

The Future of Hong Kong's Regulation on Digital Asset Dealing and Custodian Services

Hong Kong's new digital asset regulation regime is poised to foster a safe and resilient ecosystem for market participants



Hong Kong strengthens its position as a global leader in digital finance through new regulations designed to ensure the secure and transparent management of digital assets. On June 27, 2025, the Hong Kong Financial Services and the Treasury Bureau (FSTB) and the Hong Kong Securities and Futures Commission (SFC) launched a public consultation on the introduction of licensing regimes for digital asset dealing and custodian services. These proposals build on existing frameworks for virtual asset trading platforms (VATPs) and stablecoins, reflecting the finance hub's cautious yet forward-thinking approach to fostering innovation while prioritizing investor protection. For businesses, particularly small and medium enterprises (SMEs), these regulations present compliance challenges alongside opportunities to thrive in a trusted and developed market. We look forward to changes that balance robust oversight with flexibility to support innovation.

Current Regulations

Virtual assets (VA), as defined under section 53ZRA of the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO) (Cap. 615), are cryptographically secured digital representations of value or contractual rights, such as cryptocurrencies (e.g., Bitcoin, Ethereum) or tokenized securities (e.g., digital bonds), used for trading, investment, or financial activities. The term "digital assets" is used in policy contexts, like the Second Policy Statement on Development of VAs in Hong Kong, to encompass VAs and other digital financial instruments.

Since June 2023, VATPs have been required to obtain SFC licenses under AMLO, enabling them to serve retail and institutional investors under its strict guidelines. The Stablecoins Ordinance (Cap. 656), effective August 1, 2025, further mandates licensing for fiat-referenced stablecoin issuers by the Hong Kong Monetary Authority (HKMA), including requirements of full reserve backing and compliance with Anti-money Laundering and Counter-Terrorist Financing (AML/CTF) standards. The new proposals, announced on June 27, 2025, extend regulations to apply to digital asset dealing (buying, selling, or managing assets)

and custodian services (safekeeping assets or private keys), aligning with Financial Action Task Force (FATF) standards.

Proposed Licensing Regimes

The proposed licensing regimes require businesses offering digital asset dealing or custodian services to obtain SFC licenses and banks and stored value facility (SVF) providers to register with the SFC and obtain SFC licenses alongside being, under HKMA's supervision. Dealing services include spot trading (excluding peer-to-peer trading), brokerage, and asset management; while custodian services involve secure storage and transaction settlement. The table below outlines the key requirements for these licensing regimes, providing a summary on compliance requirements for businesses operating in Hong Kong's digital asset market.

Requirement	Dealing Services	Custodian Services
Financial Capital	Businesses must maintain a minimum paid-up share capital of HK\$5 million and liquid capital of up to HK\$3 million to ensure financial stability, covering at least 12 months' operating expenses.	Businesses must maintain a minimum paid-up share capital of HK\$10 million and liquid capital of up to HK\$3 million.
Eligibility Criteria	Providers, except banks, must be incorporated or registered in Hong Kong under the Companies Ordinance (CO) (Cap. 622) with a permanent place of business. They must pass a fit-and-proper test assessing integrity, competence, and financial status, and appoint at least two SFC-approved or HKMA-approved responsible officers to oversee operations.	Providers must be incorporated or registered in Hong Kong under the CO with a permanent place of business. They must pass a fit-and-proper test, and key personnel handling custodial functions must be licensed representatives to ensure expertise in asset safekeeping.
Compliance Obligations	Providers must comply with AML/CTF requirements under AMLO, implement robust risk management systems to address fraud, market manipulation, and cyber threats, protect client assets with licensed custodians, and ensure investor suitability through knowledge assessments and exposure limits to safeguard clients.	Providers must adhere to AML/CTF requirements, implement advanced cybersecurity measures, segregate client assets, securely manage private keys, maintain business continuity plans, and submit audited accounts (except for banks) to ensure transparency and security.
Licensing Fees	Application fees range from HK\$4,740 to HK\$23,500, with annual fees from HK\$4,740 to HK\$35,000, aligned with Type 1 regulated activity under the Securities and Futures Ordinance (SFO) (Cap. 571).	Application and annual fees are HK\$129,730, aligned with Type 3 regulated activity under the SFO, reflecting the higher complexity and responsibility of custodial operations.
Transitional Arrangements	No deeming arrangements are proposed. Pre-existing providers can continue operations for 6 months if they submit a license application within 3 months of the regulations' enactment, allowing a limited window to comply.	No deeming arrangements are proposed. Pre-existing providers can continue operations for 6 months if they submit a license application within 3 months of the regulations' enactment, facilitating a smooth transition to compliance.

Penalties for Non-Compliance	<p>Operating without a license incurs fines up to HK\$5 million and 7 years' imprisonment.</p> <p>AML/CTF violations carry fines up to HK\$1 million and 2 years' imprisonment, while fraudulent behavior faces fines up to HK\$10 million and 10 years' imprisonment.</p>	<p>Operating without a license incurs fines up to HK\$5 million and 7 years' imprisonment.</p> <p>AML/CTF violations carry fines up to HK\$1 million and 2 years' imprisonment, while fraudulent behavior faces fines up to HK\$10 million and 10 years' imprisonment.</p>
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Global Regulatory Alignment

Hong Kong's regulatory framework for digital assets, overseen by the SFC and HKMA, aligns with international standards, including FATF's AML requirements. Compared with other jurisdictions:

- **The United States:** Digital asset regulation is divided among the Securities and Exchange Commission (SEC), Commodity Futures Trading Commission (CFTC), and Financial Crimes Enforcement Network (FinCEN). Assets are classified as securities, commodities, or money transmission, each subject to distinct regulations. Dealing services may require SEC broker-dealer registration, while custody services fall under state trust company or SEC qualified custodian rules.
- **The European Union:** The Markets in Crypto-Assets (MiCA) regulation, effective June 2023, regulates crypto-assets not covered by existing financial laws. It requires licensing for crypto-asset service providers (CASPs), including trading and custody, with mandates for transparency, disclosure, and AML/CTF compliance.
- **Singapore:** The Monetary Authority of Singapore regulates digital assets under the Payment Services Act (PSA) and Financial Services and Markets Act (FSMA). Digital payment token service providers (DPTSPs) require licensing, with guidelines for custody and AML/CTF compliance.
- **Japan:** The Payment Services Act (PSA) and Financial Instruments and Exchange Act (FIEA) regulate cryptocurrencies, utility tokens, and investment tokens. Crypto-asset exchange service providers (CAESPs) and electronic payment instrument issuing and exchange service providers (EPIESPs) must register with the Financial Services Agency (FSA) and comply with AML/CTF rules, including the "travel rule."

Impact on Businesses

For businesses engaged in digital assets dealing and custodian services, these regulations impose further requirements such as licensing, meeting capital thresholds, and implementing robust security and AML/CTF measures. While compliance may increase operational costs, it enhances credibility, attracts investors, and opens new market opportunities, such as offering innovative services or expanding client bases. Businesses should regularly monitor updates, assess operations to fill any compliance gaps, engage with legal or financial advisors, and budget for licensing fees and system upgrades.

Hong Kong's proposed enhanced regime for digital asset dealing and custodian services under the consultation paper marks a significant step in Hong Kong's path towards building a secure and resilient digital finance ecosystem. By setting clear licensing standards, the city aims to protect investors and establish itself as a global digital asset hub. Market participants may look forward to changes that foster a balanced, innovation-friendly regulatory landscape.

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