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To:
Financial Services and the Treasury Bureau, Securities and Futures Commission

Division 5, Financial Services Branch
24/F, Central Government Offices
Tim Mei Avenue, Tamar Central
Hong Kong

Date:
29 August 2025

Re: Public Consultation on Legislative Proposal to Regulate Dealing in Virtual Assets

Coinbase Global, Inc. (Coinbase) appreciates this opportunity to respond to the Financial Services and the Treasury Bureau (**FSTB**) Securities and Futures Commission's (**SFC**) public consultation 'Legislative Proposal to Regulate Dealing in Virtual Assets' (**Consultation**).

Coinbase started in 2012 with the idea that anyone, anywhere, should be able to send and receive Bitcoin easily and securely. Today, we are publicly listed in the United States and provide a trusted and easy-to-use platform that millions of verified users in over 100 countries rely on to access the crypto economy.

We believe that Hong Kong is a key venue for the next phase of the development of the virtual asset (**VA**) industry. As a well-respected international financial center with a strong legal tradition and sophisticated regulators, Hong Kong is well-positioned for this opportunity. We suggest that to achieve this vision, Hong Kong ensures access to global liquidity and global custodial relationships for VA dealers. The VA industry is underpinned by a global, 24/7 market structure, and best-in-class solutions to liquidity and asset security have been built with this in mind.

We commend the FSTB and SFC for their continued commitment to formulating a comprehensive and transparent regulatory regime for the virtual asset industry. We are pleased to see Hong Kong exploring a more comprehensive and potentially more globally focused regulatory regime.

Yours sincerely,

Tom Duff Gordon
VP, International Policy
Coinbase Global, Inc.

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

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Introduction

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) dealers. As the only global listed crypto exchange, 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 that addresses a wider variety of business arrangements that service the VA industry. The recognition of how diverse the industry is, accompanied by appropriate, flexible, regulation will help Hong Kong achieve its vision to become a global digital asset hub ensuring that it can grow with this highly dynamic industry.

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 principles that will be critical to the success of Hong Kong's VA regime.

Key recommendations

Allow access to global liquidity

As it stands, the proposed framework risks creating an isolated liquidity model that tends to lead to worse prices for clients compared to global prices, by requiring all VA dealing activities to be conducted through licensed Hong Kong Virtual Asset Trading Platforms (**VATPs**).

We recommend that VA dealers be allowed to acquire or dispose of VAs for clients via global, non-SFC-licensed VATPs as considered in Section 2.22. Unlike traditional securities that are typically listed and traded within the jurisdiction of their issuance, VAs can be traded on hundreds of exchanges—centralized or decentralized—most of which do not have operations in Hong Kong. Competition for liquidity is global, and global liquidity provides better consumer outcomes through lower spreads and fees. A regulatory regime that walls off access to global liquidity will limit the benefits to investors and undermine Hong Kong's efforts to become a regional virtual asset hub.

Allowing a business model where a VA dealer[1] located in Hong Kong can be a subsidiary of a global parent group will be critical to attracting the full breadth of global VA activity to Hong Kong. Local subsidiary, global parent arrangements are common across most jurisdictions with VA regimes. These large global parent companies are able to provide subsidiary clients with deep liquidity, institutional grade trading tools and access and, most importantly, best-in-class global custodial solutions.

Allow global custodial relationships

To complement global liquidity access, we recommend that VA dealers be able to utilize global custodial relationships where the custodian is licensed in an appropriate jurisdiction. This would be in line with similar provisions for traditional financial asset custody. We support the regulatory goal of providing assurance that client assets are protected against misuse and from risk of loss in the event of insolvency. However, we believe that the proposed requirement for custodial relationships to be with Hong Kong licensed VA custodians is not the best way to achieve this outcome. We have written in more detail about this in our response to the public consultation on the 'Legislative Proposal to Regulate Virtual Asset Custodian Services'.

We believe that VA exchanges and dealing service providers should have the option to engage reputable external custodians and/or sub-custodians (whether affiliated or not) to hold client VAs, as long as the assets remain appropriately segregated from the platform's own assets and the assets of the external or sub- custodian. As VAs and VA liquidity are global, allowing for global custodial relationships ensures that the best security practices, developed under this unique market structure, are able to be implemented. This includes globally dispersed key sharding and 24/7 security oversight that allows for 24/7 liquidity and collateral management.

Allowing for global custodial relationships is consistent with the approach taken by the SFC for Type 9 asset managers. Recognition of global custodial licensing regimes would ensure flexibility and choice for VA dealers while maintaining robust standards and consumer safeguards. Local firms will be able access global, mature custodial providers who have demonstrated best practices and invest in top tier security.

Allow VA dealers to provide ancillary services including staking

We agree with the SFC's approach to services like staking, borrowing/lending, margin trading and trade financing outlined in paragraph 2.20. It is pragmatic and will complement the VA dealing framework.

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[1] A locally incorporated company or one that is registered in Hong Kong under the Companies Ordinance, which has appointed at least two responsible officers approved by the SFC as per 2.14 and 2.16

Staking is a fundamental component of proof-of-stake blockchain networks, and is a highly sought-after feature for many virtual asset holders. Allowing regulated virtual asset dealers to offer staking to clients enables their participation in a core activity that secures these networks and generates yield.

Borrowing/lending, margin trading and trade financing are core client offerings for transitional securities dealers and are expected offerings for clients in the VA space. Ensuring these services are available, with similar protections, would signal that Hong Kong embraces the full spectrum of the virtual asset, positioning it as a leader in the global digital economy and aligning with the strategic goals of the ASPIRe framework.

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Targeted responses

We believe that Hong Kong can achieve its goal of becoming a virtual asset hub if it opens up to the benefits provided by global liquidity and global custodial relationships that are core to this next generation of financial market infrastructure.

We recognise that currently Coinbase is not a registered VATP in Hong Kong, and as such we have responded to the questions in a targeted manner informed by our global experiences, rather than every question.

Question 1: Do you agree with the proposed definition and scope of VA dealing services? Are there any potential exemptions which you consider appropriate?

We agree with the proposed definition and scope of VA dealing services. We support a broad definition that captures the wide range of business models, from simple conversions to brokerage and block trading activities.

While allowing for access to global liquidity and global custodial relationships, the licensing of VA dealers as proposed will provide the strong consumer protections stemming from regulatory supervision without compromising on the costs and decrease in asset security that come with localised liquidity and custody requirements.

The SFC and FSTB should consider allowing for reverse solicitation relationships between clients and VA intermediaries, especially if it does not intend to allow for VA dealers to provide clients with access to global liquidity and global custodial relationships. Consumers prefer to deal with licenced, regulated entities and generally seek out offshore relationships only if they provide access to services of high quality (e.g. deep liquidity, best-in-class custodial practices), or products that are unavailable locally. If the relationship is true reverse solicitation, passive availability only, the SFC should allow for its provision while recognizing that the consumer has chosen to forgo protections to achieve that access or may have instead identified they are comfortable with relying on protections offered by another jurisdiction where their chosen custodian may be licensed.

It is important to note that regulating passively available products and services creates a number of practical difficulties. This is particularly true for online offerings for which anyone with an internet connection can find without the aid of solicitation. In our view the scope should depend on how the Hong Kong user finds their way to the offshore firm's offering and whether the offshore firm has directly solicited the user's attention for any particular product.

Additionally, we agree that exclusion of peer-to-peer trading between individuals where no intermediary is involved is appropriate. To complement this, we suggest that the SFC clarify that software providers, like defi smart contracts and self-hosted wallet applications are also exempted from the regime.

There are many entities that offer self-hosted wallet software applications that enable users to trade assets p2p that are primarily created for users custody of their own funds. When trading via smart contracts via these software applications the users have full discretion and the software just relays instructions to the blockchain. To provide clarity the SFC should explicitly confirm that it does not intend to capture software applications.

Question 2: Do you have any comments on the proposed scope of allowed activities?

The proposed scope of allowed activities, including simple and complex dealing services, is comprehensive and recognises the breadth of services that are expected by clients accessing VAs nowadays.

We suggest that to make this scope truly effective and competitive, it must be paired with the ability for licensed entities to access global liquidity and global custodial relationships. Without these key pillars, the permitted activities would be hampered by fragmented liquidity, poor pricing, and low quality security practices, limiting the market's growth and driving consumers offshore to unscrupulous, less regulated venues.

Limiting liquidity and custody to onshore only, will drastically reduce the effectiveness of these reforms in achieving the ‘Access’ pillar of the ASPIRe framework, continuing to hamper the variety and competitiveness of VA offerings in Hong Kong.

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?

We strongly support the suggestion that VA dealing services are allowed to acquire or dispose of VAs for clients via non-SFC-licensed VATPs or liquidity providers. We believe this is a critical component for Hong Kong to succeed as a VA hub, which will require access to the benefits of tight spreads and deep liquidity that is only available through global liquidity providers.

To ensure protection of VA dealer clients, we propose that the SFC could consider the following safeguards:

- **Due Diligence**: The licensed provider should be required to conduct rigorous due diligence on the offshore platform, including its regulatory status, AML/CFT controls, and custody arrangements.

- **Jurisdictional recognition**: The SFC should nominate recognized jurisdictions with commensurate investor protection rules and allow liquidity and custodial arrangements between VA dealers and licenced entities in those jurisdictions.
- **Intermediary Responsibility**: The Hong Kong-licensed intermediary would remain ultimately responsible to the clients and the SFC.
- **Transparency and Disclosure**: The intermediary must provide transparent risk disclosures to clients about the risks involved in utilizing the services of offshore liquidity venues.

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?

We believe the SFC's regulatory goals can be achieved by allowing for global custodial relationships with licenced custodians in recognised jurisdictions. This would mean that a licensed intermediary could use a custodian like Coinbase Custody Trust Company (CCTC), while keeping them segregated from the intermediary's and CCTC's own funds.

AML compliance would ultimately remain the responsibility of the VA dealing service though they would be able to utilize AML compliance tools of these larger organizations to help with their obligations. To support Travel Rule compliance, Coinbase along with an industry consortium, has created the Travel Rule Universal Solution Technology (TRUST) which empowers VASPs to share whatever forms of travel rule information their jurisdiction requires while providing a unique and robust system for counterparty identification.

Question 5: Do you think the regulatory requirements proposed suffice in addressing potential ML/TF risks and offering adequate investor protection?

We agree with the general proposed requirements regarding financial resources, knowledge and experience, disclosure, conduct, record keeping, protection of assets, and investor safe guards. We suggest that all of these requirements be commensurate to the nature and scale of each VA dealer's business and that requirements for VA dealers are equivalent to those of traditional securities dealers.

We suggest some specific considerations for each should also be taken into account for the proposed regime to be effective:

- **Financial resources** - As VA dealers are much simpler businesses than VATPs we suggest that having a rigid requirement for capital equivalent to VATPs is inappropriate. We suggest that as per Type 1 securities dealers there is some flexibility for lower amounts in accordance to the size and complexity of the VA dealing business.

- **Knowledge and experience** - We suggest that, like the VATP regime, the SFC retains the flexibility to recognize innovative technology experience as "relevant industry experience" for key personnel, acknowledging the specialized expertise required for virtual asset operations.

We welcome the opportunity for further consultation specific requirements relating to these in regards to fitness-and-properness tests, ability and experience checks, AML/CFT controls, conduct and risk management as well as other requirements for VA dealer applicants and relevant persons.

Question 6: Do you agree with the proposed transitional arrangement?

We suggest that the proposed transitional arrangement, that is arguably not a transitional arrangement at all, is not appropriate due to the amount of unknown factors, such as whether global liquidity and global custody arrangements will be allowed. The impact potential of these unknowns are too great for a business to make any commitment to apply for a licence on commencement date, let alone undertake pre-licencing talks prior to that.

We strongly recommend that a more traditional transitional approach be taken. We suggest that from the point of the commencement of the regime VA dealers have 6 months to lodge a licensing application or withdraw from the market. This will allow businesses to commit resources to the market with certainty and limit harm to Hong Kong customers that could be caused by disruptions stemming from the proposed approach.

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?

We suggest that adopting a strict "user-pays" principle to align the licensing and annual fees for VA dealing services with those for Type 1 regulated activity under the Securities and Futures Ordinance (SFO) may provide the best outcomes for Hong Kong's VA industry. The principle of applying the same fees for similar types of business offerings across VA and traditional securities markets, while generally sound, must be applied with nuance to avoid unintended consequences for the VA market. A rigid approach could create a disproportionate financial burden, particularly for smaller firms, which could stifle competition and innovation, ultimately hindering the development of a diverse and dynamic virtual asset ecosystem in Hong Kong.

It is important for fee structures to be benchmarked against those of competing jurisdictions to ensure that Hong Kong becomes an attractive and viable destination for VA dealers. If the cost of licensure is significantly higher than in other major financial hubs, it will deter new entrants and hamper access. This would weaken Hong Kong's position as a leading international financial center for VAs.

The need to generate sufficient revenue for regulatory functions must be carefully balanced with the broader goal of fostering market development. While the SFC requires adequate resources to maintain a robust and fair market, a sole focus on cost recovery through licensing fees could be counterproductive. High fees, if passed on to clients, could increase transaction costs for investors and potentially reduce trading activity, limiting the overall growth of the market. This would not only affect the licensees but could also indirectly impact the investors the framework is designed to protect by limiting their access to the market.

A VA dealer fee structure that is fair, predictable, and supportive of market growth will be vital for the long-term health and success of Hong Kong's virtual asset ecosystem, enabling it to evolve in a secure and orderly manner.

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?

We suggest that the SFC should consider allowing unlicensed persons to market their VA dealing services to institutions and high net worth individuals if it does not intend to allow for VA dealers to provide clients with access to global liquidity and global custodial relationships.

Institutions and high net worth individuals are likely to seek out services that offer access to global liquidity and global custodial relationships. These sophisticated investors, unlike retail investors, possess the necessary resources and knowledge to evaluate global offerings and understand the associated risks and it is beneficial for them to have access to factual marketing materials that inform them about the full range of available options, including those that offer global liquidity and custodial relationships.

To maintain protection of retail users, marketing efforts could be conditional on being purely factual, related to service differences, not allow for any promotions or sign up deals, and deliberately targeted to high net worth individuals and family offices or institutional investors. This would ensure limited visibility by retail investors and limit inducement to trade.

Question 10: Do you agree that the SFC and the HKMA should be provided with the proposed powers?

We agree that the SFC and HKMA should be provided with the proposed powers, including the ability to conduct inspections, investigate non-compliance, and impose sanctions. These powers are essential for a robust and effective regulatory environment. Without these tools, the authorities' ability to protect investors, maintain market integrity, and combat illicit activities would be limited.

Ultimately, these powers are vital for the SFC and HKMA to effectively manage the risks associated with virtual assets and to foster a regulatory environment that is both safe for investors and conducive to innovation, which is crucial for the development of a trustworthy and sustainable VA market. Providing these authorities with the necessary tools ensures that Hong Kong can maintain its reputation as a leading international financial center that is well-equipped to handle the challenges and opportunities presented by the digital economy.

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?

We agree that a review tribunal mechanism is an important component of a fair and transparent regulatory system. It provides a necessary channel for appeal and ensures due process for all stakeholders.