IGNITES ASIA

CSOP AM first to submit crypto futures ETF application in HK: sources

Collapse of digital assets exchange FTX may slow regulatory approvals and leave some firms reconsidering whether it is the right time to launch a crypto ETF

By Lisa Kim | November 16, 2022

Hong Kong's CSOP Asset Management is among a group of fund houses to submit an application to launch the first cryptocurrency futures exchange-traded fund in the territory that can be sold to retail investors, after the regulator early this month announced that it would open the door to such products.

CSOP AM, one of the largest ETF providers in Hong Kong, which boasts a track record of being the first to launch new ETFs in response to relaxed regulation, has already submitted its application to list a crypto futures ETF to the Securities and Futures Commission, three sources tell *Ignites Asia*.

With a handful of asset managers having made advanced preparations to gain crucial first-mover advantage, CSOP AM's application is one of three that has been submitted to the regulator already, according to one source.

Two South Korean firms appear to be likely candidates. Mirae Asset-backed Global X, which runs the Blockchain & Bitcoin Strategy ETF in the U.S., is planning to submit an application for a crypto futures ETF in Hong Kong, according to multiple sources.

Samsung Asset Management, which launched the territory's first blockchain ETF in June this year, may also be among the first to apply to list a retail-focused ETF in Hong Kong, the sources say.

China Asset Management (Hong Kong) is also currently preparing to launch a crypto futures ETF, other sources tell *Ignites Asia*.

CSOP AM, Mirae Asset Global Investments and ChinaAMC (HK) did not respond to *Ignites Asia*'s requests for comment. Samsung Asset Management (Hong Kong) declined to comment.

Industry experts told *Ignites Asia* last week that the first crypto futures ETF in the market could be launched within the next couple of months.

But with regrettable timing for Hong Kong's digital assets hub ambitions, the global cryptocurrency industry now finds itself reeling from perhaps its biggest-ever shockwave.

Less than two weeks after Hong Kong's securities regulator laid out its grand plan to provide retail investors access to crypto ETFs, Bahamas-based FTX, as well as FTX US and trading firm Alameda, all collapsed, filing for bankruptcy at the end of last week. Founder and CEO Sam Bankman-Fried resigned in the wake of a massive liquidity crunch.

The downfall of FTX, once the world's second largest cryptocurrency exchange, has caused turmoil across the crypto industry, heightened concerns over investor protection, and left large institutional investors from BlackRock to Sequoia Capital out of pocket from their investment in the now-defunct platform.

Industry participants suggest that the impact of FTX's collapse is likely to have a knock-on effect, dampening investor appetite for crypto-based investments, and potentially slowing regulatory approvals and delaying product launches.

Rebecca Chua, managing partner of Hong Kong-based ETF provider Premia Partners, says the FTX incident "has put a lot more questions into people's heads".

She suggests that some global firms that have been at the forefront of cryptocurrencies will more likely than not have had some direct experience with FTX, so they may decide it is not the best time internally or externally to start applying to launch crypto ETFs in Hong Kong.

Applicants that have already put in their submissions probably pre-communicated their intention with the SFC but are now likely to face a longer list of questions from the regulator than they had before, she adds.

In terms of investor appetite, Chua believes the FTX incident will make things more difficult, "as a lot of institutional investors especially will put managers under a microscope and will scrutinise everything".

The collapse of FTX, which no one saw coming, has highlighted for many industry sceptics as well as fund firms how much more cautious they should be about getting into the space due to the unseen risks in the cryptocurrency sector.

Joy Lam, Hong Kong-based virtual asset specialist at law firm Baker McKenzie, says traditional finance firms that have just started looking at digital assets may take a pause for thought internally, to reassess what partners they may be working with and what kind of appetite there may now be for the products.

"For people that have already focused on digital, obviously it is very unfortunate what has happened, and it creates a lot of uncertainty and really has shaken up investor confidence," Lam says.

After a torrid year of depreciation for cryptocurrencies, the FTX saga appears to have dented appetite among investors in the territory for any upcoming crypto futures ETF launch, some market participants say.

"Demand from the Hong Kong investors is not that high at the moment," one source tells *Ignites Asia*.

"Foreign investors in Singapore and Thailand, for example, would prefer [crypto ETFs listed in the] U.S., and Chinese investors whose money is already in Hong Kong can invest in the ones in the U.S. as

Related Content

November 15, 2022
BlackRock, Temasek, crypto tycoon Leon Li among investors hit by FTX collapse

November 15, 2022
Finance chief says HK still focused on becoming crypto hub after FTX crisis

November 10, 2022
Race begins for HK's first retail crypto ETF to gain crucial first-mover advantage

well," the source adds.

The ProShares Bitcoin Strategy ETF, one of the largest crypto-linked ETFs listed on the New York Stock Exchange, has plunged around 66% in the year to Monday to US$9.81, showing a bigger drop than the cryptocurrency's 64.47% decline, data show.

The VanEck Bitcoin Strategy ETF, which is traded on the Chicago-based CBOE exchange, has plummeted around 67% to US$15.66, and Valkyrie Bitcoin Strategy ETF, the first fund of its kind on Nasdaq, has dropped almost 66% to US$6.15.

Bitcoin was trading at US$16,946.15 on Tuesday afternoon, down 17.3% in the past seven days and down 74% in the past year, according to CoinGecko. Ethereum prices declined 18.7% in the past seven days and 72.6% in the past year to trade at US$1,276.16.

Amid the crisis, Hong Kong Financial Secretary Paul Chan Mo-po reaffirmed in a blog post on Sunday the territory's commitment to boosting its digital assets ecosystem.

The latest developments have shown the importance of transparency and regulatory compliance, and that "the policy statement we just issued is conducive to building such an environment", he said.

There is the potential for the market to open up further too. When Baker McKenzie asked the regulator about clients possibly combining bitcoin and ether futures with other securities, the regulator indicated that it may be happy to consider that in an application in the future.

"There is some scope for coming up with a portfolio that isn't just 100% bitcoin or ether futures," says Lam.

For fund firms that do not gain first-mover advantage, if they have the right brand or position in the market, even if they are number six or seven to the market, they will still have the potential to attract investors, Lam says.

Also, no one knows when the regulator is going to decide that it is the right time for another exchange or another type of product to be added, she adds.

Premia Partners' Chua says some people have compared the SFC's regulatory crypto ETF move to China's decision to embark on sea voyages during the Ming Dynasty, which developed the country's ship-building capabilities and cultivated local expertise.

"This is part of the experiment to develop our own talent in Hong Kong as well, because if you keep rejecting it then the rest of the world will go on and develop its own talent and infrastructure, and Hong Kong will have none of its own," Chua says.

Additional reporting by John Sedgwick.

An Information Service of Money-Media, a Financial Times Company