



**SECURITIES AND  
FUTURES COMMISSION**  
證券及期貨事務監察委員會

## **Terms and Conditions for Virtual Asset Trading Platform Operators**

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# Terms and Conditions for Virtual Asset Trading Platform Operators

## I. Interpretation

A reference in the Terms and Conditions to:

- “*Associated Entity*” means a company which (i) has notified the SFC that it has become an “associated entity” of the licensee under section 165 of the Securities and Futures Ordinance (SFO); (ii) is incorporated in Hong Kong; (iii) holds a “trust or company service provider licence” under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615); and (iv) is a wholly owned subsidiary of the licensee;
- “*client*” means a person to whom the licensee provides services in the course of carrying out the Relevant Activities;
- “*client asset*” means client virtual assets and client money;
- “*client money*” means any money:
  - (i) received or held by or on behalf of the licensee or
  - (ii) received or held by or on behalf of the Associated Entity,which is so received or held on behalf of a client or in which a client has a legal or equitable interests, and includes any accretions thereto whether as capital or income;
- “*client virtual asset*” means any virtual asset:
  - (i) received or held by or on behalf of the licensee or
  - (ii) received or held by or on behalf of the Associated Entity,which is so received or held on behalf of a client or in which a client has a legal or equitable interests, and includes any rights thereto;
- “*group of companies*” has the meaning given by section 1 of Part 1 of Schedule 1 to the SFO;
- “*licensee*” or “*Platform Operator*” means a legal entity upon which the Terms and Conditions are imposed by way of licensing condition pursuant to section 116 of the SFO and that is licensed by the SFC;
- “*Relevant Activities*” means any virtual asset trading activities including any incidental services provided by the licensee to its clients;
- “*SFO*” means the Securities and Futures Ordinance (Cap. 571); and
- “*virtual assets*” means digital representations of value which may be in the form of digital tokens (such as digital currencies, utility tokens or security or asset-backed tokens), any other virtual commodities, crypto assets or other assets of essentially the

same nature, irrespective of whether they amount to “securities” or “futures contracts” as defined under the SFO.

## **II. Codes and Guidelines**

- 2.1 In conducting the Relevant Activities, to the extent not already covered elsewhere in these Terms and Conditions, a Platform Operator is expected to observe the provisions of the Codes and Guidelines listed in Schedule 1 hereto as if any reference to a financial product (for example, securities) or investment product included virtual assets.

## **III. Financial Soundness**

- 3.1 In addition to the requirements under the Securities and Futures (Financial Resources) Rules (Cap. 571N), a Platform Operator should maintain in Hong Kong at all times own assets that are sufficiently liquid, for example, cash, deposits, treasury bills and certificates of deposit (but not virtual assets), equivalent to at least 12 months of its actual operating expenses calculated on a rolling basis.

## **IV. Operations**

- 4.1 A Platform Operator should set up a function responsible for establishing, implementing and enforcing:
- (a) the rules which set out the obligations of and restrictions on virtual asset issuers (for example, obligation to notify the Platform Operator of any proposed hard fork or airdrop, any material change in the issuer's business or any regulatory action taken against the issuer);
  - (b) the criteria for a virtual asset to be included on its platform, taking into account factors specified in paragraph 4.3 below, and the application procedures; and
  - (c) the criteria for halting, suspending and withdrawing a virtual asset from trading on its platform, the options available to clients holding that virtual asset and any notification periods.
- 4.2 A Platform Operator should ensure that the decision-making process of including or removing virtual assets is transparent and fair.

### **Due diligence on virtual assets**

- 4.3 A Platform Operator should perform all reasonable due diligence on all virtual assets before including them on its platform for trading, and ensure that they continue to satisfy all application criteria. Set out below is a non-exhaustive list of factors which a Platform Operator must consider, where applicable:
- (a) the background of the management or development team of the issuer of a virtual asset;
  - (b) the regulatory status of a virtual asset in each jurisdiction in which the Platform Operator provides trading services, including whether the virtual asset can be offered and traded under the SFO, and whether the regulatory status would also affect the regulatory obligations of the Platform Operator;

- (c) the supply, demand, maturity and liquidity of a virtual asset, including its market capitalisation, average daily trading volume, whether other Platform Operators also provide trading facilitated for the virtual asset, availability of trading pairs (eg, fiat currency to virtual asset), and the jurisdictions where the virtual assets have been offered;
- (d) the technical aspects of a virtual asset, including the security infrastructure of the blockchain protocol underlying the virtual asset, the size of the blockchain and network, in particular, whether it may be susceptible to a 51% attack<sup>1</sup>, and the type of consensus algorithm;
- (e) the level of activity within the development community;
- (f) the level of adoption across the ecosystem;
- (g) the marketing materials of a virtual asset provided by the issuer, which should be accurate and not misleading;
- (h) the development of a virtual asset including the outcomes of any projects associated with it as set out in its Whitepaper (if any) and any previous major incidents associated with its history and development; and
- (i) in relation to virtual assets which fall under the definition of “*securities*” under the SFO, a Platform Operator should only include those which are (i) asset-backed, (ii) approved or qualified by, or registered with regulators in comparable jurisdictions (as agreed by the SFC from time to time), and (iii) with a post-issuance track record of 12 months.

### Submission of legal advice for each virtual asset

- 4.4 A Platform Operator should obtain and submit to the SFC written legal advice in the form of a legal opinion or memorandum on the legal and regulatory status of every virtual asset that will be made available in Hong Kong, in particular, whether that virtual asset falls within the definition of “*securities*” under the SFO, and the implications for the Platform Operator.
- 4.5 A Platform Operator should exercise professional scepticism before relying on any legal advice, and review such advice with due care and objectivity. In particular, if any information or assumption made in the legal advice is inconsistent with information known to the Platform Operator, the Platform Operator should conduct reasonable follow-up work to resolve the inconsistency and obtain revised legal advice as necessary.
- 4.6 The specific features of a virtual asset may change throughout its life cycle. A Platform Operator should have appropriate monitoring procedures in place to keep track of any changes to a virtual asset that may cause its legal status to change such that it falls within or ceases to fall within the definition of “*securities*” in the SFO.

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<sup>1</sup> This refers to an attack on a blockchain by a group of miners controlling more than 50% of the network's mining hash rate or computing power.

## Trading of virtual assets

- 4.7 A Platform Operator should execute a trade for a client only if there are sufficient fiat currencies or virtual assets in the client's account with the Platform Operator to cover that trade except for any off-platform transaction to be conducted by institutional professional investors<sup>2</sup> which are settled intra-day.
- 4.8 A Platform Operator should not provide any financial accommodation<sup>3</sup> for its clients to acquire virtual assets. It should also ensure, to the extent possible, that no corporation within the same group of companies as the Platform Operator provide financial accommodation to its clients to acquire virtual assets, except for providing financial accommodation to its institutional professional investor clients for satisfying the pre-funded trades requirement under paragraph 4.7 above and the financial accommodation should be repaid within 2 business days.
- 4.9 A Platform Operator should not conduct any offering, trading or dealing activities of virtual asset futures contracts or related derivatives.
- 4.10 A Platform Operator should prepare comprehensive trading and operational rules governing its platform operations for both on-platform trading and off-platform trading (where applicable). These should, at the minimum, cover the following areas:
- (a) trading and operational matters;
  - (b) trading channels (such as website, dedicated application and application programming interface (API));
  - (c) trading hours;
  - (d) different types of orders; detailed description of the functionality and their priorities;
  - (e) order minimum and maximum quantity limits per underlying currency or virtual asset (in the case of virtual asset trading pairs);
  - (f) order execution conditions and methodology;
  - (g) situations in which orders can be amended and cancelled;
  - (h) trade verification procedures;
  - (i) arrangements during trading suspension, outages and business resumption, including arrangements during restart before entering continuous trading;
  - (j) rules preventing market manipulative and abusive activities;
  - (k) clearing and settlement arrangements;

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<sup>2</sup> This refers to the specified entities set out in paragraphs (a) to (i) of the definition of "professional investor" in section 1 of Part 1 of Schedule 1 to the SFO.

<sup>3</sup> This term is defined in section 1 of Part 1 of Schedule 1 to the SFO.

- (l) deposit and withdrawal procedures, including the procedures and time required for transferring virtual assets from the platform account to a client's private wallet and depositing fiat currencies to a client's bank account when returning client money to the client;
  - (m) custodial arrangements, risks associated with such arrangements, the internal controls implemented to ensure that client assets are adequately safeguarded, and insurance / compensation arrangements to protect against any losses arising from the custody of client virtual assets, if any (see paragraph 7.14 below);
  - (n) the internal control procedures which have been put in place to ensure the fair and orderly functioning of its market and to address potential conflicts of interest;
  - (o) prohibited trading activities, including, but not limited to, churning, pump-and-dump schemes, ramping, wash trading and other market manipulation aimed at creating a false representation of price and/or quantity; and
  - (p) actions the Platform Operator might take should it discover that a client is engaged in prohibited trading activities, including suspension and/or termination of the client's account.
- 4.11 Where a client is entitled to voting rights arising out of its ownership of a virtual asset, a Platform Operator should inform the client of such rights and facilitate the exercise of these rights.

## **Fees and charges**

- 4.12 A Platform Operator should adopt a clear, fair and reasonable fee structure. In relation to admission, the fee structure should be designed to avoid any potential, perceived or actual conflicts of interest (for example, charging all virtual asset issuers a flat rate for admission). In relation to trading, the Platform Operator should clearly set out how different fees may apply based on the type of order (including whether the client is providing or taking liquidity), transaction size and type of virtual assets transacted (if applicable).

## **Market access**

- 4.13 If the Platform Operator provides programmable access to its platform through one or multiple channels (API access), thorough and detailed documentation should be provided to clients. This includes, but is not limited to, detailed descriptions and examples for all synchronous and asynchronous interactions and events, as well as all potential error messages. A simulation environment, simulating a reasonable amount of market activity, should be provided for clients to test their applications.

## **V. Prevention of Market Manipulative and Abusive Activities**

### **Internal policies and controls**

- 5.1 A Platform Operator should establish and implement written policies and controls for the proper surveillance<sup>4</sup> of its trading platform in order to identify, prevent and report any market manipulative or abusive trading activities. The policies and controls should, at a minimum, cover the following:
- (a) identifying and detecting anomalies, which includes performing periodic independent reviews of suspicious price spikes;
  - (b) monitoring and preventing any potential use of abusive trading strategies; and
  - (c) taking immediate steps to restrict or suspend trading upon discovery of manipulative or abusive activities (for example, temporarily freezing accounts).
- 5.2 Upon becoming aware of any market manipulative or abusive activities, whether actual or potential, on its trading platform, a Platform Operator should notify the SFC of such matter as soon as practicable, provide the SFC with such additional assistance in connection with such activities as it might request and implement appropriate remedial measures.

### **Market surveillance system**

- 5.3 In addition to internal market surveillance policies and controls referred to in paragraph 5.1 above, a Platform Operator should adopt an effective market surveillance system provided by a reputable and independent provider to identify, monitor, detect and prevent any market manipulative or abusive activities on its platform, and provide access to this system for the SFC to perform its own surveillance functions when required.
- 5.4 A Platform Operator should review the effectiveness of the market surveillance system provided by the independent provider on a regular basis, at least annually, and make enhancements as soon as practicable to ensure that market manipulative or abusive activities are properly identified. The review report should be submitted to the SFC upon request.

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<sup>4</sup> Surveillance means maintaining a careful watch and supervision for the purposes of influencing, managing or directing the proper use of the virtual asset trading platform.

## VI. Dealing with Clients

- 6.1 A Platform Operator should ensure that it complies with the applicable laws and regulations in the jurisdictions to which it provides services. It should establish and implement measures which include:
- (a) disclosing to its clients the jurisdictions in which trading of certain virtual assets is permitted;
  - (b) ensuring its marketing activities are only conducted in permitted jurisdictions without violation of the relevant restrictions on offers of investments; and
  - (c) implementing measures to prevent persons from jurisdictions which have banned trading in virtual assets from accessing its services (for example, by checking IP addresses and blocking access).
- 6.2 The Platform Operator may engage in off-platform trading activities as part of its Relevant Activities. Except for dealing with institutional and qualified corporate professional investors<sup>5</sup>, a Platform Operator should ensure that when it carries on the Relevant Activities (other than the on-platform trading activities in compliance with paragraphs 6.3 and 6.7 below and without solicitation and recommendation<sup>6</sup>), a transaction in virtual assets is suitable for the client in all the circumstances.<sup>7</sup> A Platform Operator should perform all reasonable due diligence on the virtual assets before including them on its platform (see paragraph 4.3 above) and provide sufficient and up-to-date information on the nature, features and risks of these virtual assets (see also paragraph 6.15(d) below) on its website in order to enable clients to understand them before making an investment decision.
- 6.3 Posting of any advertisement in connection with a specific virtual asset on the platform is prohibited. Where a Platform Operator decides to post any product-specific materials on the platform, it should ensure that such materials are factual, fair and balanced.

### Access to trading services

- 6.4 As required by its licensing conditions a Platform Operator should provide its virtual asset trading services only to professional investors.
- 6.5 Where a Platform Operator provides its trading platform to other companies (ie, white labelling), which may in turn provide such services to their clients, the Platform Operator should take all reasonable steps to ensure that all such clients and end users of its platform are professional investors if the ultimate client's transactions are to be routed to and executed on the same platform as those of the Platform Operator's direct clients.

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<sup>5</sup> Same definitions in paragraph 15 of the Code of Conduct for Persons Licensed by or Registered with the SFC (Code of Conduct). "Qualified corporate professional investors" refers to corporate professional investors who have passed the assessment requirements under paragraph 15.3A and gone through the procedures under paragraph 15.3B of the Code of Conduct.

<sup>6</sup> Please refer to the examples set out in Q15 of the frequently asked questions on Guidelines on Online Distribution and Advisory Platforms and Paragraph 5.5 of the Code of Conduct regarding when the posting of materials would or would not trigger the suitability requirement.

<sup>7</sup> See paragraphs 5.2 and 5.5 of the Code of Conduct.

## **Account opening and know your client**

- 6.6 A Platform Operator should take all reasonable steps to establish the true and full identity of each of its clients, and of each client's financial situation, investment experience, and investment objectives.<sup>8</sup> Where a client's IP address is masked (for example, where access is via a virtual private network), a Platform Operator should take reasonable steps to unmask the IP address or decline to provide services to that client where necessary.
- 6.7 Except for institutional and qualified corporate professional investors<sup>9</sup>, a Platform Operator should assess a client's knowledge of virtual assets (including knowledge of relevant risks associated with virtual assets) before providing any services to the client. The following are some criteria (which are not exhaustive) for assessing if a client can be regarded as having knowledge of virtual assets:
- (a) undergone training or attended courses on virtual assets;
  - (b) current or previous work experience related to virtual assets; or
  - (c) prior trading experience in virtual assets.
- A client will be considered as having knowledge of virtual assets if he has executed five or more transactions in any virtual assets within the past three years.
- 6.8 Where a client does not possess such knowledge, a Platform Operator may only provide any of its services to the client if the Platform Operator has provided training to the client and enquired into the personal circumstances of the client to ensure that provision of its services is suitable for that client.
- 6.9 A Platform Operator should set a trading limit, position limit or both with reference to the client's financial situation with a view to ensuring that the client has sufficient net worth to be able to assume the risks and bear the potential trading losses.
- 6.10 A Platform Operator should not allow a single client to open multiple accounts, unless in the form of sub-accounts.

## **Client identity: origination of instructions and beneficiaries**

- 6.11 A Platform Operator should be satisfied on reasonable grounds about:
- (a) the identity, address and contact details of:
    - (i) the person or entity (legal or otherwise) ultimately responsible for originating the instruction in relation to a transaction;
    - (ii) the person or entity (legal or otherwise) that stands to gain the commercial or economic benefit of the transaction and/or bear its commercial or economic risk; and
  - (b) the instruction given by the person or entity referred to in paragraph 6.11(a)(i) above.

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<sup>8</sup> See paragraph 5.1 of the Code of Conduct.

<sup>9</sup> Please see footnote 5 above.

- 6.12 A Platform Operator should not do anything to effect a transaction unless it has complied with paragraph 6.11 above and kept records in Hong Kong of the details referred to in paragraph 6.11 above.

### Client agreement

- 6.13 In conducting any Relevant Activities, a Platform Operator should enter into a written client agreement with each and every client<sup>10</sup> in the same manner as set out in paragraph 6 of the Code of Conduct and include a provision stating that:

*“In conducting any Relevant Activities, if we [the Platform Operator] solicit the sale of or recommend any product including any virtual assets to you [the client], the product must be reasonably suitable for you having regard to your financial situation, investment experience and investment objectives. No other provision of this agreement or any other document we may ask you to sign and no statement we may ask you to make derogates from this clause.”*

### Disclosure

- 6.14 A Platform Operator should fully disclose the nature and risks that clients may be exposed to in trading virtual assets and using the Platform Operator’s virtual asset trading services. All information provided to clients should be presented in a clear and fair manner which is not misleading. The disclosed risks should, among other things, include:
- (a) virtual assets are highly risky and investors should exercise caution in relation to the products;
  - (b) a virtual asset may or may not be considered as “*property*” under the law, and such legal uncertainty may affect the nature and enforceability of a client’s interest in such virtual asset;
  - (c) the offering documents or product information provided by the issuer have not been subject to scrutiny by any regulatory body;
  - (d) the protection offered by the Investor Compensation Fund does not apply to transactions involving virtual assets (irrespective of the nature of the tokens);
  - (e) a virtual asset is not legal tender, ie, it is not backed by the government and authorities;
  - (f) transactions in virtual assets may be irreversible, and, accordingly, losses due to fraudulent or accidental transactions may not be recoverable;
  - (g) the value of a virtual asset may be derived from the continued willingness of market participants to exchange fiat currency for a virtual asset, which means that the value of a particular virtual asset may be completely and permanently lost should the market for that virtual asset disappear. There is no assurance that a person who accepts a virtual asset as payment today will continue to do so in the future;

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<sup>10</sup> Except for institutional and qualified corporate professional investors (see footnote 5 for definitions).

- (h) the volatility and unpredictability of the price of a virtual asset relative to fiat currencies may result in significant losses over a short period of time;
- (i) legislative and regulatory changes may adversely affect the use, transfer, exchange and value of virtual assets;
- (j) some virtual asset transactions may be deemed to be executed only when recorded and confirmed by the Platform Operator, which may not necessarily be the time at which the client initiates the transaction;
- (k) the nature of virtual assets exposes them to an increased risk of fraud or cyberattack; and
- (l) the nature of virtual assets means that any technological difficulties experienced by the Platform Operator may prevent clients from accessing their virtual assets.

6.15 A Platform Operator should, at a minimum, also make the following information available on its website:

- (a) its services are only available to professional investors;
- (b) its trading and operational rules as well as admission and removal rules and criteria;
- (c) its admission and trading fees and charges, including illustrative examples of how the fees and charges are calculated, for ease of understanding by clients;
- (d) the relevant material information for each virtual asset, including providing clients with access to up-to-date offering documents or information, and providing clients with material information as soon as reasonably practicable to enable clients to appraise the position of their investments (for example, any major events in relation to a virtual asset or any other material information provided by issuers);
- (e) the rights and obligations of the Platform Operator and the client;
- (f) arrangements for dealing with settlement failures in respect of transactions executed on its platform;
- (g) detailed documentation of market models, order types and trading rules as well as deposit and withdrawal processes for fiat currencies and virtual assets (where applicable);
- (h) if API access is offered, detailed documentation regarding different connectivity channels, all synchronous and asynchronous requests and responses, market events, error messages and all other messages. The documentation should also include detailed examples for each of these matters;

- (i) detailed documentation regarding the simulation environment as well as constant and active simulated quote and order feed into the simulation environment;
- (j) client's liability for unauthorised virtual asset transactions;
- (k) client's right to stop payment of a preauthorised virtual asset transfer and the procedure for initiating such a stop-payment order;
- (l) circumstances under which the Platform Operator may disclose the client's personal information to third parties, including regulators and auditors;
- (m) client's right to prior notice of any change in the Platform Operator's rules, procedures or policies;
- (n) dispute resolution mechanisms, including complaints procedures; and
- (o) system upgrades and maintenance procedures and schedules.

The Platform Operator should, as soon as practicable thereafter, publish any revisions or updates on its website and circulate them to the users of its platforms, identifying the amendments which have been made and providing an explanation for making them.

### **Provision of prompt confirmation to clients**

6.16 Prior to the execution of each transaction in virtual assets, a Platform Operator should confirm with its clients the following terms:

- (a) name of the virtual asset in the proposed transaction;
- (b) amount or value of the proposed transaction;
- (c) fees and charges to be borne by the client including applicable exchange rates; and
- (d) a warning that once executed the transaction may not be undone.

6.17 After a Platform Operator has effected a transaction for a client, it should confirm promptly with the client the essential features of the transaction. The following information should be included:

- (a) name of the virtual asset in the transaction;
- (b) amount or value of the transaction; and
- (c) fees and charges borne by the client including applicable exchange rates.

## Provision of contract notes, statements of account and receipts to clients

- 6.18 A Platform Operator should provide to each client timely and meaningful information about transactions conducted with or on the client's behalf, consisting of holdings and movements of the client virtual assets and fiat currencies, and a monthly statement of all activities and holdings in the client's account. Where contract notes, statements of account and receipts are provided by a Platform Operator to a client, the Platform Operator should ensure that the information included in the contract notes, statements of account and receipts should be fit for purpose, comprehensive and accurate in respect of the particular type of virtual asset involved. In particular:

### Contract notes

- (a) Where a Platform Operator enters into a relevant contract with or on behalf of a client, it must prepare and provide a contract note to the client no later than the end of the second business day after entering into the relevant contract. The term "*relevant contract*" means a contract, entered into in Hong Kong by a Platform Operator with or on behalf of a client in the conduct of its businesses which constitute any Relevant Activity, that is a contract for dealing in virtual assets.
- (b) Where a Platform Operator enters into more than one relevant contract with or on behalf of a client on the same day, unless the client has given contrary instructions to the Platform Operator, the Platform Operator may prepare a single contract note which:
  - (i) records all of those relevant contracts; and
  - (ii) in respect of each of those relevant contracts includes all of the information which would have been required to be included in the contract note.
- (c) If such a single contract note is prepared, the Platform Operator should provide it to the client no later than the end of the second business day after entering into those relevant contracts.
- (d) A contract note should include, to the extent applicable, the following information:
  - (i) the name under which the Platform Operator carries on business;
  - (ii) the name and account number of the client;
  - (iii) full particulars of the relevant contract including:
    - (1) the quantity, name, description and such other particulars of the virtual asset contract involved, as are sufficient to enable it to be identified;
    - (2) the nature of the dealing;

- (3) where the Platform Operator is acting as principal, an indication that it is so acting;
- (4) the date (i) on which the relevant contract is entered into; (ii) of settlement or performance of the relevant contract; and (iii) on which the contract note is prepared;
- (5) the price per unit of the virtual asset traded;
- (6) the amount of consideration payable under the relevant contract; and
- (7) the rate or amount of fees and charges payable in connection with the relevant contract.

### Monthly Statements of Account

- (e) Where any of the following circumstances apply, a Platform Operator should prepare and provide a monthly statement of account to the client no later than the end of the seventh business day after the end of the monthly accounting period:
  - (i) during a monthly accounting period, the Platform Operator is required to prepare and provide to the client a contract note or receipt;
  - (ii) at any time during a monthly accounting period, the client has an account balance that is not nil; or
  - (iii) at any time during a monthly accounting period, any client virtual assets are held for the account of the client.
- (f) Where a Platform Operator is required to prepare a monthly statement of account, it should include the following information:
  - (i) the name under which the Platform Operator carries on business;
  - (ii) the name, address and account number of the client to whom the Platform Operator is required to provide the statement of account;
  - (iii) the date on which the statement of account is prepared; and
  - (iv) where client assets of the client to whom the Platform Operator is required to provide the statement of account are held for the client's account by the Associated Entity, the name under which the Associated Entity carries on business.
- (g) A Platform Operator should also include, to the extent applicable, the following information in the monthly statement of account:
  - (i) the address of the Platform Operator's principal place of business in Hong Kong;

- (ii) the outstanding balance of that account as at the beginning and as at the end of that monthly accounting period and details of all movements in the balance of that account during that period;
- (iii) details of all relevant contracts entered into by the Platform Operator with or on behalf of the client during that monthly accounting period, indicating those initiated by the Platform Operator;
- (iv) details of all movements during that monthly accounting period of any client virtual assets held for that account;
- (v) the quantity, and, in so far as readily ascertainable, the market price and market value of each client virtual asset held for that account as at the end of that monthly accounting period; and
- (vi) details of all income credited to and charges levied against that account during that monthly accounting period.

**Duty to provide statements of account upon request**

- (h) Where a Platform Operator receives a request from a client for a statement of account as of the date of the request, it should:
  - (i) prepare a statement of account in respect of the client which includes the information required for all statements of account (see subparagraph (f) above) and, to the extent applicable, the following information relating to the account of the client as of the date of the request:
    - (1) the outstanding balance of that account; and
    - (2) the quantity, and, in so far as readily ascertainable, the market price and market value of each client virtual asset, held for that account.
  - (ii) provide the statement of account to the client as soon as practicable after the date of the request.

**Receipts**

- (i) On each occasion that a Platform Operator or its Associated Entity receives any client assets from or on behalf of a client, the Platform Operator should prepare and provide a receipt to the client no later than the end of the second business day after receiving the client assets.
- (j) The requirement under subparagraph (i) is not applicable in the following circumstances:
  - (i) where client money is deposited directly into the bank account of a Platform Operator or its Associated Entity, by the client or on behalf of the client by any person other than the Platform Operator or Associated Entity; or

- (ii) where a contract note or other trade document provided to the client expressly states that it also serves as a receipt and includes the information specified in subparagraph (k) below.
- (k) A Platform Operator should include the following information in the receipt:
  - (i) the name under which the Platform Operator or Associated Entity (as the case may be) carries on business;
  - (ii) the date on which the receipt is prepared;
  - (iii) the name and account number of the client; and
  - (iv) in respect of the client assets received:
    - (1) the quantity, description and such other particulars of the client assets as are sufficient to enable them to be identified;
    - (2) the account into which they have been deposited; and
    - (3) the date on which they were received.

### Miscellaneous

- (l) Where a Platform Operator or Associated Entity receives a request from a client for a copy of any contract note, statement of account or receipt that the Platform Operator or Associated Entity was required to provide to the client, the Platform Operator should, as soon as practicable after receiving the request, provide the copy to the client. A Platform Operator may impose a reasonable charge for a copy of a document provided by it under this paragraph.
- (m) If, on an application made by a client, the SFC so directs, the Platform Operator should make available for inspection by the client during the ordinary hours of business of the Platform Operator a copy of any contract note, statement of account or receipt, except for those dated after the expiration of the period for which the Platform Operator or its Associated Entity is required to retain them.
- (n) Where a Platform Operator is required to prepare any contract note, statement of account or receipt, the Platform Operator should prepare it in the Chinese or English language as preferred by the client to whom it is intended to be provided.
- (o) Any contract note, statement of account or receipt (or any copy of any such document) required to be provided to a client should for all purposes be regarded as duly provided to the client if it is served on:
  - (i) the client; or

- (ii) any other person (except an officer or employee of the Platform Operator or the Associated Entity which is required to provide the document to the client) designated by the client for the purposes of this paragraph by notice in writing to the Platform Operator or the Associated Entity that is required to provide the document to the client.
- (p) A Platform Operator should ensure that it has obtained consent from its clients and put in place adequate operational safeguards if any contract note, statement of account or receipt required to be provided to a client is provided by accessing its website<sup>11</sup>.

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<sup>11</sup> Due regard should be paid to the SFC's circular dated 28 July 2010 on Provision of Trade Documents to Clients by Access through Intermediaries' Websites.

## **VII. Custody of Client Assets**

### **Handling of client virtual assets and client money**

- 7.1 A Platform Operator should hold client assets on trust for its clients through the Associated Entity. The Associated Entity should not conduct any business other than that of receiving or holding client assets on behalf of the Platform Operator. For the avoidance of doubt, if any obligations of the Platform Operator in these Terms and Conditions can only be performed together with the Associated Entity or solely by the Associated Entity on behalf of the Platform Operator, the Platform Operator should ensure that its Associated Entity observes such obligations but in any event the Platform Operator remains primarily responsible for compliance with these Terms and Conditions.
- 7.2 In the handling of client transactions and client assets (ie, client money and client virtual assets), a Platform Operator should act to ensure that client assets are accounted for properly and promptly. Where the Platform Operator or its Associated Entity is in possession or control of client assets, the Platform Operator should ensure that client assets are adequately safeguarded.
- 7.3 A Platform Operator should ensure that all client assets are held in a segregated account (ie, an account designated as a client or trust account) established by its Associated Entity for the purpose of holding client assets.
- 7.4 A Platform Operator should have, and should also ensure that its Associated Entity has, a robust process to prepare, review and approve reconciliations of client assets in a timely and efficient manner. Material discrepancies and long outstanding differences should be escalated to senior management on a timely basis for appropriate action.

### **Client virtual assets**

- 7.5 A Platform Operator should establish and implement, and should also ensure that its Associated Entity establishes and implements, written internal policies and governance procedures which include, but are not limited to, the following:
- (a) Virtual assets are held of the same type and amount as those which are owed or belonging to its client;
  - (b) The Platform Operator and its Associated Entity should not deposit, transfer, lend, pledge, repledge or otherwise deal with or create any encumbrance over the virtual assets of a client except for the settlement of transactions, and fees and charges owed by the client to the Platform Operator in respect of the Relevant Activities carried out by the Platform Operator on behalf of the client or in accordance with the client's written instructions (including standing authorities or one-off written directions);
  - (c) The Platform Operator and its Associated Entity should store 98% of client virtual assets in cold storage to minimise exposure to losses arising from a compromise or hacking of the platform;

- (d) The Platform Operator and its Associated Entity should minimise transactions out of the cold storage in which a majority of client virtual assets are held;
- (e) The Platform Operator and its Associated Entity should have detailed specifications for how access to cryptographic devices or applications is to be authorised and validated covering key generation, distribution, storage, use and destruction;
- (f) The Platform Operator and its Associated Entity should document in detail the mechanism for the transfer of virtual assets between hot, cold and other storage. The scope of authority of each function designated to perform any non-automated process in such transfers should be clearly specified; and
- (g) The Platform Operator and its Associated Entity should have detailed procedures for how to deal with events such as hard forks or air drops from an operational and technical point of view.

7.6 A Platform Operator should establish and implement strong internal controls and governance procedures for private key management to ensure all cryptographic seeds and private keys are securely generated, stored and backed up. The Platform Operator should ensure that the Associated Entity establishes and implements the same controls and procedures. These will include the following:

- (a) The generated seeds and private keys must be sufficiently resistant to speculation or collusion. The seeds and private keys should be generated in accordance with applicable international security standards and industry best practices so as to ensure that the seeds (where Hierarchical Deterministic Wallets, or similar processes, are used) or private keys (if seeds are not used) are generated in a non-deterministic manner which ensures randomness and thus are not reproducible. Where practicable, seeds and private keys should be generated offline and kept in a secure environment, such as a Hardware Storage Module (HSM), with appropriate certification for the lifetime of the seeds or private keys.
- (b) Detailed specifications for how access to cryptographic devices or applications is to be authorised, covering key generation, distribution, use and storage, as well as the immediate revocation of a signatory's access as required.
- (c) Access to seeds and private keys relating to client virtual assets is tightly restricted among authorised personnel, no single person has possession of information on the entirety of the seeds, private keys or backup passphrases, and controls are implemented to mitigate the risk of collusion among authorised personnel.
- (d) Distributed backups of seeds or private keys are kept so as to mitigate any single point of failure. The backups need to be distributed in a manner such that an event affecting the primary location of the seeds or private keys does not affect the backups. The backups should be stored in a protected form on external media (preferably HSM with appropriate certification). Distributed backups should be stored in a manner that ensures seeds or private keys cannot be re-generated based solely on the backups stored in the same

physical location. Access control to the backups needs to be as stringent as access control to the original seeds or private keys.

(e) Seeds and private keys are stored in Hong Kong.

7.7 A Platform Operator should assess the risks posed to each storage method in view of the new developments in security threats, technology and market conditions and implement appropriate storage solutions to ensure the secure storage of client virtual assets. The Platform Operator should also ensure that its Associated Entity implements the same. In particular, the Platform Operator should keep, and should ensure that its Associated Entity keeps, the wallet storage technology up-to-date and in line with international best practices or standards. Wallet storage technology and any upgrades should be fully tested before deployment to ensure reliability. The Platform Operator should implement, and should ensure that its Associated Entity implements, measures to deal with any compromise or suspected compromise of all or part of any seed or private key without undue delay, including the transfer of all client virtual assets to a new storage location as appropriate.

7.8 A Platform Operator should have, and should ensure that its Associated Entity has, adequate processes in place for handling deposit and withdrawal requests for client virtual assets to guard against loss arising from theft, fraud and other dishonest acts, professional misconduct or omissions:

- (a) The Platform Operator should continuously monitor major developments (such as technological changes or the evolution of security threats) relevant to all virtual assets included for trading. There should be clear processes in place to evaluate the potential impact and risks of these developments as well as for handling fraud attempts specific to distributed ledger technology (such as 51% attacks), and these processes should be proactively executed;
- (b) The Platform Operator and its Associated Entity should ensure that client IP addresses as well as wallet addresses used for deposit and withdrawal are whitelisted, using appropriate confirmation methods (such as two-factor authentication and separate email confirmation);
- (c) The Platform Operator and its Associated Entity should have clear processes in place to minimise the risks involved with handling deposits and withdrawals, including whether deposits and withdrawals are performed using hot or cold storage, whether withdrawals are processed constantly or only at certain cut-off times, and whether the withdrawal process is automatic or involves manual authorisation;
- (d) The Platform Operator and its Associated Entity should ensure that any decision to suspend the withdrawal of client virtual assets is made on a transparent and fair basis, and is communicated without delay to all its clients; and
- (e) The Platform Operator and its Associated Entity should ensure that the above processes include safeguards against fraudulent requests or requests made under duress as well as controls to prevent one or more officers or employees from transferring assets to wallet addresses other

than the client's designated wallet address. The Platform Operator and its Associated Entity should ensure that destination addresses of client withdrawal instructions cannot be modified before the transactions are signed and broadcasted to the respective blockchain.

## Client money

7.9 A Platform Operator should properly handle and safeguard client money and ensure that its Associated Entity does the same. This includes but is not limited to the following:

- (a) Establishing one or more segregated accounts by the Associated Entity with an institution as specified in subparagraph (b) or (c) below for safekeeping client money, into which money received from or on behalf of a client should be paid within one business day of receipt.
- (b) Client money received by the Platform Operator or its Associated Entity in Hong Kong should be paid into a segregated account maintained with an authorised financial institution in Hong Kong.
- (c) Client money received by the Platform Operator or its Associated Entity in any other jurisdiction should be paid into a segregated account maintained with an authorised financial institution in Hong Kong or another bank in another jurisdiction as agreed by the SFC from time to time.
- (d) No client money should be paid, or permitted to be paid, to:
  - (i) any officers or employees of the Platform Operator or its Associated Entity; or
  - (ii) any officer or employee of any corporation with which the Platform Operator is in a controlling entity relationship or in relation to which its Associated Entity is a linked corporation<sup>12</sup>,

unless that officer or employee is the client of the Platform Operator from whom or on whose behalf such client money has been received or is being held.

- (e) No client money should be paid out of a segregated account other than for (i) paying the client on whose behalf it is being held; (ii) meeting the client's settlement obligations in respect of dealings in virtual assets carried out by the Platform Operator for the client, being the client on whose behalf it is being held; (iii) paying money that the client, being the client on whose behalf it is being held, owes to the Platform Operator in respect of the conduct of Relevant Activities; or (iv) paying in accordance with client's written instructions, including standing authorities or one-off directions.

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<sup>12</sup> "Linked corporation", in relation to the Associated Entity, means a corporation: (a) of which the Associated Entity is a controlling entity; (b) which is a controlling entity of the Associated Entity; or (c) which has as its controlling entity a person which is also a controlling entity of the Associated Entity.

- 7.10 Subject to paragraph 7.11 below, any amount of interest derived from the holding of client money in a segregated account should be dealt with in accordance with paragraph 7.9 above.
- 7.11 A Platform Operator should ensure that any amount of interest retained in a segregated account which the Platform Operator or its Associated Entity is entitled to retain under an agreement in writing with a client of the Platform Operator, being the client on whose behalf the client money is being held, should be paid out of the account within one business day after:
- (a) the interest is credited to the account; or
  - (b) the Platform Operator or its Associated Entity becomes aware that the interest has been credited to the account,
- whichever is later.
- 7.12 A Platform Operator should not conduct any deposits and withdrawals of client money through any bank account other than the account which is opened in the name of the client and designated by the client for this purpose. The Platform Operator should ensure the Associated Entity's compliance with this requirement.
- 7.13 A Platform Operator should use, and should also ensure that its Associated Entity uses, its best endeavours to match any unidentified receipts in its bank accounts (including segregated accounts) with all relevant information in order to establish the nature of any payment and the identity of the person who has made it.
- (a) Upon ascertaining that a receipt represents client money, the amount should be transferred into a segregated account within one business day, even if it has not been able to identify which specific client has made the payment.
  - (b) Where the receipt is not client money, within one business day of becoming so aware, that amount of money should be paid out of the segregated account.

## Disclosure to clients

- 7.14 A Platform Operator should fully disclose to its clients the custodial arrangements in relation to client assets held on their behalf, including the rights and obligations of each party and how client assets are stored. This should include:
- (a) Client virtual assets may not enjoy the same protection as that conferred on "*securities*" under the SFO, the Securities and Futures (Client Securities) Rules (Cap. 571H) and the Securities and Futures (Client Money) Rules (Cap. 571I);
  - (b) Where the client money is received or held overseas, such assets may not enjoy the same protection as that conferred on client money received or held in Hong Kong;
  - (c) How a Platform Operator and its Associated Entity will compensate its clients in the event of hacking or any other loss of client virtual assets caused by the default of the Platform Operator or its Associated Entity; and

- (d) The treatment of client virtual assets and their respective rights and entitlements when events such as, but not limited to, hard forks and airdrops occur. Upon becoming aware of such events, a Platform Operator should notify its clients as soon as practicable.

### **Ongoing monitoring**

- 7.15 A Platform Operator should assign designated staff member(s) to conduct regular internal audits to monitor its compliance with the requirements for custody of client assets, and its established policies and procedures in respect of handling of these assets. The designated staff member(s) should report to the senior management of the Platform Operator as soon as practicable upon becoming aware of any non-compliance.
- 7.16 A Platform Operator should closely monitor account activities to check if there are inactive or dormant accounts. It should establish internal procedures as to how deposits and withdrawals of client assets in these accounts should be handled.

### **Insurance requirement**

- 7.17 In respect of the custody of client virtual assets, a Platform Operator should ensure that an insurance policy covering risks associated with the client virtual assets held in hot storage (full coverage) and risks associated with the client virtual assets held in cold storage (a substantial coverage, for instance, 95%) is in effect at all times.
- 7.18 A Platform Operator should base its choice of insurance company on verifiable and quantifiable criteria. These include a valuation schedule of assets insured, maximum coverage per incident and overall maximum coverage, as well as any excluding factors.
- 7.19 Any claim by the Platform Operator's clients arising out of hacking incidents on the platform or default on the part of the Platform Operator or its Associated Entity should be fully settled by the Platform Operator, its Associated Entity or insurance company.

## **VIII. Risk Management**

- 8.1 A Platform Operator should have, and should also ensure that its Associated Entity has, a sound risk management framework which enables them to identify, measure, monitor and manage the full range of risks arising from their businesses and operations.
- 8.2 A Platform Operator should put in place risk management and supervisory controls for the operation of its trading platform. These controls should include:
- (a) automated pre-trade controls that are reasonably designed to:
    - (i) prevent the entry of any orders that would exceed appropriate position limits prescribed for each client;
    - (ii) alert the user to the entry of potential erroneous orders and prevent the entry of erroneous orders;
    - (iii) prevent the entry of orders that are not in compliance with regulatory requirements; and
  - (b) post-trade monitoring to reasonably identify any:
    - (i) suspicious market manipulative or abusive activities; and
    - (ii) market events or system deficiencies, such as unintended impact on the market, which call for further risk control measures.

## **IX. Trading Platform and Cybersecurity**

- 9.1 A Platform Operator should effectively manage and adequately supervise the design, development, deployment and operation of the platform (which includes its trading system and custody infrastructure). It should establish and implement written internal policies and procedures for the operation of the platform, to ensure the following:
- (a) The key personnel of a Platform Operator should possess the necessary professional qualifications, management and technical experience to ensure the proper and continued provision of the virtual asset trading services offered by it. A Platform Operator should identify key personnel (such as the founder or chief developer of the platform) and have plans in place to mitigate the associated key man risks.
  - (b) A Platform Operator should have at least one responsible officer for the overall management and supervision of the trading platform.
  - (c) There should be a formalised governance process with input from the dealing, risk and compliance functions.
  - (d) There should be clearly identified reporting lines with supervisory and reporting responsibilities assigned to appropriate staff members.
  - (e) There should be managerial and supervisory controls which are designed to manage the risks associated with the use of the trading system by clients.
- 9.2 A Platform Operator should conduct regular reviews to ensure that these internal policies and procedures are in line with changing market conditions and regulatory developments and promptly remedy any deficiencies identified.
- 9.3 A Platform Operator should assign adequately qualified staff, expertise, technology and financial resources to the design, development, deployment and operation of the platform.
- 9.4 A Platform Operator should ensure that its Associated Entity complies with the requirements in this Part of the Terms and Conditions.
- 9.5 As part of the annual review exercise required by its licensing conditions, a Platform Operator should arrange a periodic (at least annual) technology audit by a suitably qualified independent professional so as to be satisfied that the Platform Operator and its Associated Entity have fully complied with this Part of the Terms and Conditions. A Platform Operator should exercise due skill, care and diligence in the selection and appointment of the independent professional and should have regard to their experience and track record in reviewing virtual asset related technology. It should take, and should ensure its Associated Entity takes, prompt rectification measures upon the identification of any non-compliance.

### **Adequacy of platform**

- 9.6 A Platform Operator should ensure the integrity of the platform, maintain a high degree of reliability, security and capacity in respect of its systems, and have appropriate contingency measures in place.

## **System reliability**

- 9.7 A Platform Operator should have standard operating procedures (SOP) in writing for performing system upgrades and maintenance. The SOP need to contain:
- (a) the method(s) of communication, as well as how pending orders still in the order book are dealt with;
  - (b) information on how long orders can be entered, amended or cancelled after a system downtime, and before continuous trading resumes; and
  - (c) the process applicable for unexpected and unplanned system failures which affect an orderly market.
- 9.8 A Platform Operator should ensure that its trading system and all modifications to the system, such as implementing a new system or upgrading an existing system, are tested before deployment and are regularly reviewed to ensure that the system and modifications are reliable. Specifically, a Platform Operator should at least conduct the following before deployment:
- (a) reviewing and signing off on the test results by senior management;
  - (b) full backup of the system and data; and
  - (c) devising a contingency plan to switch back to the previous version of the trading system in the event of any critical and unrecoverable errors in the new version.

A Platform Operator should maintain a clear audit trail for all modifications made to the trading system.

- 9.9 Where a Platform Operator plans to have system outages to perform updates and testing of its systems, it should inform its clients as far in advance as practicable if such outages may affect them.

## **System security**

- 9.10 A Platform Operator should employ adequate, up-to-date and appropriate security controls to protect the platform from being abused. The security controls should at least include:
- (a) robust authentication methods and technology to ensure that access to the platform is restricted to authorised persons only. Specifically:
    - (i) only permit members of its staff to have access to trading information concerning orders placed, or transactions conducted, on its platform and only to the extent necessary to enable the platform to operate properly and efficiently, and at all times keep the senior management informed as to:

- (1) the identity of each such staff member (by title and department) and the information to which he or she has access;
    - (2) the basis upon which it is necessary, in each case, for such access to be permitted; and
    - (3) any change made in relation to the staff members to whom such access is permitted and the basis for such change;
  - (ii) maintain an adequate access log which records the identity and role of the staff members who have access to its platform, the information that has been accessed, the time of access, any approval given for such access and the basis upon which such access was permitted in each case; and
  - (iii) have adequate and effective systems and controls in place to guard against, and detect, information leakage or abuse by members of its staff in relation to the trading information concerning orders placed and/or transactions conducted on its platform to which they have access.
- (b) up-to-date data encryption and secure transfer technology, in accordance with industry best practices and international standards, to protect the confidentiality and integrity of information stored on the platform and during transmission between internal and external networks;
  - (c) up-to-date security tools to detect, prevent and block any potential intrusion, security breach and cyberattack attempts; and
  - (d) adequate internal procedures and training for the Platform Operator's staff and regular alerts and educational materials for its clients to raise awareness of the importance of cybersecurity and the need to strictly observe security in connection with the system.
- 9.11 A Platform Operator should ensure that its platform has effective controls to enable it, where necessary, to:
- (a) prevent "fat finger" errors such as input limits or thresholds for order price and quantity;
  - (b) immediately prevent the platform from accepting clients' orders, for example, suspicious fraudulent trades initiated by hackers; and
  - (c) cancel any unexecuted orders.
- 9.12 A Platform Operator should perform a stringent independent cybersecurity assessment before the launch of the trading platform and any major enhancement to existing services, and periodically thereafter. The scope of the cybersecurity assessment should at least cover:

- (a) user application security (ie, desktop/web-based/mobile app);
- (b) wallet security;
- (c) physical security; and
- (d) network and system security (including penetration testing).

## **System capacity**

9.13 A Platform Operator should ensure that:

- (a) the usage capacity of the platform is regularly monitored and appropriate capacity planning is developed. As part of the capacity planning, a Platform Operator should determine and keep a record of the required level of spare capacity;
- (b) the capacity of the platform is regularly stress tested to establish system behaviour under different simulated market conditions, and the results of the stress tests and any actions taken to address the findings of the stress tests are documented;
- (c) the platform has sufficient capacity to handle any foreseeable increase in the volume of business and market turnover;
- (d) there are contingency arrangements, the details of which have been communicated to clients:
  - (i) to facilitate the handling of clients' orders when the capacity of the platform is exceeded; and
  - (ii) by which alternative means of executing orders are available and offered to clients.

## **Contingencies**

9.14 A Platform Operator should establish a written contingency plan to cope with emergencies and disruptions related to the platform, including checking and ensuring data integrity after system recovery and ensuring that trading can be conducted in a fair and orderly manner after resumption.

9.15 The contingency plan should at least include:

- (a) a suitable backup facility which will enable the Platform Operator to continue providing its trading services or alternative arrangements for order execution in the event of an emergency;
- (b) arrangements to ensure business records, client and transaction databases, servers and supporting documentation are backed up in a secure off-line location. Off-site storage is generally expected to be subject to proper security measures; and

- (c) the availability of trained staff to deal with clients' and regulatory enquiries.
- 9.16 A Platform Operator should ensure that the backup facility and the contingency plan are reviewed, updated and tested for viability and adequacy at least on a yearly basis.
- 9.17 In the event of material system delay or failure, a Platform Operator should, in a timely manner:
- (a) rectify the situation according to the contingency plan;
  - (b) inform clients about the situation as soon as practicable and how their pending orders, deposits and withdrawals will be handled; and
  - (c) report to the SFC as soon as practicable.

## X. Conflicts of Interest

- 10.1 A Platform Operator should avoid, and should also ensure that its Associated Entity avoids, any material interest in a transaction with or for a client or a relationship which gives rise to an actual or potential conflict of interest. Where the Platform Operator or its Associated Entity cannot avoid acting in any actual or potential conflict of interest situation, it should make appropriate disclosure to the client and take all reasonable steps to manage the conflict and ensure fair treatment of the client.
- 10.2 Unless in limited specific circumstances and with the consent of the Commission, a Platform Operator should not engage in proprietary trading. For the purpose of this paragraph, “*proprietary trading*” refers to trading activities conducted for:
- (a) the account of the Platform Operator, trading as principal;
  - (b) the account of any user which is a company within the same group of companies as the Platform Operator, trading as principal; or
  - (c) any account in which the Platform Operator, or any user which is a company within the same group of companies as the Platform Operator, has an interest.
- 10.3 A Platform Operator should not engage in market making activities on a proprietary basis.

### Employee dealings

- 10.4 A Platform Operator should have, and should also ensure that its Associated Entity has, a policy which has been communicated to employees in writing governing employees’ dealings in virtual assets to eliminate, avoid, manage or disclose actual or potential conflicts of interests which may arise from such dealings. For purposes of this Part, the term:
- (a) “*employees*” includes directors (other than non-executive directors) of a Platform Operator or its Associated Entity; and
  - (b) “*related accounts*” refer to accounts of the employee’s minor children and accounts in which the employee holds any beneficial interest.
- 10.5 Where employees of a Platform Operator or Associated Entity are permitted to deal in virtual assets for their own accounts and related accounts:
- (a) the written policy should specify the conditions under which employees may deal in virtual assets for their own accounts and related accounts (in particular, those who possess non-public information should be prohibited from dealing in the relevant virtual asset);
  - (b) where these accounts have been set up with the Platform Operator’s trading platform:
    - (i) employees should be required to identify them as such and report them to the Platform Operator’s senior management;

- (ii) employees should generally be required to deal through the Platform Operator;
- (iii) transactions for employees' own accounts and related accounts should be reported to and actively monitored by senior management of the Platform Operator who should not have any beneficial or other interest in the transactions and who should maintain procedures to detect irregularities and ensure that the handling by the Platform Operator of these transactions or orders is not prejudicial to the interests of the Platform Operator's other clients; and
- (iv) any transactions for employees' own accounts and related accounts should be separately recorded and clearly identified in the records of the Platform Operator.

- 10.6 Where the Platform Operator's or its Associated Entity's employees are permitted to deal for their own accounts or related accounts through another trading platform, the Platform Operator and the employee should arrange for duplicate trade confirmations and statements of account to be provided to the Platform Operator's senior management.
- 10.7 A Platform Operator should have, and should also ensure its Associated Entity has, procedures in place to ensure that their employees do not deal (for the benefit of the Platform Operator, its Associated Entity, the employee or a client) in virtual assets where the employee concerned effects the dealing in order to "*front-run*" pending transactions for or with clients. The procedures should also ensure that the employees of the Platform Operator and its Associated Entity do not deal in virtual assets on the basis of other non-public information, which could materially affect prices of those virtual assets, until the information has become public.

## XI. Record Keeping

### General record keeping requirements for Platform Operators and its Associated Entity

- 11.1 A Platform Operator should establish, and should also ensure that its Associated Entity establishes, policies and procedures to ensure the integrity, security, availability, reliability and completeness of all information, both in physical and electronically stored form, in relation to the Relevant Activities.
- 11.2 A Platform Operator should, in relation to the Relevant Activities:
- (a) keep, where applicable, such accounting, trading and other records as are sufficient to:
    - (i) explain, and reflect the financial position and operation of, such businesses;
    - (ii) enable profit and loss accounts and balance sheets which give a true and fair view of its financial affairs to be prepared from time to time;
    - (iii) account for all client assets it receives or holds;
    - (iv) enable all movements of such client assets to be traced through its accounting systems;
    - (v) reconcile, on a monthly basis, any differences in its balances or positions with other persons, including its Associated Entity and banks, and show how such differences were resolved;
    - (vi) demonstrate compliance with, and that it has systems of control in place to ensure compliance with, Part VII (Custody of Client Assets) herein; and
    - (vii) enable it readily to establish whether it has complied with other financial resources requirements;
  - (b) keep those records in such a manner as will enable an audit to be conveniently and properly carried out; and
  - (c) make entries in those records in accordance with generally accepted accounting principles.

The records required to be kept are specified in paragraphs 11.7 to 11.9 below.

- 11.3 A Platform Operator should, and should also ensure that its Associated Entity will, in respect of the client assets that its Associated Entity receives or holds:
- (a) keep, where applicable, such accounting and other records as are sufficient to:
    - (i) account for all client assets;
    - (ii) enable all movements of the client assets to be traced through its accounting systems;
    - (iii) show separately and account for all receipts, payments, deliveries and other uses or applications of the client assets effected by it, or on its behalf, and on whose behalf such receipts, payments,

- deliveries or other uses or applications of the client assets have been effected;
  - (iv) reconcile, on a monthly basis, any differences in its balances or positions with other persons, including the Platform Operator and banks, and show how such differences were resolved; and
  - (v) demonstrate compliance with, and that it has systems of control in place to ensure compliance with, Part VII (Custody of Client Assets) herein;
- (b) keep those records in such a manner as will enable an audit to be conveniently and properly carried out; and
- (c) make entries in those records in accordance with generally accepted accounting principles.

The records required to be kept are specified in paragraph 11.7 below.

### **Form and premises in which records are to be kept**

11.4 A Platform Operator should keep, and should also ensure that its Associated Entity keeps, all the required records:

- (a) in writing in the Chinese or English language; or
- (b) in such a manner as to enable them to be readily accessible and readily convertible into written form in the Chinese or English language.

11.5 A Platform Operator should adopt, and should also ensure that its Associated Entity adopts, all reasonably necessary procedures to guard against the falsification of any of the required records and facilitate discovery of any such falsification.

11.6 A Platform Operator should keep, and should also ensure that its Associated Entity keeps, all the required records at the premises used by the Platform Operator which have been approved under section 130(1) of the SFO.

### **Records to be kept**

11.7 A Platform Operator should retain, and should also ensure that its Associated Entity retains, the following records for a period of not less than seven years:

- (a) Records showing particulars of:
  - (i) all money received by it, whether or not such money belongs to it, or is paid into accounts maintained by it or on its behalf, and disbursed by it;
  - (ii) all income received by it, whether the income relates to charges made by it for the provision of services, commissions, brokerage, remuneration, interest or otherwise;
  - (iii) all expenses, commissions and interest incurred or paid by it;
  - (iv) all disposals of client virtual assets initiated by it, showing in the case of each disposal:

- (1) the name of the client;
    - (2) the date on which the disposal was effected;
    - (3) the charges incurred for effecting the disposal; and
    - (4) the proceeds of the disposal and how such proceeds were dealt with;
  - (v) its assets and liabilities, including financial commitments and contingent liabilities;
  - (vi) all virtual assets belonging to it, identifying:
    - (1) with whom such virtual assets are deposited; and
    - (2) the date on which they were so deposited;
  - (vii) all virtual assets held by it but not belonging to it, identifying:
    - (1) for whom such virtual assets are held and with whom they are deposited;
    - (2) the date on which they were so deposited; and
    - (3) virtual assets which are deposited with another person for safe custody;
  - (viii) all wallet addresses from which deposits of virtual assets were received, and to which withdrawals of virtual assets were made;
  - (ix) all bank accounts held by it, including segregated accounts maintained;
  - (x) all other accounts held by it; and
  - (xi) all off-balance sheet transactions or positions.
- (b) Records of all contracts (including written agreements with clients) entered into by it.
- (c) Records evidencing:
- (i) any authority given to it by a client, and any renewal of such authority; and
  - (ii) any written direction given to it by a client.
- (d) In respect of a client who is a professional investor:
- (i) records showing particulars sufficient to establish that the client is a professional investor; and
  - (ii) any notice given by it to the client.

- (e) Records in respect of transactions conducted in its systems, as particularised below:
  - (i) details of the clients, including their registered names and addresses, dates of admission and cessation, and client agreements;
  - (ii) details of any restriction, suspension or termination of the access of any clients to its systems, including the reasons for this;
  - (iii) all notices and other information, whether written or communicated through electronic means, provided by the Platform Operator to the users of its systems, whether individually or generally;
  - (iv) routine daily and monthly summaries of trading in its systems, including:
    - (1) the virtual assets in respect of which transactions have been executed; and
    - (2) the transaction volume, expressed in numbers of trades, numbers of virtual assets traded and total settlement value.
- (f) Records relating to the inclusion of virtual assets on its platform (as provided in Part IV (Operations) above), including the due diligence plan, procedures, assessment and results of due diligence performed, legal opinions and all relevant correspondence;
- (g) Records of reconciliation between a distributed ledger and internal ledger on client virtual assets;
- (h) A copy of each monthly statement of account prepared in accordance with Part VI (Dealing with Clients) above;
- (i) Records of all client complaints relating to client assets and details of follow-up actions, including the substance and resolution of each complaint;
- (j) Records regarding client identity for confirmation on origination of instructions and beneficiaries and details of the instructions as prescribed in paragraph 6.11 above; and
- (k) To the extent not already covered elsewhere in this paragraph, records evidencing the Platform Operator's and the Associated Entity's compliance with these Terms and Conditions.

11.8 A Platform Operator should retain the following for a period of not less than two years:

- (a) A copy of each contract note and receipt prepared in accordance with Part VI (Dealing with Clients) above;
- (b) A copy of each statement of account prepared upon request by client in accordance with paragraph 6.18(h) above;

- (c) Time-sequenced records of orders and instructions that the Platform Operator receives or initiates, containing particulars including, but not limited to, the following:
- (i) the date and time that any order or instruction was received, executed, modified, cancelled or expired (where applicable);
  - (ii) the identity, address and contact details of the client initiating an entry, modification, cancellation or execution of an order or instruction;
  - (iii) the particulars of any subsequent modification and execution of any order or instruction (where applicable), including but not limited to, the virtual assets involved, the size and side (buy or sell) of the order, the order type and any order designation, time and price limit or other conditions specified by the client originating the order;
  - (iv) the particulars of the allocation and re-allocation (where applicable) of an execution.
  - (v) the particulars of each transaction entered into by it or on its behalf to implement any such order or instruction;
  - (vi) the particulars identifying with whom or for whose account it has entered into such transaction; and
  - (vii) the particulars which enable the transaction to be traced through its accounting, trading and settlement systems;
- (d) Audit logs for the activities of its systems including but not limited to audit trail and access logs referred to in Part IX (Trading Platform and Cybersecurity) above; and
- (e) Incident reports for all material system delays or failures<sup>13</sup>.

**Records to be kept for not less than two years after the system is ceased to be used**

- 11.9 A Platform Operator should keep the following records for a period of not less than two years after the Platform Operator's system is ceased to be used:
- (a) Comprehensive documentation of the design, development, deployment and operation of its system, including any testing, reviews, modifications, upgrades or rectifications of its system; and
  - (b) Comprehensive documentation of the risk management controls of its system.
- 11.10 A Platform Operator should give the SFC access to the required records upon request. Given the nature of the technology behind the virtual assets, a Platform Operator should, at all times, maintain proper access to the system nodes for the full records of the Relevant Activities.

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<sup>13</sup> Please refer to the Annex to Schedule 7 of the Code of Conduct for details of the requirements for the recording of audit logs and incident reports, where applicable.

## XII. Auditors

- 12.1 A Platform Operator should exercise due skill, care and diligence in the selection and appointment of the auditors<sup>14</sup> to perform an audit of the financial statements of the Platform Operator and its Associated Entity, and should have regard to their experience and track record auditing virtual asset-related business and their capability in acting as auditors of the Platform Operator and its Associated Entity.
- 12.2 A Platform Operator should submit, and should ensure that its Associated Entity submits, an auditor's report in respect of a financial year which contains, in addition to other information required under the laws, a statement by the auditor as to whether, in the auditor's opinion:
- (a) during the financial year in question, the Platform Operator and its Associated Entity had systems of control in place which were adequate to ensure compliance with Part VII (Custody of Client Assets) above;
  - (b) during the financial year in question, the Platform Operator and its Associated Entity have complied with Part VII (Custody of Client Assets) and Part XI (Record Keeping) above; and
  - (c) whether the Platform Operator has contravened the financial soundness requirement under Part III (Financial Soundness) above.

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<sup>14</sup> "Auditor" is defined in section 1 of Part 1 of Schedule 1 to the SFO.

### **XIII. Anti-Money Laundering / Counter-Financing of Terrorism**

13.1 In establishing and implementing adequate and appropriate anti-money laundering / counter-financing of terrorism (AML/CFT) policies, procedures and controls (collectively referred to as AML/CFT systems) to detect and prevent money laundering and terrorist financing (ML/TF) activities, a Platform Operator should, and should procure its Associated Entity to, ensure that its AML/CFT systems can adequately manage the ML/TF risks relating to the Relevant Activities. The Platform Operator should take, and should also ensure that its Associated Entity takes, specific measures which include but are not limited to the following, wherever relevant:

- (a) to identify and assess the ML/TF risks which may arise in relation to the development and use of new virtual assets, services, business practices and technologies for both new and pre-existing products, prior to the launch of new virtual assets, services, business practices or technologies;
- (b) to obtain additional customer information to help determine the client's business and risk profile and conduct ongoing due diligence on the business relationship, and mitigate the ML/TF risks associated with the client and the client's activities, and such additional information should include wherever relevant an IP address with an associated time stamp, geo-location data, device identifiers, virtual asset wallet addresses, and transaction hashes;
- (c) to ensure that the verification of client and beneficial ownership information by the Platform Operator is completed before or during the course of establishing the business relationship;
- (d) where a client's IP address is masked (for example, where access is via a virtual private network), a Platform Operator should take reasonable steps to unmask the IP address or decline to provide services to that client where necessary;
- (e) where a client provides incomplete or suspicious contact information, a Platform Operator should reject, suspend or terminate the business relationship with the client;
- (f) to conduct all deposits and withdrawals of fiat currencies for a client's account only through a designated bank account opened in the name of the client with an authorised financial institution in Hong Kong or a bank in another jurisdiction as agreed by the SFC from time to time;
- (g) to use appropriate technology and wherever appropriate third party services to identify the following situations and apply enhanced customer due diligence and ongoing monitoring, and other additional mitigating or preventive actions as necessary to mitigate the ML/TF risks involved:
  - (i) the use of proxies, any unverifiable or high risk IP geographical locations, disposable email addresses or mobile numbers, or frequently changing the devices used to conduct transactions;
  - (ii) transactions involving tainted wallet addresses such as "darknet" marketplace transactions and those involving tumblers; and

- (iii) transactions involving virtual assets with a higher risk or greater anonymity (for example, virtual assets which mask users' identities or transaction details);
  - (h) to establish and maintain adequate and effective systems and processes, including suspicious transaction indicators relating to the Relevant Activities to monitor transactions with a client or counterparty involving virtual assets and conduct appropriate enquiry and evaluation of potentially suspicious transactions identified. In particular:
    - (i) identify and prohibit transactions with wallet addresses or their equivalent which are compromised or tainted<sup>15</sup>;
    - (ii) employ technology solutions which enable the tracking of virtual assets through multiple transactions to more accurately identify the source and destination of these virtual assets; and
    - (iii) regularly review the factors which determine the extent and depth of monitoring (including suspicious transaction indicators and any monetary or other thresholds used for monitoring) for continued relevance to its present monitoring programme; and
  - (i) to regularly review the effectiveness of its AML/CFT systems and introduce enhancement measures where appropriate, taking into account any new guidance issued by the SFC and updates of the Financial Action Task Force (FATF) Recommendations applicable to virtual asset related activities (for instance, the Interpretive Note to Recommendation 15 and Guidance for a Risk-based Approach to Virtual Assets and Virtual Asset Service Providers). For the avoidance of doubt, in the case of any inconsistency between FATF's requirements and the SFC's regulatory requirements (including these Terms and Conditions), the Platform Operator should apply the more stringent requirements in carrying out any Relevant Activities.
- 13.2 A Platform Operator should observe, and should also ensure that its Associated Entity observes, the provisions of the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations).

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<sup>15</sup> A wallet address is considered compromised or tainted where there is reasonable suspicion that it is used for the purposes of conducting fraud, identity theft, extorting ransom or any other criminal activity.

## XIV. Ongoing Reporting / Notification Obligations

- 14.1 A Platform Operator must ensure, to the extent possible, that no corporation within its group of companies will carry out any Relevant Activity in Hong Kong, or actively market any Relevant Activity to Hong Kong investors. Where it is not possible for the Platform Operator to comply with this obligation, it should notify the SFC within seven business days after it becomes aware, or should have become aware, of the intent of any corporation within its group of companies to carry out any Relevant Activity in Hong Kong or actively market any Relevant Activity to Hong Kong investors.
- 14.2 In addition to the existing notification obligations under the Securities and Futures (Licensing and Registration)(Information) Rules (Cap. 571S), where there is an intended change in the following information, a Platform Operator or its licensed representative (where applicable) should notify the SFC within seven business days before the intended change takes place:
- (a) any change in the scope and details of its services, for example, the provision of off-platform trading services in addition to on-platform trading services;
  - (b) any change in the basic information in respect of each subsidiary of the Platform Operator that carries on a business in any Relevant Activity;
  - (c) any change in the identity of the persons who are controlling persons<sup>16</sup>, responsible officers or subsidiaries of the Platform Operator which carry on a business in any Relevant Activity;
  - (d) any change in the status of any authorisation (however described) to carry on a Relevant Activity by an authority or regulatory organisation in Hong Kong or elsewhere in respect of:
    - (i) the Platform Operator;
    - (ii) each controlling person of the Platform Operator;
    - (iii) each person who is a responsible officer of the Platform Operator; and
    - (iv) each subsidiary of the Platform Operator which carries on a business in any Relevant Activity.
- 14.3 A Platform Operator should submit such information as may be specified and requested by the SFC from time to time, and this includes but is not limited to:
- (a) the monthly volume of virtual asset transactions conducted through the Platform Operator (whether on or off-platform), with a breakdown by type of virtual asset (as specified by the SFC) traded by clients;
  - (b) its operating expenses in the past 12 months and the amount of assets maintained in accordance with paragraph 3.1 above as at the end of the month; and

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<sup>16</sup> "Controlling person", in relation to a corporation, means each of the directors and substantial shareholders of the corporation.

- (c) other statistics on trading, clearing, settlement and custody activities, as applicable, in Hong Kong.

14.4 A Platform Operator should also notify the SFC immediately upon the occurrence of the following:

- (a) any proposed change to the following which might affect its operations, with an explanation for the proposed change, prior to its implementation:
  - (i) the trading rules, admission and removal rules or criteria, trading sessions and operating hours, hardware, software and other technology of its systems, and, where applicable, all system interfaces between its own platform and other platforms;
  - (ii) the Platform Operator's contractual responsibilities in relation to the users of its systems; and
  - (iii) the contingency and business recovery plan in relation to its trading system;
- (b) any causes, or possible causes, impact analysis and recovery measures to be taken in respect of material service interruptions or other significant issues related to its systems;
- (c) any material failure, error or defect in the operation or functioning of its trading, accounting, clearing and settlement systems or equipment; and
- (d) any material non-compliance with these Terms and Conditions, the applicable relevant provisions (as defined in section 1 of Part 1 of Schedule 1 to the SFO), applicable subsidiary legislation made under them, the codes and guidelines listed in Schedule 1, or any relevant circulars or frequently asked questions administered by the SFC.

## Schedule 1 – Existing Regulatory Requirements applicable to a Platform Operator

### Relevant Codes

- (1) Code of Conduct, except for the following paragraphs which are not relevant or have been modified and incorporated in these Terms and Conditions:
- Paragraph 5.1A (Know your client: investor characterization)
  - Paragraph 5.3 (Know your client: derivative products)
  - Paragraph 5.4 (Client identity: origination of instructions and beneficiaries)
  - Paragraph 8.2 (Prompt confirmation)
  - Paragraph 9.3 (Non-public, material information)
  - Paragraph 10.1 (Disclosure and fair treatment)
  - Paragraph 11.1 (Handling of client assets)
  - Paragraph 12.2 (Employee dealings)
  - Paragraph 16 (Analysts)
  - Paragraph 17 (Sponsors)
  - Paragraph 18 (Electronic trading)
  - Paragraph 19 (Alternative liquidity pools)
  - Schedule 3 (Additional requirements for licensed or registered persons dealing in securities listed or traded on The Stock Exchange of Hong Kong Limited)
  - Schedule 4 (Additional requirements for licensed or registered persons dealing in futures contracts and/or options contracts traded on Hong Kong Futures Exchange Limited)
  - Schedule 5 (Additional requirements for licensed persons providing margin lending)
  - Schedule 6 (Additional requirements for licensed persons engaging in leveraged foreign exchange trading)
  - Schedule 7 (Additional requirements for licensed or registered persons conducting electronic trading)
  - Schedule 8 (Additional requirements for licensed or registered persons operating alternative liquidity pools)

Relevant Guidelines

- (2) Guidelines for the Regulation of Automated Trading Services
- (3) Guidelines on Online Distribution and Advisory Platforms
- (4) Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations)
- (5) Guidelines for Reducing and Mitigating Hacking Risks Associated with Internet Trading
- (6) Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the Securities and Futures Commission
- (7) Fit and Proper Guidelines
- (8) Guidelines on Competence
- (9) Guidelines on Continuous Professional Training
- (10) Debt Collection Guidelines for Licensed Corporations