Enhanced Licensing and External Assessment Framework for VA Trading Platforms

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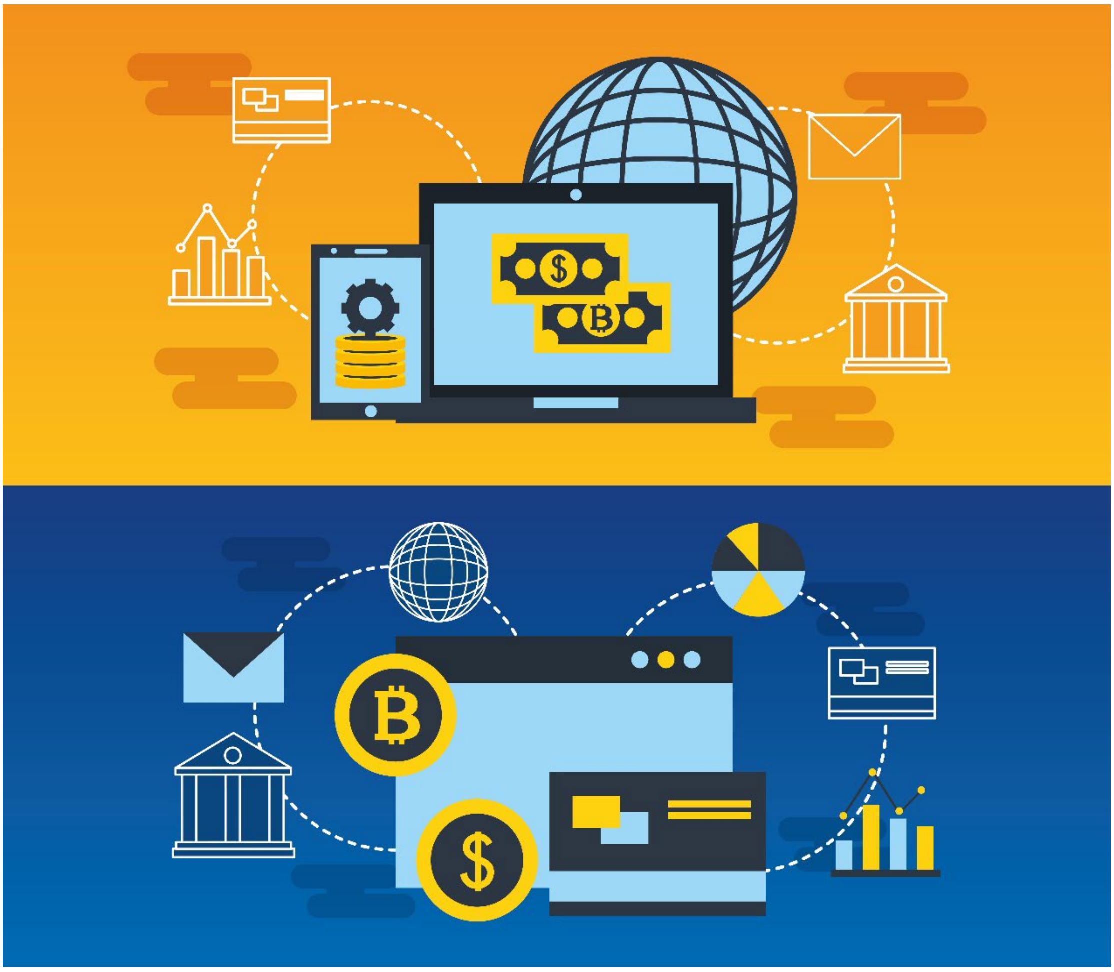
Background

Following its Circular issued on 18 December 2024 to announce the swift licensing process and revamped second-phase assessment for virtual asset trading platforms (“**VATP**”), the Securities and Futures Commission (“**SFC**”) had enhanced its licensing procedures and assessment framework. Under the enhanced licensing process which is rolled up to ensure that its policies, procedures and systems (“**P&P**”) are suitably designed and implemented, the VATP applicant is required to engage an external assessor to conduct an external assessment jointly with the SFC after deploying all relevant systems and controls.

This explanatory note is intended to list out the key takeaways of the new licensing process and external assessment requirements for the VATP applicant.



Licensing Procedures

1. The VATP applicant is required to submit its license application bundle to the SFC for evaluation through WINGS, including:

    (i) Copies of its written policies and procedures;

    (ii) Documentation confirming the selection of a suitable external assessor (**"EA"**); and

    (iii) Capability statement of the EA.

2. The SFC will assess the VATP applicant's business structure, competence, fitness, properness and its key controllers, as well as the capability of the proposed EA. The SFC may return an application because it (i) is incomplete or has unresolved underlying issues; or (ii) raises significant concerns about the external appraiser appointed by the VATP applicant.

3. Upon acceptance of a license application, the VATP applicants should begin to implement its systems and controls, including implementing a custodial program for market surveillance, anti-money laundering and terrorist financing vehicles, and know-your-client engagements with external service providers. The VATP applicant should also overhaul its P&P.

4. Upon completing its systems and controls, the VATP applicant must enter into a tripartite agreement with the SFC and the EA for the external assessment of its P&P. The SFC will oversee the assessment process and provide feedback. The VATP applicant must grant the EA unrestricted access to all relevant personnel and information.

5. Most issues identified by the EA and the SFC will be resolved during the external assessment. Once the assessment is complete, the SFC will grant a license if the VATP applicant is deemed fit and proper.

External Assessment

1. The SFC opines that significant change to the P&P is usually needed when deploying hardware and software solutions. No external assessment should be conducted unless and until the VATP applicant has fully implemented its systems, controls, and adapted its P&P to ensure they function as intended.

2. The SFC has revamped the external assessment to focus on ensuring that the P&P are suitably designed and implemented by the VATP applicant.

3. The VATP applicant must promptly notify the SFC and the EA of any material changes to its P&P.

4. The SFC mandates a direct assurance engagement by a certified public accountant to assess if the P&P are adequately designed and implemented to comply with the relevant guidelines on virtual asset trading and anti-money laundering/counter-terrorist financing.

5. The external assessment will be undertaken under a tripartite agreement between the SFC, the VATP applicant, and the EA.