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Subcommittee on Issues Relating to the Development of Web3 and Virtual Assets

Background brief on regulation of virtual asset trading in Hong Kong and the protection for investors

Purpose

This paper provides background information on the regulation of virtual asset (“VA(s)”) trading in Hong Kong and the protection for investors. It also summarizes the major views and concerns raised by Members during the discussions on the subject matter by the relevant committees of the Legislative Council (“LegCo”) in recent years.

Background

2. The Government issued the Policy Statement on Development of Virtual Assets in Hong Kong in October 2022, setting out the commitment to enhancing the VA regulatory framework under the principle of “same activity, same risks, same regulation”. In this regard, the Government has amended the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (“AMLO”) to introduce a licensing regime for VA service providers, ensuring that VA trading platforms (“VATPs”) comply with relevant international requirements on anti-money laundering and counter-terrorist financing (“AML/CTF”) while protecting investors. The licensing regime, administered by the Securities and Futures Commission (“SFC”), has commenced operation from June 2023.

3. Under the regime, any person engaging in VATP business¹ or actively marketing such service to Hong Kong investors is required to apply for a licence from SFC as the regulator. The applicant and relevant persons must satisfy a fit-and-proper test and comply with the AML/CTF requirements under AMLO,² as well as a set of regulatory requirements on investor protection.³

4. As at the end of April 2025, 10 VATPs were licensed under the AMLO to operate a VA exchange and the Securities and Futures Ordinance (Cap. 571) for providing Type 1 (dealing in securities) and Type 7 (providing automated trading services) services.

Further regulatory building blocks for virtual assets

5. In view of the important roles played by stablecoins in the Web3 and VA ecosystem, and the rising interconnectedness between the traditional financial system and the VA market, the Government introduced the Stablecoins Bill (“the Bill”) into LegCo on 18 December 2024 to put in place a regulatory regime for fiat-referenced stablecoin (“FRS”) issuers. The Second Reading debate on the Bill will be resumed at the Council meeting of 21 May 2025.

6. As regards over-the-counter (“OTC”) trading services of VA, the Government put forward for consultation in 2024 a regulatory regime to require any person conducting a business in providing relevant services to apply for a licence, having fulfilled the relevant fit-and-proper, investor protection and AML/CTF requirements. Meanwhile, the Government and financial regulators are formulating a proposed licensing regime for VA

¹ 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.

² For example, requirements on customer due diligence, record keeping and so on.

³ For example, requirements on safe and segregated custody of client assets, financial soundness, avoiding conflict of interest and so on.

custodian service providers and will conduct a public consultation in respect of the two aforementioned proposed regimes in 2025.

Investor education

7. In addition, the Investor and Financial Education Council (“IFEC”) under SFC is dedicated to improving investor and financial education in Hong Kong. IFEC uses different media channels, including blog articles and [feature articles](#), social media posts, by-lined articles and media interviews, to promote information about VATPs from an investor protection point of view.

Views and concerns expressed by Members

8. The major views and concerns expressed by Members on matters relating to regulation of VA trading, especially those on the protection for investors, at the meetings of the Panel on Financial Affairs and the Subcommittee on Issues Relating to the Development of Web3 and Virtual Assets in recent years are summarized in the ensuing paragraphs.

Regulation on the promotion, marketing and sales practices of virtual assets

9. Pointing out that currently non-SFC licensees, including some online key opinion leaders, might promote VAs to retail investors without conducting due diligence on customers and products, Members expressed concern on **possible regulatory loopholes with regard to promotion, marketing and sales practices of VAs**. In this regard, Members made the following suggestions:

- (a) to step up **regulation on persons who were engaged in introducing and selling VA services or products to the public**, including the requirements for them to undergo training and continuing education, assume self-responsibility, disclose remuneration, obtain licences, declare whether they were licensees, and/or even enacting legislation to directly prohibit them from marketing and selling such services and products to retail investors;
- (b) to make greater efforts calling on investors to **seek investment advice only from licensed companies and licensed persons** and pay attention to the risks involved in obtaining such advice from non-licensed persons;

- (c) **to increase the penalty imposed on persons who falsely claimed themselves to be licensed persons; and**
- (d) to monitor the content of online platforms so as to proactively **identify** and warn the public of **financial fraud messages**. In addition, some Members considered that the responsibility to be assumed by platforms for publishing VA advertisements should be clarified.

10. The Administration responded that all along, SFC had not only monitored VA activities in Hong Kong, but also investigated and regulated suspicious activities within its regulatory ambit. SFC collected information through a wide range of channels, and maintained regular and close communication and cooperation with responsible departments and agencies. Under the current licensing regime, it would be an offence for any person to operate a VA exchange in Hong Kong or to engage in the marketing of VA services to the public of Hong Kong without a licence, and **SFC was vested with a range of statutory powers and tools to combat fraudulent or deceptive behaviour in any transaction involving VAs**, as well as behaviour involving the use of fraudulent or reckless means (e.g. issuing untrue and misleading information or advertisements) to induce others to invest in VAs.

11. The Administration further explained that at present, any person advising the public on a specific security on platforms such as newspapers, radio programmes and the Internet was generally not required to obtain a licence if he did not receive income in this regard from companies relating to that security. Hence, Members' **suggestion of requiring key opinion leaders to hold a licence before they could recommend VA services or products to the public** (regardless of whether they received an income in this connection from the companies concerned) **might not be in line with the current regulations and measures**, and the Administration would need to study the suggestion in detail. Besides, SFC had already stepped up publicity to encourage investors to proactively verify, by visiting SFC's website, the identity of those claiming to be licensed institutions or practitioners.

Regulation of over-the-counter trading of virtual assets

12. Members enquired whether the Administration had a full picture of the **size and mode of operation of the VA OTC market** in Hong Kong, including the number of purported VA OTC operators engaging in fraudulent activities under the guise of OTC trading. Members suggested that the Customs and Excise Department ("C&ED"), as the regulatory authority for the proposed licensing regime for VA OTC services, should work with SFC

and set up a task force to maintain close liaison, with a view to enabling more comprehensive regulation of service providers of VA OTC trading; and considered that the dedicated inter-departmental working group established by SFC and the Hong Kong Police Force should exchange information on complaints and intelligence pertinent to VATPs or suspicious VA-related activities on a daily basis, thus further protecting members of the public against frauds.

13. The Administration advised that **C&ED had set up a task force to conduct internal assessment**, meet with members of the industry and consult LegCo Members to get a grasp on the current size and mode of operation of the VA OTC market, including its various sub-sectors. The Administration would study the information and views collected during the consultation period for establishing the most effective regulatory regime, and would enhance communication and liaison with SFC and the Hong Kong Monetary Authority in addressing regulatory issues after the commencement of the regulatory regime.

14. Members enquired whether the Administration would consider only allowing professional investors to trade in VAs through licensed OTC service providers, or at least imposing such a restriction at the initial stage of the operation of the regulatory regime to **protect retail investors who might not be aware of the risks involved**. The Administration responded that the proposed licensing regime for VA OTC services would only allow licensed OTC operators to provide some pre-vetted VA services to retail investors. The Administration would also enhance investor education to help them better understand the features and investment risks of various VAs.

15. In response to Members' enquiry about **cross-border cooperation in regulating** OTC service providers from outside Hong Kong who provided services or conducted marketing to the Hong Kong public in digital form, the Administration advised that under the proposed licensing regime for VA OTC services, any person operating a VA OTC business in Hong Kong, or actively marketing the provision of VA OTC services to the Hong Kong public, was required to obtain a licence. Various factors had been taken account of in designing the regulatory regime, including cross-border regulation. A study was being conducted on non-local VA OTC service providers marketing their business to the Hong Kong public online (e.g. through social media). Consideration would be given to **strengthening the regulatory requirements** under the licensing regime in relation to, **among others, the establishment of a business relationship with customers, and the identification of their customers**. Consideration would also be given to empowering the authorities to block allegedly fraudulent websites.

Licensing regime for stablecoin issuers

16. During discussion of the proposed licensing regime for stablecoin issuers, Members pointed out that under the proposed licensing regime, only FRS issued by licensees could be offered to retail investors, while FRS issued by unlicensed issuers could only be offered to professional investors. Members suggested enhancing **the protection for professional investors**.

17. The Administration advised that **the proposed licensing regime was not intended to prohibit the offering of FRS issued by unlicensed issuers**, given that FRS was in existence before the implementation of the proposed licensing regime. Intermediaries were required to assess the suitability of financial investment products for their clients when marketing the products to them, and when offering FRS issued by unlicensed issuers, they had to indicate clearly that such FRS was not a licensed FRS. The Administration stressed that given their considerable asset size and investment expertise, professional investors had to bear their own risks when investing in FRS issued by unlicensed issuers.

Relevant questions raised at Council meetings

18. Members also raised questions relating to the development and regulation of VAs at various Council meetings. The relevant hyperlinks are in the [Appendix](#).

Relevant papers

19. A list of relevant papers is set out in the [Appendix](#).

Appendix

Subcommittee on Issues Relating to the Development of Web3 and Virtual Assets

List of relevant papers

Committee	Date of meeting	Paper
Panel on Financial Affairs	6 June 2022	Agenda Item V: Development of financial technologies in Hong Kong and measures in tackling financial fraud Minutes
	5 June 2023	Agenda Item IV: Development of financial technologies and other innovations for financial services in Hong Kong Minutes
	30 October 2023	Agenda Item IV: Regulation of Virtual Asset Trading Platforms Minutes
	8 April 2024	Agenda Item IV: Development of financial technologies in Hong Kong and the proposed regulatory regime for stablecoin issuers Minutes
Subcommittee on Issues Relating to the Development of Web3 and Virtual Assets	19 July 2024	Agenda Item I: Proposed regulatory regime for stablecoin issuers Minutes
	21 January 2025	Agenda Item I: Regulation of virtual asset trading platforms Minutes

Council meeting	Paper
23 November 2022	Question 1 : Promoting the development of Hong Kong into an international virtual assets centre
30 November 2022	Question 4 : Promoting the development of the virtual assets market
8 February 2023	Question 8 : Promoting the development of the financial investment market
21 February 2024	Question 7 : Regulation of virtual asset trading
5 June 2024	Question 9 : Promoting development of stablecoins and virtual assets
11 December 2024	Question 15 : Policy on digital assets