



Hong Kong FSTB and SFC Launch Joint Consultation on Legislative Proposals to Regulate Virtual Asset Dealers and Custodians

On 27 June 2025, the Hong Kong Financial Services and the Treasury Bureau (**FSTB**) and the Hong Kong Securities and Futures Commission (**HK SFC**) jointly released two consultation papers i.e. *Public Consultation on Legislative Proposal to Regulate Dealing in Virtual Assets* and *Public Consultation on Legislative Proposal to Regulate Virtual Asset Custodian Services* which proposes statutory licensing regimes for virtual asset dealers and custodians.

These proposed legislative frameworks form a central pillar of the Hong Kong SAR Government's digital asset development agenda, following the release of the Policy Statement 2.0 on the Development of Digital Assets in Hong Kong on 26 June 2025. They are also aligned with the "Access" pillar of the SFC's **ASPIRe roadmap**, issued on 19 February 2025, to ensure safe, responsible, and globally integrated virtual asset markets.

The proposed legislative regimes will mandate licensing, supervision, and compliance standards for entities engaging in dealing in virtual assets and those offering virtual asset custody services. The HK SFC will be the designated authority to license and regulate these service providers, ensuring that they operate under robust governance, AML/CFT controls, asset safeguarding protocols, and client protection obligations. The proposed frameworks adopt a "same business, same risks, same rules" principle to ensure regulatory consistency across comparable financial activities.

According to Ms Julia Leung, Chief Executive Officer of the HK SFC: *"The proposed introduction of the regulatory regimes for dealers and custodians would complete a digital asset ecosystem that is both safe and vibrant for institutional and retail investors."*

The launch of the two consultation papers i.e. Public Consultation on Legislative Proposal to Regulate Dealing in Virtual Assets and Public Consultation on Legislative Proposal to Regulate Virtual Asset Custodian Services follows the release of the Policy Statement 2.0, which outlined the Government's updated vision for digital asset market development. These proposals are aimed at establishing a statutory foundation for overseeing key VA intermediaries and addressing identified regulatory gaps in asset custody and trading services.

Mr Christopher Hui, Secretary for Financial Services and the Treasury, affirmed this direction: *"The proposed licensing regimes will lay a solid ground for us to establish a comprehensive regulatory framework for digital assets with investor and customer protection at its core foundation."*

The Public Consultation on Legislative Proposal to Regulate Dealing in Virtual Assets and the Public Consultation on Legislative Proposal to Regulate Virtual Asset Custodian Services invite comments from stakeholders, including licensed intermediaries, fintech firms, institutional investors, global exchanges, legal advisors, and the general public. Interested parties may submit their responses to the Hong Kong FSTB or HK SFC by 29 August 2025.

After the conclusion of consultation period, the authorities are expected to initiate legislative drafting, likely through amendments to the Hong Kong **Anti-Money Laundering and Counter-Terrorist Financing Ordinance** (Cap. 615) and/or the Hong Kong **Securities and Futures Ordinance** (Cap. 571), to formally establish the licensing frameworks.

(Source: <https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?ref-No=25PR99>)

Crypto Asset Exchange-Traded Products – Division of Corporation Finance, July 1, 2025: US SEC Staff Clarifies Disclosure Expectations for Crypto ETP Issuers

On 1 July 2025, the U.S. Securities and Exchange Commission's Division of Corporation Finance released a staff statement titled **Crypto Asset Exchange-Traded Products – Division of Corporation Finance**. The statement aims to provide clarity and guidance on the application of U.S. federal securities laws to disclosures made by issuers of crypto asset exchange-traded products (**ETPs**). It outlines key disclosure practices under the **Securities Act of 1933** and the United States **Securities Exchange Act of 1934**, reflecting the staff's observations during its review of recent ETP registration filings. This staff statement is directed at crypto ETP sponsors, legal counsel, compliance officers, and investment professionals involved in product development and US SEC reporting. The Division has expressly clarified that the statement is a staff view, not a rule, regulation, or official position of the Commission. It creates no new or additional obligations. The crypto asset ETPs discussed are not registered as investment companies under the Investment Company Act of 1940, and therefore are not subject to the Investment Company Act's valuation, custody, or governance requirements.

Cover Page Disclosures

The US SEC requires crypto asset ETP issuers to include key offering details on the front cover page of the prospectus. For crypto asset ETPs, this includes disclosure of the initial offering price. The staff statement has observed that crypto asset ETP issuers often identify the initial authorised participant (AP) or initial purchaser as a statutory underwriter, which is consistent with regulatory expectations.

Prospectus Summary

Crypto ETP issuers are required to provide a clear, plain English summary of key aspects of the offering. Effective summaries identify the most significant elements of the offering and avoid simply repeating the prospectus text. The staff has noted disclosures that describe the trust's investment objective, the underlying crypto assets, and the associated networks. Crypto asset ETP issuers also disclose how underlying assets are managed, including any restrictions on usage, and the treatment of incidental rights such as forks and airdrops. A point consistently disclosed is that the crypto assets held per share will decrease over time as assets are sold to pay fees and expenses.

Risk Factors

The staff statement emphasises that risk disclosures must focus on material and crypto asset ETP issuer-specific risks. Generic risks that could apply to any crypto asset ETP issuer are discouraged. Examples of observed disclosures include risks related to the price volatility of crypto assets, theft or loss of private keys, market manipulation, and cybersecurity threats. Other risks relate to network attacks, concentration of ownership, loss of miner or validator incentives, competitive pressure, and dependency on third-party service providers, including APs and custodians.

Description of Business

Crypto asset ETP issuers typically describe the nature of the trust, its assets, and business operations. The staff statement has observed disclosures covering the characteristics of the underlying crypto assets, including how they are minted, staked, burned, and validated. Issuers also provide details on the associated crypto networks, such as consensus mechanisms, fee structures, and use cases. The statement notes that this information should be presented in clear and accessible language, avoiding unnecessary technical jargon.

Index or Benchmark

Where the ETP tracks an index or benchmark, the staff expects disclosure of the constituent platforms, methodology for calculation, and selection criteria. Issuers are also disclosing information about oversight committees, and whether the sponsor has the discretion to change the benchmark. Material changes to the benchmark should be communicated to investors in a timely and transparent manner.

NAV Calculation

Crypto asset ETP issuers must explain the methodology used to calculate the net asset value (NAV) of the trust's assets. If the NAV methodology differs from that used for GAAP-compliant fair value, the differences must be clearly described. Where a third-party valuation service or a secondary benchmark is used, the sponsor's agreements and licensing arrangements should be disclosed.

Service Providers and Custody of Assets

The operation of a crypto asset ETP often involves multiple service providers, including sponsors, custodians, and authorised participants. Crypto asset ETP issuers typically disclose the identity and material terms of agreements with these parties, many of which are filed as exhibits. With respect to custody, Crypto asset ETP issuers disclose storage practices (cold, warm, or hot wallets), whether assets are commingled, and who has access to private keys. They must also address whether and to what extent the custodian carries insurance and how coverage applies across customers.

Fees and Expenses

Disclosures must clarify how the sponsor fee is calculated and whether it covers specific operational costs. Any third-party transaction fees, limits on fees, or payment mechanisms using the trust's crypto assets must be included. The staff also expects disclosures regarding any unassumed expenses or caps on costs imposed by the sponsor.

Description of Securities

Crypto asset ETP issuers are required to describe the nature and rights of the securities being offered. For crypto ETPs, this typically includes disclosure of voting rights (or their absence), the circumstances under which rights may be modified, and how investors are notified of amendments or termination of the trust agreement.

Plan of Distribution

This section outlines how securities will be sold. The staff has observed disclosures describing the creation and redemption process, involvement of APs, and how settlements occur, whether onchain or offchain. Crypto asset ETP issuers must disclose how market volatility or trading platform outages could affect the arbitrage mechanism, and under what circumstances creation and redemption may be suspended. Clear notification processes for such suspensions are expected.

Management and Governance

Crypto ETPs often do not have traditional boards or officers but rely on the sponsor's directors and executives. Where the sponsor performs policy-making functions, relevant individuals must be identified with appropriate experience disclosure. Executive compensation rules may not apply, but fees paid to the sponsor or third-party providers must be disclosed.

Conflicts of Interest

The SEC expects clear disclosure of any actual or potential conflicts of interest. This includes whether the sponsor or insiders hold crypto assets or have market exposure that could bias their decisions. Crypto asset ETP issuers also disclose whether they have codes of conduct or pre-clearance procedures for transactions by employees or affiliates, and the sponsor's experience with other ETPs and the crypto market.

Financial Statements

Where Crypto asset ETP issuers operate through multiple series trusts or partnerships, the SEC staff position is that the trust or partnership is the registrant, but separate financial statements should be provided for each series. Issuers must also assess materiality separately for each series under Regulation S-K and Regulation S-X.

Filing Fee Tables

Crypto asset ETP issuers registering offerings of an indeterminate number of ETP securities under Rules 456(d) and 457(u) must tag EDGAR submissions correctly. The correct "Type of payment" is "2" and "Security type" is "Exchange-Traded Vehicle Securities." Failure to tag these fields correctly may prevent proper submission of post-effective amendments under Rule 424(i) and timely fee payments.

(Source: <https://www.sec.gov/newsroom/speeches-statements/cf-crypto-asset-exchange-traded-products-070125>)

Hong Kong SFC Convenes Second Digital Asset Consultative Panel Meeting to Advance ASPIRe Roadmap Initiatives

On 7 July 2025, the Hong Kong Securities and Futures Commission (**HK SFC**) convened the second meeting of its *Digital Asset Consultative Panel (DACP)*, to engage directly with HK SFC-licensed virtual asset trading platforms on policy, regulatory, and market development issues. Central to the meeting was discussion of current and future initiatives under the *ASPIRe roadmap*, including the recently launched public consultations on legislative proposals to regulate virtual asset dealing and custodian services. The DACP forms a critical institutional channel for the HK SFC to collaborate with market stakeholders in shaping a robust and globally competitive digital asset regulatory ecosystem.

The DACP meeting focused on several high-priority themes within the digital asset regulatory agenda, particularly, enhancing market accessibility (Pillar A) through appropriate licensing, onboarding, and compliance pathways for qualified participants; broadening the range of product offerings (Pillar P) within a safe and transparent regulatory framework; and discussing the ongoing *Public Consultation on Legislative Proposal to Regulate Dealing in Virtual Assets* and *Public Consultation on Legislative Proposal to Regulate Virtual Asset Custodian Services*, launched jointly by the HK SFC and the Financial Services and the Treasury Bureau (**FSTB**) on 27 June 2025.

Dr Eric Yip, Executive Director of Intermediaries at the SFC and chair of the DACP, commented:

"Today's DACP meeting is constructive and insightful, underscoring the importance of engagement with licensed VATPs in nurturing a sustainable and competitive digital asset ecosystem."

The meeting also explored challenges in balancing investor protection and market innovation, in light of global scrutiny and rapidly evolving business models in digital asset markets. The DACP's role has been realigned with the Hong Kong Government's Policy Statement 2.0 on the Development of Digital Assets, issued on 26 June 2025, which formalised a more unified digital asset regulatory lexicon and renamed the former "Virtual Asset Consultative Panel" to the Digital Asset Consultative Panel. This reflects a broader scope of engagement beyond just virtual assets to encompass all forms of tokenised and digital financial instruments.

The DACP is also embedded within Pillar Re (Relationships) of the HK SFC's ASPIRe roadmap (announced on 19 February 2025), which calls for deepened regulator-market collaboration, with licensed digital asset intermediaries.

(Source: <https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?ref-No=25PR104>)

US SEC Extends Review Period for Proposed Listing of Canary Staked TRX ETF on Cboe BZX

On 9 July 2025, the United States Securities and Exchange Commission (**US SEC**) issued a **Notice of Designation of a Longer Period** for Commission Action on a Proposed Rule Change to List and Trade Shares of the Canary Staked TRX ETF under BZX Rule 14.11(e)(4), Commodity-Based Trust Shares, Release No. 34-103405 (File No. SR-CboeBZX-2025-069), designating a longer period for Commission action on a proposed rule change submitted by Cboe BZX Exchange, Inc. to list and trade shares of the Canary Staked TRX ETF under BZX Rule 14.11(e)(4), governing Commodity-Based Trust Shares.

The US SEC's order extends the time for review of a proposed rule change filed under Section 19(b)(1) of the United States Securities Exchange Act of 1934 and US SEC **Rule 19b-4** thereunder. The proposal seeks approval to list and trade shares of the Canary Staked TRX ETF. Pursuant to Section 19(b)(2) of the United States Exchange Act, the US SEC has until 27 August 2025 to approve, disapprove, or institute proceedings to determine whether to approve or disapprove the proposal. The extension enables the Commission to consider the proposal and its implications more fully.

The Canary Staked TRX ETF is proposed to be listed as a Commodity-Based Trust Share under BZX Rule 14.11(e)(4). The structure implies that the ETF would hold or be linked to staked TRX (**Tron tokens**), potentially generating staking rewards. The proposed rule change would permit the ETF to reflect the value of TRX with a mechanism for net asset value (**NAV**) calculation. The proposal may involve a designated sponsor and custodian, though the current order does not elaborate on the specific mechanics or entities involved.

The US SEC invoked Section 19(b)(2) of the United States Securities Exchange Act of 1934 to extend its review period, citing the need for sufficient time to evaluate the proposed rule change and the issues raised. The order states:

"The Commission finds it appropriate to designate a longer period within which to take action on the proposed rule change so that it has sufficient time to consider the proposed rule change and the issues raised therein."

The proposal was published in the Federal Register on 29 May 2025 (90 FR 22778), under File No. SR-CboeBZX-2025-069. The Commission has not received any public comments to date. Stakeholders can continue to submit comments through the official US SEC portal referencing the same file number.

The next date for this application is 27 August 2025, by which date the US SEC must either approve, disapprove, or initiate proceedings to consider the listing.

(Source: <https://www.sec.gov/files/rules/sro/cboebzx/2025/34-103405.pdf>)

US SEC Reviews Nasdaq Proposal to Permit In-Kind Creations and Redemptions for iShares Bitcoin Trust

On 9 July 2025, the United States Securities and Exchange Commission (**US SEC**) publishes a **Notice of Filing of a Proposed Rule Change, as Modified by Amendment No. 2**, as Modified by Amendment No. 2, to Amend the Rules Governing the Listing and Trading of the iShares Bitcoin Trust to Permit In-Kind Creations and Redemptions [Release No. 34-103406; File No. SR-NASDAQ-2025-008], by The Nasdaq Stock Market LLC. The proposal seeks to amend the operational mechanics of the iShares Bitcoin Trust to allow for in-kind creations and redemptions of shares, in addition to the currently permitted cash-based process.

The Nasdaq Stock Market LLC filed the original proposed rule change on 24 January 2025 pursuant to Section 19(b)(1) of the United States **Securities Exchange Act of 1934** and **Rule 19b-4** thereunder. On 4 February 2025, Nasdaq submitted Amendment No. 1, which replaced and superseded the initial filing in its entirety. The proposal was published for comment in the Federal Register on 12 February 2025 (90 FR 9446). On 13 May 2025, the US SEC instituted proceedings under Section 19(b)(2)(B) to determine whether to approve or disapprove the rule change. Subsequently, on 1 July 2025, Nasdaq submitted Amendment No. 2, which replaced and superseded Amendment No. 1 and the original filing in full. On 9 July 2025, the Commission issued the current notice to solicit public comment on the proposed rule change, as modified by Amendment No. 2.

Proposed Amendments Under Amendment No. 2

The Nasdaq Stock Market LLC proposes to update certain representations relating to the creation and redemption of shares of the iShares Bitcoin Trust. Specifically, the proposal would permit the Trust to allow for “in-kind” transfers of bitcoin, thereby enabling authorised participants to deliver or receive bitcoin directly, rather than transact in cash.

Shares of the iShares Bitcoin Trust are currently listed and traded on Nasdaq under Rule 5711(d), which governs Commodity-Based Trust Shares. The Trust is sponsored by iShares Delaware Trust Sponsor LLC, a Delaware limited liability company and an indirect subsidiary of BlackRock, Inc. Coinbase Custody Trust Company, LLC serves as the bitcoin custodian for the Trust, while Coinbase, Inc. is the Prime Execution Agent. The Bank of New York Mellon acts as custodian for the Trust’s cash holdings and serves as its administrator.

Under the amended framework, bitcoin will be held by the Bitcoin Custodian in a cold storage Custody Account. Temporary holdings related to transaction activity may be maintained in a Trading Account managed by the Prime Execution Agent. The Trust’s bitcoin held in the Custody Account will be stored offline, with private keys generated and retained in “cold storage” for enhanced security.

The proposal establishes distinct order cut-off times:

1. For cash orders, the cut-off time will be 6:00 p.m. ET on the business day before trade date.
2. For in-kind orders, the cut-off time will be 3:59 p.m. ET on the trade date.

In an in-kind creation, the authorised participant or its agent deposits bitcoin into the Trust’s Trading Account in exchange for Trust shares. In an in-kind redemption, the Trust delivers bitcoin from its Trading Account to the authorised participant or its agent in exchange for shares.

If the authorised participant fails to deliver bitcoin on settlement date for a creation, it may:

1. Cancel the order,
2. Delay settlement, or
3. Instruct the Trust to execute a bitcoin purchase, in which case the participant delivers cash and absorbs the cost differential between the NAV-calculated price and the market execution price, if higher.

In a cash-based transaction, the Trust executes a corresponding bitcoin purchase or sale through a Bitcoin Trading Counterparty or via the Prime Execution Agent’s Coinbase Prime service. The Trust may also utilise trade credit facilities provided by Coinbase Credit, Inc., an affiliate of the Prime Execution Agent, allowing it to obtain bitcoin or cash on trade date pending full settlement.

The amendment proposes to replace existing rule text stating that Baskets are issued or redeemed “only in exchange for an amount of cash” with revised language stating that issuance or redemption may be “in exchange for an amount of bitcoin and/or cash.” This aligns the rulebook with the operational amendments proposed in the filing.

Nasdaq states that the proposal is consistent with Section 6(b) and furthers the objectives of Section 6(b)(5) of the United States Securities Exchange Act by promoting just and equitable principles of trade, removing impediments to a free and open market, and protecting investors. According to the Exchange, enabling in-kind creation and redemption will increase operational efficiency by allowing authorised participants to source or deliver bitcoin directly. This change may reduce market impact from the Trust’s trading activities and lead to cost efficiencies that benefit end investors.

The US SEC is soliciting public comments on the proposal. Comments may be submitted via the Commission’s internet comment form or by email to rule-comments@sec.gov, with File No. SR-NASDAQ-2025-008 in the subject line. Submissions must be received within 21 days of publication in the Federal Register.

(Source: <https://www.sec.gov/files/rules/sro/nasdaq/2025/34-103406.pdf>)

US SEC Commissioner Hester M. Peirce Issues Statement: “Enchanting, but Not Magical: A Statement on the Tokenisation of Securities” Stresses Legal Compliance for Tokenised Assets

On 9 July 2025, US SEC Commissioner Hester M. Peirce published a statement titled “[Enchanting, but Not Magical: A Statement on the Tokenisation of Securities](#),” where she discussed the increasing adoption of blockchain technology for the tokenisation of securities. Commissioner Peirce stated that, despite the innovative potential of tokenisation to facilitate capital formation and enhance asset utility, tokenised securities remain subject to existing US federal securities laws. She warned that blockchain technology does not change the legal nature of the underlying asset; therefore, all market participants, including both new entrants and established firms, must adhere to US SEC regulations when issuing, distributing, or trading tokenised securities.

Commissioner Peirce also pointed out the unique risks associated with third-party tokenisation, such as counterparty risks, and reminded distributors of their disclosure obligations under US SEC rules. She encouraged market participants to engage with the US SEC to ensure compliance and to discuss potential updates to regulatory frameworks where technological advancements may warrant change. The US SEC reaffirmed its readiness to collaborate with industry stakeholders to modernise rules and craft appropriate exemptions as needed.

Securities Classification of Tokenized securities, whether issued by the original issuer (e.g., tokenized company shares) or by third parties tied to custodied assets, remain securities under US federal law. Peirce noted that tokenization does not alter the legal nature of the underlying asset, and compliance with securities regulations is mandatory.

Disclosure Obligations on Distributors of tokenized securities must adhere to disclosure requirements outlined in the federal securities laws. The SEC’s Division of Corporation Finance issued a related staff statement on April 10, 2025, titled “[Offerings and Registrations of Securities in the Crypto Asset Markets](#).”

Token Structures and Risks on Tokens which may be classified as “receipts for securities,” constituting distinct securities, or as “security-based swaps,” which cannot be traded off-exchange by retail investors. Third-party tokenization may introduce unique risks, such as counterparty exposure, requiring careful legal consideration.

(Source: <https://www.sec.gov/newsroom/speeches-statements/peirce-statement-tokenized-securities-070925>)

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