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To:
Securities and Futures Commission
54/F, One Island East
18 Westlands Road, Quarry Bay
Hong Kong

Date:
29 August 2025

Re: Public Consultation on Legislative Proposal to Regulate Virtual Asset Custodian Services

Coinbase Global, Inc. (together with its subsidiaries, **Coinbase**) welcomes the opportunity to submit comments in response to the the Financial Services and the Treasury Bureau ("**FSTB**") Securities and Futures Commission's (**"SFC"**) consultation on proposed regulatory requirements for the custody of client assets by intermediaries engaged in virtual asset-related activities (**"consultation"**).

Coinbase is a global, publicly listed company and a leading provider of digital asset infrastructure, committed to building a trusted, secure, and compliant ecosystem for the crypto economy. With operations across more than 100 jurisdictions and licensing or registration with key financial regulators in the United States, United Kingdom, European Union, Singapore, Japan, and Australia, Coinbase brings a global perspective to regulatory design for virtual asset markets.

We commend the SFC's commitment to strengthening investor protection, supporting financial innovation, and building a world-class virtual asset framework. Our comments below are informed by our experience operating in jurisdictions with mature virtual asset regimes and by our commitment to policy engagement that advances safe and inclusive financial systems.We welcome the SFC's leadership and continued dialogue on these important issues.

Sincerely,

Tom Duff Gordon
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Coinbase Global, Inc.

John O'Loghlen
Managing Director, APAC
Coinbase Global, Inc.

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Coinbase welcomes the opportunity to respond to the joint consultation by the Hong Kong SFC and FSTB on the proposed licensing regime for virtual asset (VA) custodian service providers. As a global leader in digital asset infrastructure, Coinbase has long advocated for regulatory frameworks that safeguard client assets while promoting innovation, operational resilience, and international interoperability.

We commend the SFC for proposing a tailored regime for custody that recognises the unique risk profile of VA safekeeping. In our view, Hong Kong is well positioned to establish a best-in-class regulatory model—one that reinforces investor protection, supports institutional growth, and ensures alignment with evolving international standards.

Our response is grounded in Coinbase's experience as a regulated custodian and exchange operator across multiple jurisdictions, including the United States, United Kingdom, European Union, and Singapore. Drawing on our global regulatory engagements we offer the following **six principles** to guide the design and implementation of Hong Kong's VA custody regime:

1. Scope of Regulation Should Be Function-Based and Risk-Aligned

We support a regime that regulates custody based on the core function of controlling client virtual assets, rather than the legal form or affiliated status of the provider. This function-based perimeter ensures that regulatory oversight is applied proportionately—capturing activities that give rise to custody-specific risk, regardless of whether they are performed by exchanges, brokers, or independent custodians.

At the same time, the framework should explicitly exclude actors who do not exercise possession or control over client assets, including wallet software developers, infrastructure providers, and other non-custodial service providers. This clarity avoids regulatory overreach and ensures supervisory resources are focused where risk resides.

2. Custody Standards Should Be Technology-Neutral and Outcome-Oriented

We commend the SFC's commitment to technology neutrality and encourage continued avoidance of prescriptive mandates. Custody solutions are rapidly evolving and may involve offline wallets, software wallets, hardware wallets, multi-party computation (MPC), smart contract-controlled vaults, or hybrid models.

Rather than prescribe specific architectures, the regime should focus on key outcomes: robust access control, transaction auditability, client asset segregation, and secure key management. This outcome-oriented approach will allow the regime to remain durable over time and adaptive to emerging security innovations.

3. Global Sub-Custody and Delegated Arrangements Should Be Accommodated

To maintain Hong Kong's role as an international financial center, the regime must support the use of global sub-custody arrangements. Where a firm delegates custody to a licensed third-party provider and retains no access or control over client assets,

the delegating entity should not be required to obtain a separate VA custodian license.

This is particularly relevant for trustees, fund managers, and intermediaries operating within global group structures. These entities should remain responsible for due diligence, oversight, and disclosure—but not for custody-specific obligations.

4. Mandated onshoring of keys does not provide enhanced security

While the Consultation Paper does not explicitly require that licensed custodians onshore private keys, infrastructure, or personnel, the tone and structure of the proposed guidelines strongly infer a preference — if not a de facto requirement — for operational centralisation in Hong Kong.

Coinbase cautions against any policy direction that would mandate the full onshoring of key management, infrastructure, or operational teams, as doing so does not inherently improve the security or resilience of client asset custody. In fact, enforced geographic concentration may introduce new risks, including:

- Single-point-of-failure risk concentrated in one jurisdiction;
- Reduced redundancy and failover resilience in the event of cyberattacks, regulatory disruption, or natural disasters;
- Barriers to operational excellence, particularly when global teams and multi-region key management systems are deliberately designed to reduce risk through geographic and functional distribution.

Modern institutional-grade custodians are built on globally distributed infrastructures that follow zero-trust principles, multi-region redundancy, and geopolitically risk-aware key management frameworks. These designs are audited, regulated, and battle-tested, offering security outcomes that are superior to those achievable under a single-jurisdiction mandate.

We urge the SFC to ensure that its final guidance remains both technologically neutral and jurisdictionally flexible, focusing on outcomes-based standards (e.g., provable key segregation, resilience, and security controls) rather than prescribing geographic restrictions that could inadvertently undermine investor protection, limit innovation, or discourage global participation in Hong Kong's VA ecosystem.

4. Accountability Should Be Anchored in Entity-Level Governance

We support the SFC's goal of ensuring accountability but urge a proportionate and role-sensitive application of licensing requirements. In modern custody architectures—especially those using MPC or threshold signing— multiple computing parties may participate in secure workflows without exercising discretionary control.

We therefore do not recommend that individuals be subject to individual licensing or accreditation. The licensed custodian should bear responsibility for supervising all relevant personnel under a documented internal governance framework.

5. Financial and Operational Resource Requirements Should Be Risk-Based and Scalable

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Custodians should meet capital and operational resource thresholds appropriate to their size, complexity, and risk profile. However, adopting fixed financial requirements modeled on unrelated regimes—such as Collective Investment Scheme depositaries—may deter new entrants and limit competition without proportionate benefit.

Instead, we recommend a scalable, risk-based approach that permits firms to meet obligations through a combination of paid-up capital, operational reserves, and group-level support. This will encourage resilience while maintaining an open, innovation-friendly custody market.

Together, these principles reflect Coinbase's consistent position across jurisdictions and our strong belief that well-calibrated, functionally targeted custody regulation is foundational to the safety, scalability, and success of digital asset markets. We welcome the SFC's thoughtful engagement on these issues and look forward to contributing to the development of a regulatory model that protects investors while reinforcing Hong Kong's position as a global leader in the digital asset economy.

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Reconciling the Virtual Asset Trading Platform (VATP) Consultation Paper with the Legislative Proposal to Regulate Virtual Asset Custodian Services

Coinbase welcomes the Hong Kong Government's continued leadership in developing a best-in-class regulatory framework for VAs, and we commend the SFC for its sustained efforts to balance investor protection with innovation and capital formation.

We also recognize and support the principles set out in the ASPIRe framework, particularly its emphasis on Interoperability, Network Security, Standards, Proportionality, Inclusiveness, and Resilience, as guiding pillars for effective digital asset regulation. These principles align closely with our own risk-based and technology-neutral approach to global regulatory compliance.

As the current Consultation Paper appears to revisit and build upon certain themes introduced under the VATP regime, we would like to take this opportunity to reiterate several key points from our prior submission — particularly in relation to custody, infrastructure design, and operational flexibility — with a view to supporting the ongoing evolution of a robust and resilient virtual asset regulatory environment in Hong Kong.

We strongly support the SFC's continued regulatory objective of ensuring that client virtual assets are safeguarded at all times — including in the event of a platform's insolvency. However, we believe this objective is best achieved through robust asset segregation and the ability for VA exchanges to engage qualified custodians, and encourage the SFC to *not* require the on-shoring of key management and storage.

Mandating the use of a separate, local custodian may reduce operational efficiency and undermine security and availability, especially if such requirements prevent exchanges from leveraging custodians with global-scale infrastructure and advanced risk controls. This would introduce unnecessary liquidity fragmentation and increase geographic concentration security risks.

This view aligns with the current approach for Type 9 asset managers, who are permitted to appoint external custodians to hold client virtual assets — subject to proper due diligence, formal custody agreements, and clear disclosure requirements.[1] In practice, many licensed Type 9 VA managers in Hong Kong operate under conditions prohibiting self-custody, reflecting the SFC's existing trust in high-standard external custody arrangements.

We recommend that similar flexibility be extended to VA exchanges, allowing them to engage either affiliated or third-party custodians, including those based in jurisdictions with well-regarded insolvency regimes. This would mitigate legal uncertainty over asset treatment in the event of custodian insolvency, while preserving operational excellence and user protection.

Coinbase Custody Trust Co. (CCTC) is one such global, institutional-grade custodian.

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[1] *See SFC Circular to Licensed Corporations Managing Portfolios that Invest in Virtual Assets (October 2019), and pro forma licensing conditions for Type 9 VA-licensed corporations. These conditions include requirements for due diligence, custody agreements, and disclosures when appointing external custodians.*

CCTC is functionally independent from the broader Coinbase Group, subject to regular third-party audits, and trusted by leading institutions worldwide. Permitting Hong Kong-based exchanges to engage custodians such as CCTC — subject to appropriate regulatory oversight — would significantly strengthen the integrity and competitiveness of the Hong Kong VA ecosystem.

Cold storage requirement

While the current Consultation Paper does not explicitly revisit the 98% cold storage requirement set out in Section 10.6(c) of the VATP Guidelines, we believe this principle merits reconsideration as part of a broader discussion on custody and security practices.

Coinbase fully supports the SFC's core objective of ensuring robust protection of client assets. We acknowledge that cold storage has historically played a key role in mitigating risk, particularly during an earlier phase of virtual asset (VA) infrastructure development. However, as the market matures, a one-size-fits-all threshold — such as a fixed 98% cold storage requirement — may no longer be appropriate across all use cases or custody arrangements.

During periods of high withdrawal demand, adhering strictly to a 98% cold storage ratio could constrain platforms' ability to efficiently serve customers, delay withdrawals, and impair best execution. At the same time, modern wallet technologies, such as multi-party computation (MPC), offer comparable levels of security with improved flexibility and responsiveness — particularly for institutional or high-frequency use cases.

Coinbase Custody, for example, has historically operated at or above the 98% cold storage level globally. However, this was largely a function of earlier security paradigms. Today, we see growing demand for hybrid custody architectures that strike a more dynamic balance between security, liquidity, and user experience.

We would welcome the opportunity to engage with the SFC to share details of Coinbase's wallet management framework — including MPC — in the same collaborative spirit we have engaged with other regulators globally, such as in the United States.

Ultimately, we believe the regulatory framework should take a flexible, technology-neutral approach, recognising that while offline wallets have long been regarded as the gold standard for security, emerging wallet technologies can deliver comparable protections. Such an approach would allow exchanges and custodians to adopt innovative solutions that meet or exceed the security outcomes traditionally associated with offline wallet storage.

As the SFC considers threshold requirements in future as part of the consultation regime, we would suggest that overly prescriptive virtual asset storage mandates may unintentionally foreclose innovation and prevent Hong Kong's VA ecosystem from fully benefiting from technological advances that enhance both security and functionality.

Responses to the consultation questions

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In light of the above, we set out below our responses to *select* consultation questions.

Q1: Do you have any comments on the proposed definition and scope (e.g. too narrow or too wide) of VA custodian services to be regulated?

Coinbase supports the SFC's approach to regulating virtual asset (VA) custody as a distinct and risk-sensitive activity, and broadly agrees with the proposed scope. A well-calibrated definition is critical to ensuring the regime captures functions that create material client asset risk, while preserving clarity and flexibility for innovation.

To better align with global practices across peer jurisdictions and standard setters, we recommend the following refinements:

1. **Function-based and risk-aligned scope**
   The definition should apply to entities that exercise control over client virtual assets, irrespective of whether they are structured as trading venues, brokers, or independent custodians. As we have emphasized in previous submissions, it is the *function of safekeeping and control* that creates custody risk, not the legal form or affiliated status of the provider. This ensures consistency across different business models and mitigates the risk of regulatory arbitrage.

2. **Technology Neutrality**
   The framework should remain agnostic to the technical architecture used to perform custody functions. Modern custody practices may involve a range of secure configurations—including cold storage, hot storage, multiparty computation (MPC), or smart contract-controlled vaults. Provided these approaches deliver robust access controls, auditability, and segregation, they should fall within the regulated perimeter. Avoiding technology mandates ensures the framework remains adaptive to innovation and resilient over time.

3. **Inclusion of delegated custody**
   The scope should clarify that firms delegating custody to third-party or sub-custodians remain accountable for client asset protection, and that delegated arrangements fall within the regime's expectations. In our prior consultations, we noted that many institutions rely on global sub-custody arrangements, and these can be safely supported through due diligence, ongoing oversight, and regulatory equivalence. The regime should accommodate these structures without creating uncertainty about supervisory expectations.

4. **Exclusion of non-custodial actors**
   The framework should explicitly exclude non-custodial actors such as self-hosted wallet providers, software developers, and infrastructure firms who do not take possession of or control over client assets. Including such actors would impose regulatory burdens disconnected from risk, discourage innovation, and misallocate supervisory resources.

5. **International Alignment**
   We support the SFC's continued efforts to align with leading jurisdictions and international standard-setters. Regulatory definitions under MiCA (EU), the Monetary Authority of Singapore (MAS)'s Digital Payment Token Service Provider, and the UK FCA's proposals all center custody obligations on the core

risk: effective control of client assets. We encourage the SFC to maintain compatibility with these frameworks to ensure cross-border operability and reduce compliance fragmentation for global firms.

A clear, functional, and internationally consistent definition of custody will support market integrity and investor confidence while ensuring the regime remains responsive to emerging technologies and evolving business models.

Q2: For entities which do not safekeep private keys but arrange a third party to custody the client VAs or otherwise safekeep the private keys (such as a private fund trustee of a VA fund that delegates the safekeeping of private keys to a subcustodian), should they be required to obtain a VA custodian service provider license? Please explain your comments.

Coinbase does not support requiring a VA custodian license for entities that do not themselves exercise control over or directly safeguard client virtual assets, but instead delegate custody to a licensed third party. Instead, the regime should distinguish clearly between:

- Custodial service providers who directly hold or control client assets or private keys, and
- Non-custodial intermediaries (e.g., trustees, fund managers, or agents) who contract with licensed custodians and retain no technical or legal ability to access the assets.

The key regulatory risk arises from the entity with operational access to and control of the client's virtual assets. This is the party best positioned—and required—to maintain safeguards such as key security, internal controls, asset segregation, and reconciliation.

Intermediaries that merely facilitate custody relationships, without holding client assets or possessing technical access to private keys, should not be subject to the same obligations as custodians themselves. These entities may already be subject to oversight under other regulatory frameworks (e.g., fund regulation or trust law), and duplicative licensing could result in overlapping obligations without corresponding supervisory benefit.

That said, such intermediaries should remain responsible for appropriate due diligence, ongoing monitoring of the custodian, and disclosure of the custody arrangement to clients. This mirrors well-established norms in traditional finance and aligns with Coinbase's prior position that delegation of custody must not imply delegation of responsibility.

Q3: Are there any entities which should be licensed or registered for providing VA custodian services but are not caught by the proposed definition? Please explain your comments.

At this stage, we do not see major functional gaps in the proposed definition, provided it is applied in a risk-sensitive and technologically neutral manner. We encourage the

SFC to adopt interpretive guidance or FAQs to ensure consistent application of the definition, particularly as custody models evolve.

Q4: For an entity ("Entity A") within a corporate group that safekeeps private keys whereby personnel from a different group entities ("Group Entities") may also be involved in safekeeping the private keys and/or signing a VA transaction:

(i) Should the Group Entities be required or not required to obtain VA custodial provider licenses? Please explain your comments.

Group Entities should not be required to obtain separate VA custodian service provider licenses if they are acting under the direction and control of a single licensed entity (Entity A) that is legally and operationally responsible for the custody function.

In Coinbase's view, the licensing obligation should apply only to the entity that is contractually responsible to clients and exercises overall control and accountability for the custody arrangements. This aligns with established regulatory practice across both digital and traditional finance, where operational functions may be distributed across affiliates but ultimate responsibility sits with the licensed firm.

This approach is particularly important in the context of modern custody architectures (e.g., multi-party computation or geographically distributed key sharding), where security best practices deliberately distribute control across personnel or infrastructure in multiple entities. Requiring each entity involved in a partial or supporting role to obtain a separate license would be duplicative and disproportionate.

(ii) If the answer to (i) is yes, please provide your comments on the types of personnel within Group Entities which should obtain an individual licence ("Relevant Personnel"). What steps of the transaction should require this licensing requirement?

Again, we do not recommend this model.

(iii) If the answer to (i) is no, please provide your comments on whether the Relevant Personnel of the Group Entities should be required to be accredited to Entity A (assuming Entity A will obtain a VA custodian provider licence) and also obtain an individual license. Please explain in your comments.

Where key management or signing functions are distributed across personnel in multiple Group Entities, those individuals should be subject to Entity A's internal control framework, and may be required to be registered or accredited under Entity A's license, depending on their level of access and responsibility.

We would support a model where:

- Entity A maintains and reports a register of Relevant Personnel involved in custody operations;
- These individuals are subject to Entity A's policies, training, and accountability mechanisms; and

- Individual licensing is not required, unless a person has discretionary authority over client assets or performs client-facing fiduciary functions.

This approach ensures strong oversight and clarity of responsibility while avoiding unnecessary regulatory duplication for operational roles performed within a group structure.

Q5: What are your comments on the proposed exemptions? Would there be other exemptions that are necessary?

Coinbase supports the inclusion of narrowly tailored exemptions that reflect operational realities and avoid duplicative licensing. In particular, we recommend that the SFC explicitly clarify the regulatory treatment of sub-custody arrangements, which are a critical component of institutional digital asset infrastructure.

We recommend that the regime provide a clear exemption—or licensing recognition—for entities that delegate custody to a licensed third-party custodian, including where the custodian is located outside of Hong Kong, provided that:

- The delegating entity does not itself hold or control client virtual assets or private keys;
- The sub-custodian is subject to equivalent regulatory standards and supervisory oversight in its home jurisdiction;
- The delegating entity conducts robust due diligence and ongoing monitoring, and provides transparent disclosures to clients.

This approach is consistent with Coinbase's prior positions and aligns with global regulatory standards under MiCA, the FCA's proposed regime, and traditional finance custody frameworks. It enables Hong Kong-based intermediaries to access global best-in-class custody infrastructure, controls, and insurance capacity, while maintaining clear lines of regulatory accountability.

We also support the proposed exemption for non-custodial actors—such as wallet software providers and infrastructure firms—that do not exercise possession or control over client assets. These actors fall outside the functional perimeter of custody and should not be in scope.

Finally, we encourage the SFC to retain flexibility to issue further exemptions or interpretive guidance as custody technologies and market structures evolve, ensuring the regime remains innovation-supportive and risk-proportionate over time.

Q6: Do you have any comments on the proposed scope of allowed activities?

Coinbase supports the SFC's effort to define the scope of permitted activities for licensed VA custodians and agrees that the primary function should remain the secure safeguarding of client virtual assets.

However, we recommend that the final framework provide clarity and flexibility around

a set of ancillary and risk-managed activities that are commonly expected in institutional custody relationships and are consistent with global norms. Specifically:

1. **Permitted ancillary activities**
   Custodians should be permitted to perform activities that are operationally necessary or commonly bundled with custody, including:
   - Settlement and transfer of virtual assets at the direction of clients or counterparties;
   - Staking or governance participation, where explicitly instructed by the client and supported by appropriate disclosures;
   - Facilitation of reporting, auditing, and tax documentation;
   - Integration with regulated trading venues or execution providers, without taking principal risk.

2. **These activities are routinely expected by institutional clients and are typically subject to client authorization and strong internal controls**. They should be permitted under a custody license, provided client ownership is preserved and risk exposure remains limited.

3. **Explicit prohibitions or boundaries**
   We support the prohibition of unauthorized use of client assets, such as lending, pledging, or rehypothecation, unless separately approved by the client. The regulatory framework should also clearly distinguish between custody and other activities such as market making, dealing, or proprietary trading, which should require separate licensing and risk controls.

A well-calibrated scope of allowed activities ensures that custodians in Hong Kong can meet the expectations of sophisticated clients without compromising asset protection or regulatory clarity.

Q7: Do you have any comments on the types of VAs that a VA custodian service provider should not provide custodian services for?

Coinbase does not support a blanket prohibition on custodial services for specific categories of virtual assets, provided the custodian can demonstrate appropriate risk controls, legal clarity, and technical capability to safeguard those assets.

Instead, the regulatory framework should be based on the nature and custody-specific risk profile of the asset, including:

- Whether the asset can be securely held and transferred using the custodian's infrastructure;
- Whether the asset's legal status permits the custodian to act as safekeeper on behalf of clients;
- Whether the asset involves complex or embedded features (e.g., staking, governance, or smart contract-based mechanics) that require additional operational controls or client disclosures.

We recognize that certain assets may pose heightened risk or operational ambiguity—such as those that are untransferable, locked in smart contracts, or governed by automated protocols. However, these challenges are best addressed through internal asset eligibility assessments, not outright prohibition.

A risk-based and outcome-oriented approach is consistent with international standards. Custodians under regimes such as MiCA (EU), the UK FCA, and the UAE FSRA are not limited by token type but are expected to conduct asset-level due diligence to ensure that assets can be securely and lawfully held.

This approach is also aligned with the Monetary Authority of Singapore (MAS), which does not prohibit custody of specific tokens but expects digital payment token (DPT) service providers to implement internal asset eligibility frameworks. These frameworks assess technical compatibility, smart contract behavior, and legal clarity—while preserving operational flexibility and innovation.

Accordingly, we recommend that the SFC:

- Avoid prescriptive lists of prohibited tokens;
- Provide non-exhaustive guidance on risk factors that may render certain assets unsuitable for custody; and
- Permit licensed custodians to adopt internal eligibility criteria tailored to their custody infrastructure, legal assessments, and risk appetite—subject to supervisory review.

Q8: Do you have any comments on the scope of individual license and engagement as relevant individuals for providing VA custodian services?

Coinbase supports strong accountability and fitness standards for individuals engaged in critical custody functions, but recommends that licensing and registration requirements remain proportionate to the role an individual plays, and anchored in entity-level governance and supervision.

We agree that individuals with discretionary authority over client assets or control over private key access or transaction execution should be subject to appropriate regulatory scrutiny. However, we caution against overly broad application of individual licensing requirements to all personnel involved in the custody function, particularly in modern custody architectures that intentionally distribute control (e.g., via multi-party computation or geographically segregated teams).

We recommend the following approach:

1. **Entity-level licensing with internal control over relevant personnel**
   The licensed custodian should remain fully responsible for custody operations, including the governance, training, and supervision of all personnel who participate in the safekeeping process. Internal designation and oversight of "relevant individuals" should be documented and made available to regulators but should not automatically trigger individual licensing requirements unless

certain thresholds are met.

2. **Targeted individual licensing or registration**
   Individual licensing (or accreditation) should be limited to those with:
   - Independent signing authority or the ability to unilaterally authorize or execute transactions;
   - Control over core custody infrastructure or private key material;
   - A senior management or control function related to the custody business (e.g., compliance head, custody operations lead).

3. **Individuals engaged in purely technical, compliance, or operational support** roles—particularly within a group entity acting under the direction of a licensed custodian—should not be required to obtain separate licenses.

4. **Recognition of group-level governance**
   In group structures, personnel involved in distributed custody functions (e.g., key shares, MPC protocols) should be accredited or registered under the licensed entity's internal framework, rather than subject to full individual licensing. The focus should remain on ensuring the licensed custodian can demonstrate oversight, not on duplicative personal licensing.

Individual accountability should be addressed through a mix of senior management certification, fit-and-proper requirements, and entity-led compliance regimes, rather than through blanket individual licensing.

We support the SFC's goal of ensuring accountability and safeguarding, and recommend that the final framework reflect a clear, proportionate, and risk-based approach to designating and supervising relevant individuals.

Q9: Should individuals with authority to approve or sign VA transactions be required to obtain a license or be engaged as relevant individuals? If yes, what steps of the transactions should trigger this requirement?

We do not support requiring individual licensing or engagement solely on the basis of an individual's role in signing or approving virtual asset transactions, where those actions occur as part of a secure, policy-driven workflow under the control of a licensed custodian.

Custody models often require multiple signers or threshold approval structures as a security feature. Participation in these processes does not confer independent decision-making authority or discretionary control over client assets. As such, it should not trigger a separate regulatory designation.

We recommend that the obligation to license or register individuals be limited to those whose role enables them to unilaterally direct or approve transactions outside of standard controls—such as individuals with override permissions, root access to key systems, or senior responsibility for transaction governance.

A broader licensing requirement tied to technical signing participation would create

unnecessary regulatory burden without improving client protection, and may in fact disincentivize strong operational security practices.

Q10: Do you think that licensed VA custodian service providers should be subject to the similar financial requirements as licensed corporations carrying Type 13 regulated activity of depositary services for a relevant CIS? Do you think additional resources calibrated with scale of business or operations are required?

We support requiring licensed VA custodians to meet appropriate financial and operational resource thresholds. However, these requirements should be calibrated to the specific risks of virtual asset custody, rather than adopting frameworks designed for other regulatory contexts, such as depositary services for collective investment schemes.

Fixed capital or net asset thresholds that are not linked to the scale, complexity, or custody-specific risk profile of a business may impose unnecessary barriers to entry without materially improving client protection. Such requirements can also disadvantage firms that provide focused, infrastructure-based custody services or operate under robust group-level risk and capital frameworks.

We recommend that financial resource requirements be:

- Risk-based and scalable, increasing with assets under custody, client profile, and operational complexity;
- Flexible in structure, allowing firms to meet them through a combination of paid-up capital, operational reserves, insurance coverage, or group-level financial strength;
- Designed to promote resilience without discouraging innovation or deterring new market entrants.

This approach ensures that resource expectations are meaningful, proportionate, and tailored to the custody function—while still supporting the SFC's objective of safeguarding client assets and ensuring business continuity.

Q11: Should other regulatory requirements be added to mitigate the risks of VA custodian services?

At this time, we do not see a need for additional regulatory requirements, and caution against adding prescriptive or duplicative obligations that could increase friction without materially improving client protection.

Q12: What are your comments on the proposed transitional arrangement for the licensing regime for VA custodian service providers?

We support the introduction of a transitional period for the licensing regime and agree with the principle of providing time for firms to align with new regulatory requirements. However, we recommend that the SFC ensure the transitional framework provides clarity, predictability, and flexibility, particularly for firms that are:

- Already operating in Hong Kong under an existing financial services license or exemption;

- Part of globally licensed groups, where custody services may currently be performed by an offshore affiliate subject to equivalent oversight; or

- In the process of building out dedicated custody infrastructure in line with the proposed standards.

Specifically, we encourage the SFC to consider the following adjustments or clarifications:

1. **Regulatory certainty during the transition period**
   Firms operating under the transitional arrangement should have clear guidance on how their status will be treated for compliance, onboarding, and engagement with clients and counterparties. This includes recognition of existing offshore custodians that are part of a regulated group structure.

2. **Sufficient lead time and resourcing flexibility**
   Implementation timelines should reflect the significant operational, technical, and legal work required to meet the proposed standards—particularly around governance, key management, sub-custody, and financial resources. A phased or tiered approach could help ensure orderly onboarding and avoid disruptions to custody continuity.

3. **Recognition of global licensing and supervision**
   Firms that already hold custody licenses in other major jurisdictions should be able to leverage those supervisory relationships and infrastructure during the transitional period, while ensuring local governance and accountability requirements are met.

A well-calibrated transitional regime will help maintain market continuity, support investor protection, and allow qualified custodians to continue servicing clients while building toward full compliance. We would welcome further engagement with the SFC as the transitional provisions are finalized.

Q14: Do you agree that, for the purposes of protecting the investing public, persons not licensed by or registered with the SFC should not be allowed to actively market VA custodian services to the public of Hong Kong?

We agree that only persons licensed by or registered with the SFC should be permitted to actively market VA custodian services to the Hong Kong public. This is consistent with the overarching goal of investor protection and ensures that custodial services offered to local clients are subject to regulatory oversight.

That said, we encourage the SFC to provide clarity on the boundaries of this restriction, particularly with respect to:

1. Global firms servicing institutional clients from offshore, where no active marketing takes place in Hong Kong;

2. Inbound interest from Hong Kong entities seeking services from regulated custodians abroad, where no solicitation occurs;

3. Group-level custody models, where a Hong Kong entity may refer clients to an affiliated licensed custodian located in another jurisdiction.

To support both market integrity and cross-border operability, we recommend that the restriction on marketing be:

- Narrowly scoped to active solicitation or promotion targeting the Hong Kong public;
- Applied consistently with existing conduct rules under the Securities and Futures Ordinance (SFO);
- Supported by guidance on what constitutes "marketing," including treatment of websites, passive referrals, or client-initiated engagement.

This approach would preserve the policy objective of protecting retail investors while allowing institutional clients to continue accessing regulated, globally licensed custodians, and avoiding unnecessary fragmentation of service delivery across borders.

Q15: Do you agree that the SFC and the HKMA should be provided with the proposed powers?

We support the SFC and the HKMA having clear and appropriate powers to supervise and enforce the regulatory framework for VA custodians. Regulatory certainty and effective oversight are essential to building trust in the digital asset ecosystem and ensuring that custodial service providers meet high standards for client asset protection.

That said, we recommend that any expanded powers granted to the SFC and HKMA be:

1. Clearly delineated and coordinated between the two authorities, to avoid regulatory duplication or inconsistency in enforcement;

2. Accompanied by transparent guidance on scope and process, particularly where custodial activity may intersect with other licensed services (e.g., Type 1 dealing or VATP operation);

3. Used proportionately and with due regard for international firms operating under multi-jurisdictional frameworks, where group-level compliance and oversight may already be in place.

We support regulatory enforcement that is predictable, consistent, and risk-based—and believe the proposed powers can serve that goal if implemented with clarity and coordination.

Q16: Do you agree with the proposed sanctions, which are comparable to those

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under the existing regulatory regimes for VATPs?

We agree that VA custodians should be subject to a clear and proportionate sanctions framework, and we support aligning that framework with the existing regime for VATPs. Consistency across regulatory regimes promotes predictability, fair treatment, and reinforces the integrity of Hong Kong's overall digital asset supervisory framework.

That said, we encourage the SFC to ensure that the enforcement framework:

1. Applies sanctions in a risk-based and proportionate manner, reflecting the severity and nature of the breach (e.g., operational control failures vs. minor reporting issues);

2. Maintains consistency across all types of regulated entities, including VATPs, intermediaries, and custodians—particularly where those functions are performed within the same group or platform;

3. Includes appropriate procedural safeguards and transparency in enforcement outcomes, to promote regulatory certainty and confidence in the supervisory process.

We support a sanctions framework that is aligned with global norms and reinforces high standards without creating undue deterrents for responsible firms operating in good faith.