

Proposed Guidelines on Trading of Commonly Traded Virtual Assets

Definitions:

- Industry-recognized virtual asset data provider (IRVADP): An industry-recognized virtual asset data provider is defined as a data provider which is recognized within the virtual asset industry as providing reliable information on trading volumes and market capitalization.
- Commonly traded virtual asset (CTVA): A commonly traded virtual asset shall be defined as a virtual asset:
 - whose market capitalization or 24-hour trading is in the top 20 within the previous six months as measured by an IRVADP and
 - which has been available for trading within the previous six months
 - which is available for trading on not less than ten exchanges in at least five countries or regions, and the total trading volume of the exchanges on which the asset is listed exceeded five percent of the total volume of exchange-traded virtual assets as measured by an IRVADP
 - and which does not meet the definition of a security or future under the Securities Futures Ordinance.

Guidelines:

A virtual asset exchange has general permission to offer to the general trading public service to trade between two CTVAs or between CTVAs and Hong Kong Dollar provided that the virtual asset exchange does not and has no reasonable expectation of deriving a financial interest in listing the CTVA and was not involved in the issuance of or promotion of the CTVA.

This general permission does not apply if the virtual asset exchange or its senior management is involved in actively marketing the CTVA or deriving any direct or indirect income or reasonably expect to derive such revenue from listing the CTVA trading pair either directly or through affiliates. This income includes but is not limited to listing fees, marketing fees, or token issuances.

In the event that the trading volume or market capitalization changes so that a trading pair is no longer present as a CTVA, the exchange shall have 90 days to cease trading of the trading asset.

Rationale:

This guideline is to ensure a liquid market for commonly traded virtual assets while maintaining high standards of investor protection and to encourage exist-

ing virtual asset exchanges to continue to offer services to the Hong Kong public through the new regulatory regime.

Because a CTVA is a well-known crypto asset covered in the press, investors can access general media sources to make informed decisions about purchasing such assets, and because these assets are highly traded, they are less susceptible to conflicts of interest and market manipulation.

The guideline excludes explicitly retail trading products such as initial coin offerings (ICOs) or distributed autonomous organization tokens (DAO) and also prevents the exchange from offering to the public tokens for which it maintains a financial interest through general permission.