August 28, 2025

ripple

Division 5, Financial Services Branch
Financial Services and the Treasury Bureau
24/F, Central Government Offices
Tim Mei Avenue, Tamar Central
Hong Kong

Submitted via email: vadealing-consult@fstb.gov.hk

Financial Services and the Treasury Bureau ("FSTB") and the Securities and Futures Commission ("SFC") Public Consultation on Legislative Proposal to Regulate Dealing in Virtual Assets

Dear Sir/Madam,

Ripple Labs Inc. ("Ripple") welcomes the opportunity to comment on the jointly issued *Public Consultation on Legislative Proposal to Regulate Dealing in Virtual Assets* (the "Dealing Consultation") published on June 27, 2025 by the Financial Services and Treasury Bureau ("FSTB") and the Securities and Futures Commission ("SFC").[1]

Ripple would like to thank the FSTB and SFC for the in-depth and comprehensive analysis that has been undertaken in the Dealing Consultation. We appreciate the opportunity to provide our comments and respectfully request that they be taken into consideration as both regulatory authorities examine the policy direction and scope of the intended regulation for the activity of dealing in virtual assets ("VA").

Ripple has previously responded[2] to the joint FSTB and SFC Public Consultation on Legislative Proposals to Regulate Over-the-Counter Trading of Virtual Assets published on February 8, 2024 (the "OTC Consultation").[3]

It is encouraging to note that the FSTB and SFC have incorporated much of the feedback provided in our response into this latest proposal. We welcome the opportunity for ongoing engagement with the FSTB and SFC on this Dealing Consultation and any other related consultations as may be appropriate.

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[1] See https://apps.sfc.hk/edistributionWeb/api/consultation/openFile?lang=EN&refNo=25CP6, *Legislative Proposals to Regulate Dealing in Virtual Assets.*
[2] See https://ripple.com/files/Ripple-response-to-the-FSTB-Consultation-Paper-on-Legislative-Proposals-to-Regulate-Over-the-Counter-Trading-of-Virtual-Assets.pdf, *Ripple response to OTC Consultation.*
[3] See https://www.fstb.gov.hk/fsb/en/publication/consult/doc/VAOTC_consultation_paper_en.pdf, *Public Consultation on Legislative Proposals to Regulate Over-the-Counter Trading of Virtual Assets.*

In responding to the Dealing Consultation, there are two overall themes that we wish to bring to the attention of the FSTB and SFC:

1. **Supporting Proportionate Regulation for Professional Investors**

   While the underlying objective of the proposed licensing regime appears to be ensuring retail investor protection, the Dealing Consultation paper does not look to establish a more tailored approach or provide specific definitions for activities geared towards trading with professional investors. Given the reference to the principle of "same activity, same risk, same regulation" throughout the Dealing Consultation, we believe that consideration should be given to providing certain exemptions for business models aimed only at professional investors, as per the exemptions provided in the Securities and Futures Ordinance ("SFO").[4] This could include exemptions from requirements relating to marketing, risk management, minimum capital, and permitted virtual assets for trading. Imposing the same requirements on these business models as those targeting retail clients creates completely unnecessary requirements whilst not furthering the stated objectives of this proposed regime.

2. **Adopting a Risk-based Approach for Custody Provider Requirements**

   We do not believe that the FSTB and SFC's proposal requiring that custody of virtual assets is held only with a licensed or registered VA custodian in Hong Kong furthers the intended objective of ensuring investor protection. We acknowledge that, under the principle of "same activity, same risk, same regulation," the requirement to ensure custody is held in Hong Kong should aim to be equivalent to that of the Securities and Futures (Client Securities) Rules. However, we do not believe that limiting the choice of VA custodians, especially when options may be rather limited, will have a net benefit to clients or licensees. Instead, we believe that the FSTB and SFC should consider recognition of regulatory regimes of equivalent standards to ensure that licensees have access to the most effective and secure custody services available.

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With this overview, Ripple respectfully submits the following responses to the questions outlined in the Dealing Consultation in the attached Appendix. In addition to the Dealing Consultation, Ripple has also provided comments on the FSTB and SFC's joint consultation on the *Legislative Proposal to Regulate Virtual Asset Custodian Services* ("Custody Consultation") published on June 26, 2025[5] and we request that the response is also read in conjunction with this comment letter.

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[4] See https://www.elegislation.gov.hk/hk/cap571, *Securities and Futures Ordinance (Cap. 571)*.
[5] See https://apps.sfc.hk/edistributionWeb/api/consultation/openFile?lang=EN&refNo=25CP7, *Public Consultation on Legislative Proposal to Regulate Virtual Asset Custodian Services.*

Should the FSTB and SFC wish to discuss any of the points raised as part of this feedback, please do not hesitate to contact Rahul Advani (Global Co-Head of Policy) at radvani@ripple.com or Caren Tso (Policy Manager, APAC) at ctso@ripple.com.

Sincerely,
Ripple Labs Inc.

APPENDIX

Ripple respectfully submits the following responses to the proposals in the Dealing Consultation.

1. **Do you agree with the proposed definition and scope of VA dealing services? Are there any potential exemptions which you consider appropriate?**

Ripple generally supports the proposed definition and scope of VA dealing service as set out in the Dealing Consultation and welcomes the further clarity provided in relation to the types of services that would be covered, particularly the inclusion of VA-VA conversions, which we note was not originally covered in the previous OTC Consultation. This clarification helps provide regulatory certainty for VA providers conducting a range of client-facing transactions.

However, given that the principle driver of the Dealing Consultation is to ensure that "*investor protection is catered for*", we strongly recommend that the FSTB and SFC differentiate between entities servicing retail clients and those servicing only enterprise or professional investors. This recommendation is consistent with our proposed recommendation in our previous response to the OTC Consultation, and is in line with the broader regulatory principle of proportionality and risk sensitivity.

VA dealing activities conducted on a Business-to-Business ("B2B") basis, such as those involving only professional or institutional clients, carry a different risk profile compared to retail-facing services operating on a Business-to-Consumer ("B2C") basis. Applying the same regulatory requirements to both groups fails to account for these nuanced differences and may create unnecessary barriers for enterprise use cases without meaningfully enhancing safeguards for retail investors. We believe that entities engaged solely in B2B activities should not be subject to the same obligations.

If the FSTB and SFC are looking to develop a regulatory framework that is aligned with the principle of "same activity, same risks, same regulation", then consideration should be given to the exemptions for "professional investors" set out in the SFO and the SFC's related regulations on offers of investments[6] and trading of VAs.[7]

Therefore, we request that the FSTB and SFC consider including definitions for 'retail' and 'professional' investors within this regulatory framework, differentiating based on varying levels of risks posed to investors under

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[6] *See* https://www.sfc.hk/sfc/doc/EN/legislation/securities/others/sfo_training/faq_ip_200303.pdf, *Frequently Asked Questions Part IV of the Securities and Futures Ordinance on Offers of Investments, Page 1.*

[7] *See* https://www.sfc.hk/en/Welcome-to-the-Fintech-Contact-Point/Virtual-assets/Virtual-asset-trading-platforms-operators/Regulatory-requirements/FAQs-on-conduct-related-matters/Trading-of-virtual-assets/31-May-2023-Trading-of-virtual-assets#2BD877ACB2414C3AAEECEBD1836B19BE, *SFC Trading of virtual assets.*

different business models. Certain exemptions for services aimed only at "professional investors" will ensure that the Dealing Consultation's intent of investor protection is met while at the same time allowing innovation in enterprise use cases. This would better position Hong Kong as a competitive and forward-looking jurisdiction for enabling innovation in institutional-grade VA services, and aspirations to become a Web3 hub.

Lastly, we would like to propose that the "professional investors" exemption adopt the same criteria as those set out under the SFO. Specifically, the following should be regarded as "professional investors" for exemption:

- Individuals with a portfolio of at least HKD 8 million (including jointly held or through a wholly owned investment vehicle)
- Corporations with:
    - A portfolio of at least HKD 8 million, or
    - Total assets of at least HKD 40 million
- Partnerships with:
    - A portfolio of at least HKD 8 million, or
    - Total assets of at least HKD 40 million
- Trust corporations acting as trustee, entrusted with total assets of at least HKD 40 million.

This alignment with the SFO would ensure consistency across regulatory regimes and avoid any confusion or duplication in the compliance requirements. This also provides clarity to market participants through the use of well-established and widely understood thresholds.

2. Do you have any comments on the proposed scope of allowed activities?

Ripple welcomes the proposed scope of allowed activities stated in the Dealing Consultation, and supports the alignment of token offering procedures of licensees and registrants with those required of SFC-licensed VATPs. We believe that the use of an objective criterion, namely using liquidity benchmarks and inclusion of reputable inducers, is a more proportionate approach in comparison to the initial proposal in the OTC Consultation, which only permitted the trading of VAs that are available for retail trading on at least one SFC-licensed VATP.

We also appreciate the regulatory clarity provided for a wide range of dealing activities, including brokerage, block trades, and VA-to-VA conversions. These are foundational components of institutional VA market infrastructure and will enable a broader set of use cases to operate under a clear licensing regime.

We also support the FSTB and SFC's application of the proposed token offering requirements specifically to services provided to retail investors. To further enhance the effectiveness and flexibility of the regime, we encourage the FSTB and SFC to explicitly differentiate the scope of permissible activities based on the classification of investors.

Notably, the Dealing Consultation does not specify requirements for dealing with professional or institutional investors. We believe that this presents an opportunity to introduce greater flexibility for services offered exclusively to such investor profiles. As outlined in our response to Question 1, professional investors typically possess greater financial sophistication, experience, and risk tolerance than retail investors. Accordingly, we believe they should be permitted to access a broader range of VAs and more complex trading strategies, subject to appropriate risk disclosures and due diligence procedures. Differentiating regulatory treatment in this manner would ensure that the regime remains proportionate to risk while supporting Hong Kong's ambitions to become a global hub for institutional-grade VA services.

3. **If licensees or registrants providing VA dealing services are allowed to acquire or dispose of VAs for clients via non-SFC- licensed VATPs or liquidity providers, what are your comments on the safeguards that should be put in place?**

Ripple supports the proposed safeguards in relation to the use of non-SFC-licensed VATPs or liquidity providers for the provision of acquiring and disposing of VAs for clients. In particular, we view the requirement to undertake additional counterparty due diligence as necessary to bring the regulatory framework, and this is in line with the obligations set out in the Financial Action Task Force ("FATF")'s Recommendation 16 (the "Travel Rule").[8] However, it would be useful to receive further clarification from the FSTB and SFC on how they expect these safeguards to be operationalised.

We believe that the extent of such additional counterparty due diligence should be risk-based and proportionate to the specific risk profile and activities carried out by the licensee. As such, it should allow for sufficient flexibility and be tailored to each firm's operational model and risk methodology, rather than prescriptive requirements. For instance, a licensee undertaking fast, high-volume trades with non-SFC-licensed VATPs may be less concerned about insolvency risk and more focused on the risk of money laundering, thereby tailoring its counterparty due diligence accordingly.

To assist firms in implementing an effective and proportionate approach, it would also be useful for the FSTB and SFC to set out some guidance on key measures that licensees should consider to ensure such due diligence is undertaken effectively and tailored to their business risk methodology.

Such measures could include:

- Whether the non-SFC-licensed VATP is licensed or registered in a credible foreign jurisdiction.

[8] See https://www.fatf-gafi.org/en/publications/Fatfrecommendations/update-Recommendation-16-payment-transparency-june-2025.html, *FATF updates Standards on Recommendation 16 on Payment Transparency.*

- Gathering sufficient information about the non-SFC-licensed VATP to understand the nature of its business fully, the entity's reputation and regulatory oversight, and the regulatory oversight it is subject to.
- Assessing the effectiveness of the non-SFC-licensed VATP's AML/CFT controls, including its compliance with the FATF Travel Rule.
- Ensuring contractual clarity on the respective responsibilities of each party; and
- Confirming that the non-SFC-licensed VATP has conducted thorough Customer Due Diligence ("CDD") and ongoing monitoring on its clients, including verifying their identities and continuously assessing the counterparties from whom it acquires VAs.

4. **If licensees or registrants providing VA dealing services are required to hold client VAs via regulated VA custodians, what are your comments on a commercially viable and AML- compliant operational flow to conduct VA dealing activities?**

While Ripple recognises the policy rationale behind the proposal to require licensees to hold client VAs with licensed or registered VA custodians in Hong Kong, we believe that a mandatory local custody requirement has the potential to create unnecessary risks for both clients and licensees. This is particularly concerning given the global nature of VA markets and the risk of regulatory fragmentation.

Given the size of the VA sector, we believe that there is a potential for concentration risk, depending on the number of available licensed custodians. When regulatory requirements restrict custody to a small pool of licensed providers, it can lead to over-reliance on a few entities, making the entire ecosystem more susceptible to systemic vulnerabilities such as operational failures, service bottlenecks, or cybersecurity breaches. This, in turn, reduces the quality of service available to clients.

While other VA regulatory frameworks across different jurisdictions impose a similar requirement, such as the European Union ("EU")'s requirement to custody VAs with a licensed Crypto-Assets Service Provider ("CASP") under Markets in Crypto-Assets Regulation ("MiCA"),[9] these frameworks operate in jurisdictions that might not be tailored for the Hong Kong market. Such frameworks operate in markets with a broader and more diverse set of licensed custodians. Hong Kong's comparatively nascent custody ecosystem warrants a more flexible, phased approach. A more suitable proposal for Hong Kong may be to require that licensees are liable to their clients for the loss of any VA or the means of access to the VA as a result of an incident that is attributable to them.

We encourage the FSTB and SFC to consider:

[9] See https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32023R1114, *Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on markets in crypto-assets, and amending Regulations (EU) No 1093/2010 and (EU) No 1095/2010 and Directives 2013/36/EU and (EU) 2019/1937.*

- Allowing equivalence-based recognition of custodians licensed in other well-regulated jurisdictions, particularly when they meet equivalent standards of operational resilience or service quality;
- Clarifying whether licensees are permitted to self-custody client assets if they meet applicable safeguarding standards, rather than requiring all firms to outsource this function;
- Prioritising investor protection through accountability, such as holding licensees liable for loss or mismanagement of client assets, rather than prescribing custodial arrangements;
- Conducting a systemic risk assessment on the interconnectedness and capacity of licensed custodians before implementing a hard requirement.

Such measures would maintain high standards of investor protection while enabling market participants to access best-in-class custodial solutions and reducing the risk of infrastructure bottlenecks.

We encourage the FSTB and SFC to consider the following criteria in formulating a regulatory framework:

1. Avoid Systemic Risk Through Concentration Assessments

If custody options are consolidated into a small number of providers, this can create systemic vulnerabilities that can reach beyond the VA market. An alternative consideration would be to consider a macro view to assess the interconnectedness of VA custodian providers and how clients might be best insulated from potential market instability before the implementation of such a requirement.

2. Enable Access to High-Quality Custody Through Equivalence-Based Recognition

We believe that as well as ensuring investor protection, a key objective of the regulatory framework should be to ensure that clients have access to the most secure and effective custody solutions to safeguard their VA. If a VA custodian is regulated under a well-established and equivalent jurisdiction and offers superior service quality or operational resilience, we believe this option should not be excluded to the detriment of the market participants and local clients. This would expand the pool of eligible VA custodian providers, reduce market concentration risks, and support broader adoption of best practices.

3. Regulatory Clarity for Self-Custody under the Proposed Regime

We note that the wording in Section 2.23 of the Dealing Consultation is unclear on whether licensees providing VA dealing services would be permitted to also offer custody services to clients under the current proposals. We believe that if licensees can make sufficient provisions for the custody of the clients' VA, such firms should be permitted to do so rather than being required to outsource this function to a third-party licensed VA custodian.

It is also important to clarify that some entities may choose to adopt a self-custody model as a technological solution rather than as a commercial service. In such cases, where custody is embedded as part of the licensee's infrastructure and not offered externally, it would be burdensome and misaligned with regulatory intent to subject the technology provider to separate licensing as a VA custodian. Such regulation would not meaningfully advance consumer protection or risk mitigation objectives.

5. Do you think the regulatory requirements proposed suffice in addressing potential ML/TF risks and offering adequate investor protection?

Ripple is broadly supportive of the proposed regulatory requirements set in the Dealing Consultation, and note that it aligns with the principle of "same activity, same risk, same regulation" and the broader international standards set out by the FATF.

However, we believe that the proposed minimum paid-up capital requirement of HKD 5 million and minimum liquid capital of up to HKD 3 million will create significant barriers to entry for smaller firms and start-up projects, effectively pricing them out of the market and hindering innovation at a local level. While we acknowledge the importance of maintaining financial soundness, fixed thresholds across the board may not meaningfully improve investor protection outcomes, particularly for firms operating low-risk business models or servicing only professional investors.

We do not believe that high minimum capital amounts would sufficiently provide adequate investor protection, and instead would like to urge the FSTB and SFC to consider a tiered, risk-based capital framework that better reflects the size, scope, and risk profile of the applicant's business. Applicants should be required to propose and justify an appropriate level of capital based on:

- the nature of services offered (e.g., execution-only vs. custodial);
- the type of clients served (e.g., retail vs. professional);
- operational scale and complexity; and
- the estimated cost of an orderly wind-down.

This approach would better align with FATF's risk-based guidance for VASP regulation,[10] and international best practices such as those adopted in jurisdictions that offer tiered licensing, i.e., the Monetary Authority of Singapore ("MAS")'s graduated capital requirements tailored to different types of digital asset activities under the Payment Services Act.[11]

[10] See https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Guidance-rba-virtual-assets-2021.html, *Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers.*
[11] See https://www.mas.gov.sg/regulation/payments/licensing-for-payment-service-providers, *Licensing for Payment Service Providers.*

We also note that a more proportionate capital requirement framework could facilitate the participation of market infrastructure providers, such as institutional liquidity facilitators, or cross-border settlement intermediaries that typically operate on a non-custodial and professional-only basis. Imposing uniform capital thresholds on these firms, despite their limited retail exposure and lower systemic risk, may unjustifiably exclude them from the market and hinder broader institutional adoption of VAs in Hong Kong.

A flexible capital adequacy approach would promote a more inclusive and dynamic market while still allowing the SFC to allocate supervisory resources based on actual risk. This in turn supports Hong Kong's strategic objective of being a competitive, innovation-friendly VA and Web3 hub.

6. Do you agree with the proposed transitional arrangement?

Ripple is supportive of the proposal to grant open-ended licenses or registrations, and welcomes the decision to move away from the previously considered requirement for biennial renewal. This approach provides regulatory certainty for licensees and aligns with existing SFC licensing practices for other regulated entities.

However, Ripple's primary concern with this proposal is the absence of a transitional arrangement that may create unnecessary compliance and operational pressures on existing VA dealing service providers. Requiring all market participants to be fully licensed on the commencement date may:

- Force smaller or resource-constrained providers to divert significant capacity toward immediate licensing efforts, potentially leading to exits or service disruptions;
- Result in non-compliance due to timing constraints, rather than any substantive regulatory shortcomings; and
- Create a processing bottleneck for the SFC itself, should a large volume of applications be submitted in a short window.

We believe that a reasonable transitional period would allow industry participants to align internal controls and systems with the finalised licensing requirements, and also facilitate more orderly onboarding by the SFC.

We therefore respectfully recommend that the FSTB and SFC revisit the OTC Consultation, which allows for a six-month transitional period subject to the condition that providers submit their application within the first three months. This would strike a more effective balance between regulatory enforcement and market continuity, while preserving supervisory credibility and reducing undue burden on both industry and regulator.

7. Do you agree with the expedited licensing or registration arrangement?

Ripple supports the proposal for an expedited licensing arrangement for existing regulated entities that are already providing VA dealing services,

provided that the SFC has sufficient resources to process applications within a reasonable timeframe.

We believe this approach will help reduce unnecessary duplication for entities that have already undergone the SFC's or HKMA's fit-and-proper assessments under existing regulatory frameworks. However, it would be helpful for the SFC to provide greater clarity on the expected timelines and procedural requirements for this expedited process. Clear guidance on the documentation needed, expected service standards, and relevant decision-making criteria would enhance transparency and allow applicants to plan accordingly.

8. **Based on the "user-pays" principle, do you have any comments on aligning the licensing application fee and annual fee for a licensee or registrant providing VA dealing services with those for Type 1 regulated activity under the SFO?**

Ripple is supportive of the proposal to align licensing application and annual fees for VA dealing service providers with those applicable to Type 1 regulated activities under the SFO. This approach is consistent with the "user-pays" principle and aligns VA dealing licensing fees with those imposed on existing intermediaries under the SFO, therefore ensuring parity in supervisory cost recovery. It also promotes regulatory consistency across financial service providers.

We encourage the SFC to review the fee framework periodically to ensure it remains proportionate to the supervisory demands of the sector.

9. **Do you agree that, for the purpose of protecting the investing public, persons not licensed by or registered with the SFC should not be allowed to actively market VA dealing services to the public of Hong Kong?**

Ripple is broadly supportive of the proposal to restrict the active marketing of VA dealing services to the public of Hong Kong by unlicensed or unregistered entities. We agree that such a prohibition can play an important role in protecting retail investors from the risks associated with unregulated virtual asset activities.

However, given the cross-border nature of VA markets, we recommend that the SFC consider introducing a recognition regime for VA licences issued by foreign regulators with comparable regulatory standards. This would help facilitate market access for reputable international firms while maintaining appropriate safeguards for Hong Kong investors. Entities recognised under such a framework could be exempted from the prohibition, subject to appropriate conditions.

We also note that the stated objective of the proposal is to prevent the investing public from being exposed to unregulated activities. In line with this objective, we request that the FSTB and SFC explicitly exempt professional

investors, as defined under the SFO, from the scope of the prohibition. Professional investors are generally more sophisticated and better equipped to assess risks, and should not be treated in the same category as retail investors for these purposes.

Finally, we encourage the SFC to consider setting high-level principles or guidance regarding the expectations for marketing and promotional communications by licensed VA dealing service providers. Such guidance would support industry compliance and help mitigate the risk of misleading or fraudulent promotions.

10. Do you agree that the SFC and the HKMA should be provided with the proposed powers?

Ripple is supportive of the proposal to provide the SFC and the HKMA with the necessary supervisory, and enforcement powers to effectively implement and oversee the proposed licensing regime.

11. Do you agree with the proposed sanctions, which are comparable to those under the existing regulatory regimes for VATPs?

Ripple supports the proposed sanctions framework, which is broadly consistent with existing enforcement provisions under the VATP regime.

12. Do you agree that a review tribunal mechanism should be put in place to handle appeals against the decisions to be made by the SFC or the HKMA in implementing the licensing regime?

Ripple supports the establishment of a review tribunal mechanism. Providing a clear and independent avenue for appeal is an important safeguard for procedural fairness and will help enhance confidence in the regulatory regime.