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Hong Kong SFC Streamlines Licensing Process for Virtual Asset Trading Platforms

On 16 January 2025, the Hong Kong Securities and Futures Commission (**HK SFC**) published details of a new streamlined licensing process that now applies to all new applicants for a virtual asset trading platform (**VATP**) licence in its Circular to New Virtual Asset Trading Platforms Seeking to be Licensed – Enhanced Licensing Process and Revamped External Assessments. The key change in the licensing process is that a single external assessment conducted after the virtual asset trading platform licence applicant has implemented all its internal systems and controls has replaced the two-phased external assessment previously required.

HK SFC's Previous External Assessment Requirements for Virtual Asset Trading Platform Licence Applicants

Previously, under the HK SFC's Scope of External Assessment Reports published in June 2023, applicants for virtual asset trading platform licences were required to engage an external assessor to submit two assessment reports to the SFC. The Phase 1 Report was submitted with the licence application and assessed the effectiveness of the design of the licence applicant's proposed policies, procedures, systems and controls in key areas of risk, including governance and staffing, token admission, custody of virtual assets, KYC, AML/CTF, market surveillance, risk management and cybersecurity. The external assessor's Phase 2 Report was then submitted after the SFC granted approval-in-principle of the virtual asset trading platform licence application and assessed the effectiveness of the policies, procedures, systems and controls actually implemented.

HK SFC's Revamped External Assessment Requirement for Virtual Asset Trading Platform Licence Applicants

The Scope of External Assessment Reports has been superseded by the HK SFC's new circular. Under the new streamlined licensing process, the external assessor is required to submit just one assessment report to the SFC after the virtual asset trading platform licence applicant has implemented all necessary policies, procedures, systems and controls. According to the circular, the assessment is required to ensure that a VATP applicant's policies, procedures, systems and controls are suitably designed and implemented to meet the requirements of the SFC's Guidelines for Virtual Asset Trading Platform Operators (**VATP Guidelines**) and Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations and SFC-licensed Virtual Asset Service Providers) (**AML/CFT Guidelines**). Unlike the now defunct Scope of External Assessment Reports, the circular contains no details of the required terms of reference, scope and specific areas to be covered by the single assessment report. Details of these are however available from the SFC's Fintech unit at vatp-licensing@sfc.hk.

Tripartite Agreement between virtual asset trading platform licence applicant, external assessor and HK SFC

The HK SFC's circular also introduces new requirements for the external assessment to be conducted under a tripartite agreement between the licence applicant, the external assessor and the HK SFC as a direct assurance engagement under HKSAE 3000 or an equivalent standard, such as ISAE 3000. As a party to the agreement, the SFC will supervise the entire external assessment process, clarify relevant regulatory requirements and give feedback on the assessment findings.

The external assessor must be an independent professional accounting firm regulated by Hong Kong's Accounting and Financial Reporting Council and the external assessment report must be signed off by a certified public accountant. The external assessor must also:

- be independent of the licence applicant and its group companies;
- not be a service provider of any of the licence applicant's systems that will be assessed;
- have expertise, technical knowledge, experience and a track record in reviewing the policies, procedures, systems and controls of a virtual asset trading platform licence applicant and a thorough understanding of the regulatory framework applicable to SFC-licensed virtual asset trading platforms; and
- be able to advise and make recommendations to the licence applicant on remediating any deficiencies identified by the external assessment.¹

Streamlined Licensing Process for New Virtual Asset Trading Platform Licence Applicants

The new streamlined application process consists of the key stages outlined below as summarised in the diagram appended to the SFC circular.

1. **Licence Application:** The applicant for a virtual asset trading platform licence submits a licensing application bundle to the SFC through WINGS with:
 - copies of its written policies and procedures;
 - documents demonstrating that a suitable external assessor has been identified to perform an external assessment for the licence applicant, including a copy of the licence applicant's request for a proposal from the external assessor and the external assessor's indication of interest in performing the external assessment;² and
 - a capability statement for the external assessor.
2. **SFC Assessment:** The SFC assesses the application, including the virtual asset trading platform licence applicant's business structure, competence, and the fitness and properness of the applicant, its ultimate controller(s), ultimate owner(s), substantial shareholder(s), proposed responsible officer(s), and proposed Manager(s)-In-Charge, as well as the capabilities of the proposed external assessor. Depending on the circumstances, the SFC may contest or express concerns about the choice of external assessor, or otherwise determine that the application is incomplete and/or has unresolved fundamental issues. In these cases, the SFC will return the application to the applicant with reasons for its decision.
3. **Licence Applicant Deploys its Systems and Controls:** Once the SFC accepts the application for a virtual asset trading platform licence, the applicant is required to deploy its systems and controls for ensuring compliance with the VATP Guidelines and AML/CFT Guidelines.
4. **Virtual Asset Trading Platform Licence Applicant, External Assessor and SFC Sign Tripartite Agreement** and the external assessor performs its assessment. The SFC expects most of the issues identified to be resolved during the external assessment process.
5. **External Assessment Report is Submitted to the SFC.** If the SFC agrees with the external assessment report and all outstanding matters have been dealt with, the SFC will grant the virtual asset trading platform licence to the applicant.

1 SFC FAQs External assessment reports for licence applications Q4

2 SFC FAQs External assessment reports for licence applications Q5

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