

New licensing regime for virtual asset trading platforms introduced on 6 November 2019

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When assessing the application of a VATP operator, the SFC will consider a range of factor



On 6 November 2019, the Securities and Futures Commission (SFC) published a position paper (Position Paper)¹ to introduce a new regulatory framework and licensing regime for virtual asset trading platforms (VATPs) in Hong Kong which align with the recommendations of the International Organization of Securities Commissions on regulating trading activities on VATPs. It also published a set of Licensing Conditions and Terms and Conditions for VATPs.²³

From this date onwards, firms which operate centralized VATPs in Hong Kong, and intend to offer trading of at least one security token on the platform should now apply for a licence from the SFC for Type 1 (dealing in securities) and Type 7 (providing automated trading services) regulated activities⁴. Centralized VATPs refer to platforms which provide trading, clearing and settlement services for virtual assets and have control over investors' assets. It is also notable that on the same day, the SFC

published a statement, stating that platforms offering virtual asset futures contracts without a proper licence or authorization may be in contravention of the Securities and Futures Ordinance (SFO) or the Gambling Ordinance (GO)⁵.

It is accordingly important for all VATPs in Hong Kong to review the types of assets that are being traded on their platforms and consider whether such activities fall within the remit of the SFO and/or the GO, and whether it is necessary or advisable to obtain relevant licences from the SFC and/or the Home Affairs Bureau.

When assessing the application of a VATP operator, the SFC will consider a range of factors, including the applicant's infrastructure, core fitness and properness and conduct of virtual asset trading activities as a whole.⁶ Upon being licensed, a VATP will be placed in the SFC Regulatory Sandbox where they will be

¹ See SFC announcement:

<https://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=19PR105>

² Position Paper is available at:

[https://www.sfc.hk/web/EN/files/ER/PDF/20191106%20Position%20Paper%20and%20Appendix%201%20to%20Position%20Paper%20\(Eng\).pdf](https://www.sfc.hk/web/EN/files/ER/PDF/20191106%20Position%20Paper%20and%20Appendix%201%20to%20Position%20Paper%20(Eng).pdf)

³ Position Paper, Paras. 8 & 19

⁴ Position Paper, Para. 82

⁵ <https://www.sfc.hk/web/EN/news-and-announcements/policy-statements-and-announcements/sfc-issues-warnings-on-virtual-asset-futures-contracts.html>

⁶ Position Paper, Para. 34

subject to closer supervision from the SFC as well as reporting obligations.⁷

In addition to the usual regulatory requirements imposed on SFC licensed intermediaries, successful applicants will also be subject to strict licensing conditions. For example, licensed VATP may only provide services to “professional investors” (as defined under the SFO) and to comply with the SFC’s

prescribed “Terms and Conditions for VATP Operators”.⁸

The new regulatory framework is designed based on the recommendations of the International Organization of Securities Commissions and enables investors to identify VATP operators in Hong Kong that are under the supervision of the SFC.⁹

⁷ Position Paper, Paras. 10 & 85

⁸ Position Paper, Para. 40

⁹ Position Paper, Paras. 8 & 19

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