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Regulatory standards for licensed corporations managing virtual asset portfolios

This paper sets out the regulatory standards imposed by the Securities and Futures



management activities conducted by a Type 9 intermediary may not be subject to regulatory oversight, and investors may invest in a portfolio managed by that intermediary investing in non-SF virtual assets thinking they will be protected under the existing legal and regulatory framework. Furthermore, given the significant risks associated with virtual assets, the SFC is also concerned that problems arising from an intermediary's involvement in the management of a portfolio investing in non-SF virtual assets could potentially affect the intermediary's fitness or properness to remain licensed or registered for its regulated activities.

To afford better protection to investors in Hong Kong, the SFC considers that licensed corporations should observe essentially the same regulatory requirements⁵ even if the portfolios (or portions of portfolios) under their management invest in virtual assets, irrespective of whether these assets amount to "securities" or "futures contracts"⁶.

In order to achieve the above, the SFC has developed a set of standard terms and conditions which capture the essence of the Existing Requirements adapted as needed in order to better address the risks associated with virtual assets. These will be imposed, by way of licensing conditions, on licensed corporations in relation to:

(a)



Risk management

Licensed corporations should set appropriate limits in respect of each product and market the portfolios invest in and each counterparty to which the portfolios have exposure. For example, they should consider setting a cap on the portfolios' investment in illiquid virtual assets and newly-launched ICO Tokens⁹. They should also conduct periodic stress testing to determine the effect of abnormal and significant changes in market conditions on these portfolios.

In relation to the manag



Liquid capital

Under the Securities and Futures (Financial Resources) Rules, if a corporation is licensed for Type 9 regulated activity and holds “client assets”¹⁰, it must maintain a required liquid capital of not less than \$3 million (or its variable required liquid capital, whichever is higher). On the

