For discussion
on 1 June 2026

Legislative Council Panel on Financial Affairs

Proposed regulatory regimes for virtual asset dealing, custodian, advisory and management service providers

PURPOSE

This paper seeks to brief the Panel on the proposed regulatory regimes for virtual asset dealing, custodian, advisory and management service providers.

BACKGROUND

2. The Financial Services and the Treasury Bureau ("FSTB") issued in October 2022 the Policy Statement on the Development of Virtual Assets ("VAs") in Hong Kong, setting out the Government's policy stance and approach towards developing a vibrant VA sector and ecosystem in Hong Kong.

3. Afterwards, 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 anti-money laundering and counter-financing of terrorism ("AML/CFT") standards stipulated by the FATF, as well as enhancing investor protection. Under the licensing regime, which commenced operation in June 2023, any person carrying on a business of operating a VA exchange in Hong Kong or actively marketing such service to Hong Kong investors must be licensed by the Securities and Futures Commission ("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.

4. As of 22 May 2026, the SFC has formally licensed 13 VATPs under the Securities and Futures Ordinance (Cap. 571) ("SFO") 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 six VATP applicants whose licence

applications have yet to be approved by the SFC, including three which are deemed-to-be-licensed VATP applicants.

5. In June last year, the FSTB further issued the Policy Statement 2.0 on the Development of Digital Assets in Hong Kong, setting out more clearly a vision for a trusted and innovative digital asset ecosystem that prioritises risk management and investor protection, while delivering concrete benefits to the real economy and financial markets. One of the key focuses of the Policy Statement 2.0 is enhancing the legal and regulatory framework.

6. 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. We observe diverse modes of operation for VA dealing activities in the market, including coin shops, ATM networks, broker-dealer-type establishments, payment service providers, etc., and propose introducing a new licensing regime for providers of VA dealing services through legislative means. Meanwhile, with the proposed introduction of a licensing regime for VA dealing service providers in Hong Kong, as well as the growth of various VA-related services and products (notably VA funds such as SFC-authorised spot VA exchange-traded funds), it is expected that there will be substantial increase in the demand for VA custodian services.

7. Against this background, the FSTB and the SFC jointly published the consultation conclusions on the legislative proposals for establishing the regulatory regimes for virtual asset dealing and custodian service providers in December last year. As part of these efforts, the FSTB and the SFC also conducted a further public consultation on establishing the regulatory regime for virtual asset advisory and management service providers[1], with the relevant consultation conclusions published in end-May this year. After considering the views collected, and as guided by the principle of "same activity, same risks, same regulation", we have formulated the proposed regulatory regimes as follows.

[1] The original consultation proposed incorporating virtual asset advisory services and virtual asset management services under the regulatory regime for virtual asset dealing service providers. In response to feedback received from the consultation, the FSTB and the SFC revised the regulatory proposal to regulate virtual asset advisory, virtual asset management, and virtual asset dealing services as separate regulated services. This revised regulatory approach models itself on the regulatory framework applicable to the conventional securities market, and will provide better clarity as regards the scope of activities regulated under different VA licensing regimes.

PROPOSED REGULATORY REGIME

Policy Objectives

8. Having regard to the market landscape and relevant international standards, the policy objectives of the proposed regime are:

(a) to foster the sustainable and responsible development of the digital asset ecosystem in Hong Kong by providing legal and regulatory clarity and certainty;

(b) to uphold Hong Kong's status as an international financial centre by putting in place an appropriate regulatory regime to combat VA-related money laundering and terrorist financing ("ML/TF") activities, with reference to international standards; and

(c) to provide adequate protection for investors in VAs.

Regulatory Scope

9. Under the proposed regulatory regime, any person who carries on a business of providing any VA dealing, custodian, advisory, or management services in Hong Kong is required to be licensed by or registered with the SFC, unless an exemption applies, subject to a fit-and-proper test and other factors deemed relevant by the SFC. Authorized institutions ("AIs") and stored value facility ("SVF") licensees[2] wishing to provide any VA services in Hong Kong are also required to be registered with the SFC, and the SFC will consult the Hong Kong Monetary Authority ("HKMA") when vetting such applications for registration. In addition, as the definition of "virtual asset" under the AMLO expressly excludes securities and futures contracts, activities related to tokenised securities will continue to be regulated under the SFO. The regulatory scopes and exemptions for the four types of VA services are set out below:

(A) Dealing service providers

10. The proposed definition of "VA dealing service" makes reference to the relevant scope of Type 1 regulated activity (i.e. dealing in securities) under the SFO, and will cover any person, by way of business, making or offering to make an agreement with another person, or inducing or attempting to induce another person to

[2] An AI under the Banking Ordinance (Cap. 155) may register with the SFC to provide one or more types of VA services. As for SVF licensees granted a licence under section 8F of the Payment Systems and Stored Value Facilities Ordinance (Cap. 584), the HKMA anticipates that SVF licensees may only provide dealing and custodian services in relation to specified stablecoins issued by stablecoin licensees under the Stablecoins Ordinance, and will not provide advisory or management services in respect of VAs.

enter into or offer to enter into an agreement, with a view to acquiring, disposing of, subscribing for or underwriting VAs.

11. The proposed regulatory framework adopts an activity-based approach, regardless of transaction purpose. Therefore, payment service providers that facilitate transactions involving VAs may be required to obtain a licence or registration if their activities fall within the definition of VA dealing services, such as offering conversion services, which would amount to the making of, or offering to make, agreements with others for the purpose of acquiring or disposing of VAs.

12. Exemptions under consideration include exemptions for transactions conducted through SFC-regulated VA dealers, transactions conducted as principal, and the acceptance or use of VAs as a means of payment for goods or services. An exemption is also expected for SFC-regulated VA managers which perform the act of dealing solely for the purposes of providing VA management services (i.e. incidental exemption) for which it is licensed or registered.

13. In addition, transactions conducted by HKMA-regulated stablecoin licensees[3] in specified stablecoins issued by themselves may also be exempted if the transactions are solely for the purpose of carrying on their regulated stablecoin activities[4].

(B) Custodian service providers

14. "VA custodian service" will cover custodians which safekeep any instrument enabling the transfer of VAs for any person. The proposed regulatory regime will target entities safekeeping private keys (or similar instruments), as this represents the core risk area in VA custody. The entities which safeguard private keys are subject to operational and technical risks intrinsic to VA custody such as risks to cryptographic keys, cybersecurity risks, and technology failures that could result in loss or unauthorised transfer of VAs.

15. By contrast, the role of top layer trustees or fund managers which delegate the VA custody function to a third-party custodian is no different from being a trustee for trust assets in the form of securities or a fund manager of a traditional fund investing in securities. The risks involved primarily relate to record keeping accuracy, reconciliation, internal controls governing the transmission of instructions to underlying custodians, etc. Their roles are largely administrative and contractual. Requiring these entities to be licensed or registered as VA custodians would impose unnecessary regulatory burdens and increase costs for investors. Further, market practice already requires such entities to contractually ensure oversight of their appointed custodians and remain liable for the acts and omissions of nominees, agents and delegates in relation to the assets under custody.

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[3] This refers to a licensee as defined under section 2(1) of the Stablecoins Ordinance (Cap. 656).

[4] This exemption is based on the fact that the relevant stablecoin licensees and their regulated stablecoin activities are already subject to regulation and on-going supervision by the HKMA.

16. We intend to provide an exemption for companies that custody VAs for their group companies. We also intend to provide an exemption for legal professionals and accounting professionals whose VA custodian activities are wholly incidental to their professional practice. In addition, any HKMA-regulated stablecoin licensee which provides custodian services in respect of the specified stablecoins it issued, solely for the purpose of carrying on its regulated stablecoin activity, will be exempted[5].

(C) Advisory service providers

17. The proposed definition and scope of "VA advisory" will capture the provision of advice on the acquisition or disposal of VAs by way of business. They are not intended to cover activities only involving the provision of generic factual information about VAs or the VA market. As with the licensing or registration regime for Type 4 regulated activity (advising on securities) ("RA4") under the SFO, the regulatory regime for VA advisory service providers will apply to advice on VAs provided in any form, whether oral or written, and through any channel, whether physical or electronic.

18. The exemptions we are considering will be similar to those applicable to RA4 under the SFO, such as solely advising wholly-owned group companies; for acts where the act is wholly incidental to licensed or registered VA dealing or solely for the purposes of licensed or registered VA fund management, etc.

(D) Management service providers

19. "VA management" is proposed to mean providing a service of managing a portfolio of VAs for another person. Similar to Type 9 regulated activity (asset management) ("RA9") under the SFO, the regulatory regime for VA management services will apply to the management of a portfolio of VAs where the manager has discretionary power to make investment decisions in respect of the VAs in the portfolio for another person, including the management of funds as well as discretionary accounts in the form of an investment mandate or pre-defined model portfolio. Even if the firm sub-contracts its investment management role to a third party, it is required to be licensed or registered. The third party would also be required to be licensed or registered if it is carrying on a business in providing VA management services in Hong Kong.

20. We will not set a de minimis threshold (e.g., a VA management service licence is required only for managing a portfolio with a stated investment objective or an intention to invest 10% or more of the gross asset value of a portfolio in VAs). This means that any entity which provides asset management services for a portfolio that invests in VAs, regardless of the amount of VAs involved, will need to obtain a licence or registration. This is aligned with the approach under the asset management

[5] This exemption is based on the fact that the relevant stablecoin licensees and their regulated stablecoin activities are already subject to regulation and on-going supervision by the HKMA.

licensing or registration regime of the SFO, which does not provide for a de minimis threshold.

21. The exemptions we are considering will be similar to those applicable to RA9 under the SFO, such as providing services to wholly-owned group companies; acts that are wholly incidental to VA dealing services of a licensed or registered VA dealing service provider, etc.

Regulatory Requirements

22. In line with the existing regulatory regime for VATPs, the aforementioned four types of VA service providers will be required to comply with the following requirements in order to be eligible for a licence issued by or a registration with the SFC:

(a) **Financial resources**: A licensee should have adequate financial resources for operating its VA business, including the relevant minimum paid-up share capital and minimum required liquid capital (with the exact amount depending on the type of service and the business model). The SFC may also impose additional financial resources requirements (e.g. excess liquid capital equivalent to at least 12 months of its actual operating expenses). Meanwhile, registered providers (as AIs and SVF licensees regulated by the HKMA) shall comply with the financial resources requirements prescribed by the HKMA;

(b) **Knowledge and experience**: A licensee or registered provider is required to have a proper corporate governance structure staffed by personnel with the necessary knowledge and experience (e.g. having passed a paper on regulatory knowledge) to enable the effective discharge of responsibilities;

(c) **Risk management**: A licensee or registered provider is required to have in place appropriate risk management policies and procedures for managing ML/TF and other risks arising from its activities that are commensurate with the scale and complexity of its business;

(d) **Financial reporting and disclosure**: a licensee should observe prescribed auditing and disclosure requirements, and submit audited accounts. Meanwhile, registered providers (as AIs and SVF licensees regulated by the HKMA) shall comply with the financial reporting and disclosure requirements prescribed by the HKMA;

(e) **Conduct of business**: A licensee or registered provider is required to act honestly and 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 registered provider 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 to ensure that the submitted information remains up-to-date;

(g) **Record keeping**: A licensee or registered provider 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 a licensee or registered provider 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[6]; 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 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.

23. Upon completion of the relevant legislative work, the SFC will issue relevant codes and guidelines to support the regulation of VA service providers. In formulating the relevant regulatory requirements, the SFC will build upon the relevant requirements currently applicable to licensed or registered intermediaries conducting VA-related activities, as well as the relevant requirements currently applicable to VATPs (such as the Guidelines for Virtual Asset Trading Platform Operators), while taking market feedback into account.

Powers of Regulatory Authorities

24. The SFC will be the standard setter responsible for formulating the regulatory requirements applicable to licensed and registered providers of VA dealing service, VA advisory service, VA management service and VA custodian service, as well as the frontline regulator for licensed providers. Meanwhile, the HKMA will be the frontline regulator for registered providers, supervising HKMA-regulated AIs and SVF licensees registered to provide the relevant services. This is consistent with the current regulatory approach applicable to AIs conducting securities business. Both

[6] This requirement will apply to licensed or registered dealing service providers. For management service providers, considering that private funds often require access to a range of custodians for tokens coverage and integrated cross-border settlement and to reduce counterparty concentration risks, and restricting their choice of custodians may disproportionately impact private equity/venture capital strategies. Private funds may appoint globally qualified custodians under the proposed regulatory regime. This approach mirrors the current SFO treatment for RA9 managers, maintaining regulatory parity between traditional and VA fund management.

the SFC and the HKMA will be provided with the powers to implement the regimes in accordance with the statutory requirements.

Offences and Sanctions

25. In the proposed licensing or registration regimes, sanctions will apply to deter various unlawful and non-compliant acts, including carrying on a business of providing a VA service without a licence or registration. Furthermore, to ensure market integrity and investor protection, we will prohibit any person from actively marketing any VA service, whether in Hong Kong or elsewhere, to the public of Hong Kong, unless the person is licensed by or registered with the SFC for providing that type of VA service.

26. The proposed sanctions align with those under the existing regime for VATPs, i.e. (a) carrying on a business of providing a VA service without a relevant VA service provider licence or registration, or (b) without a relevant VA service provider licence or registration, actively marketing to the public of Hong Kong any service that, if provided in Hong Kong, would constitute a VA service, will be an offence punishable, on conviction on indictment, to a fine of HK$5 million and to imprisonment for seven years; and, in the case of a continuing offence, to a further fine of HK$100,000 for every day during which the offence continues. In addition, we propose aligning with the sanctions under the existing VATP regime such that any person who, in connection with an application for the grant of a licence or registration, makes a false or misleading statement in a material particular, commits an offence, which is to be punishable on conviction on indictment to a fine of HK$1 million and to imprisonment for two years.

27. We are of the view that the proposed arrangements can maintain parity with the existing regime for VATPs and ensure consistency, deterrence and fairness.

Transitional Arrangement

28. We do not plan to grant a deeming arrangement to existing VA service providers as it could create confusion over their regulatory status and may not be optimal for investor protection. The licensing and registration regime will take full effect on the commencement date of the relevant statutory provisions.

29. Noting the implications to existing VA service providers operating in Hong Kong arising from a "hard" commencement date, we will consider the appropriate commencement date for the licensing and registration regime to take effect, taking into account the time market participants need to adjust their business models.

30. In the interim, we encourage all industry stakeholders already engaged in or interested in providing VA dealing, VA advisory, VA management or VA custodian services to reach out to the SFC (or the HKMA) as soon as possible to initiate pre-

application processes. Through early engagement, the SFC will walk pre-applicants through the licensing or registration process, while gathering invaluable feedback on the applicable regulatory requirements.

WAY FORWARD

31. As stated in the 2025 Policy Address, we are formulating the legislative proposals concerned, with a target of introducing an amendment bill into the Legislative Council within this year.

ADVICE SOUGHT

32. Members are invited to provide comments on the above legislative proposals.

Financial Services and the Treasury Bureau
The Securities and Futures Commission
May 2026