

CHARLTONS  
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**2022 Hong Kong**  
**Crypto Regulation**  
Webinar Series

Webinar 2 - Hong Kong I



# Jurisdictions' progress in implementing the Revised FATF Recommendations (Mar 2022)

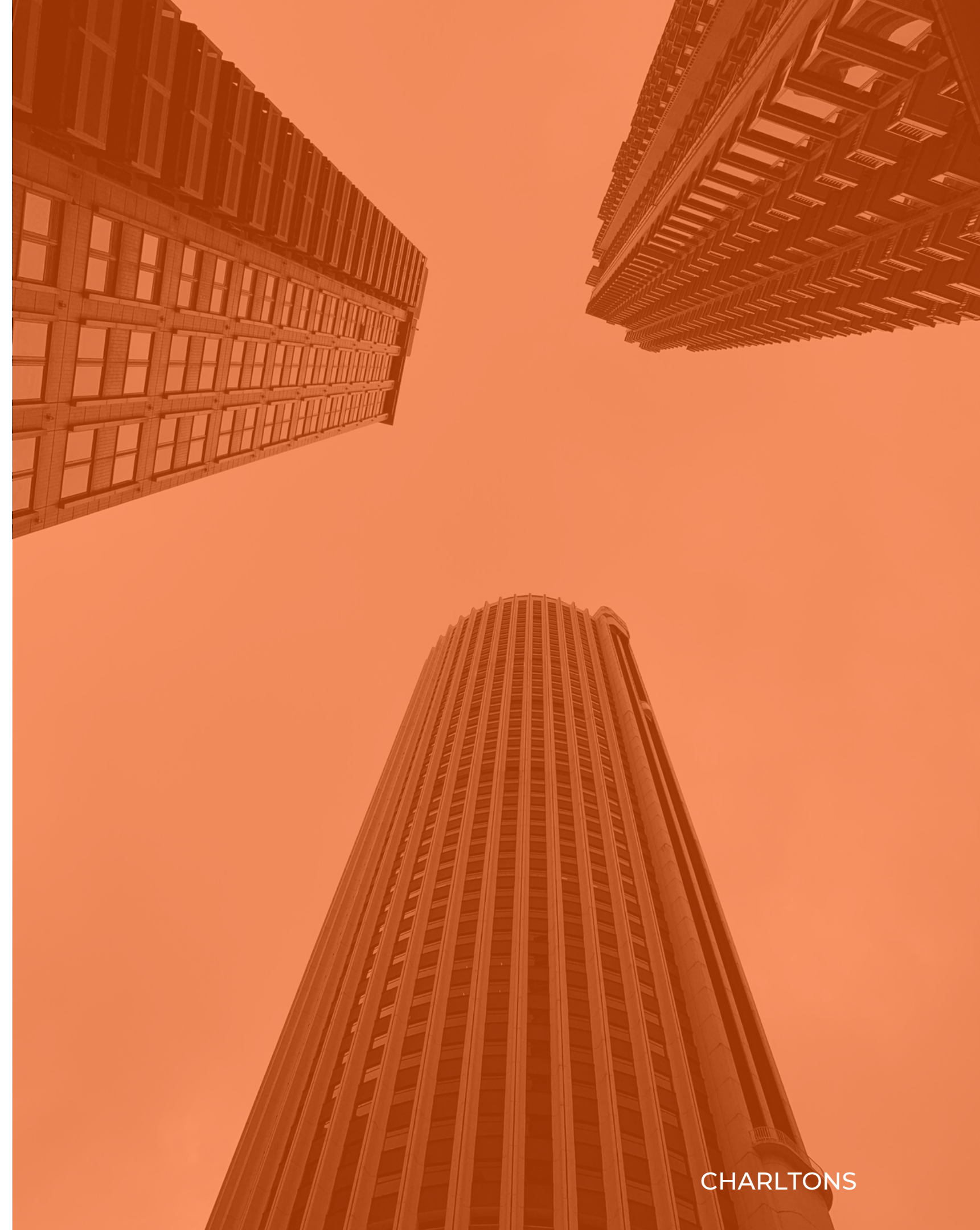
- 42 out of 98 responding jurisdictions had introduced a licensing or registration regime for VASPs
- 29 out of 98 responding jurisdictions had enacted Travel Rule legislation
- Only 11 jurisdictions had started enforcing and supervising Travel Rule compliance
- Around a quarter of responding jurisdictions were in the process of enacting the relevant legislation, around one-third had not yet proposed any Travel Rule legislation





# Hong Kong crypto regulation

- Hong Kong regulates entities conducting activities in cryptocurrencies which are "securities" or "futures contracts" as defined in Hong Kong's Securities and Futures Ordinance (the **SFO**)
- Intermediaries conducting regulated activities in relation to cryptocurrencies that are securities or futures contracts need to be licensed or registered with Hong Kong's Securities and Futures Commission (the **SFC**) and must comply with AML/CFT requirements of Hong Kong's Anti-Money Laundering and Counter-Terrorist Financing Ordinance (the **AMLO**)
- Most cryptocurrencies (e.g. Bitcoin) fall outside the statutory definitions of securities and futures contracts
- Cryptocurrencies not regulated by Hong Kong's other financial regulators





# Regulating around the edges

- SFC has taken the regulatory initiative on cryptocurrency activities in Hong Kong, though its statutory authority is restricted to entities conducting business in the very limited category of cryptocurrencies which are "securities" or "futures" under the SFO
- The SFC extended that authority by imposing licensing conditions on:
  1. managers of funds and investment portfolios which invest at least 10% of their gross asset value (GAV) in virtual assets that are not securities or futures contracts, where the firm is already required to be licensed for Regulated Activity Type 9 (asset management) because it already manages portfolios of securities and/or futures contracts; and
  2. distributors of virtual asset funds which are required to be licensed for Regulated Activity Type 1 (dealing in securities)
- The SFC adopted an "opt in" regulatory regime for virtual asset trading platforms which provides that if a platform provides for trading in at least one virtual asset which is within the legal definition of a "security", the SFC's regulation will apply to all other virtual assets traded on the platform that are not securities



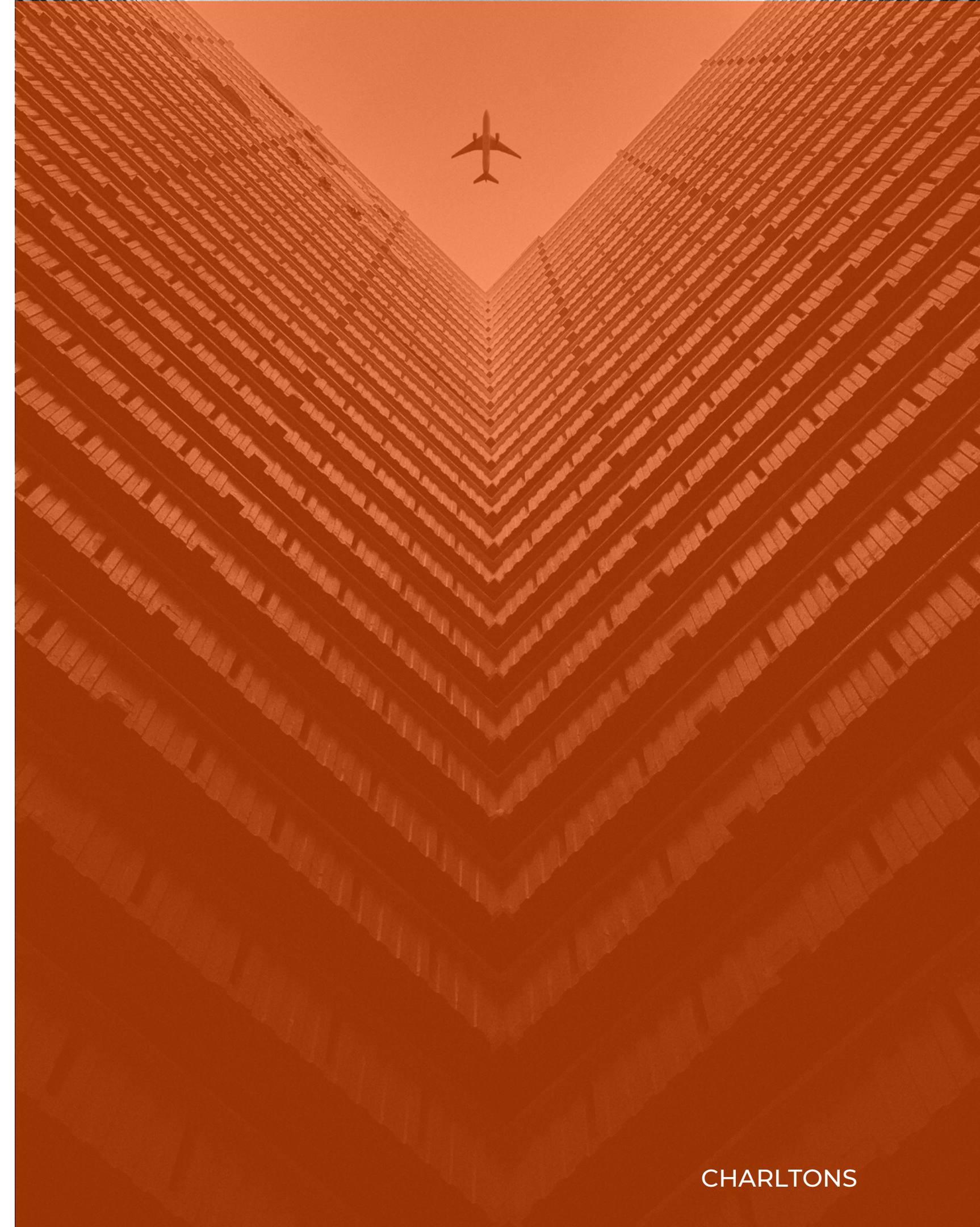
# New licensing regime for virtual asset service providers (VASPS)

- New regime due to come into effect on 1 March 2023 under proposed amendments to the AMLO - introduced to LegCo on 6 July 2022
- Proposed amendments set out in the Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Bill 2022 (AMLO Amendment Bill)
- Any person carrying on a business of providing a virtual asset service in Hong Kong, or holding themselves out as doing so, will need be licensed as a VASP by the SFC
- The only activity currently defined as "providing a virtual asset service" is operating a virtual asset exchange
- Any person operating a virtual asset exchange in Hong Kong will need to apply for a licence or cease operations in Hong Kong
- Once the new licensing regime takes effect, all centralised crypto trading platforms in Hong Kong will need to be licensed either under the AMLO or under the existing opt-in regime under the SFO
- Amendments will also implement FATF Recommendation 16 (the Travel Rule)



# New licensing regime for virtual asset service providers

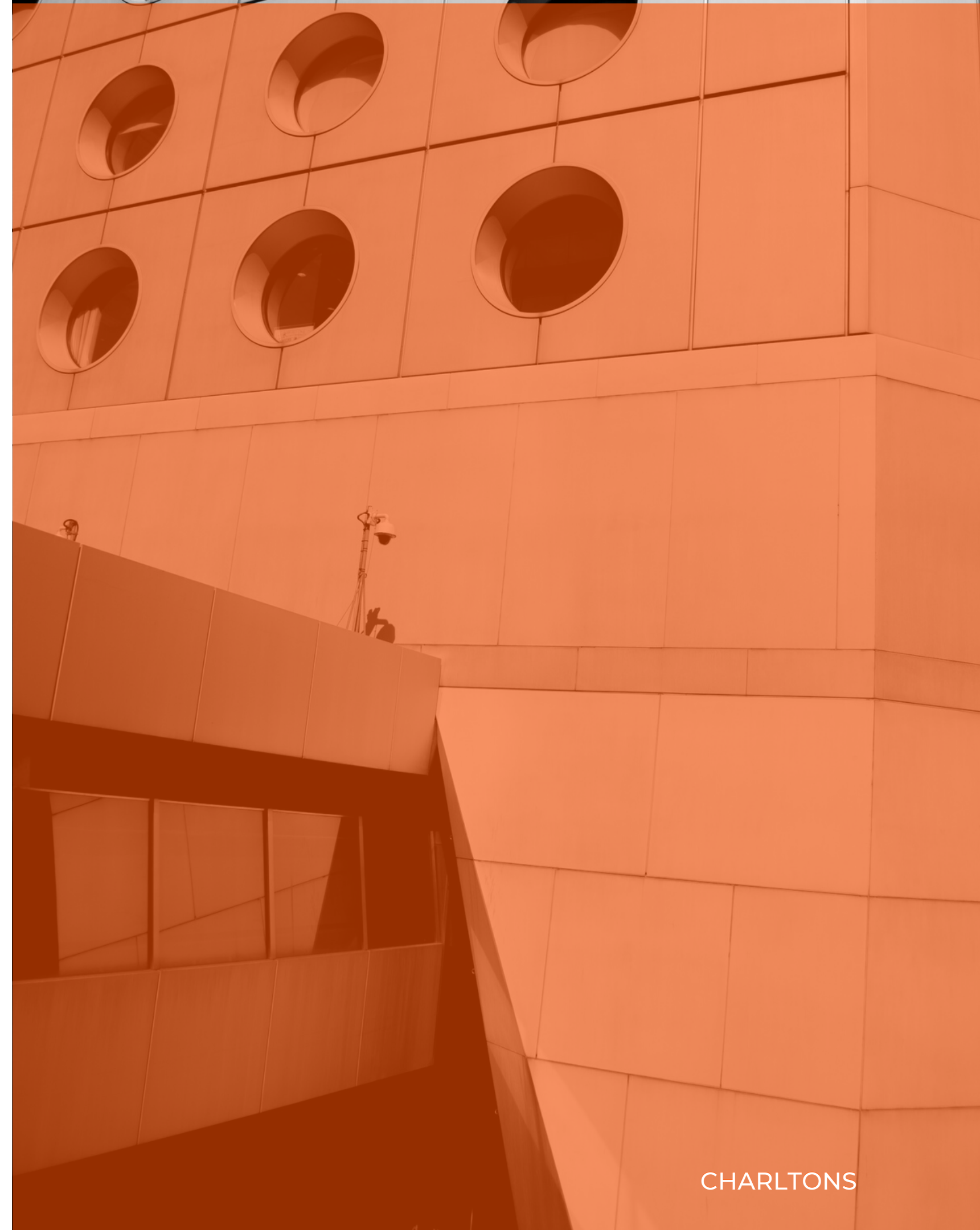
- Licensed VASPs will need to comply with:
  1. the AML/CFT requirements of the AMLO, including the customer due diligence and record-keeping requirements set out in Schedule 2 of the AMLO
  2. a stringent set of requirements which the SFC will impose as licensing conditions
  3. professional investor restriction, at least during the initial stage of the licensing regime





# **SFC/HKMA Joint Circular on intermediaries' virtual asset-related activities (Jan 2022)**

- Guidance for intermediaries - i.e. SFC-licensed corporations or registered institutions that distribute virtual asset-related products (including virtual asset funds) or want to provide virtual asset dealing or advisory services for their clients





# Regulation of virtual asset portfolio managers

- Managing funds or discretionary investment portfolios that invest solely in virtual assets that do not constitute securities or futures contracts is not a regulated activity under the SFO
- In November 2018, the SFC published a regulatory framework to bring within its regulatory scope managers of portfolios which invest in virtual assets that are not securities or futures contracts (Non-SF virtual assets)
- Portfolio managers include both fund managers and managers of discretionary accounts (in the form of an investment mandate or a pre-defined model portfolio)
- The SFC regulates these portfolio managers by imposing additional licensing conditions on 2 types of firms:
  1. firms which are (or are applying to be) licensed as asset managers because they manage portfolios of traditional securities or futures contracts and also manage (or plan to manage) portfolios investing solely or partly in virtual assets
  2. firms which manage funds which only invest in non-SF virtual assets and distribute the same in Hong Kong



# Proforma Terms and Conditions for Licensed Corporations which Manage Portfolios that Invest in Virtual Assets - Oct 2019

- The additional licensing conditions are subject to a de minimis provision - they apply to a licensed intermediary which manages or plans to manage funds or investment portfolios which:
  - have a stated investment objective to invest in virtual assets; or
  - intend to invest 10% or more of the GAV of the fund or portfolio in virtual assets
- "Virtual assets" are defined as digital representations of value which may be in the form of digital tokens (e.g. digital currencies, utility tokens or security/asset backed tokens), any other virtual commodities, crypto assets or assets of essentially the same nature, irrespective of whether they are "securities" or "futures contracts" under the SFO
- The licensing conditions do not apply to:
  - licensed corporations which only manage funds or investment portfolios investing in virtual asset funds (i.e. funds of funds); or
  - licensed corporations managing funds or portfolios whose mandate is to invest mainly in securities and/or futures contracts and their investment in virtual assets exceeds 10% of GAV because of an increase in the prices of the virtual assets held in one or more of the portfolios and the licensed corporation takes steps to reduce the virtual asset investment below 10%



# Notification requirements & licensing conditions

- Licence applicants are required to notify the SFC if they currently manage, or plan to manage, one or more funds or portfolios that invest in cryptocurrencies, or intend to hold cryptocurrencies on behalf of funds under their management
- On being informed that a firm is managing or plans to manage virtual asset portfolios, the SFC will send the standard licensing conditions to the firm and these may be varied following discussions with the firm according to its particular business model
- A new licence applicant will have to agree to the licensing conditions proposed, or its licensing application will be rejected
- Licensed corporations which do not agree to comply with the licensing conditions will be prohibited from managing virtual asset portfolios



# Restriction to professional investors

- Investors in a fund with a stated investment objective of investing in cryptocurrencies or which intends to invest 10% or more of its GAV in cryptocurrencies are restricted to professional investors as defined in the SFO (including high net worth investors under the Securities and Futures (Professional Investor) Rules)
- This is the case unless the SFC has authorised the fund for retail distribution under section 104 of the SFO
- If a virtual asset fund is to be distributed through distributors, the fund manager must put in place measures to ensure that the fund is only distributed to professional investors



# Safeguarding of assets

- A virtual asset fund manager is required to select the most appropriate custodial arrangement for holding its virtual assets
- Where cryptocurrencies are held by the licensed fund manager itself, the fund manager must ensure that they are identified as being beneficially owned by the fund through proper record-keeping and arrangements to segregate them from the fund manager's own assets on insolvency
- Where an independent custodian is selected, virtual asset fund managers are required to exercise due skill, care and diligence in selecting, appointing and conducting on-going monitoring of the custodian by reference to factors such as the custodian's:
  1. experience and track period in providing custodial services for cryptocurrencies;
  2. regulatory status;
  3. corporate governance structure and the background of its senior management;
  4. financial resources and insurance cover for compensating customers for loss of customer assets; and
  5. operational capabilities and arrangements
- The licensing conditions recommend appointing more than one custodian to avoid excessive concentration of risks
- Fund managers are required to disclose the custodial arrangements and the risks of those arrangements to fund investors



- Virtual asset fund managers are required to regularly value the cryptocurrencies under their management
- The frequency of valuations should be appropriate to cryptocurrencies and the dealing frequency of relevant funds
- The frequency of valuation and dealing and the basis of valuation are required to be disclosed to fund investors
- Where the fund manager appoints a third party valuer, it must ensure that the valuer has the required experience and expertise in valuing virtual assets
- Fund managers are responsible for ensuring that valuation principles, methodologies, models and policies are reasonably appropriate in the circumstances and in the best interests of the fund and fund investors
- These need to be reviewed at least annually by a competent party who is independent of the person making investment decisions for the funds to ensure that they continue to be appropriate and are implemented effectively

## Portfolio valuation



# Risk management

- The licensing conditions contain detailed risk management requirements for virtual asset fund managers
- Their risk management policies should set, for each fund, a system for monitoring and controlling the relevant risks
- The fund manager should set position limits for each product or market the fund invests in
- They should consider setting a cap on the fund's investment in illiquid or hard to value cryptocurrencies and its exposure to counterparties
- Appendix 2 to the Proforma Terms and Conditions sets out the risk management control techniques and procedures which should be adopted
- Fund managers are expected to have in place an effective credit assessment system to evaluate the creditworthiness of fund counterparties
- Before transacting with a crypto exchange, a virtual asset fund manager is required to assess its creditworthiness
- Exposure to individual fund counterparties including crypto exchanges should be limited by setting appropriate caps



# Auditors & liquid capital

- The licensing conditions require the appointment of an independent auditor to audit the financial statements of managed funds and prepare annual reports
- Virtual asset fund managers are required to consider auditors' experience and capability in auditing financial statements of virtual asset funds
- The fund manager is required to understand the steps taken by the auditor in proving the existence and ownership of the virtual assets and ascertaining the reasonableness of their valuation and will need to make this information available to fund investors upon request
- A licensed fund manager which holds cryptocurrencies on behalf of the funds it manages is required to maintain liquid capital equal to the higher to HK\$3 million and the amount of its variable required liquid capital





# Disclosure of information, AML/CFT & prevention of market misconduct

- To disclose sufficient information for fund investors to make an informed decision about investing in the funds they manage including Key risks
- To take reasonable measures to ensure that safeguards are in place to mitigate ML/TF risks, particularly where fund investors use virtual assets to subscribe
- To establish and implement effective policies and procedures to prohibit and prevent market misconduct

- Appendix 1 to the Proforma Terms and Conditions sets out additional requirements that apply to virtual asset fund managers managing discretionary accounts, and the requirements that do not apply to them
- The additional requirements include requirements on ensuring the suitability of investment mandates and predefined model investment portfolios for particular clients and the minimum content of discretionary client agreements
- Managers of virtual asset discretionary accounts are only permitted to provide services to professional investors

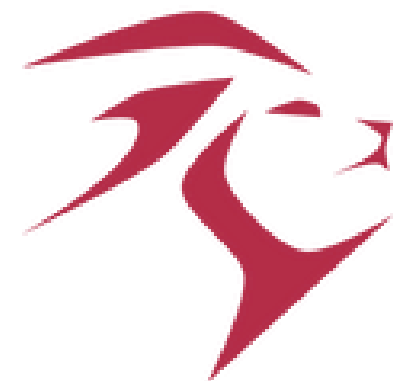
## Licensing conditions for managers of discretionary accounts



# Licensed virtual asset fund managers



VSFG  
意博金融



Axion Global  
Asset Management



# Distributors of virtual asset funds

- A fund manager which only manages funds investing in cryptocurrencies that are not securities or futures contracts does not need to be licensed for Type 9
- However, the distribution of a fund will require the distributor to be licensed for Type 1 (dealing in securities)
- A Type 9-licensed asset manager which also distributes the funds it manages can rely on the incidental exemption from the Type 1 licensing requirement
- Firms distributing virtual asset funds are required to comply with the SFC's regulatory framework for licensed corporations including its **Code of Conduct** for Persons Licensed by or Registered with the SFC (the Code of Conduct), including KYC obligations, and an obligation to ensure the suitability of product recommendations and solicitations for particular clients
- On 1 November 2018, the SFC published a circular to licensed and registered intermediaries involved in the distribution of virtual asset funds, whose requirements have now been superseded by the requirements for licensed and registered intermediaries engaged in the distribution of virtual asset-related products set out in the January 2022 Joint Circular
- Appendix 4 to the Joint Circular sets out the additional due diligence that intermediaries are required to conduct on unauthorised virtual asset funds



- The Joint Circular uses the same definition of "virtual assets" used in the 2019 Proforma Terms and Conditions for Licensed Corporations which Manage Portfolios that Invest in Virtual Assets except that the Joint Circular's definition specifically includes stablecoins and excludes digital representations of fiat currencies issued by central banks - that is CBDCs

- "Virtual asset-related products" are defined in the Joint Circular as investment products which: (a) have a principal objective or strategy to invest in virtual assets; (b) derive their value principally from the value and characteristics of virtual assets; or (c) track or replicate the investment results or returns which closely match or correspond to virtual assets

## Definitions of virtual assets and virtual asset-related products

# Virtual asset-related products that are complex products

- Since retail investors are unlikely to understand the risks associated with virtual asset-related products, they are *very likely* to be regarded as "complex products"
- Where virtual asset-related products are considered to be complex products, licensed intermediaries are required to comply with the SFC's requirements governing the sale of complex products as set out in paragraph 5.5 of the SFC's Code of Conduct and Chapter 6 of its Guidelines on Online Distribution and Advisory Platforms
- Those requirements apply irrespective of whether or not the intermediary solicited or recommended the sale
- The requirements for virtual asset-related products considered to be complex products under paragraph 5.5 of the Code of Conduct include an obligation to ensure that the virtual asset-related product is reasonably suitable for relevant clients
- In determining suitability, the intermediary needs to ensure that the aggregate amount to be invested by a client in virtual asset-related products is reasonable given the client's net worth
- Other obligations relating to complex products include an obligation to provide clients with sufficient information on the nature, feature and risks of the complex product to allow them to understand it before investing in it and warning statements





# Selling restrictions & virtual asset-knowledge test

- With the exception of virtual asset-related derivative products traded on specified exchanges, virtual asset-related products which are complex products can only be offered to professional investors
- Intermediaries are required to assess clients' knowledge of investing in virtual assets or virtual asset-related products before conducting transactions in virtual asset-related products on their behalf, except where the client is an institutional professional investor or a qualified corporate professional investor as defined in the SFC Code of Conduct
- An intermediary can only effect a transaction for a client without the required knowledge if: (a) this would be in the best interest of the client; and (b) the intermediary has provided training to the client on the nature and risks of virtual assets
- Appendix I to the Joint Circular contains non-exhaustive criteria for assessing whether a client can be regarded as having knowledge of virtual assets, which allow intermediaries to take into account their clients' prior trading experience or work experience in virtual assets or virtual asset-related products and training or courses they have taken on virtual assets or virtual asset-related products
- The knowledge assessment can be conducted on a one-off basis before entering into the transaction in a virtual asset-related product
- Clients can be regarded as having knowledge of virtual assets if they have executed 5 or more transactions in any virtual asset or virtual asset-related product in the previous 3 years



# Suitability assessment for virtual asset-related products

Intermediaries are required to comply with the suitability obligations as supplemented by the SFC's Suitability FAQs and FAQs on Triggering the Suitability Obligations (the Suitability FAQs) including their requirements to:

- Ensure that any recommendations or solicitations made are suitable for clients in all the circumstances
- Diligently assess whether the nature and features of virtual asset-related products are suitable for the client and are in the client's best interests, taking into account the client's risk tolerance and financial situation



# Additional due diligence on unauthorised virtual asset funds

- Now set out in Appendix 4 to the SFC/HKMA Joint Circular
- Intermediaries distributing virtual asset funds that have not been authorised by the SFC for retail offering are required to conduct due diligence on virtual asset funds, their fund managers and the parties providing trading and custodian services for the funds
- The due diligence should include:
  1. scrutiny of funds' constitutive documents
  2. completion of a due diligence questionnaire; and
  3. making enquiries of fund managers to obtain an in-depth understanding of the matters specified in the Circular



# Required intermediary due diligence on fund managers

- A licensed distributor is expected to make enquiries in relation to the fund manager's background and relevant experience and the track record of its senior management
- Due diligence is expected to be carried out with respect to the fund manager's regulatory status, compliance history and its internal controls and systems
- Intermediaries are expected to perform due diligence on fund managers' IT systems and their risk management procedures
- Fund managers' liquidity risk management policy and their risk management policy for other risks associated with virtual asset fund management and their disaster recovery plan are expected to be included in intermediaries' due diligence of fund managers



# Required intermediary due diligence on funds

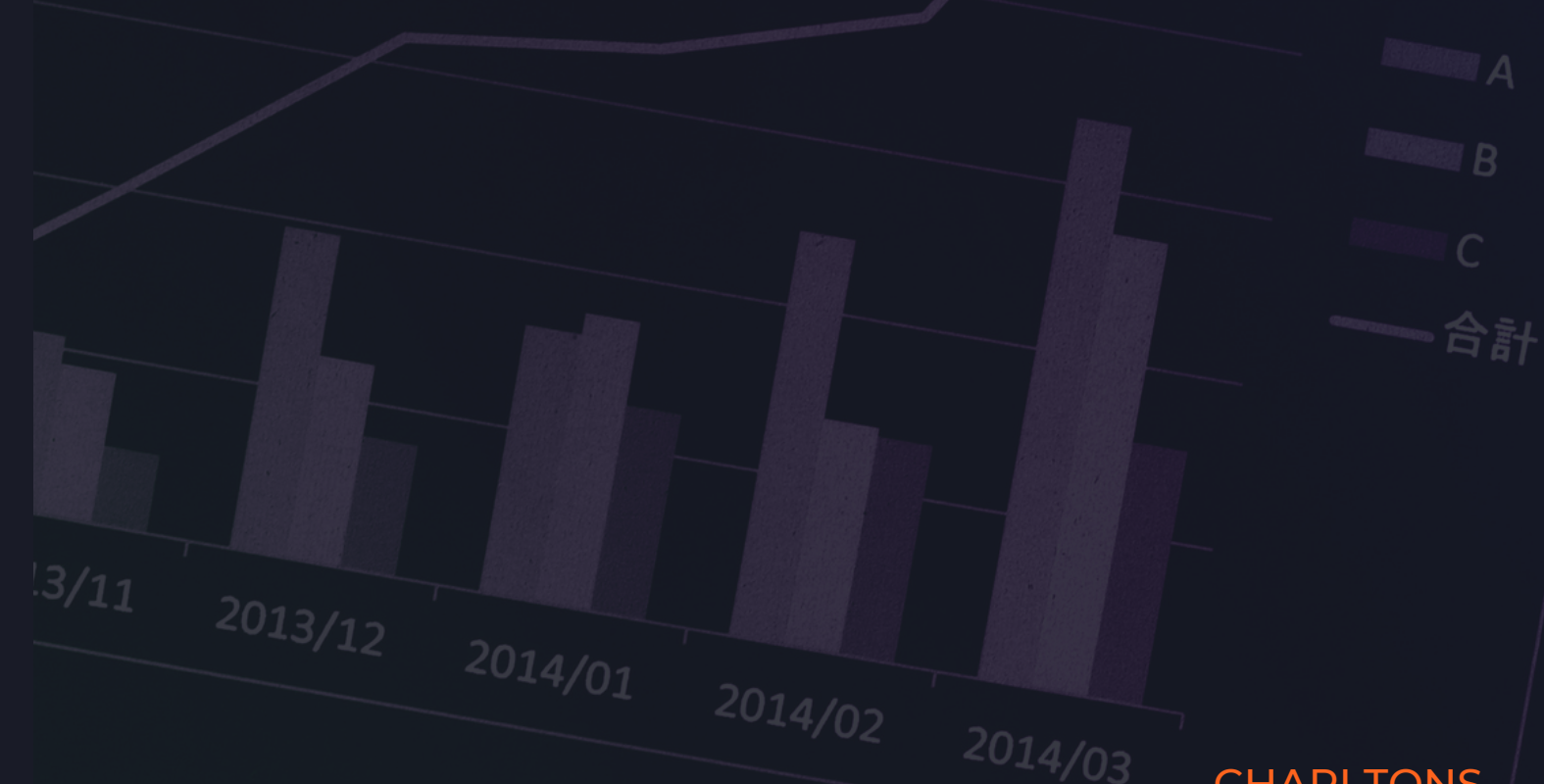
- Their targeted investors
- The instruments the fund intends to trade or invest in and any limits on the size of its holding of ICO tokens and other illiquid or hard-to-value instruments
- Their valuation policy
- The custody arrangement for the fund assets
- Their use of leverage and derivatives
- Their targeted risk and return per annum
- Their key risks
- Their auditors and audited financial instruments
- The exchanges on which the fund is traded





- Their legal and regulatory status
- Their experience and track record in dealing with virtual assets
- The robustness of their IT systems and contingency plans
- Their financial soundness and insurance coverage

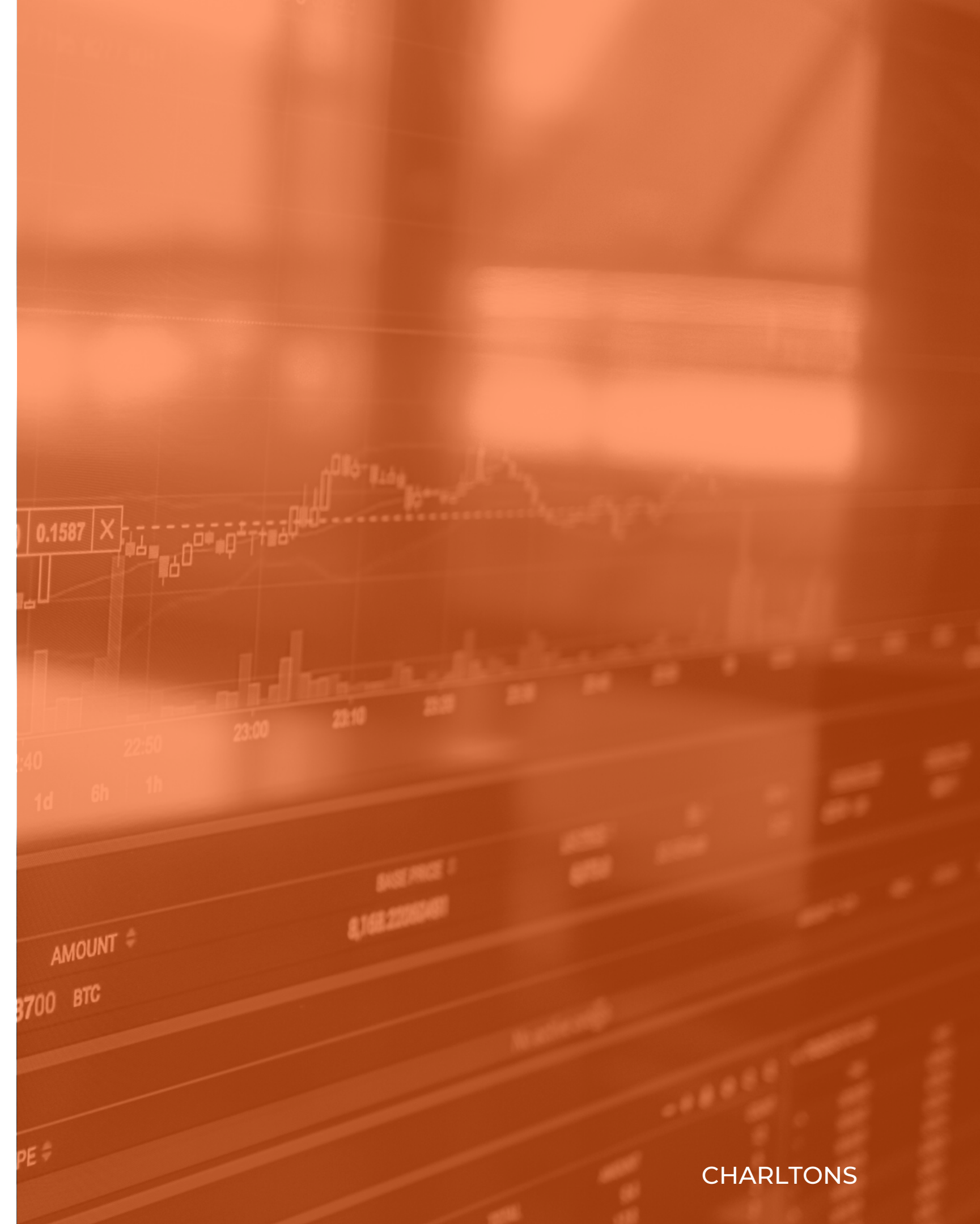
## Required intermediary due diligence on funds' counterparties





# Provision of information and warnings to clients

- Intermediaries distributing virtual asset-related products are required to provide clients with information on virtual asset-related products and the underlying virtual asset investments
- Intermediaries should provide warning statements specific to virtual asset-related products to clients
- These can be disclosed on a one-off basis
- Example warning statements set out at Appendix 5 to Joint Circular





- Intermediaries are required to exercise caution in providing any financial accommodation to clients for investing in virtual asset-related products

- An intermediary which provides financial accommodation to a client should satisfy itself that the client has the financial capacity to meet obligations arising from leveraged or margin trading in virtual asset-related products, including in a worst-case scenario

## **Provision of financial accommodation**



# Virtual asset-related derivative products

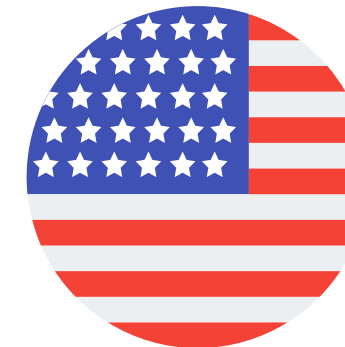
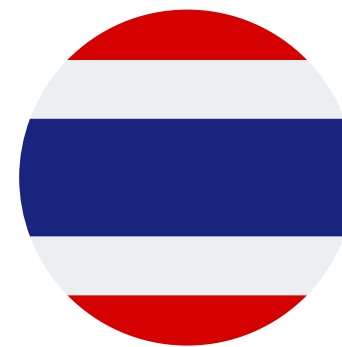
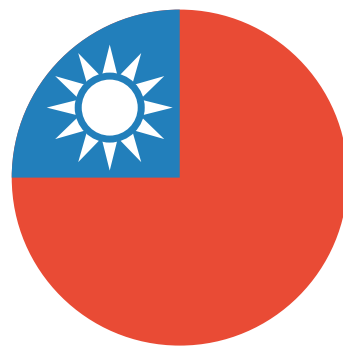
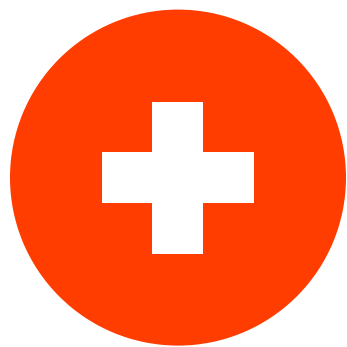
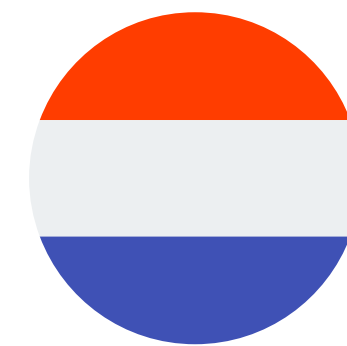
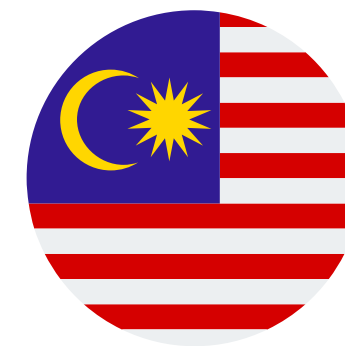
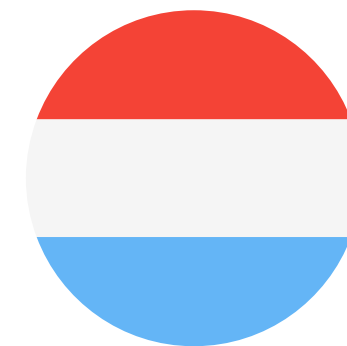
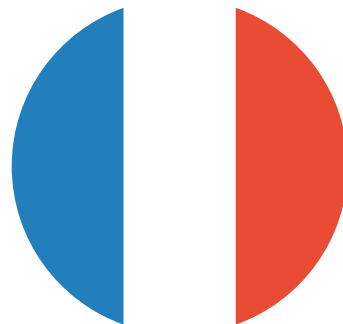
- Intermediaries distributing virtual asset-related derivative products are required to ensure compliance with paragraphs 5.1A and 5.3 of the SFC Code of Conduct
- As part of their obligations under paragraph 5.3, intermediaries assessing whether to provide a client with services for virtual asset-related derivative products should be satisfied that the client has sufficient net worth to assume the risks and bear the potential loss of trading in the products and understands the nature and risks of these products



# Virtual asset-related derivative products traded on specified exchanges

- A limited category of virtual asset-related derivative products can be offered to retail investors in Hong Kong
- Virtual asset-related derivative products, such as Bitcoin futures contracts, that are traded on a Specified Exchange and, in the case of exchange-traded virtual asset derivative funds, they must be authorised or approved for offering to retail investors by the respective regulator in one of the designated jurisdictions
- "Specified exchanges" = exchanges specified in Schedule 3 of the Securities and Futures (Financial Resources) Rules

Designated jurisdictions - Appendix 2 to the Joint Circular:





# Requirements for intermediaries providing virtual asset dealing services

- The Joint Circular requires intermediaries to partner only with SFC-licensed virtual asset trading platforms for the provision of virtual asset dealing services, either by:
  1. introducing clients to the platforms for direct trading; or
  2. establishing an omnibus account with the platform
- Only intermediaries licensed or registered for Type 1 regulated activity (dealing in securities) are allowed to provide virtual asset dealing services
- They can provide these services only to professional investors who are existing clients to which they provide Type 1 services
- These intermediaries are required to comply with all the applicable regulatory requirements when providing dealing services in virtual assets, irrespective of whether or not the virtual assets concerned constitute securities



# Providing virtual asset dealing services under an omnibus account management

- Intermediaries providing virtual asset dealing services under an omnibus account arrangement will be subject to SFC conduct requirements set out in licensing or registration terms and conditions
- They must comply with the prescribed terms and conditions (Terms and Conditions) set out in Appendix 6 to the Joint Circular
- They can only allow clients to deposit and withdraw fiat currencies from their accounts, and may not allow them to withdraw or transfer virtual assets at any time





# Providing virtual asset dealing services as an introducing agent

- Intermediaries' clients will be on-boarded by the SFC-licensed platform which will open trading accounts in the names of the respective clients who will trade directly through the platform
- Intermediaries should enter into a written agreement with the SFC-licensed platform setting out their respective obligations under the introducing arrangement
- Type 1-licensed intermediaries acting as introducing agents must only introduce clients who are professional investors to the SFC-licensed platform
- Intermediaries are not allowed to relay orders on behalf of their clients to the platforms or hold any client assets
- Requirements will be imposed on intermediaries as licensing or registration conditions as set out in Appendix 6 to the Joint Circular



# Providing virtual asset discretionary account management services

- Additional requirements set out in the October 2019 Proforma Terms and Conditions for Licensed Corporations which Manage Portfolios that Invest in Virtual Assets apply to licensed corporations providing virtual asset discretionary account management services where investment portfolios:
  1. have a stated investment objective to invest in virtual assets; or
  2. intend to invest more than 10% of their GAV in virtual assets
- Registered institutions intending to provide virtual asset discretionary account management services should notify the SFC and HKMA and will have to comply with the 2019 Proforma Terms and Conditions
- Where a Type 1-licensed intermediary providing discretionary account management services is authorised by its clients to provide virtual asset dealing services on a discretionary basis as an ancillary service, the intermediary should only invest less than 10% of the GAV of the client's portfolio in virtual assets



# Requirements for intermediaries providing virtual asset advisory services

- To comply with all the regulatory requirements imposed by the SFC and the HKMA, irrespective of whether or not the virtual assets involved are securities
- Can only provide virtual asset advisory services to professional investors who are their existing clients to which they provide services in Type 1 or Type 4 regulated activities
- Conduct requirements are imposed as licensing conditions (set out in Appendix 6 to the Joint Circular)
- To comply with suitability obligations and conduct a virtual asset-knowledge test before providing virtual asset advisory services to clients, except where the client is an institutional professional investor or a qualified corporate professional investor as defined in the SFC Code of Conduct
- Intermediaries providing advisory services in relation to virtual asset-related products should comply with the same requirements as apply to the distribution of virtual asset-related products and must ensure the suitability of their recommendations for the particular clients



# SFC and HKMA notification requirements

- An intermediary intending to engage in virtual asset-related activities is required to notify the SFC, and the HKMA if applicable, in advance



# HKMA Circular on Regulatory Approaches to Authorized Institutions' Interface with Virtual Assets and Virtual Asset Service Providers (Jan 2022)

- Authorized institutions may interact with virtual assets and virtual asset service providers through proprietary investment or the provision of banking and investment services to customers
- Before engaging in any activities in relation to virtual assets, authorized institutions are expected to perform risk assessments to identify and understand the associated risks
- They should obtain feedback from the HKMA and SFC on the adequacy of their risk-management controls before launching relevant products or services



- Does not currently propose to prohibit authorized institutions from incurring financial exposure to virtual assets
- They are required to have in place adequate risk-management controls and ensure that these activities are subject to sufficient oversight by their senior management
- Authorized institutions are expected to conduct proper due diligence on the virtual assets to which they are exposed
- Based on the information obtained, authorized institutions should critically evaluate their exposures to different risk types and implement appropriate risk-mitigation measures
- If residual risks remain, sufficient capital should be set aside having regard to prevailing capital requirements for virtual assets

## Prudential supervision



# AML/CFT and financial crime risk

- To put in place policies, procedures and controls to manage and mitigate ML/TF risks which take into account guidance issued by the HKMA and the FATF
- To pay extra attention if they become aware of customers conducting activities related to virtual assets when monitoring these customers
- To understand the nature of the virtual asset-related transactions and, if there are grounds for suspicion, file suspicious transaction reports to the Joint Financial Intelligence Unit
- To conduct ML/TF assessments on a risk-based approach when establishing and maintaining business relationships with VASPs
- To conduct additional customer due diligence similar to that for offering correspondent banking or similar services to financial institutions that enable the provision of products and services to the financial institutions' own customers
- To confirm with relevant VASPs that their operations do not breach any Hong Kong or overseas laws and regulations



- Virtual asset-related products are likely to be regarded as complex products

- Authorized institutions are reminded to comply with the requirements of the HKMA/SFC Joint Circular

## Investor protection





# MCQs



# Question 1

The SFC's current licensing requirements do not apply to which of the following?

- ✓ (A) An exchange which provides trading services only in virtual assets that are not securities or futures contracts
- (B) A firm which only distributes funds investing in non-securities or futures contracts virtual assets
- (C) An exchange which trades tokens that are securities
- (D) A firm which only manages funds which invest in virtual assets which are securities or futures contracts



# Question 2

Which of the following is FALSE with respect to the regulation of licensed intermediaries providing virtual asset dealing services?

- (A) Intermediaries are required to partner only with SFC-licensed virtual asset trading platforms
- ✓ (B) Intermediaries can only provide virtual asset dealing services by establishing an omnibus account with the platform
- (C) Only Type 1-licensed or registered intermediaries are allowed to provide virtual asset dealing services
- (D) Virtual asset dealing services can only be provided to professional investors



# Question 3

Which of the following statements about the SFC's Proforma Terms and Conditions for Licensed Corporations which Manage Portfolios that Invest in Virtual Assets is TRUE?

- (A) They are subject to a de minimis provision of 20%
- (B) They allow virtual asset funds to be sold to retail investors
- (C) They prohibit fund managers from holding funds' virtual assets in self-custody arrangements
- ✓ (D) They apply to managers of funds and to managers of clients' discretionary accounts



# Question 4

Which of the following requirements apply to authorized institutions which have an interface with virtual assets and virtual asset service providers?

(A) They should conduct due diligence on virtual assets to which they are exposed

(B) They need to file a suspicious transaction report with the Joint Financial Intelligence Unit if they have suspicions about customers' activities relating to virtual assets

(C) When opening a bank account with a VASP, they should conduct money laundering and terrorist financing assessments on a risk-based approach

✓ (D) All of the above



# Question 5

Which of the following statements about the proposed new VASP licensing regime is CORRECT?

- (A) The HKMA will be the licensing authority
- (B) It is due to come into effect on 1 January 2023
- ✓ (C) It will implement the FATF Travel Rule
- (D) It will allow retail investors to trade virtual assets on licensed virtual asset exchanges



# Q&A



CHARLTONS  
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