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Elven Global Crypto Compliance Research

Deep Dive into Hong Kong SFO / AMLO License

Elven Research August 2024



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Global Crypto Compliance Landscape

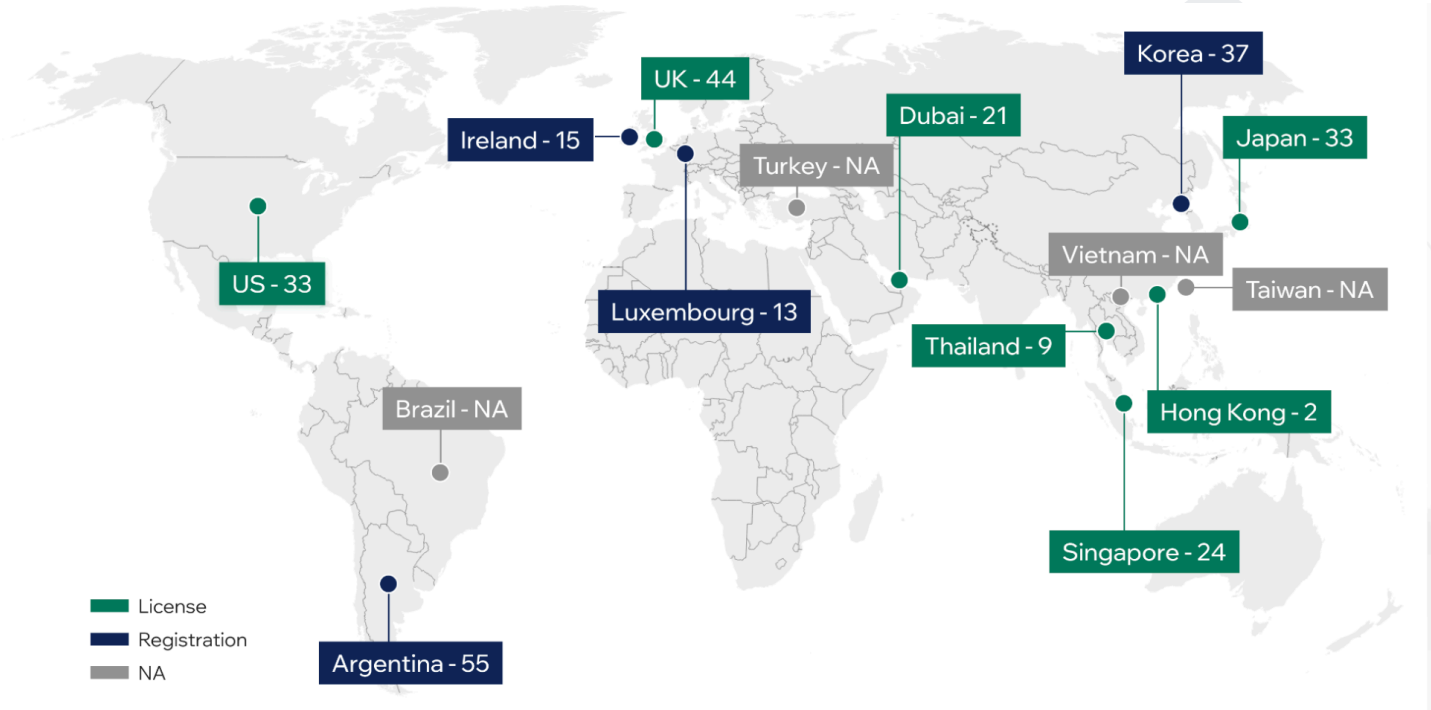


Figure 1: Licensed / Registered Virtual Asset Service Provider in Selected Jurisdiction
Source: Regulators (Retrieved 28 July), compiled by elven research

There is an increased emphasis on compliance of virtual asset service providers globally. Based on research done by the Financial Action Task Force (FATF),¹ 82 jurisdictions in 2024 require crypto licensing / registration.

¹ Financial Action Task Force (FATF) (June 2024) Targeted Update On Implementation Of The FATF Standards On Virtual Assets And Virtual Asset Service Providers

Jurisdiction - Regulator	Status	Number of VASP
<u>Singapore - MAS</u>	License	24
<u>Hong Kong - SFC</u>	License	2
<u>US - NYSDFS</u>	License	33
<u>Japan - JVCEA</u>	License	33
<u>Thailand - SEC</u>	License	9
<u>Dubai - VARA</u>	License	21
<u>UK - FCA</u>	License	44
<u>Ireland - CBI</u>	Registration	15
<u>Luxembourg - CSSF</u>	Registration	13
<u>Argentina - CNV</u>	Registration	55
<u>Korea - FSC</u>	Registration	37
Turkey	NA	
Brazil	NA	
Taiwan	NA	
Vietnam	NA	

Figure 2: Licensed / Registered Virtual Asset Service Provider in Selected Jurisdiction Source: Regulators (Retrieved 28 July), compiled by elven research

Report Introduction

SFO / AMLO license

Hong Kong has stringent and transparent compliance regulations by the Securities and Futures Commission (SFC) in place for virtual asset trading platforms (VATP). The Securities and Futures Ordinance (Cap. 571) (SFO) and the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) SFO / AMLO license is highly appropriate for VATP. Till date, there are a total of 2 licensed VATP with another 16 VATP applicants.

Disclosure

In terms of record keeping and compliance documents, the top 3 regulatory disclosure requirements for the SFO / AMLO license are monthly reconciliation of customer assets, monthly and semi-annual submissions to SFC and annual audit.

Safeguarding

Customer asset's safeguarding is key and they are to be segregated in a trust account. There should be compensation arrangement to cover potential loss of 50% of client virtual assets in cold storage and 100% of client virtual assets in hot and other storages with at least two parties to authorize transactions and at least 98% of customers' assets in cold storage



Figure 3: Hong Kong Crypto Regulatory Landscape, compiled by elven research

SFO / AMLO License Registration and Eligibility Criteria

Registration/licensing

Under the Securities and Futures Ordinance (Cap. 571) (SFO) and the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (AMLO), centralised virtual asset trading platforms carrying on their businesses in Hong Kong, or actively marketing their services to Hong Kong investors, are required to be licensed and regulated by the SFC.

	SFO regime	AMLO regime
Type of licence	Type 1 regulated activity (dealing in securities) & Type 7 regulated activity (providing automated trading services)	Providing a virtual asset service (operating a virtual asset exchange)
Licensing scope	Centralised platforms providing trading services in security tokens* using an automated trading engine which matches client orders and also providing custody services as an ancillary service to their trading services	Centralised platforms providing trading services in non-security tokens* using an automated trading engine which matches client orders and also providing custody services as an ancillary service to their trading services
Persons to be licensed	Licensed corporations (LCs) Licensed representatives of LCs (including responsible officers)	Licensed providers (LPs) Licensed representatives of LPs (including responsible officers)

Figure 4: SFO regime and AMLO regime summary

Source: SFC (Accessed 28 July), compiled by elven research

* Given that the terms and features of a virtual asset may evolve over time, a virtual asset's classification may change from a non-security token to a security token (or vice versa). To avoid contravention of the licensing regimes and to ensure business continuity, it would be appropriate for virtual asset trading platforms to apply for licences under both the SFO and AMLO regimes.

Guidelines for VATP²

Eligibility Criteria

If you are applying for licenses under SFO and/or AMLO regimes, you must meet all of the following criteria:

- must satisfy the SFC that you are fit and proper
- In determining whether a corporation is competent to carry on any Relevant Activities, the SFC will consider various key elements including its business, corporate governance, internal controls, operational review, risk management and compliance as well as the combined competence of its senior management and other staff members.
- you should maintain in Hong Kong at all times assets which it beneficially owns and 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.
- you must at all times maintain paid-up share capital of not less than HK\$ 5,000,000 (referred to as “minimum paid-up share capital”).

² Securities and Futures Commission. (2023). Guidelines for virtual asset trading platform operators.

As of 23 July, there are 2 licensed VATP and 16 VATP applicants SFC register³.

Licensed Virtual Asset Trading Platform

 <u>OSL</u>	 <u>HashKey</u>	
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Virtual Asset Trading Platform Applicants

















 <u>BGE</u>	 <u>HKbitEX</u>	 <u>HKVAX</u>
 <u>VDX</u>	 <u>PantherTrade</u>	 <u>Accumulus</u>
 <u>DFX Labs</u>	 <u>Bixin.com</u>	 <u>EX.IO</u>
 <u>bitV</u>	 <u>YAX</u>	 <u>Bullish</u>
 <u>Crypto.com</u>	 <u>WhaleFin</u>	 <u>Matrixport HK</u>
 <u>bitcoinworld</u>		

Figure 5: SFC Register

Source: SFC (Accessed 23 July), compiled by elven research

³ Securities and Futures Commission. (n.d.). Lists of virtual asset trading platforms.

SFO / AMLO - Record Keeping / Compliance Documents

To ensure compliance with SFC, we have summarized the top 3 regulatory disclosure requirements for the SFO / AMLO license.

- Monthly Reconciliation of customer assets
- Monthly and semi-annual submissions to SFC
- Annual Audit

- Monthly Reconciliation of customer assets

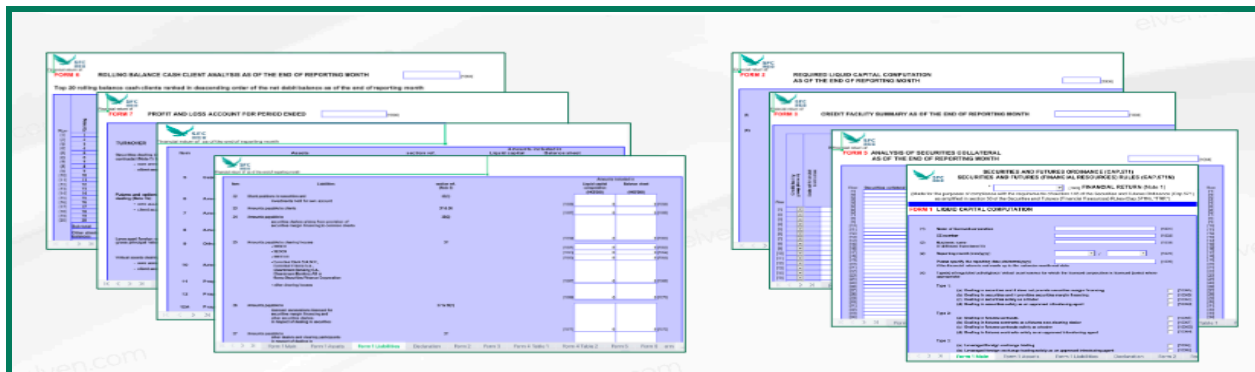
Reconcile, on a monthly basis, any differences in its balances or positions with other persons, including the VATP and banks, and show how such differences were resolved; and

- Monthly and semi-annual submissions to SFC

SFO / AMLO license holder needs to submit **Financial Return Form** to SFC.

The screenshot displays the 'SFC Financial Return Form' interface with the 'elven' logo in the top right corner. A grey pill-shaped button indicates 'Total 12 Forms'. The interface lists the following forms and their submission frequencies:

- Form 1 → Balance Sheet (Semi - Annual)
- Form 2 ~ Form 6 → SFC required computations and declarations (Monthly)
- Form 7 → Profit and Loss (Monthly)
- Form 8 → Analysis of Clients asset (Monthly)
- Form 9 ~ Form 12 → Other specialised regulatory required form





SECURITIES AND FUTURES ORDINANCE (CAP.571)
SECURITIES AND FUTURES (FINANCIAL RESOURCES) RULES (CAP.571N)

* [1000] **FINANCIAL RETURN** (Note 1)

(Made for the purposes of compliance with the requirements of section 145 of the Securities and Futures Ordinance (Cap.571) as amplified in section 56 of the Securities and Futures (Financial Resources) Rules (Cap.571N), "FRR")

FORM 1 LIQUID CAPITAL COMPUTATION

(1) **Name of licensed corporation** [1001]
CE number [1002]

(2) **Business name** [1003]
 (if different from item (1))

(3) **Reporting month (mm/yyyy)** / [1004]
 Please specify the reporting date (dd/mmm/yyyy) [1005]
 if the financial return is not made up to the calendar month-end date

(4) **Type(s) of regulated activity(ies) / virtual asset service for which the licensed corporation is licensed (select where appropriate)**

Type 1:

- (a) Dealing in securities and it does not provide securities margin financing [1006A]
- (b) Dealing in securities and it provides securities margin financing [1006B]
- (c) Dealing in securities solely as a trader [1006C]
- (d) Dealing in securities solely as an approved introducing agent [1006D]

Type 2:

- (a) Dealing in futures contracts [1006E]
- (b) Dealing in futures contracts as a futures non-clearing dealer [1006F]
- (c) Dealing in futures contracts solely as a trader [1006G]
- (d) Dealing in futures contracts solely as an approved introducing agent [1006H]

Type 3:

- (a) Leveraged foreign exchange trading [1006I]
- (b) Leveraged foreign exchange trading solely as an approved introducing agent [1006J]

< < > >
Form 1 Main
Form 1 Assets
Form 1 Liabilities
Declaration
Form 2
Fo

Figure 6: Financial Return Form

Source: SFC (May 2023), compiled by elven research

- Annual Audit
- Annual Audit Questionnaire

Annual Form for appointed auditors of VATP to submit no later than 4 months after the end of the financial period

The image shows a form titled "Audit Questionnaire" from the Securities and Futures Commission. The form is enclosed in a green border and contains the following fields and text:

- SEcurities AND FUTURES COMMISSION** (證券及期貨事務監察委員會)
- Audit Questionnaire**
- Name of Corporation: _____
(“The Licensed Corporation / Licensed Provider”)
- Financial year ended: _____
- We hereby confirm that the information provided herein is accurate to the best of our knowledge and belief.
- Auditors' signature: _____
- Name of auditors and address: _____

- Date: _____
- Audit Questionnaire (May 2023)



Foreword

In order to assist the Intermediaries Supervision Department of the Securities and Futures Commission ("the Commission") to carry out its functions of supervising licensed corporations and corporations licensed under section 53ZRK of the Anti-Money Laundering and Counter-Terrorist Financing Ordinance ("AMLO") as licensed providers for virtual asset service ("Licensed Providers"), we request the assistance of auditors in completing this questionnaire.

The questionnaire takes for granted that the audit has been carried out in accordance with Hong Kong Standards on Auditing and Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and has covered compliance with the disclosure requirements of the Companies Ordinance, in the case of licensed corporations / Licensed Providers that are incorporated in Hong Kong, the Securities and Futures (Accounts and Audit) Rules and Schedule 3F of the AMLO. The purpose of the questionnaire is to obtain information, not readily available from the audited financial statements, which would help the Commission form a better understanding of licensed corporations / Licensed Providers.

Section 158 of the Securities and Futures Ordinance and Section 53ZSM of the AMLO allows auditors to provide such information to the Commission without the breaching of any duty to the licensed corporations / Licensed Providers.

The Commission recognises that auditors will only examine a sample of transactions during their work. The questionnaire should, therefore, be completed on the basis of information obtained by auditors during the course of the audit of the financial statements covered by the questionnaire. The Commission does not expect auditors to extend the scope of their work in order to complete the questionnaire.


If a question cannot be fully answered by "Yes" or "No" please supply an explanation, using additional schedules if necessary.

The completed audit questionnaire should be submitted, no later than four months after the end of the financial year to which it relates, to:

Intermediaries Supervision Department
Securities and Futures Commission
54/F, One Island East
18 Westlands Road, Quarry Bay, Hong Kong



	Yes	No	N/A
1. (a) Which areas of system of internal controls of the Licensed Corporation / Licensed Provider have you relied on when conducting your audit?			
Handling of client accounts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Dealing practices	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Asset protection	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Risk management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Information management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Others (supply details) _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Have you issued any management letter for internal control weakness(es) in relation to the current audit period?	<input type="checkbox"/>	<input type="checkbox"/>	
If yes, please include a copy of the management letter.			
(c) Is any point raised in previous management letter(s) still unresolved?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
If yes, please provide details.			
2. (a) Are you aware of any modification, waiver or approval under any rules made under the Securities and Futures Ordinance valid as at the period end date?	<input type="checkbox"/>	<input type="checkbox"/>	
(b) If yes in 2(a), are you aware of any instance where the condition(s) (if any) imposed by the Commission for any such modification, waiver or approval has not been met by the Licensed Corporation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. (For Licensed Corporations only) Are you satisfied that no material inconsistency between the audited accounts and the additional disclosure of financial information as required by the Account Disclosure Document came to your attention?	<input type="checkbox"/>	<input type="checkbox"/>	
If not, please give details.			
4. Have you identified any material revisions, discrepancies or reclassifications of the balances in the year-end liquid capital computation between the audited financial return and the financial return for the relevant period first submitted by the Licensed Corporation / Licensed Provider to the Commission?	<input type="checkbox"/>	<input type="checkbox"/>	
If yes, please give details.			



SFC
證監會

If the Licensed Corporation / Licensed Provider and / or its associated entity has held client assets during any time in the financial year, please answer questions 5 to 7:


	Yes	No	N/A
In the course of your audit,			
5. Are you aware of any instances of management overriding the systems of internal control relating to client assets?	<input type="checkbox"/>	<input type="checkbox"/>	
(a) If yes, have you raised management letter point on the issue or qualified your audit report in the current audit period?	<input type="checkbox"/>	<input type="checkbox"/>	
(b) If no in 5(a), please provide details of the instances and explain why the issue does not need to be raised in the management letter or the audit report.			_____
6. Are you aware of any lack of segregation of incompatible duties in the systems of internal control relating to client assets?	<input type="checkbox"/>	<input type="checkbox"/>	
(a) If yes, have you raised management letter point on the issue or qualified your audit report in the current audit period?	<input type="checkbox"/>	<input type="checkbox"/>	
(b) If no in 6(a), please provide details of the lack of segregation of incompatible duties and explain why the issue does not need to be raised in the management letter or the audit report, including compensating controls if any, adopted by the Licensed Corporation / Licensed Provider and / or its associated entity.			_____
7. In the course of your audit, did you conduct a circularization of client account balances and balances of client securities / securities collateral / client virtual assets held by the Licensed Corporation / Licensed Provider and / or its associated entity?	<input type="checkbox"/>	<input type="checkbox"/>	
(a) If yes, please provide the following details.			
• The cut-off date of the balances being circularized ("reference date")			<u>dd/mm/yyyy</u>
• Total number of client accounts from which circularization samples were selected			_____
• Total number of client accounts circularized			_____
• Total market value of client securities and securities collateral held by the client accounts circularized as at the reference date			_____
• Total market value of client virtual assets held by the client accounts circularized as at the reference date			_____
• Total debit / credit balances ¹ of the client accounts circularized as at the reference date			_____
Total debit balances ¹			_____
Total credit balances ¹			_____
Have you identified any material unexplained discrepancies?	<input type="checkbox"/>	<input type="checkbox"/>	
If yes, please provide details			_____
(b) If no circularisation was conducted for the audit, please briefly describe your audit approach to substantiating client account balances, stockholdings and virtual asset holdings.			_____

¹ The total debit / credit balances of client accounts mean the aggregate of the net debit / credit balance of client accounts calculated on a client-by-client basis

Figure 7: Audit Questionnaire

Source: SFC (May 2023), compiled by elven research

- Annual Client Asset Analysis Form



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

Form

(Made for the purposes of compliance with the requirements of section 156(1)(a) of the Securities and Futures Ordinance (Cap. 571) as amplified in section 3(3) of the Securities and Futures (Accounts and Audit) Rules (Cap. 571P) and Section 53ZSC(1)(a) of the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (“AMLO”) as amplified in Section 3(b) of Schedule 3F of the AMLO)

Analysis of Client Assets for Associated Entity

Table 1 Analysis of client securities and client virtual assets as of the date of financial year-end _____

(This part is applicable to associated entities of licensed corporations, registered institutions and corporations licensed under section 53ZRK of the AMLO to provide a virtual asset service (“Licensed Provider”))

	Market value (HK\$'000)
<u>Analysis of client securities and client virtual assets</u>	
Client securities	
Deposited in accounts held in Central Clearing and Settlement System (“CCASS”) (A)	
Deposited in safe custody with authorized financial institutions (B)	
Deposited in safe custody with licensed corporations (C)	
Held in the office premises of the intermediary or associated entity (D)	
Held in other locations (E) (Note 1)	
Total client securities (F) = (A) + (B) + (C) + (D) + (E)	
Client virtual assets	
Deposited in hot wallets (G)	
Deposited in cold wallets (H)	
Others (I) (Note 2)	
Total client virtual assets (J) = (G) + (H) + (I)	

Note 1: Please specify in the space below the locations of the client securities and purposes of the dispositions.

Note 2: Please specify in the space below the locations of the client virtual assets.



Table 2 Analysis of client money as of the date of financial year-end _____

(This part is only applicable to associated entities of licensed corporations and Licensed Provider)

	(HK\$'000)
Analysis of client money	
Amounts held in segregated account maintained with authorized financial institution (K)	
Amounts held in segregated account maintained with other person approved by the Commission under the Securities and Futures (Client Money) Rules (L)	
Amounts held with approved banks incorporated outside Hong Kong (M)	
Others (N) (Note 3)	
Total (O) = (K) + (L) + (M) + (N)	

Note 3: Please specify in the space below the locations of the client money.

Figure 8: Analysis of Clients Asset Form

Source: SFC (May 2023), compiled by elven research

SFO / AMLO - Client Asset Custody

Segregating customers' assets in a trust account

- **Compensation arrangement to cover potential loss** of 50% of client virtual assets in cold storage and 100% of client virtual assets in hot and other storages
- **At least two parties** to authorize transactions
- **At least 98%** of customers' assets in cold storage

In accordance with the [guidelines](#)⁴ for VATP, we highlight some key points below:

1. 98% of client virtual assets should be stored in cold storage (such as Hardware Security Module (HSM)- based cold storage) except under limited circumstances permitted by the SFC on a case-by-case basis to minimise exposure to losses arising from a compromise or hacking of the platform.
2. Client virtual assets are segregated from the assets of the VATP
3. Should not conduct any deposits and withdrawals of client virtual assets through any wallet address other than an address which belongs to the client and is whitelisted by the VATP
4. Access to seeds and private keys relating to client virtual assets is tightly restricted amongst authorised personnel who have undergone appropriate screening and training, no single person has possession of information on or access to the entirety of the seeds, private keys or backup passphrases, and controls are implemented to mitigate the risk of collusion amongst authorised personnel.
5. Seeds and private keys are securely stored in Hong Kong
6. Should monitor client IP addresses to identify and follow up on potential deposit or withdrawal instructions that are not originated from the client

⁴ Securities and Futures Commission. (2023). Guidelines for virtual asset trading platform operators.

7. VATP should have in place a compensation arrangement approved by the SFC to cover potential loss of 50% of client virtual assets in cold storage and 100% of client virtual assets in hot and other storages. The arrangement should include any or a combination of the options below:

- (a) third-party insurance;
- (b) funds (held in the form of a demand deposit or time deposit which will mature in six months or less) or virtual assets of the Platform Operator or any corporation within the same group of companies as the Platform Operator which are set aside on trust and designated for such a purpose; and
- (c) bank guarantee provided by an authorized financial institution in Hong Kong.

Any subsequent changes in the compensation arrangement should be pre-approved by the SFC.

8. VATP should monitor on a daily basis the total value of client virtual assets under custody and ascertain whether the compensation arrangement continues to comply with above.

SFO / AMLO - Timeline

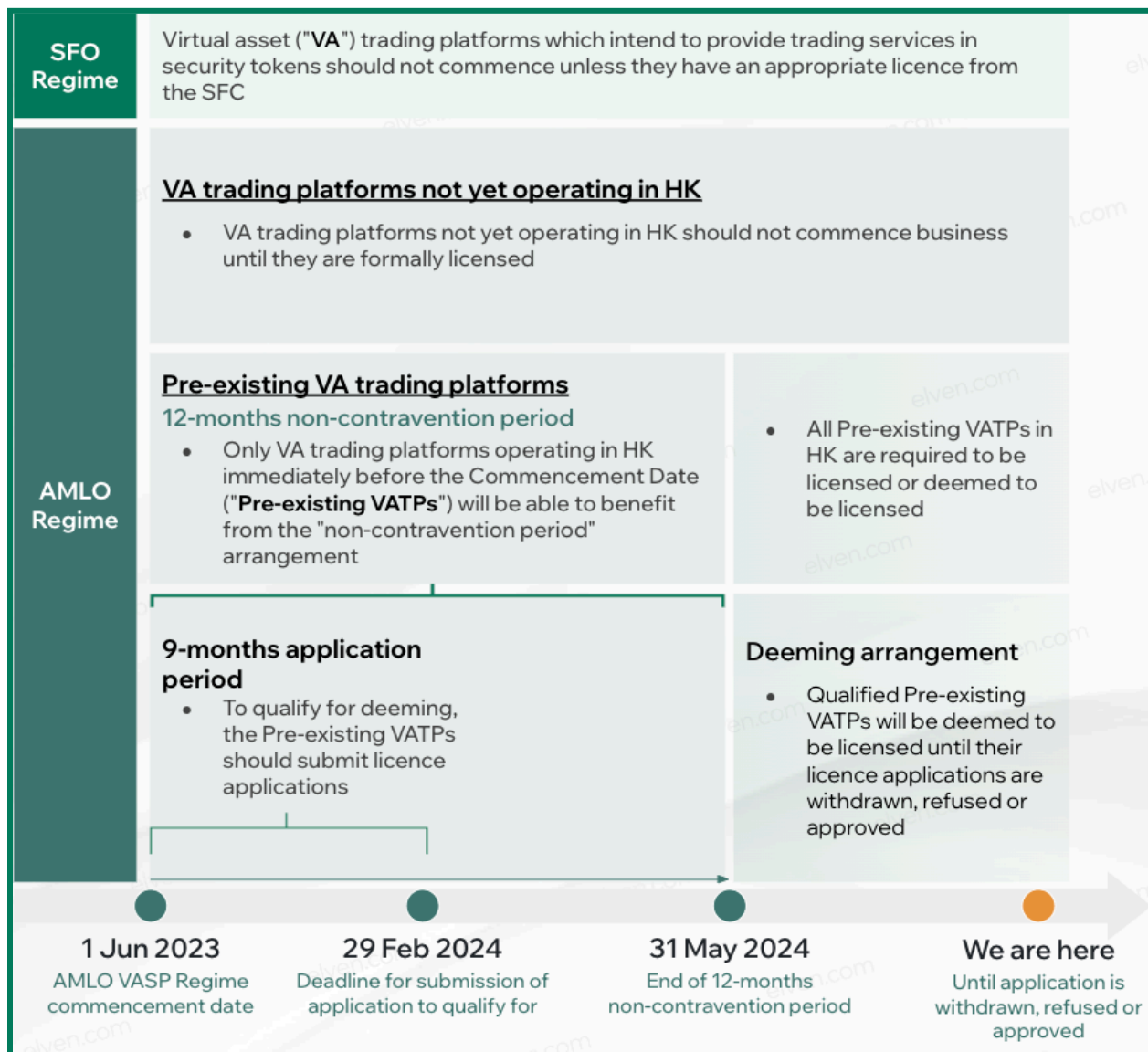


Figure 9: SFO / AMLO - Timeline

Source: *Consultation Paper⁵ on the Proposed Regulatory Requirements for Virtual Asset Trading Platform Operators Licensed by the Securities and Futures Commission (Feb 2023)*, compiled by elven research

⁵ Consultation Paper on the Proposed Regulatory Requirements for Virtual Asset Trading Platform Operators Licensed by the Securities and Futures Commission (Feb 2023)

SFC authorized VA funds

In accordance with Circular⁶ on SFC-authorized funds with exposure to virtual assets:

Transactions Requirement:

Transactions and acquisitions of spot VA by SFC-authorized VA Funds should be conducted through SFC-licensed VATP

Custody Requirement:

1. The trustee/custodian of an SFC-authorized VA Fund should only delegate its VA custody function (where applicable) to
 - (i) an SFC-licensed VATP, or
 - (ii) an AI (or subsidiary of a locally incorporated AI) which meets the expected standards of VA custody issued by the HKMA from time to time
2. it should ensure that the VA holdings are segregated from its own assets and the assets it holds for its other clients;
3. it should store most of the VA holdings in the cold wallet. The amount and duration of VA holdings stored in the hot wallet should be minimised as much as possible, save for meeting the needs of subscriptions and redemptions; and
4. it should ensure the seeds and private keys are (i) securely stored in Hong Kong; (ii) tightly restricted to authorized personnel; (iii) sufficiently resistant to speculation (eg, through generation in a non-deterministic manner) or collusion (through measures such as multi-signature and key sharding); and (iv) properly backed up to mitigate any single point of failure.

⁶ Securities and Futures Commission. (2023). Circular: Product authorization (Ref No. 23EC65).

Approval Requirement:

For (i) funds having or intending to have VA exposure of more than 10% of NAV that wish to seek the SFC’s authorisation or (ii) existing SFC-authorized funds that plan to obtain VA exposure of more than 10% of their NAV, prior consultation with and approval of the SFC are required.

BTC/ETH ETF







 <u>Bosera HashKey Bitcoin ETF (3008.HK)</u>	 <u>Harvest Bitcoin Spot ETF (3439.HK)</u>	 <u>ChinaAMC Bitcoin ETF (3042.HK)</u>
 <u>Bosera HashKey Ether ETF (3009.HK)</u>	 <u>Harvest Ether Spot ETF (3179.HK)</u>	 <u>ChinaAMC Ether ETF (3046.HK)</u>

Figure 10: BTC/ETH ETF in Hong Kong

Source: *Reuters*⁷ (April 2024), compiled by elven research

⁷ Reuters (April 2024) Asia's first spot bitcoin and ether ETFs make lukewarm Hong Kong debut


Stablecoin Issuers Regulatory Regime




Figure 11: Proposed regulatory regime for stablecoin issuers in Hong Kong Timeline
Source: SFC⁸ (July 2024), compiled by elven research

With support from the market, the Financial Services and the Treasury Bureau (FSTB) and the Hong Kong Monetary Authority (HKMA) will move forward with the legislative proposal to implement a regulatory regime for issuers of fiat-referenced stablecoin (FRS) in Hong Kong.

 Key Points:

 Hong Kong Bank Account: Using a Hong Kong bank account to process issuance and redemption requests is a factor in determining if FRS is issued in Hong Kong.

 Full Backing: The amount of FRS issued must always be fully backed by reserve assets at any given time.

⁸ SFC (July 2024) Legislative Proposal to Implement the Regulatory Regime for Stablecoin Issuers in Hong Kong

💎 High-Quality Assets: Tokenized versions of high-quality and high-liquidity reserve assets are allowed.

🛡️ User Protection: Safekeeping reserve assets with licensed banks in Hong Kong could provide greater user protection.

🚫 No Interest or Incentives: FRS issuers would not be allowed to make arrangements with third parties to provide interest to FRS users. Offering marketing incentives would be prohibited.

🏢 Local Incorporation: Local incorporation is required.

👤 Chief Executive Presence: Presence of the chief executive in Hong Kong is essential.

💰 Capital Requirement: Imposing a minimum paid-up share capital requirement of HKD 25 million or 1% of the par value of FRS in circulation, whichever is higher.

🔍 Auditor Standards: Ensuring the auditor's knowledge, expertise, resources, and independence in conducting audits or reviews for relevant areas.

🌐 Regulatory Cooperation: Considering formal regulatory cooperation mechanisms with other jurisdictions.

In July, the Hong Kong Monetary Authority (HKMA) announced three institutions will participate in the sandbox.

During the assessment process, these institutions were able to demonstrate genuine interest in developing a stablecoin issuance business in Hong Kong with a reasonable business plan, and that their proposed operations under the sandbox arrangement would be conducted within a limited scope and in a risk-controllable manner.

Stablecoin Issuer Sandbox Participant






 <p>JD.COM 多·快·好·省</p> <p><u>JINGDONG Coinlink</u></p>	 <p>RD Technologies <u>RD Innotech</u></p>	 <p><u>Animoca Brands</u></p>  <p><u>Standard Chartered Bank (Hong Kong)</u></p>  <p><u>Hong Kong Telecommunications (HKT)</u></p>
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Figure 12: Stablecoin Issuer Sandbox Participants

Source: HKMA⁹ (18 July 2024), compiled by elven research

⁹ HKMA (18 July 2024), HKMA announces stablecoin issuer sandbox participants

Conclusion

As of 25 July, a total of 13 Virtual Asset Trading Platforms (VATPs) have withdrawn or had their license applications returned, including major players like OKX, Gate, and Bybit. In 2024 alone, approximately 30 VATPs have been added to the SFC's [alert list](#)¹⁰. While Hong Kong remains an attractive hub for VATPs due to its favorable tax rates and developed financial center, the SFC has implemented strict regulatory and monitoring measures to protect consumer interests.

At the recent Foresight 2024 annual summit¹¹, David Chiu, a member of the Legislative Council of the Hong Kong Special Administrative Region, emphasized that the initiative is crucial for the technology industry over the next five to 10 years. “The digital asset industry has made significant progress in the past few years, but we are still in a very early stage,” Chiu said. “We should establish a sound exchange system and soon introduce legislation related to stablecoins.”

¹⁰ Securities and Futures Commission. (2023, Sep 29). Alerts – full list.

¹¹ Cointelegraph (2024, Aug 11). Hong Kong to enhance digital asset regulation in 18 months

About Elven

Professional crypto accounting software

Elven is a professional crypto accounting software designed for OTC, payment, exchanges, and Web3 projects, facilitating regulatory compliance, audit readiness, and accounting automation. Elven has received SOC 2 Type 1 & Type 2 and SOC 1 Type 2 audit reports from Insight Assurance, we are firmly committed and invested in data security and information privacy with our clients.

Trusted by more than 800 industry-leading enterprises in the Web3 sphere, including Hashkey and Coinhako, Elven provides comprehensive solutions such as integrated fiat and crypto accounting, streamlined technical support, 24/7 advisory assistance, and SOC2 audited security.



Customers



Case Study

Case Study - Regulated Exchange (Coinhako)



Brief intro

Coinhako is a regulated Major Payment Institution (MPI), licensed by the Monetary Authority of Singapore (MAS), to conduct Digital Payment Token (DPT) services and other payment services under the Payment Services Act (PSA). As a leading Singapore-based cryptocurrency exchange, it enables users to trade various cryptocurrencies like Bitcoin, Ethereum, and Ripple. The platform focuses on making cryptocurrency trading easy for Asian users, offering a user-friendly interface and multiple payment options such as bank transfers and credit/debit cards.

Official Website: <https://www.coinhako.com>

Customers' pain points

- Automated daily regulatory required reconciliation report
- Managing numerous financial data sources and handling large volumes of data in the hundreds of millions
- Manual reconciliation and accounting tasks present significant challenges for the finance team

We Provide

- Regulatory Compliance: Daily asset reconciliation for MAS reporting
- Client Segregation: Individual ledgers for each client's assets
- Deep Integration: Custom access to 20 chain balances and transactions, integrated with internal and custody systems
- Large Data Handling: Import billions of transactions, update millions of addresses automatically

Case Study - Listed Company (SINOHOPE)



Brief intro

Sinohope Technology Holdings Limited (stock code: [1611.HK](https://www.hkex.com.hk/quote/1611), "SINOHOPE") is an all-in-one platform for digital assets custody, focusing on digital asset custody and provides a variety of custody solutions to help every enterprise use digital assets safely and conveniently. SINOHOPE adopts MSC-CMP technology to support users to manage private key fragmentation and collaborative signature in a distributed way, which solves the single point risk of private key and effectively increases transparency and ease of use. Adhering to the principles of security, compliance, professionalism and diversity of services, SINOHOPE provides easy-to-use centralized and decentralized mixed services.

Based on the MPC self-custody platform and licensed digital asset custody services, SINOHOPE also provides customized OTC desk, virtual assets management, Web3 Full-stack Suite and other products and services for institutional and high net worth clients.

Official Website: <https://www.sinohope.com>

Customers' pain points

- Manual bookkeeping is laborious and susceptible to inaccuracies
- Reconciliation processes are extensively time-consuming
- Financial report preparation for audits demands significant effort and resources

We Provide

- Automated accounting rules aligned with SINOHOPE's business essence
- Realized and unrealized gains and losses for crypto are automatically calculated, with a traceable calculation process
- Automatically generates financial statements that meet regulatory standards.

Case Study - OTC (Hashkey OTC)



Brief intro

Hashkey OTC is a regulated Major Payment Institution (MPI), licensed by the Monetary Authority of Singapore (MAS), to conduct Digital Payment Token (DPT) services and other payment services under the Payment Services Act (PSA). HashKey OTC is a service by HashKey Group which is a leading global fintech company that specializes in blockchain and digital asset management. HashKey OTC got approval from the Monetary Authority of Singapore for its payment service license, allowing it to operate legally in Singapore while offering these trading services.

Official website: <https://www.hashkey.com>

Customers' pain points

- Exhaustive manual reconciliation process
- Time-consuming financial report preparation for auditing purposes
- Segregation of client funds

We Provide

- Seamless integration with Hashkey's self-developed business system
- Providing clear audit evidence, streamlining transaction flow
- Segregating and accounting for client funds

Another leading OTC firm is also our client



Case Study - Payment (DTC Pay)



Brief intro

DTC Pay is a regulated Major Payment Institution (MPI), licensed by the Monetary Authority of Singapore (MAS), to conduct Digital Payment Token (DPT) services and other payment services under the Payment Services Act (PSA). DTC Pay provides digital payment solutions such as multi-currency swaps, online payments, in-store payments and crypto payments to help individuals and businesses worldwide conduct value transfers in a seamless and efficient way.

<https://dtcpay.com/about-us-dtcpay/>

Customers' pain points

- Difficulty meeting requirements for internal management analysis which require business reports to cover multiple dimensions
- Difficulty in effectively tracking profits and costs per transaction
- Concerned about general ledger which cover crypto and fiat currency can meet external reporting and auditing requirements.

We Provide

- Supports customised business auxiliary accounting fields, enabling business reports across multiple dimensions such as region, business line, customer, channel, etc. This meets the requirements for internal management analysis.
- Integrates with the DTC core business system to achieve P&L accounting at the granularity of each client order, calculating accounting metrics such as revenue, costs, expenses, net profit, etc., required for management reporting, meeting the needs for order profit analysis.
- Exports the results of business accounting to Oracle NetSuite general ledger module to meet external reporting and auditing requirements.

Another leading payment firm is also our client



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Global Strategic Compliance for Crypto Market Series

Elven understand the key issues that CFOs and CCOs are concerned about and focused our research on:

- Licensing/Registration
- Record Keeping/Compliance Documents
- Client Asset Custody Requirements

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