Speech at the listing ceremony of first bitcoin and ether spot ETFs

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Today, I am very pleased to participate in the listing ceremony of the first batch of six bitcoin and ether spot ETFs managed by three fund managers, namely Bosera Asset Management (International) Co., Limited, China Asset Management (Hong Kong) Limited and Harvest Global Investments Limited.

The six virtual asset (VA) spot ETFs listed today are also the first of their kind in Asia. This showcases how the Securities and Futures Commission (SFC) facilitates long-term sustainable market developments with comprehensive and effective regulation for investor protection and other regulatory objectives.

As we all know, the VA market experienced episodes of extreme volatility in recent years. The collapse of certain stablecoins, the closures of some trading platforms, various fraudulent activities and scandals, for example, have resulted in significant losses for many investors. Yet, both professional and retail investors have shown continued demand for VAs, and they have already been investing in VAs through many channels, including spot trading, futures, other on- and off-exchange instruments such as exchange-traded products. Also, more and more traditional financial institutions and intermediaries have started providing VA-investment-related services.

Despite the various risks associated with VAs and their markets, the SFC has also recognised the potential benefits presented by the underlying technologies. Therefore, as early as in 2018, we became one of the first major financial regulators to introduce a comprehensive regulatory framework for a wide range of VA-related activities, under the principle of “same business, same risks, same regulation”.

In December 2022, we authorised the first bitcoin and ether futures ETFs, and in June last year, we allowed the Hong Kong public to trade bitcoins and ethers on SFC-licensed VA trading platforms.

Lately, we noted that many investors wish to invest in spot VAs through traditional brokers and exchange-traded products such as ETFs. As such, we considered it in the public interest to allow regulated VA spot ETFs in Hong Kong.

Note: This is the text of the speech as drafted, which may differ from the delivered version.

Unlike other VA spot ETFs available on overseas exchanges, these ETFs offer in-kind subscription and redemption, and are subject to a more comprehensive regulatory framework regarding the key players in their operation, including fund managers, custodians, trading platforms and participating dealers. These institutions must be licensed, recognised or approved by the SFC and must strictly comply with our requirements applicable to authorised public investment products, covering asset custody, liquidity, valuation, information disclosure and investor education.

While an effective regulatory regime enables us to address the potential risks associated with the operation of VA portfolios, it cannot eliminate the risks inherent in the VA market. In particular, the SFC's authorisation of VA ETFs is by no means tantamount to endorsing those underlying VAs or encouraging the public to invest in them. VAs are highly speculative in nature, and their prices are highly volatile. As the saying in the crypto community goes, "one day in crypto, one year in the real world". Historically, bitcoin and ether once dropped by 40% in a single day, and by over 60% within a year. On that note, I would like to remind everyone that VAs are not for all investors, and only those who know sufficiently well about VAs and can bear the associated investment risks should consider VA-related products. Through education and information disclosure, the SFC has continued to remind the investing public of notable matters regarding participating in the VA market.

The listing of VA spot ETFs is a key milestone in Hong Kong's ETF market development. In fact, since the inclusion of ETFs in Stock Connect in July 2022, ETF trading has been active, with its share of Hong Kong's total market turnover surging to 14%. Relatedly, the China Securities Regulatory Commission has recently announced five measures to further enhance Stock Connect and support Hong Kong in strengthening its position as an international financial centre. They include expanding the scope of eligible ETFs under Stock Connect, incorporating real estate investment trusts (REITs) into Stock Connect, supporting the inclusion of RMB-denominated stocks under southbound Stock Connect, enhancing the scheme of mutual recognition of funds, and supporting the listing of leading Mainland companies in Hong Kong. Under the current challenging market environment, these measures have instantly breathed fresh air into the city's financial market development. We will continue to explore ways to enable the industry to fully capitalise on these favourable measures and take advantage of them. Finally, on behalf of the SFC, I would like to express our gratitude to the Central and HKSAR Governments for their unwavering support for our financial markets.