance will also need to obtain a VA dealing licence when offering stablecoins in Hong Kong. Clear guidance would help avoid duplicative obligations and promote coherence across legislative frameworks. Currently, only VATPs and Type 1 SFC intermediaries qualify as permitted offerors. Without amending the Stablecoin Ordinance in parallel, licensed VA Dealers would be unable to distribute or intermediate HKMA-regulated stablecoins. We recommend that the SFC and HKMA coordinate to ensure that VA Dealers meeting equivalent standards are explicitly recognised as permitted offerors. Finally, harmonisation with the VATP regime should ensure that firms already licensed for secondary market dealing are not subject to duplicative licensing.

It is assumed that a legislative amendment to the Stablecoin Ordinance will be required in order to designate VA Dealers as “permitted offerors.” Without such an amendment, licensed VA Dealers would be structurally excluded from distributing HKMA-regulated stablecoins, even where they meet equivalent prudential and conduct standards. We therefore urge that this amendment be undertaken in parallel with the incorporation of VA Dealing into the AMLO, to ensure coherence across the frameworks and to avoid a period of regulatory misalignment. This consultation provides the appropriate moment to make that need clear. For the interim period, which is the immediate concern for market participants, we would also recommend that transitional arrangements be considered to avoid liquidity fragmentation and to allow VA Dealers to intermediate stablecoins on a limited basis, subject to equivalent safeguards.

3. Exemption for Payment Service Providers (PSPs)

We recommend an explicit exemption for PSPs whose sole function is to facilitate payments for goods and services using VAs, particularly stablecoins. Such PSPs, including card networks and remittance providers, perform functions distinct from investment-related VA dealing. Licensing these entities would impose obligations that are not relevant to their activities, risk discouraging their participation in the Hong Kong market and diminish the jurisdiction’s competitiveness as a payments hub.

4. Differentiation Between Retail and Professional Investors

We recommend that the framework distinguish between services aimed at retail investors and those aimed solely at professional or institutional clients. These carry materially different risk profiles and applying the same regulatory obligations to both may create barriers for enterprise use cases without meaningfully enhancing investor protection.

To ensure clarity and consistency, the “professional investor” exemption should adopt the thresholds already set out in the SFO, namely:

- Individuals with a portfolio of at least HKD 8 million

- Corporations or partnerships with a portfolio of at least HKD 8 million or total assets of at least HKD 40 million
- Trust corporations acting as trustees with assets of at least HKD 40 million

Alignment with the SFO will avoid duplication, provide clarity for market participants and support Hong Kong's attractiveness as a hub for institutional-grade VA services.

Q2 Do you have any comments on the proposed scope of allowed activities?

The associations are broadly supportive of the proposed scope of allowed activities, as it provides greater regulatory clarity and gives firms confidence in the types of services they can provide. We particularly welcome the explicit recognition that brokerage, block trades and VA-to-VA conversions, will be permitted, as these are essential components of institutional market infrastructure and support the development of diverse use cases.

At the same time, we recommend that the scope be clarified and further refined to ensure proportionality, avoid over-capture and reflect the different business models and risk profiles of VA dealers compared to VATPs.

1. Clarification of Activities in Scope

We encourage the SFC to provide further guidance on the following points:

- **Principal/peer-to-peer trading:** While individual peer-to-peer trading is excluded, it is unclear whether businesses trading VAs on a principal or bilateral basis would be captured. In traditional markets, principal trading is generally exempt under the SFO and we recommend that the same approach be adopted here to ensure consistency and avoid unnecessary licensing burdens.
- **Use of VAs for payments:** Many businesses routinely enter into commercial transactions where settlement is made in VAs. It is important to clarify whether such activities would fall within scope, given that they are distinct from regulated investment or dealing activities.
- **Referral arrangements:** Businesses that refer clients to licensed VA dealers may also require clarification as to whether these activities fall within scope of licensing. Clear guidance would prevent inadvertent over-capture.

2. Token Offering Requirements

We note the proposed alignment of token offering requirements for VA dealers with those applicable to VATPs. While we support high standards across the market, we would caution against full equivalence, as the two business models are unique and should have requirements specific to the activities conducted and appropriately tailored to the risk.

For retail clients, we suggest establishing a criteria-based framework (liquidity, volatility, concentration metrics) that allows for phased expansion of the retail token universe over time, subject to risk assessments. This would avoid a permanently narrow offering and keep the market dynamic.

3. Differentiation Between Retail and Professional Investors

As outlined in our response to Question 1, we recommend that the scope of permissible activities be differentiated according to investor classification:

- **Retail clients:** Activities should continue to be subject to restrictions that prioritise investor protection, with clear token offering requirements and suitability safeguards.
- **Professional or institutional clients:** Given their financial sophistication, these investors should be permitted to access a broader range of VAs and more complex trading strategies, subject to appropriate disclosures and risk management. Introducing such flexibility would ensure that the framework remains proportionate to risk, while enabling Hong Kong to advance its position as a hub for institutional-grade VA services. The framework should explicitly allow cross-border transactions, ensuring that Hong Kong residents, particularly professional and institutional investors, can access global liquidity when they choose to do so independently.

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?

The associations strongly welcome the proposal to permit VA dealing licensees to acquire or dispose of virtual assets (VAs) for clients via non-SFC licensed VATPs or offshore liquidity providers. This approach is consistent with the SFC's broader objective of integrating Hong Kong with global liquidity, as outlined in the SFC's Regulatory Roadmap and is essential to ensure that Hong Kong remains a competitive and connected international hub.

We support the principle of safeguards to mitigate associated risks. At the same time, we encourage the SFC to adopt a proportionate and risk-based approach, ensuring that requirements are sufficiently flexible to accommodate different business models while avoiding prescriptive obligations that could restrict market access.

1. Alignment with Token Offering Requirements

We recognise the importance of applying consistent token admission and review standards across VA dealers and non-SFC licensed VATP. However, we would also note that a key challenge for Hong Kong has been the limited range of tokens available for retail investors, which has not historically been a strong incentive for wide market participation and rapid innovation compared to other international markets.

We therefore recommend:

- **Retail clients:** Token restrictions should be designed to protect investors while enabling a broader and more dynamic offering. A criteria-based framework (e.g. liquidity, volatility, concentration metrics, counterparty risk factors) should allow the token universe for retail clients to expand progressively over time, rather than remain fixed and narrow. Without such flexibility, Hong Kong risks cementing a structural disadvantage relative to other markets that allow for greater choice and innovation.
- **Professional and institutional clients:** These clients should have access to a much wider range of tokens and strategies, subject to disclosures and due diligence. Artificially constraining this market segment would be disproportionate and inconsistent with global best practice.

By striking a balance between retail protection and institutional flexibility, the regime would remedy one of the key shortcomings of Hong Kong's current approach while maintaining a high standard of investor safeguards.

2. Counterparty Due Diligence and Safeguards

We support requiring additional counterparty due diligence when engaging with non-SFC licensed VATPs or liquidity providers. The associations recommend that this be risk-based and proportionate to the activities conducted. For example, a firm engaged in fast, high-volume trades may focus on AML/CFT risks, while longer-term exposures may necessitate greater assessment of insolvency or operational risks.

Key safeguards could include:

- Confirming that the non-SFC licensed VATP is licensed or registered in a credible foreign jurisdiction.
- Assessing the entity's regulatory oversight, reputation and effectiveness of its AML/CFT controls, including compliance with the FATF Travel Rule.
- Ensuring contractual clarity regarding respective responsibilities of counterparties.
- Verifying that counterparties conduct robust customer due diligence (CDD) and ongoing monitoring.

Providing guidance on these measures would help firms implement effective, proportionate counterparty risk frameworks.

3. Supervisory Equivalence

We recommend that the regime explicitly incorporate the principle of supervisory equivalence. Where a non-SFC licensed VATP or liquidity provider is authorised and supervised under a jurisdiction with a robust, comparable regulatory framework, Hong Kong licensees should be able to rely on that oversight to support counterparty due diligence.

This would:

- Avoid duplicative compliance requirements and delays in accessing liquidity.
- Support international supervisory cooperation and mutual recognition arrangements.
- Strengthen Hong Kong's positioning as a globally connected market by allowing its intermediaries to operate seamlessly with reputable offshore venues.

International precedents exist in both traditional and digital markets, for example, the EU's MiCA framework and MiFID passporting arrangements, which Hong Kong could draw upon when designing an equivalence framework. The recent GENIUS Act in the US also explicitly includes reciprocity provisions and commitments to work towards international cooperation.

4. Custody and Investor Protection Measures

Where VAs are acquired through offshore platforms or liquidity providers, client assets should be safeguarded under Hong Kong's existing framework by requiring that they are ultimately custodied with SFC-licensed VA custodians. The regime should avoid capturing arrangements where Hong Kong clients independently approach offshore custodians without prior active marketing in Hong Kong, consistent with existing Securities and Futures Ordinance practice. Additional safeguards could include:

- Back-to-back transaction structures to reduce counterparty exposure.
- Clear risk disclosures to clients regarding the use of offshore trading venues.
- VA knowledge assessments and enhanced disclosure requirements for retail clients.
- Notification obligations for material changes in counterparties or practices.

5. Operational and Compliance Standards

We agree with the proposed safeguards around AML compliance, risk management systems, financial reporting, conduct standards and client asset protection. These measures are fundamental to ensuring that Hong Kong maintains high levels of investor protection while remaining integrated with global liquidity.

We also highlight that the SFC 15 August 2025 custody circular¹ makes custody standards core expectations for both custodians and VATPs.

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?

The associations recognise the policy rationale behind requiring licensees to hold client assets with regulated VA custodians in Hong Kong, particularly to ensure robust AML compliance, investor protection and market integrity. We support high operational standards in areas such as AML/CFT compliance, risk management systems, financial reporting, conduct and recordkeeping and client asset protection.

Acknowledging this though, we would caution that a mandatory local custody requirement, if implemented without sufficient flexibility, may give rise to risks that could undermine both investor protection and market development.

1. Risks of Concentration and Systemic Fragility

Restricting custody to a small pool of locally licensed providers could create concentration risk, leading to over-reliance on a limited number of entities. This could expose the system to vulnerabilities from operational failures, service bottlenecks or cybersecurity incidents, thereby reducing service quality and resilience. We recommend that the SFC conduct a systemic risk assessment of market capacity and interconnectedness before implementing a strict requirement.

2. Recognition of Equivalent Foreign Custodians

To mitigate concentration risks and enable clients to access best-in-class custody solutions, we recommend that Hong Kong adopt an **equivalence-based recognition framework**. Custodians licensed in well-regulated jurisdictions with comparable standards of resilience and investor protection should be eligible to serve Hong Kong licensees. This would expand the pool of eligible providers, reduce systemic vulnerabilities and align with international best practice.

3. Clarification on Self-Custody

The framework should clarify whether licensees are permitted to self-custody client assets where they can demonstrate compliance with applicable safeguarding standards. Many licensees integrate custody as part of their operational infrastructure rather than as a standalone service. Requiring all such firms to outsource custody may impose unnecessary cost and complexity without improving client outcomes. Where licensees adopt self-custody

¹ <https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=25EC44>

or embedded custody models, they should remain accountable for safeguarding client assets and liable for any losses attributable to their operations.

4. Accountability and Investor Protection

Rather than prescribing a single custodial model, investor protection may be best achieved by holding licensees accountable for the safekeeping of client assets. This approach prioritises outcomes, ensuring clients are protected against loss or mismanagement, while allowing firms to adopt custody solutions best suited to their operations, whether through local, overseas or self-custody arrangements.

5. Incentive Structures to Encourage Local Custody

We encourage the SFC to explore mechanisms that incentivise, rather than mandate, use of locally licensed custodians.

Furthermore, to support operational efficiency, the SFC could provide guidance on a broker–custodian workflow, including:

- API integration between dealers and custodians.
- Pre-trade balance and AML checks.
- Automated settlement processes.
- Omnibus account options.
- Standardised audit trail requirements.

This would ensure custody arrangements are both compliant and commercially workable and could support the overall growth of Hong Kong’s local custody ecosystem while preserving operational flexibility for multinational firms.

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

The associations are broadly supportive of the proposed regulatory requirements, which align with the principle of “same activity, same risk, same regulation” and with international standards established by the Financial Action Task Force (FATF). We welcome the measures proposed to address money laundering and terrorist financing (ML/TF) risks and to enhance investor protection, including:

- **Knowledge tests for retail investors** to assess suitability.
- **Enhanced disclosure requirements** to improve transparency.
- **Wallet address disclosure obligations** to support traceability.
- **Notification requirements** for material changes to ensure ongoing client awareness.

We believe these measures will strengthen investor safeguards and bring Hong Kong’s framework in line with global regulatory best practices.

Q6 Do you agree with the proposed transitional arrangement?

The associations welcome the decision to grant open-ended licences and registrations and to move away from the previously considered requirement for biennial renewal. This approach provides greater regulatory certainty for licensees and aligns with established SFC licensing practices.

At the same time, we have significant concerns regarding the **absence of a transitional period**. Requiring all market participants to be fully licensed as of the commencement date presents material risks both for industry and for the regulator.

1. Risks of No Transition Period

The absence of transitional arrangements could inadvertently risk:

- Forcing smaller or resource-constrained providers to divert disproportionate capacity toward immediate licensing efforts, potentially leading to exits or service disruptions.
- Creating instances of non-compliance driven by timing constraints rather than substantive regulatory shortcomings.
- Leading to processing bottlenecks for the SFC, should a high volume of applications be submitted simultaneously.
- Exposing firms to the risk of having to suspend operations while awaiting licence approval, undermining market continuity.

This diverges from historical precedent, as all previous financial legislation in Hong Kong has included transitional arrangements and risks creating unnecessary market instability.

2. Precedent and International Practice

The proposed approach appears informed by experience in Singapore and in the VATP regime, where prolonged transitional arrangements created challenges around market participants claiming legitimacy while applications remained pending. While we recognise this concern, we believe Hong Kong can strike a better balance that avoids both regulatory arbitrage and unnecessary disruption to legitimate providers.

3. Recommended Transitional Model

We recommend adopting a **limited transitional period**, similar to that proposed in the OTC Consultation, which allowed for:

- A minimum twelve-month transitional period provided applications are submitted within the first three months.
- Continued operations on an interim basis for applicants who meet these conditions.

This approach would allow firms sufficient time to align systems and controls with finalised licensing requirements, provide the SFC with more predictable and staggered application volumes and preserve market stability.

We would also note that some firms recommend a longer milestone-based transitional period, with continued operations permitted for applicants under review. This could also avoid disruption and allow orderly licensing.

4. Supporting Measures

To ensure the effectiveness of the transitional period, we recommend that the SFC:

- Dedicate adequate resources to process applications efficiently.
- Provide clear guidance on the implementation timeline and key milestones.
- Consider interim permissions for applicants with complete and good-faith applications submitted within the prescribed timeframe.
- Include recognition of equivalent overseas compliance frameworks to support licensing efficiency and avoid duplication of effort and costs.

We note that the SFC August 2025 custody circular already applies in full to VATPs, creating a potential misalignment if VA dealing service providers are held to different transitional timelines.

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

The associations are supportive of the proposal to establish an expedited licensing or registration pathway for entities that are already licensed or registered with the SFC or HKMA. Furthermore, we would also encourage, as set out in our response to Q4, that the regime explicitly consider equivalence as well as how it can build in provisions at the outset for international supervisory cooperation and mutual recognition arrangements.

This approach will help reduce unnecessary duplication for firms that have already undergone fit-and-proper and other regulatory assessments, while recognising the established supervisory relationships that exist with these entities.

1. Benefits of the Expedited Pathway

- Reduces duplicative regulatory effort by leveraging prior assessments.
- Provides greater certainty and efficiency for established market participants.
- Encourages firms already regulated in Hong Kong to extend their services into VA dealing, supporting market growth and continuity.
- Firms regulated in other jurisdictions could benefit from a streamlined pathway, building on supervisory cooperation and knowledge sharing between regulators when they look to expand into Hong Kong.

2. Resourcing Considerations

We note that the success of an expedited process will depend on the SFC's ability to dedicate sufficient resources to process applications in a timely and efficient manner. Without adequate resourcing, there is a risk that expedited and standard applications alike could experience delays, undermining the benefits of the arrangement.

3. Need for Clarity and Guidance

We encourage the SFC to provide clear guidance on the expedited process, including:

- Expected timelines for review and approval.
- Required documentation and disclosure standards.
- Decision-making criteria for assessing expedited applications.
- Service standards to allow applicants to plan operationally with confidence.

Instead of periodic licence renewals, the SFC could also adopt a supervisory approach based on thematic inspections. Publishing anonymised findings would maintain transparency and standards, while avoiding unnecessary renewal burdens.

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?

The associations are supportive of the proposal to align licensing application and annual fees for VA dealing service providers with those applicable to Type 1 regulated activities under the SFO. This approach:

- Ensures consistency with the “user-pays” principle.
- Promotes parity in supervisory cost recovery between VA dealing service providers and existing intermediaries under the SFO.
- Supports regulatory consistency across different types of financial service providers.

We encourage the SFC to periodically review the fee framework to ensure it remains proportionate to the supervisory demands of the VA sector and does not inadvertently disadvantage smaller or lower-risk providers.

Furthermore, we would also encourage the SFC to:

- Consider tiering fees by scale and complexity of operations, to avoid disproportionate burdens on smaller or lower-risk providers.
- Explore discounts or recognition for firms holding equivalent overseas licences, to support competitiveness and avoid duplication of supervisory cost recovery.

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?

The associations are broadly supportive of the proposal to prohibit unlicensed or unregistered entities from actively marketing VA dealing services to the public of Hong Kong. We agree that such a restriction plays an important role in protecting retail investors from the risks associated with unregulated virtual asset activities, while reinforcing the importance of a robust and credible licensing framework.

At the same time, we encourage the SFC to consider refinements that would ensure the regime remains proportionate and internationally competitive.

1. Recognition of Foreign Licences

Given the cross-border nature of VA markets, we recommend that the SFC explore a recognition regime for licences issued by foreign regulators with comparable regulatory standards. Reputable international firms recognised under such a framework could be permitted to market VA dealing services in Hong Kong, subject to appropriate conditions. This would safeguard investors while promoting international market access and connectivity.

2. Exemption for Professional Investors

We also recommend that the prohibition explicitly apply only to retail investors. Professional investors, as defined under the SFO, are financially sophisticated and better positioned to evaluate risk. They should not be restricted from accessing services from reputable offshore providers under appropriate conditions.

To explicitly enable this, we recommend:

- Introducing a clear, technology-neutral definition of “active marketing”. We support the application of the SFC’s existing guidance on active marketing.

- Providing an explicit reverse-solicitation carve-out for professional investors, provided records are maintained. This would preserve cross-border access while protecting retail markets.

3. Guidance on Marketing Practices for Licensed Firms

To complement the prohibition on unlicensed marketing, we encourage the SFC to publish high-level principles or guidance on marketing and promotional communications by licensed VA dealers. Such guidance would support industry compliance, promote consistency of practice and mitigate the risk of misleading or fraudulent promotions.

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

Yes. Overall, the associations are supportive of the proposal to provide the SFC and the HKMA with the necessary supervisory and enforcement powers to effectively implement and oversee the proposed licensing regime. These should be clearly defined, proportionately applied and have due process safeguards.

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

Yes. Overall, the associations support the proposed sanctions framework, which is broadly consistent with existing enforcement provisions under the VATP 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?

Yes, the associations strongly support the establishment of a review tribunal mechanism. This will be a critical safeguard for procedural fairness and will help enhance transparency as well as confidence in the regulatory regime.