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"A-S-P-I-Re" for a brighter future
SFC's regulatory roadmap for Hong Kong's virtual asset market

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Executive Summary

1. **Complex landscape calls for balanced regulation:** The global virtual asset market, valued at over US$3 trillion in 2024, has significantly influenced modern finance, presenting both opportunities and challenges. While virtual assets have fostered unprecedented cross-border connectivity and innovation, they have also introduced complexities: fragmented regulatory approaches, uneven liquidity distribution, and risks stemming from concentrated holdings and speculation. This duality underscores the need for balanced regulation that supports growth and also mitigates systemic vulnerabilities.

2. **SFC's evolving and robust regulatory regime since 2018:** Hong Kong's Securities and Futures Commission (SFC) has been a forerunner in addressing these challenges. Since 2018, the SFC has established a robust regulatory framework, licensing virtual asset trading platforms (VATPs), enabling institutional-grade products such as Asia's first batch of virtual asset spot exchange-traded funds (ETFs), and integrating safeguards from traditional finance (TradFi) into virtual asset ecosystems. However, as the market evolves, new priorities emerge—such as managing liquidity fragmentation, addressing regulatory arbitrage, and ensuring investor protection across decentralised and centralised platforms.

3. **New "*A-S-P-I-Re*" Roadmap to deal with new challenges:** To stay ahead of this evolving landscape, the SFC's **Regulatory Roadmap** deploys a five-pillar framework "**A-S-P-I-Re**" (**A**ccess, **S**afeguards, **P**roducts, **I**nfrastructure, and **Re**lationships) designed to future-proof Hong Kong's virtual asset ecosystem. The roadmap's 12 initiatives include streamlined market access, adaptive compliance and product frameworks, and infrastructure upgrades to bridge TradFi reliability with blockchain efficiency. This embodies a pragmatic approach to solidify Hong Kong's role as a trusted nexus for virtual asset liquidity.

Mapping the Virtual Asset Ecosystem: Composition, Dynamics, and the Imperative for Strategic Regulation

4. Valued at over US$3 trillion[1] in 2024, the global virtual asset market has established itself as a potentially transformative force in global finance. With annual trading volumes exceeding US$70 trillion[2], its recent resurgence underscores its resilience despite macroeconomic volatility and fragmented regulatory landscapes.

5. However, the growth is accompanied by complexities: coexistence of institutional dominance and retail speculation, concentrated yet fragmented liquidity, and geographic disparities in adoption and regulation challenge global coherence. This section analyses the market's composition, dynamics, and geographic nuances to frame the necessity for the SFC's strategic action plan.

Current landscape: Market composition and dynamics

6. The virtual asset ecosystem is shaped by three interrelated dimensions: holders and investors, trading venues and geographic activity. Together, these elements define the market's structure, risks and opportunities.

Holders and investors: Institutional dominance and retail speculation

7. The market is characterised by a dual participation model. Bitcoin exemplifies this duality: the top 2% of wallets are estimated to hold around 95% of supply[3],while institutional players—hedge funds, asset managers, and corporations—are estimated to be controlling over 8% of Bitcoin holdings[4], driving liquidity in flagship products such as Bitcoin exchange-traded products (ETPs). Their growing influence not only reflects the sector's maturation but also concentration of market participation. This concentration raises concerns about market manipulation by "whales" and systemic fragility.

8. Conversely, retail investors remain pivotal, particularly in emerging markets, where speculative trading in memecoins and decentralised platforms thrive. While retail participation points to democratised access, it amplifies risks such as misinformation, fraud, and volatility.

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[1] See https://www.reuters.com/technology/crypto-market-capitalisation-hits-record-32-trillion-coingecko-says-2024-11-14/. The information in this Roadmap is based on data not proprietary to the SFC. The SFC uses these data in good faith and does not take responsibility for their accuracy or completeness.
[2] See https://x.com/CCData_io/status/1882085992838127820 for the yearly spot and derivatives trading volumes.
[3] See https://bitinfocharts.com/top-100-richest-bitcoin-addresses.html.
[4] See https://intel.arkm.com/explorer/token/bitcoin and https://bitcointreasuries.net/.

9. This bifurcation underscores the need for regulatory frameworks that safeguard vulnerable participants without stifling innovation.

Trading venues: Centralisation, decentralisation, and liquidity challenges

10. Trading activity is dominated by top centralised exchanges (CEXs), which are estimated to account for over 50% of global volume[5]. These platforms serve as critical liquidity hubs but pose systemic risks, as evidenced by the collapses of major exchanges in the past.

11. In contrast, decentralised exchanges (DEXs) and over-the-counter (OTC) markets cater to niche demand. DEXs, fuelled by user demand for autonomy, reduce reliance on intermediaries but lack standardised safeguards, thus exposing users to smart contract vulnerabilities and scams.

12. OTC desks, favoured by institutions for conducting discreet large trades, operate with minimal transparency, thus heightening risks of market abuse.

13. This fragmented liquidity landscape—marked by the dominance of large CEXs and the rise of underregulated alternatives—demands mechanisms to ensure stability across venues while addressing platform-specific risks.

Geographic activity: Divergent hubs of adoption and regulation

14. Geographic disparities further complicate the ecosystem. Hong Kong and Singapore are major jurisdictions in Asia embracing institutional adoption, with Hong Kong's investor-centric regulatory framework positioning it as a regional hub. With Europe, the EU's Markets in Crypto-Assets (MiCA) framework fosters scalability. For the US, despite its leadership in virtual asset ETPs and derivatives, its fragmented oversight has created regulatory ambiguities for market participants.

15. In Asia, the landscape is polarised. Hong Kong emphasises robust investor protection, including stringent licensing for VATPs, and mandatory anti-money laundering (AML) protocols, while Mainland China strictly prohibits virtual asset business activities. Singapore refines its approach built on a payment regulatory framework aimed at "reducing consumer harm". Meanwhile, emerging jurisdictions in the Middle East and

[5] With the largest exchange alone accounting for almost half of global trading volumes in 2023. See https://www.esma.europa.eu/sites/default/files/2024-04/ESMA50-524821-3153_risk_article_crypto_assets_market_structures_and_eu_relevance.pdf.

Latin America are tailoring regulations to attract virtual asset firms, often with flexibility as a priority.

16. These geographic and regulatory divergences create compliance challenges for global firms and amplify risks of regulatory arbitrage. For instance, platforms restricted in stringent jurisdictions may relocate to lenient hubs, thereby undermining cross-border oversight. This patchwork underscores the urgency for international coordination to harmonise standards while respecting regional priorities.

17. The market's composition reveals a complex interplay of opportunities and risks. Institutional dominance and retail speculation coexist, with concentrated holdings amplifying systemic vulnerabilities, while the reliance on large CEXs and the rise of decentralised platforms create trading hubs fraught with liquidity and stability concerns. Geographic disparities further compound these challenges, as jurisdictions adopt conflicting regulatory priorities, from the EU's harmonised MiCA framework to Asia's polarised landscape of prohibition and investor-centric rules. These dynamics underscore the market's inherent tensions: between innovation and stability, accessibility and protection, and globalisation and regulatory sovereignty.

<u>The future landscape: Evolution and convergence?</u>

18. The rapid maturation of virtual assets demands a forward-looking regulatory lens—one that anticipates emerging trends while addressing systemic risks. Two transformative convergence trends are reshaping the landscape, namely the harmonisation of global regulatory standards and the deepening interplay between TradFi and virtual assets. These trends, while distinct, are interdependent, offering pathways to reconcile the sector's innovative potential with the need for stability, transparency and investor trust.

Harmonising regulatory standards: Toward global coherence

19. Regulators worldwide increasingly recognise that virtual assets transcend borders, necessitating coordinated frameworks to mitigate risks such as money laundering, market abuse, and investor harm. Global bodies like the Financial Action Task Force (FATF), the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB) are spearheading efforts to align standards. FATF's updated guidance on virtual assets emphasises AML and counter-terrorist financing (CTF) controls, urging jurisdictions to enforce "travel rule" compliance for transactional transparency. Similarly, IOSCO's 2023 recommendations prioritise investor protection, advocating for rules to address conflicts of interest, custody risks, and operational resilience across trading platforms.

20. This push for harmonisation is gaining traction. Hong Kong's regulatory regime, which mandates licensing for virtual asset service providers (VASPs) and aligns with FATF's

AML standards, serves as a regional benchmark. The EU's MiCA framework provides a template for integrating safeguards at a regional level, while jurisdictions such as the US face pressure to adopt cohesive federal rules. However, challenges persist. Divergent timelines for implementing global standards and jurisdictional "regulatory arbitrage" threaten to undermine progress.

TradFi-virtual asset convergence: Bridging innovation and legacy systems

21. The line between TradFi and virtual assets is blurring, driven by institutional adoption and technological cross-pollination. This convergence presents dual opportunities: applying TradFi's compliance rigor to virtual assets and leveraging blockchain-driven innovations to modernise TradFi.

22. TradFi compliance serves as a blueprint for virtual assets. Established TradFi concepts—such as know-your-client (KYC) checks, suitability assessments, and risk-based capital requirements—offer proven frameworks to mitigate risks in virtual asset markets. Institutional-grade custody solutions, inspired by TradFi's custodial safeguards, are addressing concerns about asset security in virtual asset exchanges. Similarly, the integration of TradFi-style disclosure standards for virtual asset products (eg, ETPs, tokenised real-world assets (RWAs)) can enhance transparency, enabling investors to assess risks akin to traditional securities. Regulators are increasingly mandating these guardrails, as seen in Hong Kong's requirements for VATPs to segregate client assets and conduct independent audits.

23. Virtual asset innovations are elevating TradFi efficiency. Blockchain-native innovations are reshaping TradFi infrastructure. Atomic settlement—a feature of decentralised finance (DeFi)—enables near-instantaneous, simultaneous exchange of assets and payments, reducing counterparty risks and settlement delays found in traditional systems. Blockchain analytics tools, honed in virtual asset markets, are now being adopted by TradFi institutions to enhance transaction monitoring and AML compliance. In Hong Kong, the tokenisation of RWAs demonstrates the city's leadership in merging TradFi credibility with blockchain efficiency while unlocking liquidity and ownership opportunities, bridging the gap between legacy financial instruments and decentralised ecosystems. Examples include the tokenised money market fund whose dealing and trading process was simulated using tokenised deposits[6] as part of the asset management initiatives co-led by the SFC and the Hong Kong Monetary Authority (HKMA) under Project Ensemble[7], and the tokenised green bonds issued by the Government of the Hong Kong Special Administrative Region of the People's Republic

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[6] See https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=24PR182.
[7] See details on the launch of the Project Ensemble Sandbox at https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=24PR140.

of China (the HKSAR Government)[8].

24. For regulators, this convergence demands agility. It requires updating legacy rules to accommodate hybrid models (eg, tokenised securities) while ensuring innovations like smart contracts and decentralised platforms adhere to core regulatory objectives. The goal is not to replicate TradFi's frameworks wholesale but to adapt their strengths—transparency, accountability, systemic resilience—to the unique attributes of virtual assets.

The Hong Kong journey so far

25. The SFC has been at the forefront of virtual asset regulation and market development. Ahead of other jurisdictions, the SFC has implemented a comprehensive framework governing virtual asset-related activities since 2018.

26. Balancing the developments in the virtual asset industry, investor demand and risks arising from virtual asset-related activities, the SFC announced a new regulatory approach for virtual assets in 2018[9]. This brought virtual asset portfolio managers and virtual asset fund distributors under the SFC's regulatory net. In 2019, virtual asset trading platforms were also added into our regulatory net[10]. The SFC's regulation adopted the "same business, same risks, same rules" principle – all existing TradFi investor protection guardrails are applied to virtual asset-related activities, which is now the approach advocated by international standards setters such as IOSCO and the FSB.

27. Expanding on this regulatory approach, the SFC has enabled its intermediaries to provide virtual asset-related services and products such as virtual asset dealing services and trading in virtual asset-related products since 2022[11]. Hong Kong's pioneering framework formed the building blocks for the SFC to launch an authorisation regime for virtual asset spot ETFs in 2023[12], by leveraging on the investor trust and security provided by the regulated ecosystem created by the SFC, including licensed VATPs, portfolio managers, fund distributors and broker-dealers. This culminated in the listing of Asia's first batch of virtual asset spot ETFs on the Stock Exchange of Hong Kong in April 2024.

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[8] See details on the issuances at https://www.hkma.gov.hk/eng/news-and-media/press-releases/2023/02/20230216-3/ and https://www.hkma.gov.hk/eng/news-and-media/press-releases/2024/02/20240207-6/.
[9] See https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=18PR126.
[10] See https://www.sfc.hk/en/News-and-announcements/Policy-statements-and-announcements/Position-paper-Regulation-of-virtual-asset-trading-platforms.
[11] See https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=23EC67.
[12] See https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=23EC65.

28. The solid foundation of consistent regulations adapted for the virtual asset markets but embedding TradFi guardrails enables financial intermediaries and investors to confidently enter this space under “same business, same risks, same rules”. To accelerate and enhance such convergence, the SFC also provided regulatory clarity to encourage the tokenisation of traditional financial instruments in 2023[13]. The SFC will continue on this path of regulatory certainty, based on core regulatory principles, and will implement initiatives to advance Hong Kong’s virtual asset ecosystem.

[13] See https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=23EC52 and https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=23EC53.

“*A-S-P-I-Re*” Roadmap for a Resilient Virtual Asset Ecosystem

29. The SFC’s journey—from pioneering virtual asset regulation in 2018 to enabling Asia’s first batch of virtual asset spot ETFs in 2024—reflects Hong Kong’s evolving role as a bridge between TradFi rigor and blockchain-driven innovation. Yet, as the market matures, new challenges emerge: institutional-retail bifurcation, fragmented liquidity, and regulatory arbitrage risks demand a structured response.

30. The SFC integrates its core regulatory principles into a structured Roadmap with five key pillars—**A**ccess, **S**afeguards, **P**roducts, **I**nfrastructure, and **Re**lationships (**A-S-P-I-Re**), anchored by investor protection, prioritised through enhanced disclosure, secure custody mandates, and tailored product safeguards; sustainable liquidity, achieved by broadening market access, modernising infrastructure, and diversifying offerings; and adaptive regulation, enabled through iterative compliance frameworks and global collaboration.

Pillar A (Access) – Streamline market entry through regulatory clarity

31. Pillar **A** focuses on fostering an inclusive ecosystem by aligning regulatory expectations with global participation. The SFC seeks to attract qualified participants, enhance investor choice, and integrate Hong Kong with global liquidity.

32. Key objectives of Pillar **A** are:

- **Expand market accessibility**: Develop clear licensing frameworks to enable compliant VASPs to enter the market efficiently.

- **Encourage responsible participation**: Create transparent pathways for diverse stakeholders, including global platforms and liquidity providers.

- **Enhance investor opportunities**: Broaden access to regulated services, improving market efficiency, price discovery, and innovation.

<u>Current situation</u>

33. Hong Kong’s regulated virtual asset market remains restrictive in scope, covering primarily VATPs and other existing SFC-regulated intermediaries. While this approach ensures foundational compliance, it excludes non-VATP entities (eg, OTC dealers, custodians) and limits diversity in service offerings, restricting investor choice and market competitiveness.

Initiative 1: Establish licensing regimes for OTC trading and custody services

Virtual asset OTC trading

34. OTC trading remains important for large-volume transactions, allowing buyers and sellers to execute block trades without disruptive price impact. The SFC will support the HKSAR Government's introduction of a dedicated licensing framework for OTC trading, addressing gaps in the current regime. Stakeholder consultations have highlighted the critical role of OTC desks in liquidity provision and institutional participation. By aligning requirements with the "same business, same risks, same rules" principle, the SFC will ensure the parity between OTC operators and VATPs, fostering fair competition while mitigating risks such as money laundering and market manipulation.

Virtual asset custody services

35. Separately, the SFC will be shaping a licensing regime for custodians, recognising their pivotal role in safeguarding client assets and allowing for a two-tier market structure segregating trading and custody. The new framework will mirror standards applied to traditional financial custodians, including capital adequacy, cybersecurity, and asset segregation. Legislative preparations, led by the HKSAR Government with regulatory input, aim for completion by end-2025.

Initiative 2: Attract global platforms, order flows and liquidity providers

Integration of global platforms

36. Virtual asset trading is by nature borderless and liquidity is fragmented across liquidity pools around the globe. The SFC welcomes major international virtual asset platforms to establish operations in Hong Kong and tap into their global order books under appropriate compliance standards. This integration will enable local investors to access global markets while attracting institutional liquidity to trade in Hong Kong, fostering a deeper and more liquid market.

Participation of liquidity providers (LPs)

37. Concurrently, the SFC will facilitate the onboarding process for institutional-grade liquidity providers, such as market makers and proprietary trading firms. By clarifying its regulatory and financial rules expectations, the SFC seeks to reduce barriers for LPs to connect with local VATPs. Enhanced liquidity provision is expected to lower transaction costs, narrow bid-ask spreads, and stimulate product innovation, which will reinforce Hong Kong's appeal as a competitive virtual asset marketplace.

Pillar S (Safeguards) – Optimising compliance burdens without compromising security

38. Pillar **S** aims to facilitate a secure and competitive virtual asset ecosystem by harmonising compliance requirements with competitive global standards, adopting a flexible and outcome-driven regulatory approach, and empowering market participants through clarity and proportionality. This ensures robust investor protection while enabling sustainable market growth.

39. Key objectives of Pillar **S** are:

- **Align compliance requirements**: Enable an outcome-based framework that prioritises core regulatory objectives (eg, asset security, market integrity) while giving practitioners flexibility to adopt innovative technologies or operational controls.

- **Adopt risk-proportionate oversight**: Tailor compliance obligations to the risk profiles of market participants, safeguarding systemic stability without stifling innovation.

- **Promote regulatory clarity**: Provide clear guidance to align virtual asset compliance with established TradFi frameworks, reducing ambiguity and operational friction.

<u>Current situation</u>

40. Hong Kong's regulatory framework for virtual assets has historically emphasised stringent safeguards to address nascent risks, starting with more prescriptive requirements such as rigid custody rules and compensation mandates. As markets mature and global competition intensifies, the SFC now stands ready to refine these frameworks, balancing investor protection with pragmatic adjustments that enhance competitiveness. Streamlining compliance burdens while maintaining robust safeguards is critical to attracting global participants and sustaining market growth.

Initiative 3: Explore adopting a dynamic approach to custody technologies and storage ratios

Emerging custody technologies

41. The SFC recognises the rapid evolution of custody technologies and the need for a forward-looking regulatory approach. Instead of mandating specific hardware solutions, the SFC will explore transitioning to more technology-neutral, outcome-based standards that prioritise the overall custody control environment. VASPs may possibly adopt more innovative solutions, provided that they demonstrate robust asset protection measures and maintain a secure, auditable control environment. This approach highlights the need for holistic safeguards that must be put in place, including real-time monitoring, independent audits and cybersecurity protocols. Through this

initiative, the SFC aims to foster agile technological adoption while ensuring accountability and security in asset custody.

Mandatory hot/cold storage ratios

42. The SFC acknowledges that rigid mandates for cold storage ratios designed to maximise asset security can create operational impracticalities for VASPs, such as liquidity bottlenecks during high-volume trading or delays in meeting client withdrawal requests. These constraints may inadvertently elevate operational costs (eg, infrastructure for cold wallet maintenance) and degrade customer experience through slower transaction processing. To address this, the SFC will adopt a holistic security approach that balances cold storage requirements with complementary safeguards, such as real-time transaction monitoring, third-party audits, and compensation-backed hot wallets. By allowing VASPs to tailor storage strategies to their risk profiles and operational and liquidity demands, the approach reduces compliance costs while preserving asset integrity. This outcome-driven approach prioritises security efficacy over prescriptive ratios, ensuring robust protection without compromising market agility or user accessibility.

Initiative 4: Enhance insurance and compensation frameworks

43. Insurance and compensation arrangements provide an important safety net to the existing regime. These arrangements can, nonetheless, be more diverse and risk-based befitting the individual firms' business operations and investor profiles. Consideration should be given to allow VASPs to tailor their compensation strategies according to their specific operational realities, thereby ensuring that investor protection remains paramount while fostering market development. The SFC will actively engage with stakeholders to align its insurance and compensation frameworks with global practices.

Initiative 5: Clarify investor onboarding and product categorisation

Investor onboarding

44. Existing guidance for investor onboarding, which has been well-established in the SFC's existing regulatory regime, should be adopted for virtual assets. To uphold a fair-playing field, the SFC will consider issuing guidance to clarify investor onboarding processes and facilitate VASPs' effective assessment of investor profiles. By enhancing regulatory clarity, the SFC aims to foster a compliant market environment that instils strong investor confidence and allows them to access appropriate products meeting their needs.

Product categorisation

45. A SFC-endorsed "look-through" product classification framework can resolve ambiguities, hence ensure regulatory certainty. This can be achieved by mandating the regulatory treatment of digital assets be determined by the nature of the actual activity conducted and the underlying asset, not its digital form. A robust product classification will avoid any regulatory vacuum for investor products while accelerating product innovations in virtual assets and tokenisation of securities, funds and RWAs.

Pillar P (Products) – Expand product offerings and services based on investor categorisation

46. Pillar **P** focuses on expanding the range of virtual asset products and services available in Hong Kong's regulated market, specifically tailored to meet the diverse needs of different investor categories. The SFC aims to enable risk-appropriate virtual asset investment tools for investors, thereby fostering market development while implementing robust safeguards to protect retail investors. This approach seeks to create a balanced regulatory environment that not only encourages the introduction of innovative products but also protects retail investors from potential risks.

47. Key objectives of Pillar **P** are:

- **Enable risk-appropriate investment tools**: Facilitate the introduction of more advanced products appropriate for investors with differing levels of expertise and experience.

- **Safeguard retail investors**: Establish protective measures to ensure retail participants are adequately safeguarded against the risks of new products that they may not fully understand.

- **Mitigate potential risks**: Implement comprehensive measures to address potential fraud, conflicts of interest, and other risks associated with new products.

<u>Current situation</u>

48. The virtual asset landscape in Hong Kong is characterised by restrictions on the types of products and services available to investors through regulated venues such as VATPs. New tokens, margin trading, derivatives, staking, and borrowing/lending are not permitted. This affects the ability of market participants to engage in more sophisticated operations through regulated venues, resulting in a lack of diversity in product offerings and limited choices available to clients of regulated platforms.

Initiative 6: Explore regulatory framework for professional investor-exclusive new token listings and virtual asset derivative trading

New token listings

49. The SFC will explore the potential expansion of its regulatory framework to enable listing of new tokens exclusively for professional investors (PIs), grounded in well-established and rigorous due diligence and disclosure requirements. The SFC will also review existing safeguards for retail offerings to better adapt to the fast moving nature of the virtual asset marketplace.

Virtual asset derivative trading

50. In conjunction with new token listings, the SFC will look into introducing virtual asset derivative trading for professional investors. Robust risk management measures will be given prominence to ensure that trades are executed in an orderly, transparent and secure manner. By studying the introduction of the trading of derivatives, the SFC seeks to facilitate efficient risk transfer. This will further enhance the liquidity of the underlying spot markets in Hong Kong and enable experienced market participants to engage in essential hedging and leveraged strategies.

Initiative 7: Explore virtual asset margin financing requirements aligned with securities market risk management safeguards

51. To promote the integration of margin trading into the virtual asset space, the SFC will examine how to align margin financing requirements with the established risk management protocols present in the traditional securities market such as initial and variable margin requirements and volatility-adjusted haircuts for collateral. These measures will safeguard both VASPs and investors against excessive risk exposure and enable TradFi to enter the market with familiar risk practices and parameters. This approach fosters diversified market participation through leverage, ensuring an orderly trading environment.

Initiative 8: Consider allowing staking and borrowing/lending services under clear custody and operational guidelines

Staking

52. The SFC will explore the provision of staking services within the regulated ecosystem supported by technical and custodial safeguards. This will include the establishment of requirements governing custody of client assets, mitigation of slashing and liquidity risks arising from staking and ensuring that the operational processes for staking are transparent. Through this initiative, investors can participate in a core function of virtual assets while benefitting from yield-generation which are unparalleled in the TradFi markets.

Borrowing/lending services

53. The SFC will also consider allowing borrowing and lending activities for PIs, again under robust risk management measures. This will involve delving into how collateral is handled and how the relevant risks are assessed and mitigated. By ensuring that these activities are conducted in accordance with appropriate risk management safeguards, we could enhance the utility and liquidity of virtual assets. This allows experienced market participants to engage in more diverse trading strategies and provides investors with opportunities to earn stable returns on their holdings.

Pillar I (Infrastructure) – Modernise reporting, surveillance and cross-agency collaboration

54. Pillar **I** centres on equipping and strengthening the SFC's capability in market-wide oversight through the use of new technology tools and infrastructure building. The SFC's vision is to consolidate cross-agency collaboration and create a prominent solution for monitoring and surveillance of risks and illicit activities in the region.

55. Key objectives of Pillar **I** are:

- **Strengthen market-wide oversight capabilities**: Enhance visibility of market-wide, cross-VASP activities for discerning red flags and questionable trends.

- **Early detection of illicit activities and misconduct**: Employ and build infrastructure and data analytic tools to provide early warnings.

- **Safeguard investor assets**: Through a combination of discerning red flags and questionable trends, early alerts and cross-agency collaboration, safeguard investor assets pre- and post-incident.

<u>Current situation</u>

56. The SFC currently receives limited digital asset-specific reporting and such reporting tends to be incident-triggered, as may be the case among Hong Kong law enforcement agencies. Available intelligence may not be fully utilised or shared resulting in after-event reactiveness. Proactive surveillance from a market-wide level is hindered with limited visibility among regulators and law enforcement agencies.

Initiative 9: Consider solutions for efficient regulatory reporting and deploy advanced surveillance tools to detect illicit activities

57. To facilitate early detection of fraud, financial crime and market misconduct, the SFC will consider options for straight-through reporting of digital asset information and explore a variety of data-driven surveillance tools to strengthen its capability in market-wide oversight, transaction monitoring, blockchain intelligence and wallet monitoring and tracing. This initiative builds trust in the Hong Kong virtual asset market, ensuring integrity and resilience of the market.

Initiative 10: Strengthen local cross-agency collaboration and promote cross-border cooperation with global regulators

58. The SFC will engage in closer dialogue with local regulators and law enforcement agencies to bolster cross-agency collaboration. Through heightened collaboration and intelligence sharing, all local regulators and law enforcement agencies would be better equipped in discerning illicit activities and in providing support in retrieving assets. Such a concerted effort may bring about the emergence of a holistic solution for risk monitoring and surveillance in the region and in turn promote cross-border cooperation with global regulators.

Pillar Re (Relationships): Empower investors and industry through education, engagement and transparency

59. Pillar **Re** aims to empower both investors and industry participants through fact-based and authentic information exchanges. By equipping the public with the knowledge needed to navigate the complexities and risks of virtual assets, the SFC seeks to foster an informed community that can actively engage with this evolving landscape. The emphasis on the importance of transparency in the policymaking process also ensures that industry stakeholders are ready to contribute constructively to regulatory developments.

60. Key objectives of Pillar **Re** are:

- **Enhance investor understanding**: Ensure retail investors are fully aware of and understand virtual asset's features and risks, enabling them to make informed decisions.

- **Foster industry participation**: Encourage the sharing of industry stakeholders' insights and experiences in shaping regulations that govern virtual assets.

- **Promote fit-for-purpose policymaking**: Ensure the regulatory process is transparent and accessible and that policymaking goals are realised with regulatory outcomes.

Current situation

61. The Hong Kong public exhibits limited awareness of the nature of and risks associated with virtual assets, which can lead to uninformed decision-making and potential financial losses as retail investors frequently refer to unreliable online channels for building financial literacy. Furthermore, some industry stakeholders do not have a complete understanding of the policymaking process, creating information disparities and misunderstandings. These gaps highlight the need for targeted engagement strategies that enable both investors and industry stakeholders to actively participate in the virtual asset ecosystem.

Initiative 11: Consider regulatory framework for financial influencers (Finfluencers) to address new investor engagement channels

62. The SFC recognises the increasing significance of digital channels in influencing investor perceptions and financial behaviours and therefore the opportunities for responsible Finfluencers to contribute to the sustainable growth of the virtual asset market. To this end, the SFC will develop a comprehensive framework that encompasses Finfluencers. In terms of investor engagement, the SFC plans to advocate for best practices in responsible communication and engagement, alongside fostering more direct interactions with investors through proactive and ongoing educational initiatives. By promoting responsible behaviour and accountability among Finfluencers, investors will be better equipped to protect their interests, grounded in a clear understanding of virtual assets and other investment opportunities.

Initiative 12: Cultivate sustainable communication and talent network

63. The SFC will proactively collaborate with industry stakeholders via the Virtual Asset Consultative Panel (VACP)[14] and global forums to obtain insights and feedback on market developments. By fostering open dialogue with industry participants, the SFC aims to ensure that its regulatory stance and actions are clearly communicated and that its regulations reflect market realities while addressing stakeholder concerns. This collaborative approach enhances the quality and prioritisation of policymaking and reinforces the role of practitioners as vital contributors to the regulatory process. By integrating stakeholder perspectives more effectively, the SFC seeks to create a regulatory environment that is both efficient and responsive to the evolving needs of the virtual asset landscape.

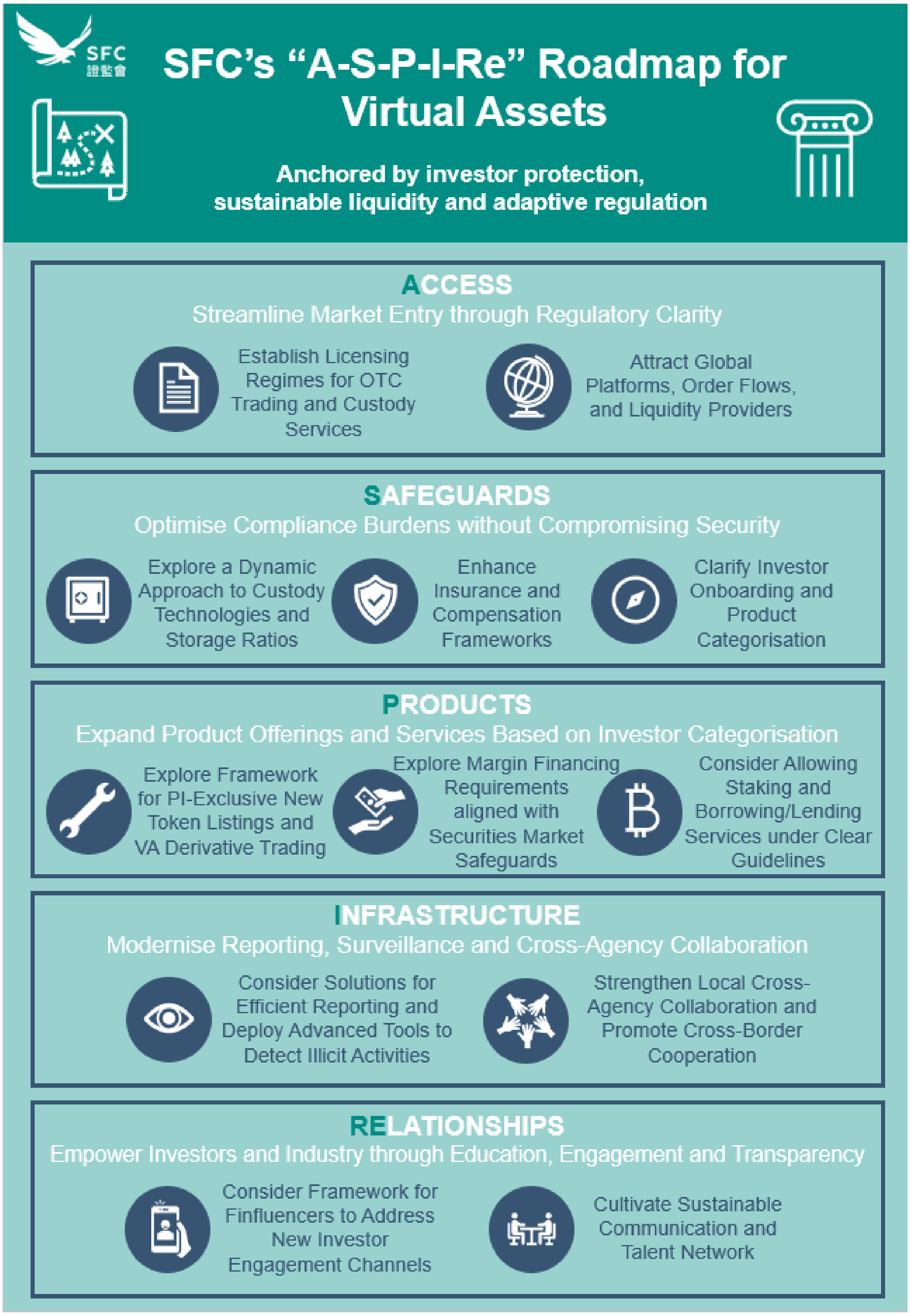
[14] The VACP was established as part of the SFC's proactive engagement with SFC-licensed VATPs. The VACP also assists the SFC's formulation of regulatory policy to further facilitate the development of a sustainable and resilient virtual asset ecosystem. See https://www.sfc.hk/en/Welcome-to-the-Fintech-Contact-Point/Virtual-assets/Virtual-Asset-Consultative-Panel.

64. Capacity building and continuous learning are essential for developing a robust and dynamic virtual asset talent pool in Hong Kong. The talent pool is envisioned to encompass not only VATP practitioners but also a diverse array of professionals from various disciplines, including wealth management, product development, technology, legal services and accounting. The SFC will take a proactive stance in identifying existing knowledge and skill gaps in the market. This initiative will enable the SFC to effectively support industry bodies in delivering timely and relevant training programmes tailored to meet market needs, ensuring all participants are well-equipped to navigate the complexities of the evolving virtual asset landscape.

Conclusion

65. The SFC's Regulatory Roadmap represents a forward-looking commitment to addressing the virtual asset market's most pressing challenges. Achieving success will require empathy, patience, and collaboration from all stakeholders: regulators must balance innovation with vigilance, institutions must prioritise long-term stability over short-term gains, and retail participants must approach this dynamic market with informed caution. Progress will hinge on pragmatic, incremental steps rather than unattainable ideals, as priorities and strategies must evolve alongside technological and market readiness. The Roadmap is not a final destination but a living blueprint, one that invites collective efforts to advance Hong Kong's vision as a global hub where innovation thrives within guardrails. By embracing this mindset, the market can forge a resilient path forward, ensuring that growth and integrity coexist in an ever-evolving financial landscape.

Appendix


SFC
證監會
SFC's "A-S-P-I-Re" Roadmap for Virtual Assets
Anchored by investor protection, sustainable liquidity and adaptive regulation
ACCESS
Streamline Market Entry through Regulatory Clarity
Establish Licensing Regimes for OTC Trading and Custody Services
Attract Global Platforms, Order Flows, and Liquidity Providers
SAFEGUARDS
Optimise Compliance Burdens without Compromising Security
Explore a Dynamic Approach to Custody Technologies and Storage Ratios
Enhance Insurance and Compensation Frameworks
Clarify Investor Onboarding and Product Categorisation
PRODUCTS
Expand Product Offerings and Services Based on Investor Categorisation
Explore Framework for PI-Exclusive New Token Listings and VA Derivative Trading
Explore Margin Financing Requirements aligned with Securities Market Safeguards
Consider Allowing Staking and Borrowing/Lending Services under Clear Guidelines
INFRASTRUCTURE
Modernise Reporting, Surveillance and Cross-Agency Collaboration
Consider Solutions for Efficient Reporting and Deploy Advanced Tools to Detect Illicit Activities
Strengthen Local Cross-Agency Collaboration and Promote Cross-Border Cooperation
RELATIONSHIPS
Empower Investors and Industry through Education, Engagement and Transparency
Consider Framework for Finfluencers to Address New Investor Engagement Channels
Cultivate Sustainable Communication and Talent Network