

20 August, 2025

Ms Salina Yan
Permanent Secretary for Financial Services and the Treasury
(Financial Services) Division 5, Financial Services Branch
Financial Services and the Treasury Bureau
24/F, Central Government Offices
Tim Mei Avenue, Tamar Central, Hong Kong

Dear Ms. Yan,

IFPHK's Response to the Consultation Paper on Legislative Proposal to Regulate Dealing in Virtual Assets

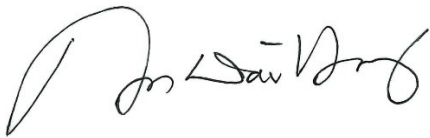
On behalf of the Institute of Financial Planners of Hong Kong (IFPHK), we are pleased to submit our response to the Financial Services and the Treasury Bureau (FSTB) and Securities and Futures Commission's (SFC) joint consultation paper on the legislative proposals regarding the regulation of virtual asset dealing and custodian service providers. IFPHK sincerely welcome the opportunity to be involved in this consultation paper. We hope that the FSTB will find the suggestions provided in our contained response paper useful.

As the leading professional body representing financial planning practitioners in Hong Kong, the IFPHK welcomes this important regulatory initiative aimed at fostering a secure, robust, and internationally aligned virtual asset ecosystem. Our submission reflects extensive independent analysis and experience in advancing financial planning standards, investor protection, and market integrity in line with evolving global frameworks.

We trust that our views and recommendations will contribute constructively to the development of a regulatory regime that balances innovation with prudent risk management and consumer safeguards.

Thank you for considering our suggestions. If you have any further questions, please email our Ms. Daphne So at daphneso@ifphk.org.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Dr. Paris Yeung', is written in a fluid, cursive style.

Dr. Paris Yeung
Chief Executive Officer
Institute of Financial Planners of Hong Kong

Response to SFC/FSTB's Consultation Paper on Legislative Proposal to Regulate Dealing in Virtual Assets

August 2025

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FSTB & SFC Consultation

On 27 June, the Financial Services and the Treasury Bureau (FSTB) and the Securities and Futures Commission (SFC) launched a joint consultation to introduce regulatory regimes for virtual asset (VA) dealing and custodian service providers. The deadline of the Consultation Paper is 29 August 2025.

The proposed regimes extend Hong Kong's efforts in fostering a secure, robust and globally competitive VA ecosystem, guided by the Government's latest policy statement on digital asset development. They also drive progress along the SFC's ASPIRe roadmap by attracting qualified participants to the city and enhancing investors' choice, while integrating Hong Kong's VA liquidity with the world's.

The proposals will empower the SFC to license and supervise VA dealers and custodians, as well as enforce relevant regulations. The SFC will also be responsible for setting the expected standards for these two important types of service providers to ensure robust investor protection and market integrity based on the "same business, same risks, same rules" principle. This puts our plans under the ASPIRe roadmap into action as the SFC continues to prioritise sustainability in nurturing a dynamic and secure digital asset market.

The Consultation Paper contains 12 questions as set out below:

Q1. Do you agree with the proposed definition and scope of VA dealing services? Are there any potential exemptions which you consider appropriate?

Q2 Do you have any comments on the proposed scope of allowed activities?

Q3 If licensees or registrants providing VA dealing services are allowed to acquire or dispose of VAs for clients via non-SFC-licensed VATPs or liquidity providers, what are your comments on the safeguards that should be put in place?

Q4 If licensees or registrants providing VA dealing services are required to hold client VAs via regulated VA custodians, what are your comments on a commercially viable and AML-compliant operational flow to conduct VA dealing activities?

Q5 Do you think the regulatory requirements proposed suffice in addressing potential ML/TF risks and offering adequate investor protection?

Q6 Do you agree with the proposed transitional arrangement?

Q7 Do you agree with the expedited licensing or registration arrangement?

Q8 Based on the “user-pays” principle, do you have any comments on aligning the licensing application fee and annual fee for a licensee or registrant providing VA dealing services with those for Type 1 regulated activity under the SFO?

Q9 Do you agree that, for the purpose of protecting the investing public, persons not licensed by or registered with the SFC should not be allowed to actively market VA dealing services to the public of Hong Kong?

Q10 Do you agree that the SFC and the HKMA should be provided with the proposed powers?

Q11 Do you agree with the proposed sanctions, which are comparable to those under the existing regulatory regimes for VATPs?

Q12 Do you agree that a review tribunal mechanism should be put in place to handle appeals against the decisions to be made by the SFC or the HKMA in implementing the licensing regime?

IFPHK submission

The views expressed in this submission paper are not summaries of the views taken from the industry but may have undergone more independent and critical analysis and consideration by IFPHK as a professional body. As a result, not all the views collected by IFPHK are recorded in this submission paper and neither have all the views expressed in this submission paper been directly endorsed by those industry representatives or members consulted.

Prior to providing our views on the questions stipulated in the Consultation Paper, we wish to point out that the IFPHK's responses are formed upon the following principles:

IFPHK's Principles

Promoting the value of financial planning and enhancing practitioners' professional standards

The financial planning process, as defined by the Institute of Financial Planners of Hong Kong (IFPHK) and the Financial Planning Standards Board (FPSB), is a collaborative, iterative approach that Certified Financial Planner (CFP) professionals use to assess clients' financial situations across areas like financial management, asset management, risk management, tax planning, retirement planning, and estate planning, with a growing emphasis on integrating virtual assets like cryptocurrencies and stablecoins, which have surpassed \$200 billion in market capitalization by July 2025; the IFPHK urges CFPs to deepen their expertise in virtual assets through specialized training to address client demand, leverage diversification opportunities, ensure regulatory compliance with frameworks like Hong Kong's VASP regime and the EU's MiCA, manage risks such as volatility and cybersecurity, and enhance financial literacy to empower clients for informed long-term financial planning, while maintaining a level playing field through consistent regulatory standards. Financial institutions can operate with confidence in a regulated environment due to the adoption of standardised regulations around the world, such as those under the FSB and MiCA guidelines. In order to promote fair competition and safeguard consumers in the financial services sector, the IFPHK continues to petition regulators to harmonise regulations.

Aligning with International Best Practices

International organisations like the Financial Stability Board (FSB) and the International Organisation of Securities Commissions (IOSCO) have set strong standards to handle new risks in order to preserve global financial stability in the face of the explosive growth of virtual

assets, especially stablecoins like Tether (USDT) and USD Coin (USDC), which as of early 2025 had a combined market capitalisation of over \$200 billion. While IOSCO's 2024 guidance requires stablecoin systems to comply with international standards for payment, clearing, and settlement¹, the FSB's 2023 updated recommendations for Global Stablecoin (GSC) arrangements place an emphasis on coordinated oversight to reduce financial stability risks². With an emphasis on risk management, transparency, and licensing, the International Monetary Fund's 2024 policy document further promotes national rules to conform to international norms. While the European Union's Markets in Crypto-Assets (MiCA) framework, which will fully implement in 2024, sets a comprehensive model for digital asset regulation and attracts international firms with its legal clarity³, jurisdictions such as Hong Kong have implemented a 2023 licensing regime for virtual asset service providers (VASPs) under the Securities and Futures Commission⁴, enforcing anti-money laundering and counter-terrorism financing standards. Additionally, the U.S. Financial Stability Oversight Council's 2024 report advocates for bank-like oversight of stablecoin issuers, reflecting a global commitment to cohesive regulation of virtual assets.⁵

Enhancing Consumer Protection and Financial Literacy

As virtual assets like cryptocurrencies and stablecoins become increasingly complex, the Institute of Financial Planners of Hong Kong (IFPHK) emphasizes the critical need for robust consumer protection and enhanced financial literacy to support effective financial planning. The IFPHK encourages financial planners to incorporate virtual assets into all-encompassing financial planning strategies and promotes regulatory frameworks that strike a balance between consumer protections and innovation in virtual assets. As encouraged by IOSCO's 2024 investor education framework, a better understanding of blockchain and virtual assets enables customers to make wise investment choices and advances long-term financial objectives⁶. In order to ensure that consumers and financial planners have the skills to navigate the constantly changing digital asset landscape, key strategies include creating

¹ International Organization of Securities Commissions (IOSCO). (2024). *Policy Recommendations for Crypto and Digital Asset Markets*. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD747.pdf>

² Financial Stability Board (FSB). (2023). *High-level Recommendations for the Regulation, Supervision and Oversight of Global Stablecoin Arrangements: Final Report*. <https://www.fsb.org/2023/10/high-level-recommendations-for-the-regulation-supervision-and-oversight-of-global-stablecoin-arrangements-final-report/>

³ European Union. (2024). *Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on markets in crypto-assets (MiCA)*. Official Journal of the European Union.

⁴ Securities and Futures Commission (SFC). (2023). *Licensing Regime for Virtual Asset Service Providers*. <https://www.sfc.hk/en/Rules-and-standards/Virtual-assets>

⁵ Financial Stability Oversight Council (FSOC). (2024). *2024 Annual Report*. U.S. Department of the Treasury. <https://home.treasury.gov/system/files/261/FSOC2024AnnualReport.pdf>

⁶ International Organization of Securities Commissions (IOSCO). (2024). *Policy Recommendations for Crypto and Digital Asset Markets*. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD747.pdf>

easily accessible educational content on virtual assets, increasing awareness of unlicensed or fraudulent platforms, utilising a variety of communication channels, and working with industry stakeholders to disseminate trustworthy materials.

Our response to each question of the Consultation Paper is as follows:

Question 1

Do you agree with the proposed definition and scope of VA dealing services? Are there any potential exemptions which you consider appropriate?

IFPHK's views

The IFPHK supports the broad, technology-neutral definition of virtual asset (VA) dealing services (paragraph 2.8), encompassing simple conversions, brokerage, block trading, and advisory services, aligning with the “same activity, same risks, same regulation” principle and IOSCO’s 2022 guidance on consistent regulation for digital assets⁷. This scope ensures robust oversight across diverse business models, mitigating money laundering/terrorist financing (ML/TF) risks. The 2025 FPSB AI research highlights AI’s role in client risk profiling (30% usage), which can enhance VA advisory services by improving suitability assessments⁸. According to IOSCO’s call for adaptive regulation, we suggest: (1) a streamlined registration procedure for licensed financial planners involved in incidental VA activities in wealth management, aided by AI-driven compliance tools to lessen burdens; (2) more precise standards for excluding peer-to-peer (P2P) trading based on transaction volume or intermediation level; and (3) regular scope reviews to address changing risks.

Question 2

Do you have any comments on the proposed scope of allowed activities?

IFPHK's views

The IFPHK supports the proposed scope of virtual asset (VA) dealing activities, covering simple conversions, brokerage, block trading, and advisory services as outlined in paragraph 2.17, aligning with virtual asset trading platform (VATP) requirements and custody

⁷ International Organization of Securities Commissions (IOSCO). (2022). IOSCO Submission on Crypto and Digital Asset Regulation. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD703.pdf>

⁸ Financial Planning Standards Board (FPSB). (2025). FPSB Global Research Report 2025: AI in Financial Planning. <https://www.fpsb.org>

considerations to reflect best practices (paragraph 2.19). This comprehensive framework ensures robust regulatory oversight, fostering investor confidence and market stability by limiting retail exposure to high-liquidity tokens and regulated stablecoins. The IFPHK advocates for allowing licensed financial planners, including those working in other sectors such as insurance, to apply for VA dealing licenses under the same regulatory framework, provided they comply with anti-money laundering (AML), counter-terrorism financing (CTF), and investor protection requirements. This would enable financial planners to offer limited VA-related advisory services within their existing professional scope, integrating virtual assets into holistic financial planning to meet client demand for diversified investment options. To prevent regulatory arbitrage, any exemptions for incidental VA activities should be narrowly defined and subject to periodic review, ensuring alignment with global standards and evolving business models.

Question 3

If licensees or registrants providing VA dealing services are allowed to acquire or dispose of VAs for clients via non-SFC-licensed VATPs or liquidity providers, what are your comments on the safeguards that should be put in place?

IFPHK's views

The IFPHK supports the proposal allowing licensees to acquire or dispose of virtual assets (VAs) via non-SFC-licensed VATPs or liquidity providers (paragraph 2.22) to enhance global liquidity and strengthen Hong Kong's position as a digital asset hub. The IFPHK suggests the following actions to safeguard investors and preserve market integrity which includes, prompt transfer of VAs to SFC-licensed or registered VA custodians in Hong Kong (paragraph 2.23) for secure safekeeping; clear client disclosures on risks, including counterparty and jurisdictional challenges; and rigorous counterparty due diligence, assessing regulatory status, financial soundness, and AML/CFT compliance with periodic reviews.

Question 4

If licensees or registrants providing VA dealing services are required to hold client VAs via regulated VA custodians, what are your comments on a commercially viable and AML-compliant operational flow to conduct VA dealing activities?

IFPHK's views

The IFPHK supports the proposed licensing framework, including an HKD 10 million paid-up capital requirement to ensure financial capacity, robust cybersecurity protocols to safeguard digital assets, and strict AML/CFT compliance to mitigate illicit risks. To enhance operational efficiency and investor confidence, we advocate for the integration of AI-driven tools and blockchain analytics to streamline custody processes and enhance transparency. AI can facilitate real-time client risk profiling and educational tools to demystify custody processes, roles, and responsibilities, ensuring informed decision-making. Blockchain analytics can support AML/CFT compliance by tracing VA transactions and identifying suspicious patterns, aligning with Hong Kong's Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO). We recommend that custodians adopt standardized protocols for secure key management and provide clear client disclosures on custody risks, supported by AI-driven educational platforms to enhance financial literacy. This approach ensures a commercially viable and AML-compliant operational flow while reinforcing investor protection and market integrity.

Question 5

Do you think the regulatory requirements proposed suffice in addressing potential ML/TF risks and offering adequate investor protection?

IFPHK's views

The IFPHK believes the proposed regulatory requirements (paragraph 2.25) provide a robust framework for addressing money laundering/terrorist financing (ML/TF) risks and investor protection, aligning with international standards, such as those set by the Financial Action Task Force (FATF), and the existing virtual asset trading platform (VATP) regime. Although the IFPHK deems these requirements adequate, it strongly recommends the implementation of a risk-based capital framework, similar to that used by virtual banks, in which capital thresholds are adjusted in accordance with the particular risks associated with a firm's organisational structure, business model, and degree of client asset custody or leverage. This approach ensures proportionality and competitiveness, maintaining robust standards for high-risk operations while avoiding excessive barriers for lower-risk or innovative models, aligning with Hong Kong's goals of financial innovation and prudent risk management. In order to guarantee uniformity in assessing clients' VA understanding and suitability, IFPHK also suggests regular staff training on VA-specific ML/TF risks and investor protection strategies, as well as standardised templates for client risk assessments (paragraph 2.25(i)).

Question 6

Do you agree with the proposed transitional arrangement?

IFPHK's views

The IFPHK supports the decision to implement the virtual asset (VA) licensing regime without a deeming arrangement, making it fully effective upon commencement (paragraph 2.29). To ensure a smooth transition for pre-existing VA dealing service providers, particularly smaller firms, the IFPHK recommends that the SFC and HKMA provide clear guidance and pre-application support to facilitate compliance with regulatory requirements.

Question 7

Do you agree with the expedited licensing or registration arrangement?

IFPHK's views

The IFPHK agrees the expedited licensing and registration process for existing SFC-licensed virtual asset trading platforms (VATPs), licensed corporations, and registered institutions (paragraphs 2.30–2.31), as it acknowledges their prior regulatory compliance and minimizes administrative burdens, ensuring uninterrupted VA dealing services. To enhance this process, IFPHK suggests that the SFC release comprehensive guidelines outlining the standards, supporting documents, and compliance requirements for quick approval in order to guarantee uniformity and clarity.

Question 8

Based on the "user-pays" principle, do you have any comments on aligning the licensing application fee and annual fee for a licensee or registrant providing VA dealing services with those for Type 1 regulated activity under the SFO?

IFPHK's views

The IFPHK supports aligning licensing application and annual fees for virtual asset (VA) dealing services with those for Type 1 regulated activity under the Securities and Futures Ordinance (SFO) (paragraph 2.32), as it upholds the "user-pays" principle and ensures regulatory parity, with proposed fees of \$4,740 for licensed corporations and \$23,500/\$35,000

for registered institutions deemed reasonable. To enhance accessibility for smaller firms and startups, IFPHK recommends a tiered fee structure based on operational scale, such as transaction volume or client base, to balance affordability with the SFC's financial sustainability.

Question 9

Do you agree that, for the purpose of protecting the investing public, persons not licensed by or registered with the SFC should not be allowed to actively market VA dealing services to the public of Hong Kong?

IFPHK's views

The IFPHK agrees prohibiting unlicensed persons from marketing VA services (paragraph 2.33), aligning with IOSCO's 2022 call for consumer protection against fraudulent practices (IOSCO Submission, March 2022). The FPSB AI research emphasizes AI-driven client education (41% usage in communications), which can amplify awareness campaigns. We urge aggressive SFC public education campaigns and a real-time online registry of licensed providers to help investors verify legitimacy and deter illicit operations.

Question 10

Do you agree that the SFC and HKMA should be provided with the proposed powers?

IFPHK's views

The IFPHK supports the proposed powers for the SFC and HKMA to handle licensing, registration, inspection, investigation, and disciplinary actions for virtual asset (VA) dealing activities (paragraphs 2.34–2.36), as these are essential for robust oversight and enforcement, particularly given the cross-border nature of VAs and money laundering/terrorist financing (ML/TF) risks. To strengthen supervision, IFPHK recommends establishing clear protocols for information sharing and coordination with domestic and international regulatory authorities to address potential regulatory gaps.

Question 11

Do you agree with the proposed sanctions, which are comparable to those under the existing regulatory regimes for VATPs?

IFPHK's views

The IFPHK supports the proposed sanctions for virtual asset (VA) dealing activities (paragraph 2.39), aligned with the VATP regime, including fines up to \$10 million and imprisonment for up to 10 years for fraudulent behavior, as effective deterrents against non-compliance. To ensure proportionality, IFPHK suggests graduated sanctions, such as administrative fines or warnings, for minor or technical breaches to foster compliance while supporting market development.

Question 12

Do you agree that a review tribunal mechanism should be put in place to handle appeals against the decisions to be made by the SFC or the HKMA in implementing the licensing regime?

IFPHK's views

The IFPHK agrees the establishment of a review tribunal mechanism (paragraph 2.40) to handle appeals against SFC and HKMA decisions. This mechanism ensures fairness and transparency in the regulatory process, providing licensees and registrants with a clear avenue for recourse. We recommend that the tribunal be composed of independent experts with expertise in financial regulation and virtual assets to ensure informed and impartial decision-making.

Institute of Financial Planners of Hong Kong (IFPHK) - Profile

About IFPHK

IFPHK was established in June 2000 as a non-profit organization for the fast-growing financial services industry. It aims to be recognized in the region as the premier professional body representing financial planners dedicated to upholding the highest professional standards.

The Institute is the sole licensing body in Hong Kong authorized by the Financial Planning Standards Board Limited to grant the much-coveted and internationally-recognized CFP® Certification and AFP® Certification to qualified financial planning professionals in Hong Kong and Macau.

Currently, there are more than 230,000 CFP certificants in 28 countries/regions; the majority of these professionals are in the U.S., Canada, China, Australia and Japan, with approximately 3,600 CFP certificants in Hong Kong.

IFPHK has 6,700 members in Hong Kong including 1,200 Qualified Retirement Adviser (QRA) holders; and represents financial planning practitioners in diverse professional backgrounds such as banking, insurance, independent financial advisory, stock trading, accounting, and legal services.

About CFP Certification

CFP certification is the global symbol of excellence in financial planning and represents financial planners who commit to standards of competency and ethics, and to putting clients' interests first. The CERTIFIED FINANCIAL PLANNER® credential represents financial planning professionals who commit to better serving their clients through rigorous international standards, ethical practices and lifelong learning.

IFPHK's interest in this consultation

As the leading professional body championing the welfare of the financial planning industry, the Institute of Financial Planners of Hong Kong (IFPHK) actively engages with policy changes impacting the industry and the broader financial system. Since 2009, IFPHK has provided critical feedback on key regulatory proposals, including the Securities and Futures Commission's (SFC) response to the Lehman Brothers Minibond Saga to enhance investor protection, the 2010 consultation on establishing an Investor Education Council and Financial Dispute Resolution Centre, the 2014 Consultation Document on Hong Kong's resolution

regime, and the 2015 Hong Kong Financial Competency Framework and Strategy for Financial Literacy. In 2017, IFPHK responded to the Consultation Paper on Online Distribution and Advisory Platforms, and in 2020, it provided insights on the Listing Regime for Companies from Emerging and Innovative Sectors and Weighted Voting Rights (WVR) structures. More recently, in 2023, IFPHK submitted responses to the SFC's Consultation Paper on the regulatory requirements for virtual asset trading platform operators, emphasizing robust anti-money laundering and investor protection measures.

In order to provide pertinent, forward-thinking advice in line with global regulatory trends such as the EU's Markets in Crypto-Assets (MiCA) framework and Hong Kong's VASP regime, Certified Financial Planner (CFP) professionals must integrate crypto-assets into the financial planning process. This is especially important given the quick rise of digital finance and the increasing client demand for virtual asset advice. Detailed responses from IFPHK can be found at <http://www.ifphk.org/ee/importance-of-advocacy>.