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29 August 2025

Response to Public Consultations on Legislative Proposals to Regulate Dealing in Virtual Assets (“VA”) and VA Custodian Services

We refer to the Public Consultations on Legislative Proposals to Regulate VA Dealing and VA Custodian Services jointly issued by the FSTB and the SFC in June 2025 (“**Consultation Documents**”). In response to Consultation Documents, members of the Hong Kong Women Professionals & Entrepreneurs Association (“**HKWPEA**”) have set up a Task Force to consider the Consultation Documents.

As a non-profit organization representing local women professionals and entrepreneurs, HKWPEA has, over 28 years, aimed to make timely responses to consultation by the HKSAR government and regulators. Accordingly, please see below our response to the Consultation Documents for your kind perusal. The views expressed in this submission are those of HKWPEA, based on consultation with our members, which include women professionals, business executives and entrepreneurs. These views are in line with HKWPEA’s position on the relevant issues (though not necessarily that of each and every member).

GENERAL COMMENTS

Importance of Public Education for Investor Protection

We strongly support the Government’s initiative to regulate VA dealing and custodian services. However, licensing regulations alone are insufficient to ensure investor protection. Public education must be a cornerstone of this

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framework. Many retail investors lack the technical understanding of virtual assets, their risks, and the licensing regime and the implications of engaging with unlicensed platforms.

We recommend:

- Sustainable public education campaign with clear, easy-to-understand and multilingual materials explaining the risks of VA investments, how to identify licensed entities and the relevant scope of services and asset classes.
- Collaboration with NGOs, professional associations, and schools to promote financial literacy. HKWPEA is more than happy to provide assistances and support.

Furthermore, we also propose that the VA service providers to:

- Publish educational content on their websites to cover the specific VA products they handle, how each product works and the risks associated with each product.
- Provide pre-sale product-level disclosures for each VA product offered. Disclosures must include all associated risks and should be sent to customers before any transaction takes place.

Alignment with Hong Kong's LEAP Strategy

We propose the new VA initiatives to be integrated into the broader LEAP framework (Legal-regulatory streaming, Expanding tokenized products, Advancing use cases, People and partnerships). This ensures the VA regulatory regime supports Hong Kong's long-term VA ecosystem.

SPECIFIC COMMENTS

Clarity on Licensing Scope and Treatment to Uplifted Type 1 License Holders

The consultation paper proposes a new licensing regime for VA dealing. However, it remains unclear whether entities already holding an uplifted Type 1 license (for dealing in securities) will need to apply for a separate VA dealing license.

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We urge the Government to:

- Clarify whether uplifted Type 1 licensees must undergo a separate licensing process for VA dealing.
- Make available to the uplifted Type 1 licensees the expedite licensing and registration process, if a separate application is required.
- Provide transitional arrangements to avoid disruption to business operations.

Scope of VA Dealing Activities – Inclusion of VA to Commodities

The current proposal focuses on VA-to-VA and VA-to-fiat (and vice versa) transactions. It is unclear whether VA-to-commodity (and vice versa) transactions fall within the scope.

We recommend:

- Explicitly stating whether VA-to-commodity transactions are covered.
- If excluded, provide rationale and consider future inclusion given the growing VA ecosystem to encompass the conversation to other asset types.
- Ensure consistency with international standards and FATF guidance.

Partnering with Non-SFC Licensed VATPs – Need for Clear Guidance

The VA dealing proposal does not provide sufficient clarity on whether licensed VA dealers may partner with non-SFC licensed Virtual Asset Trading Platforms (VATPs), especially those overseas.

We propose:

- Issuing a list of acceptable non-SFC licensed VATPs that meet minimum standards.
- Requiring such VATPs to undergo a **fit-and-proper test**, including AML/CFT compliance and investor protection measures.
- Establishing a framework for ongoing monitoring and reporting of such partnerships.

Two-Level Approval Structure: License Level and Product Level

To enhance regulatory clarity and flexibility, we recommend a **two-level approval structure**:

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- **License Level:** Licensing the entity engaging in VA dealing activities, subject to fit-and-proper criteria, AML/CFT obligations, and operational standards.
- **Product Level:** Requiring approval or registration of specific VA products offered to the public, ensuring transparency and suitability.

This structure would:

- Allow regulators to assess both the entity and the products it offers.
- Provide investors with clearer information on approved products.
- Enable more agile regulatory responses to emerging risks.

Licensing Requirement for Entities Safekeeping Private Keys

Custody of private keys is a critical function in the VA ecosystem. The entity ultimately responsible for safekeeping private keys—whether a custodian, dealer, or technology provider—should be subject to licensing and regulatory oversight.

We recommend:

- Requiring any entity that holds or controls private keys on behalf of clients to obtain a VA custodian license.
- Ensuring such entities meet robust cybersecurity, operational resilience, and segregation of assets standards.
- Clarifying responsibilities in cases of shared custody or third-party technology arrangements.

Transitional Arrangements for All Entities

We recommend the introduction of a short transitional or grace period (3-6 months) for all existing VA dealers and custodians to comply with new requirements. This ensures continuity for investors while allowing firms time to adjust systems, contracts and controls.

In addition, we have reservations on open-ended licenses to be granted to VA dealers and custodians. We are of the view that a license renewal mechanism should be put in place to allow authorities to review and monitor the licensees on a regular basis to ensure compliance upon license renewal.

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Sanction Level

The proposed sanctions for regulatory breaches appear to be low when compared to the financial incentives and potential harm posed by non-compliance. This misalignment may fail to deter misconduct, especially in a rapidly evolving and high-stakes market. To ensure a robust and credible regime, it is recommended that sanctions be significantly strengthened—both in monetary terms and enforcement scope—to deliver a sufficient deterrent effect and reinforce market integrity.

Conclusion

We commend the FSTB and SFC for their proactive approach to regulating virtual assets. To ensure the success of these regimes, we urge the Government to prioritize public education, clarify licensing requirements, and provide detailed guidance on partnerships and product approvals.

We welcome further engagement and stand ready to support the implementation of these proposals.

Should you have any questions, please feel free to contact Joyce Cheng, Chairlady, Public Affairs Committee of HKWPEA at 9622 5613. Thank you.

Yours sincerely,



Julianne Doe
President