Hong Kong launches retail-friendly rules for crypto exchanges

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Hong Kong launches a new crypto regulatory framework on Thursday in a bid to set itself up as a digital asset hub.

Hong Kong rolled out new rules on Thursday allowing licensed cryptocurrency exchanges to service retail customers, bucking the global trend of tightening rules after last year's market crash.

The Chinese finance hub is racing regulators around the world to lay down ground rules for crypto after high-profile failures like trading platform FTX, which led the United States to crack down on a sector worth more than $1 trillion.

China has had a strict crypto ban since 2021, but in Hong Kong—which operates on a separate legal framework—trading has been allowed though unregulated, meaning individual investors resort to unlicensed platforms.

The regulatory regime launched Thursday means that after a one-year transition period, all crypto exchanges in Hong Kong must be licensed, and will be able to take on retail clients.

"(The sector) fundamentally is going to stay despite all the risks... These activities have to be allowed in a regulated way," the city's financial services and treasury chief Christopher Hui told AFP.

Hong Kong's securities regulator said Thursday afternoon that it had "already received a handful of applications" and that the market is "generally supportive" of the regime.

The new rules emphasize investor protection measures, like requiring exchanges to vet their clients and limit their risk exposure, as well as restricting trade to "large-cap" tokens such as bitcoin.

Regional rival Singapore is heading in the opposite direction as it plans to curb retail participation in crypto.

Crypto exchange OKX—founded in China but now based in the Seychelles—told AFP it was "committed to the Hong Kong market" and will apply for a license.

"Hong Kong is making concrete strides and is building confidence among industry players," said Lennix Lai, OKX's global chief commercial officer.

Regulators said they hope to move quickly to issue the first licenses.

But some crypto firms have had trouble accessing traditional banking services or hiring corporate specialists that have been made mandatory, according to Etelka Bogardi, partner at Norton Rose Fulbright.

Hong Kong's market appeal may also be dimmed as platforms are banned from offering stablecoins, crypto derivatives and staking products—meaning retail investors are largely limited to spot trading.

'Financial bandwagons'

A prominent activist investor in Hong Kong said Thursday the new policy lends credibility to a risky sector and endorses speculation.

"Hong Kong has a history of jumping onto financial bandwagons just as the wheels are falling off," David Webb, a former investment banker, told AFP.

The government may say the new crypto regime is similar to that of traditional finance, but Webb said the "analogy breaks down" as most crypto—unlike stocks or futures on companies and commodities—have no intrinsic value.

"There's no reason why (the government) should encourage people to bet on someone else paying more for something that has no fundamental value," Webb said.

Last year, the city said HK$1.7 billion ($217 million) was lost to crypto-related scams, which police attributed to criminals taking advantage of the public's lack of sector knowledge.

The new rules ask exchanges to conduct a "holistic assessment" of a client's understanding of digital currencies before taking them on, but give no specifics.

One company licensed under Hong Kong's previous regime tells its prospective clients to take a screenshot showing they have finished watching 13 instructional videos in a free online course.

But they "DO NOT need to complete any program assignments or take any tests", it wrote on its website.

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