

Hong Kong's Regulatory Framework.

Laws and Licensing Requirements for Virtual Asset Trading Platforms.



India, UAE, UK, Australis, USA

Copyright © Tech Legal | all rights reserved

www.yourtechlegal.com

Prepared For:

ApexBlock Financial Limited.



Prepared By:

On behalf of Tech Legal

Legal Dept

info@yourtechlegal.com

TABLE OF CONTENTS

1. Executive Summary	05
2. Purpose of the Research Paper	05
3. Scope of the Study	05
4. Limitation of the Study	06
5. Overview of Crypto Trading Platforms	07
5.1 What is a Crypto Trading Platform	07
5.2 Core Functions of a Crypto Trading Platform	08
5.3 Types of Crypto Trading Platforms	08
5.3.1 Crypto-to-Crypto Trading Platforms	08
5.3.2 Crypto-to-Fiat Trading Platforms	08
5.3.3 Centralized Exchanges (CEX)	08
5.3.4 Decentralized Exchanges (DEX)	09
6. Legal and Regulatory Landscape in Hong Kong	09
7. Virtual Asset Trading Platforms (VATPs) and Licensing Requirements	09
7.1 Applicable Statutory Framework (SFO and AMLO)	10
7.2 Licensing Triggers and Scope of Regulation	10
7.3 Capital and Financial Resource Requirements	10
7.4 Fit and Proper Criteria	10
7.5 Local Substance and Responsible Officer Requirements	10
7.6 Token Admission and Product Governance	10
7.7 Cybersecurity and Technology Risk Management	11
7.8 Custody and Safeguarding of Client Assets	11
7.9 Insurance and Compensation Arrangements	11
7.10 Auditor and Governance Oversight	12
7.11 Ongoing Compliance Obligations	12
8. VATP Licensing Readiness Checklist (Hong Kong)	12

9. Conclusion	15
10. Forward-Looking Policy Outlook	16
11. Disclaimer and Limitation of Scope	17



PURPOSE OF THE RESEARCH PAPER



The primary purpose of this research paper is to conduct an in-depth legal and regulatory analysis of Hong Kong's comprehensive framework governing virtual assets and crypto-related activities. The paper seeks to examine the evolution, structure, and scope of Hong Kong's regulatory regime, particularly following the introduction of mandatory licensing for Virtual Asset Trading Platforms (hereinafter referred to as "VATPs") under the Securities and Futures Commission (hereinafter referred to as "SFC").

The research aims to evaluate how Hong Kong has structured a clear, rule-based regulatory environment that addresses key risks associated with virtual assets, including investor protection, market integrity, financial stability, and anti-money laundering and counter-terrorist financing (AML/CFT). By analysing licensing requirements, compliance obligations, custody standards, governance norms, and enforcement mechanisms, the paper intends to clarify regulatory expectations for entities seeking to operate crypto exchanges or related services within or from Hong Kong.



Another key objective is to assess Hong Kong's strategic positioning as a global digital asset and Web3 hub. The paper explores how regulatory certainty, institutional participation, and retail access are being balanced against systemic risk controls, and how Hong Kong's framework compares with other major jurisdictions such as Singapore, the European Union (MiCA), and the United Kingdom. This comparative perspective helps identify best practices, regulatory gaps, and competitive advantages.

SCOPE OF THE STUDY



This research paper focuses on the legal and regulatory framework governing virtual assets and crypto-related activities in Hong Kong, with particular emphasis on the regulatory regime applicable to Virtual Asset Trading Platforms administered by the Securities and Futures

Commission (hereinafter referred to as “SFC”). The study examines the statutory foundations, licensing requirements, compliance obligations, and supervisory mechanisms introduced under Hong Kong’s evolving virtual asset regulatory landscape.

The scope includes an analysis of key regulatory components such as platform licensing, investor protection measures, token admission and due diligence standards, custody and safeguarding of client assets, governance and risk management requirements, and anti-money laundering and counter-terrorist financing (AML/CFT) obligations. The research also considers the role of relevant authorities, including the SFC and other regulatory bodies, in shaping and enforcing the framework.

In addition, the paper provides a comparative overview of Hong Kong’s approach in relation to selected international jurisdictions, where relevant, to contextualise Hong Kong’s position within the global digital asset regulatory ecosystem. The study is intended to offer practical insights for founders, investors, compliance professionals, and legal practitioners seeking to understand regulatory expectations and operational implications of establishing or operating a virtual asset platform in Hong Kong.

LIMITATION OF THE STUDY

This research is limited to a legal and regulatory analysis and does not assess the technical architecture, cybersecurity design, or commercial viability of crypto trading platforms. The study relies on publicly available statutes, regulatory guidelines, consultation papers, and official regulatory communications as of the time of writing, and therefore may not capture subsequent amendments, policy shifts, or enforcement developments.

Further, while the paper references comparative jurisdictions for contextual understanding, it does not provide an exhaustive or jurisdiction-by-jurisdiction analysis of global virtual asset regulations. The research also does not examine tax treatment, accounting standards, or detailed consumer behaviour related to virtual assets, except where such aspects intersect directly with

regulatory compliance. Finally, the paper does not constitute legal advice and is intended solely for academic and informational purposes. Regulatory interpretations and licensing outcomes may vary depending on specific business models, factual circumstances, and regulatory engagement with authorities.

WHAT IS A CRYPTO TRADING PLATFORM



A crypto trading platform (also called a cryptocurrency trading platform or digital asset exchange) is a technology-enabled marketplace that allows users to buy, sell, trade, or exchange cryptocurrencies and other virtual/digital assets, either against other cryptocurrencies or against fiat currencies, subject to the platform's operating model and applicable regulations. In other words, a crypto trading platform is an online or electronic system operated by an entity that facilitates the trading, exchange, or transfer of cryptocurrencies or virtual digital assets between users, or between users and the platform itself. The platform provides the technological infrastructure, order-matching mechanisms, custody or wallet services (in some models), and compliance controls required to execute and settle digital asset transactions. Such platforms may operate as intermediaries, marketplaces, or counterparties, depending on their business model, and are typically subject to financial, securities, and anti-money laundering regulations in the jurisdictions in which they operate or target users.

CORE FUNCTIONS OF A CRYPTO TRADING PLATFORM



A crypto trading platform performs several core functions that collectively enable the safe, efficient, and compliant trading of virtual digital assets. At the foundational level, the platform facilitates user onboarding and account management by allowing users to register, complete identity verification (KYC), and manage their profiles in accordance with applicable regulatory requirements. It provides the technological infrastructure for order placement and trade execution, enabling users to buy and sell cryptocurrencies either through an automated order-matching system or via direct execution models. The platform may also offer asset custody and

wallet services, ensuring secure storage and transfer of crypto assets through robust security controls such as encryption, cold storage, and access management. In addition, the platform supplies real-time pricing, market data, and transaction records to ensure transparency and informed decision-making. Crucially, a crypto trading platform integrates risk management, cybersecurity, and compliance mechanisms, including AML/CFT checks, transaction monitoring, and regulatory reporting, to safeguard users, maintain market integrity, and meet legal obligations across jurisdictions. Types of crypto trading platforms include the following:

- a) **Crypto-to-Crypto Trading Platforms**: A Crypto-to-Crypto Trading Platform is an online marketplace (like a stock exchange for digital assets) where users buy, sell, and exchange one type of cryptocurrency (e.g., Bitcoin) for another (e.g., Ethereum) directly, without converting to traditional fiat money first, using tools for analysis, order execution, and managing digital assets. These platforms, like Binance or Coinbase, facilitate trades between different digital coins, allowing speculation or investment in various crypto ecosystems. It enables trading between cryptocurrencies without fiat involvement.
- b) **Crypto-to-Fiat Platforms**: is an intermediary digital platform that acts as a bridge between the cryptocurrency ecosystem (blockchain) and traditional financial systems (banking). This enables users to convert digital assets (like Bitcoin or Ethereum) back into government-issued currency (fiat, such as INR, USD, EURO). In short, it allows users to buy or sell crypto in exchange for fiat currency (e.g., crypto to USD to bank transfer).
- c) **Centralized Exchanges (CEX)**: A Centralized Exchange (hereinafter referred to as “CEX”) is a digital platform, like a traditional stock exchange (e.g., Binance, Coinbase), that acts as a trusted third-party intermediary for buying, selling, and trading cryptocurrencies, holding user’s funds in custodial wallets and managing transactions, making it user-friendly but requiring trust in the central entity for security and custody. CEXs offer fiat-to-crypto conversion, customer support, and advanced tools but require strict Know Your Customer (hereinafter referred to as “KYC”) and face risks like hacks and censorship. It is operated by a central entity that controls custody, order matching, and compliance.

- d) **Decentralized Exchanges (DEX)**: A Decentralized Exchange (hereinafter referred to as “DEX”) is a peer-to-peer crypto marketplace where users trade digital assets directly from their own wallets, without needing a central authority or intermediary (like a bank or broker) to hold their funds. DEXs use blockchain-based smart contracts to automate trades, offering users more control over their private keys and funds, increased privacy, and transparency, making them a core part of the decentralized finance (hereinafter referred to as “DeFi”) ecosystem.

LEGAL AND REGULATORY LANDSCAPE IN HONGKONG

Virtual Asset Trading Platform (VATPs) and its Licensing Requirements

A centralised crypto trading platform that operates within Hong Kong or actively markets to Hong Kong investors must be licensed by the Securities and Futures Commission (hereinafter referred to as “SFC”). Under the Securities and Futures Ordinance (Cap. 571) (SFO) and the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (AMLO), centralised virtual asset trading platforms carrying on their businesses in Hong Kong, or actively marketing their services to Hong Kong investors, are required to be licensed and regulated by the SFC.

1. **Securities and Futures Ordinance (SFO)** applies where the platform deals in security tokens or provides automated trading services. Requires licensing as a regulated activity (e.g., Type 1 for dealing in securities, Type 7 for automated trading).
2. **Anti-Money Laundering Ordinance (AMLO)** applies to virtual asset services, including non-security crypto trading and custody. Makes virtual asset trading platforms regulated persons that must be licensed to provide VA services. It’s advisable to apply for both licences together to ensure continuity even if assets classifications change (from non-security to security token or vice-versa).

3. **Capital & Financial Requirements:** Licensed VATPs must meet minimum paid-up share capital and liquid capital requirements, as prescribed by the SFC, to ensure ongoing solvency and operational resilience. A VATP must maintain at all times a paid-up share capital of at least HK\$ 5,000,000 (five million Hong Kong dollars). This capital must be fully paid up and not subject to encumbrances. This serves as the basic financial buffer for business operations and is a fixed threshold for licensing and ongoing compliance. In addition, a licensed VATP must maintain liquid capital of not less than the higher of HK\$ 3,000,000 (three million Hong Kong dollars). Liquid capital is calculated after adjustments under the applicable financial rules (including liquid assets vs ranking liabilities). Liquid capital is different from paid-up capital it represents cash or readily realisable assets minus liabilities, ensuring the platform can meet short-term obligations. Beyond capital and liquid capital minima, the SFC expects a VATP to hold sufficient liquid assets (e.g., cash, deposits, treasury bills) in Hong Kong, not including virtual assets, that are beneficially owned and equivalent to at least 12 months of actual operating expenses based on a rolling calculation. This requirement ensures the platform can cover ongoing operating costs in the ordinary course of business.
4. **Fit and Proper Criteria (Hong Kong: SFC VATP Regime):** Under the SFC's VATP licensing framework, the platform itself, its directors, Responsible Officers ("ROs"), and key management personnel must at all times be "fit and proper." This assessment focuses on integrity and reputation (honesty, ethical conduct, and transparency), financial soundness (ability to meet obligations without undue risk to clients), relevant competence and experience (demonstrable background in virtual assets, financial services, risk management, AML/compliance, and technology operations), and the absence of criminal, civil, or regulatory misconduct, including past enforcement actions, fraud, market abuse, or serious compliance failures. The SFC applies a holistic, ongoing test any material adverse change must be disclosed, and failure to remain fit and proper can result in licence conditions, suspension, or revocation.

5. **Local Director / Person Requirement:** Hong Kong does not mandate a local resident director for a VATP. However, the SFC does require at least two Responsible Officers, who must be approved by the SFC and adequately available to oversee regulated activities. In practice, the SFC expects meaningful local presence and accountability, typically satisfied by appointing at least one RO who is based in Hong Kong or otherwise demonstrably accessible and empowered to manage compliance and operations. While not a statutory “local director” rule, local substance is strongly expected and is a key factor in licensing outcomes.
6. **Token Admission & Product Governance:** Under the SFC’s VATP regulatory framework, licensed platforms are required to maintain a formal, documented token admission and product governance framework governing the listing, suspension, and delisting of virtual assets. This framework must ensure that only eligible and compliant tokens are made available for trading, following a robust legal, regulatory, technical, and risk-based assessment, including analysis of token classification, underlying rights and obligations, technology architecture, cybersecurity risks, liquidity, market integrity, and potential for manipulation. Platforms must also implement conflict-of-interest controls, particularly where the VATP or its affiliates are involved in token issuance, market-making, or advisory activities. Where retail investors are permitted, enhanced investor protection measures must be applied, including clear disclosures, suitability and knowledge assessments, risk warnings, and ongoing monitoring to ensure that listed tokens continue to meet regulatory and prudential standards throughout their lifecycle.
7. **Cybersecurity & Technology Risk Management:** Licensed VATPs are required to maintain a comprehensive cybersecurity and technology risk management framework to ensure the integrity, availability, and resilience of their trading platforms and custody systems. This includes establishing robust IT governance structures with clear accountability at senior management and board level, supported by documented policies covering system development, access controls, change management, and third-party risk. VATPs must conduct regular penetration testing and vulnerability

assessments, either internally or through independent specialists, to identify and remediate security weaknesses. In addition, platforms must implement incident response and disaster recovery plans capable of promptly detecting, containing, and recovering from cyber incidents, system failures, or data breaches, with defined escalation and regulatory notification procedures. Strong data protection and system resilience measures, including encryption, secure key management, redundancy, backup arrangements, and business continuity planning are essential to safeguard client data and virtual assets and to ensure uninterrupted operations even under stressed or adverse conditions.

8. **Auditor & Governance Oversight:** Licensed VATPs are required to maintain strong auditor and governance oversight mechanisms as part of their ongoing regulatory obligations. This includes appointing SFC-recognised independent auditors to conduct regular audits of the platform's financial statements and, where applicable, custody and internal control systems. VATPs must submit audited financial statements and regulatory returns to the SFC within prescribed timelines and ensure that robust internal controls and monitoring processes are in place to track capital adequacy, liquid capital, and compliance with financial resource requirements on a continuous basis. Oversight of financial resources must be exercised at the board and senior management level, with clear reporting lines and escalation procedures. Importantly, directors and Responsible Officers are personally accountable for maintaining ongoing compliance, and failures in governance, financial oversight, or regulatory reporting may result in individual regulatory action in addition to action against the licensed entity.

In practice, obtaining an SFC VATP licence is not a one-time exercise but a continuous compliance obligation, requiring strong governance, capital adequacy, risk management, and investor protection mechanisms.

VAPT LICENSING REDINESS CHECKLIST




Regulatory Area	Key Licensing Readiness Requirements
Corporate Structure & Substance	Hong Kong-incorporated entity or approved structure; clear group and ownership structure; defined scope of VATP activities; adequate local operational substance (office, staff, decision-making capability).
Fit & Proper Management & Controllers	Directors, Responsible Officers (ROs), and senior management must meet SFC “fit and proper” standards covering integrity, reputation, financial soundness, competence, and absence of criminal or regulatory misconduct; at least two SFC-approved ROs appointed with sufficient authority and availability.
Capital & Financial Resources	Minimum paid-up share capital of HKD 5,000,000; minimum liquid capital of HKD 3,000,000 (or higher under Financial Resources Rules); liquid assets sufficient to cover at least 12 months of operating expenses; continuous capital monitoring and reporting mechanisms.
Custody & Asset Safeguarding	Segregation of client assets from platform assets; documented custody model (in-house or third-party); secure hot and cold wallet architecture; private key management controls; independent audits of custody systems.
Insurance / Compensation Arrangements	Adequate insurance or compensation arrangements covering risks such as hacking, theft, fraud, and operational failures; coverage broadly aligned with value of client assets (near-full

Regulatory Area	Key Licensing Readiness Requirements
	cold wallet coverage and significant hot wallet coverage); ongoing adequacy review and disclosure to the SFC.
AML / CTF Compliance	AML/CTF framework compliant with AMLO; customer due diligence and enhanced due diligence procedures; transaction monitoring and suspicious transaction reporting; Travel Rule compliance; sanctions screening; appointment of AML compliance officer.
Token Admission & Product Governance	Formal token admission, review, suspension, and delisting framework; legal, regulatory, technical, and risk assessment of tokens; conflict-of-interest identification and mitigation; enhanced safeguards where retail investors are permitted.
Market Integrity & Trading Controls	Market surveillance systems to detect manipulation, wash trading, and abusive practices; clear trading rules and order handling procedures; controls for proprietary trading and market-making (if applicable).
Cybersecurity & Technology Risk Management	Robust IT governance framework; regular penetration testing and vulnerability assessments; incident response and breach notification plans; disaster recovery and business continuity arrangements; data protection and system resilience measures.
Governance, Audit & Oversight	Appointment of SFC-recognised independent auditors; submission of audited financial statements; internal controls around capital and liquidity monitoring; board-level oversight of compliance and financial resources.

Regulatory Area	Key Licensing Readiness Requirements
Client Disclosures & Documentation	Compliant client terms and conditions; clear virtual asset risk disclosures; custody and asset protection disclosures; fee transparency; complaint handling and dispute resolution mechanisms.
Ongoing Regulatory Compliance	Continuous compliance with SFC guidelines; timely regulatory reporting and notifications; readiness for supervisory inspections, audits, and system walkthroughs; acknowledgement of personal accountability by directors and Responsible Officers.

CONCLUSION



Hong Kong has established one of the most comprehensive, transparent, and institutionally credible regulatory frameworks for virtual asset activities globally, particularly through the introduction of a mandatory licensing regime for Virtual Asset Trading Platforms under the supervision of the Securities and Futures Commission. By integrating virtual asset regulation within its existing financial regulatory architecture, anchored in the Securities and Futures Ordinance and the Anti-Money Laundering and Counter-Terrorist Financing Ordinance, Hong Kong has moved decisively away from regulatory ambiguity towards a rules-based, risk-oriented supervisory model.

The SFC's VATP framework reflects a deliberate policy balance between market development and systemic risk control. Stringent requirements relating to capital adequacy, custody and safeguarding of client assets, cybersecurity resilience, token admission governance, AML/CFT compliance, and ongoing supervisory oversight underscore the regulator's emphasis on investor protection, market integrity, and financial stability. At the same time, the framework

provides sufficient clarity and predictability to support institutional participation and responsible innovation in the virtual asset and Web3 ecosystem.

From a comparative perspective, Hong Kong's approach positions it competitively alongside other leading financial centres, offering regulatory certainty comparable to mature securities markets while accommodating the unique risk profile of digital assets. However, the regime is intentionally demanding. Licensing is not a procedural exercise but a continuous compliance commitment, requiring substantial financial resources, experienced leadership, robust governance structures, and demonstrable operational readiness.

For founders, operators, and investors, the Hong Kong VATP regime presents a high-credibility but high-compliance jurisdiction. Entities seeking to operate from or target Hong Kong must be prepared to meet elevated regulatory expectations and to engage proactively with the SFC on an ongoing basis. When approached with adequate preparation, governance discipline, and compliance maturity, Hong Kong offers a stable and globally respected platform for building sustainable virtual asset businesses.



FORWARD LOOKING POLICY OUTLOOK

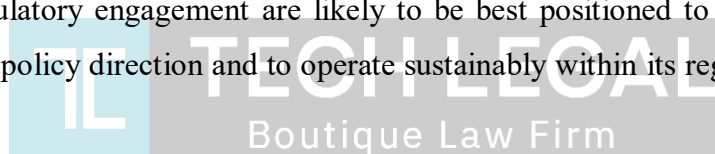


Hong Kong's virtual asset regulatory framework is expected to continue evolving in line with global regulatory convergence, technological advancement, and market maturity. While the current VATP regime establishes a robust baseline for licensing, governance, and investor protection, future regulatory developments are likely to focus on refinement rather than fundamental restructuring. In the near to medium term, further clarification and standardisation may be anticipated in areas such as token classification, custody standards, stablecoins, and decentralised finance (DeFi) adjacent activities. As the market matures, the SFC may introduce more granular guidance on risk-based capital buffers, enhanced custody resilience, and stress-testing requirements, particularly for platforms servicing retail investors or holding significant volumes of client assets. Increased emphasis on operational resilience, third-party risk management, and cross-border supervisory cooperation is also likely, reflecting global

regulatory trends following market disruptions and cybersecurity incidents in the digital asset sector.

From a policy perspective, Hong Kong appears committed to reinforcing its position as a regulated Web3 and digital asset hub, while maintaining alignment with international standards set by bodies such as the Financial Stability Board (FSB), IOSCO, and the Financial Action Task Force (FATF). This suggests a continued focus on interoperability with global compliance norms, including enhanced AML/CFT expectations, Travel Rule implementation, and supervisory information sharing across jurisdictions.

For market participants, the forward-looking implication is clear: regulatory compliance in Hong Kong will remain dynamic and progressive, requiring licensed VATPs to invest not only in initial licensing readiness but also in scalable compliance frameworks capable of adapting to regulatory change. Platforms that embed strong governance, transparent risk management, and proactive regulatory engagement are likely to be best positioned to benefit from Hong Kong's long-term policy direction and to operate sustainably within its regulated digital asset ecosystem.



DISCLAIMER AND LIMITATION OF SCOPE



This white paper has been prepared solely to provide general legal and regulatory insights into Hong Kong's framework governing virtual assets and Virtual Asset Trading Platforms, based on the scope and objectives outlined herein.

The analysis and observations contained in this paper are strictly limited to the laws and regulatory guidance of Hong Kong, as in force and publicly available at the time of writing. No opinion is expressed, nor should any inference be drawn, with respect to the laws, regulations, or regulatory positions of any other jurisdiction. Regulatory interpretations, supervisory expectations, and licensing outcomes may vary depending on specific business models, factual circumstances, and future regulatory developments.

This paper is prepared based on information available from publicly accessible statutes, regulatory materials, and guidance issued by relevant authorities, and no independent verification of factual assumptions has been undertaken. Readers are advised to seek jurisdiction-specific legal advice before relying on this paper for any commercial, operational, or regulatory decision-making.



This advice is solely as per the Client's requirements to understand the insights about the nature business regulations in Hongkong. The opinion is strictly limited to the laws of Hong Kong.



India, UAE, UK, USA

Copyright © Tech Legal | all rights reserved

www.yourtechlegal.com

info@yourtechlegal.com