



March 2026

SFC CIRCULARS IN FEBRUARY 2026 - TRADING INITIATIVES TO BOOST DIGITAL ASSET MARKET VIBRANCY

BACKGROUND

On 11 February 2026, the Securities and Futures Commission ("SFC") published three circulars relating to the additional activities that licensed virtual asset ("VA") dealers and licensed virtual asset trading platform ("VATP") operators may do, further expanding the range of products and services permitted for VA market participants in Hong Kong. This client alert aims to give you a summary of each of these three circulars.

CIRCULAR ON LICENSED CORPORATIONS PROVIDING VIRTUAL ASSET DEALING SERVICES (1) TO OFFER FINANCING FOR VIRTUAL ASSET DEALING AND ACCESS TO SHARED ORDER BOOK, AND (2) TO SAFEGUARD CLIENT VIRTUAL ASSETS RELATING TO WITHDRAWALS

This circular introduces three areas of guidance for VA brokers (i.e. licensed corporations providing VA dealing services): (a) VA financing; (b) access to a shared order book; and (c) client VA withdrawal safeguards.

VA FINANCING

The SFC will now allow VA brokers that already conduct securities margin financing to extend credit to margin clients for VA dealing, provided

this is supported by adequate securities collateral and a limited category of VA collateral, and that it is only provided to the VA broker's existing securities margin financing clients.

Some key regulatory expectations of the SFC include:

- + VA financing may be provided to facilitate a client's VA dealing, after considering the client's financial capability and the securities collateral and VA collateral posted by the client.
- + If VA financing is provided, VA brokers should only increase a client's credit limit after giving due consideration to the price volatility of non-fiat assets in the credit assessments of the client's financial capability. Where a VA broker takes into account a client's VA holdings in assessing the client's financial capability, the SFC expects the assessment to consider factors such as the VA's quality, historical price volatility, market liquidity, digital asset sector concentration risk, idiosyncratic risk, correlation with equities during market stress, and any adverse impact on repayment ability.
- + If the VA broker, after careful consideration, elects to rely on the client's VA collateral as credit risk mitigation, it should only do so where: (a) eligible VA collateral is restricted to bitcoin and ether, and (b) a prudent haircut of at least



60% must be applied to of such collateral. Furthermore, the VA brokers must clearly document in their margin lending policies the methodologies adopted to assess the relevant VA risk factors, determine the acceptable credit exposure based on the assessment outcome, and identify and monitor vulnerable VA exposures in their margin loan portfolio on an ongoing basis, and also maintain the operational capability to monitor VA collateral volatility in real time and take timely actions to manage the broker's credit exposure.

- + VA brokers are generally expected to value a client's VA collateral on the basis of the prices at the VATP at which the client's VA orders are executed. In addition, VA brokers should maintain a contingency plan to deal with potential operational disruption at the VATP (e.g. system outage) to mitigate the broker's exposure.
- + In particular, the existing Guidelines for Securities Margin Financing Activities ("**SMF Guidelines**") requirements – including those relating to margin loan limits, collateral concentration controls and restrictions on repledging – will extend to cover VA financing and VA collateral.
- + VA brokers are expected to maintain all existing credit controls for securities margin financing when engaging in VA financing, and must set prudent triggers for margin calls and stopping further advances under the SMF Guidelines. Whenever the outstanding margin loan balance exceeds the market value of the underlying collateral, or if the client has a poor history of settling margin calls, the VA broker should suspend any further advance, stop any further VA purchase, and conduct an ad-hoc review of the client's credit and trading limit.

The SFC also specified that it will launch a consultation on the capital requirements for various VA-related activities, including VA financing, in due course. Before such capital requirements are finalised, VA collateral will be subject to a 100% haircut under the Securities and Futures (Financial Resources) Rules.

SHARED ORDER BOOK

Following the SFC's circular on shared liquidity by virtual asset trading platforms dated 3 November 2025 (which we have covered in our earlier [client alert](#)), where VATP operators were permitted to enable order matching and execution across a shared order book ("**Shared Order Book**"), VA brokers may also now offer their dealing services to clients by utilising such Shared Order Book and conducting agency trading pursuant to the VA broker's best execution obligation after thoroughly assessing the risks. This assessment should cover issues such as the settlement mechanism and timeline, failed settlement and default management processes, risk mitigation measures (e.g. reserve funds and insurance), and the extent of client protection and available recourse.

For retail clients specifically, VA brokers may only offer access to the Shared Order Book if they have prominently explained the additional risks associated with order matching and settlement involving overseas jurisdictions, including the risk that the level of client protection in such jurisdictions may be lower than that in Hong Kong, and that the clients have expressly elected to participate.

SAFEGUARD OF CLIENT VAS

In relation to handling and safeguarding client VAs, although the currently applicable requirement is that custody of client VAs is generally maintained with a VATP operator, there is an additional layer of cyber and operational risk where the withdrawal functionality is managed and offered by the VA broker, as a compromise of the VA broker's systems could result in fraudulent withdrawal instructions and a loss of client assets.

Accordingly, VA brokers permitting client VA withdrawals are expected to adopt measures proportionate to the heightened risk exposure. Key measures include ensuring that systems, authentication processes, access controls and security arrangements are sufficiently robust. VA brokers must also maintain continuous monitoring with effective incident escalation and suspension mechanisms at all times (including outside office hours), and collaborate with VATP operators to strengthen abnormal withdrawal detection, such as by setting appropriate



omnibus-account-level withdrawal limits and blocking suspicious withdrawal attempts.

CIRCULAR ON PERMITTING VIRTUAL ASSET TRADING PLATFORM OPERATORS TO ACCEPT AFFILIATED MARKET MAKERS

This circular introduces a framework under which a VATP operator may permit an affiliated company (an "AFMM") to engage in market-making activities on its VATP, subject to effective conflicts of interest controls and the prioritisation of client interests. This relaxes the current prohibition under the SFC's Guidelines for Virtual Asset Trading Platform Operators ("VATP Guidelines") on group companies conducting proprietary trading on a VATP.

Before permitting its AFMM to begin market making, a VATP operator must notify the SFC in writing and submit a report by an independent professional firm confirming the effectiveness of the VATP operator's policies and controls for compliance with the terms and conditions for a virtual asset trading platform operator to accept affiliated market makers (the "**Terms and Conditions**"), which the VATP operator will be subject to. The notification must be signed by the manager-in-charge of overall management oversight, accompanied by a declaration of compliance and an undertaking to immediately suspend the AFMM's activities upon any breaches with significant client impact as determined by the SFC.

TERMS AND CONDITIONS

Key requirements under the Terms and Conditions include:

- + **Functional independence:** The AFMM must be functionally independent from the Platform Operator, with organisational and administrative segregation from the Platform Operator's operating environment. At least one Responsible Officer or Manager-in-Charge must be designated as responsible for conflicts of interest management. There should also be effective data security policies and information barriers to prevent the AFMM from accessing the VATP operator's confidential data.

- + **Order handling:** Client orders must always have priority over AFMM orders at the same price level. Post-trade data provided to clients must indicate, on a trade-by-trade basis, which trades were executed by the AFMM. All market makers should have identical technical access.
- + **Disclosure:** The AFMM's presence and role on the VATP must be clearly disclosed. This includes disclosing any arrangements, preferential treatment, and any extra services provided to or by the AFMM.
- + **Other ongoing obligations:** AFMM orders and trades must be captured in the VATP operator's market surveillance systems. Any actual or potential material breach of the Terms and Conditions and regulatory action taken by any regulatory or law enforcement in respect of the AFMM must be reported to the SFC immediately.

An annual review of the VATP operator's activities and operations must also be done by an independent professional firm and reported to the SFC.

A HIGH-LEVEL FRAMEWORK FOR VIRTUAL ASSET PERPETUAL CONTRACTS OFFERING BY VIRTUAL ASSET TRADING PLATFORMS

The SFC has published a high-level framework for VATP operators to offer virtual asset perpetual contracts ("**Perps**"). "Perps" is described by the SFC as typically referring to instruments offered by a VATP operator with the following characteristics: (a) the contracts are traded on-platform, seek to track the price of an underlying asset or index, and have no expiry date; (b) the contracts are designed with an intra-day and/or daily price convergence mechanism to align the product price with the spot market price through periodic funding rate payments exchanged between long and short position holders; (c) the contracts are leveraged, with a client's potential loss limited to the margin posted; and (d) the trading, margining, position liquidation and settlement processes are designed to prevent VATP operators from credit exposure to any participants, with positions liquidated through pre-specified loss allocation mechanisms where margin is insufficient.



ELIGIBLE INVESTORS AND REFERENCE ASSETS

In light of the associated risks, SFC is of the view that Perps may only be offered to professional investors, and the VATP operator must assess each client's knowledge of derivatives before providing Perps trading services. The reference asset of a Perp may be a VA available for retail spot trading on the VATP, or an index of such virtual assets administered in compliance with the IOSCO Principles for Financial Benchmarks. Where a Perp's reference asset is suspended from on-platform trading, the trading of the corresponding Perp is generally expected to be suspended as well.

PRODUCT DESIGN, TRADING AND SETTLEMENT

A VATP operator must establish and enforce transparent rules for fair trading, position margining, default management, position liquidation and loss allocation, and must conduct regular stress testing of their trading systems to ensure operational resilience. Any Preps activities must have a well-founded, clear, transparent and enforceable legal basis.

Product price, reference asset price, funding rate and position valuation (each a "**Key Parameter**") must be: (a) determined based on transparent methodologies and procedures which are consistently applied; (b) derived from timely and reliable data input sourced from active markets with stable transaction volume and anchored by bona fide observable transactions; and (c) capable of being objectively verified.

Funding rate payments must be settled at least once every 24 hours. Inputs, calculation windows and settlement frequency for funding rates should be clearly disclosed to clients.

References used for margining, mark-to-market valuation and liquidation must be sourced from multiple independent sources. Where an index is used, the method of index compilation, its computation, the update and publication frequency, and the circumstances for its modification or discontinuation should be clearly disclosed.

Contingency measures should be established for alternative determination methodologies in the event of insufficient input, market disruption or other factors which affect the determination of fair prices, rates or values, and automatic failover should be implemented.

Automatic, real-time mark-to-market adjustments should be accurately reflected in client accounts.

MARGIN ARRANGEMENTS AND LOSS ALLOCATION MANAGEMENT

The VATP operator must ensure through automated pre-trade checks that the required margin has been received in full before accepting an order, and must not extend credit for margin. Margin collateral is limited to fiat, or HKMA-regulated stablecoins and tokenised deposits.

A clear, pre-defined order of priority for default management and loss allocation must be followed. The circumstances triggering each mechanism, and the applicable parameters, should be clearly disclosed. Automated liquidation should occur at pre-defined thresholds, and the VATP operators must regularly review and test margining and liquidation mechanisms. Real-time insurance fund levels available for loss absorption should be disclosed in a clear, accurate and non-misleading manner, and there should be a clear warning that open positions may be subject to auto-deleveraging if the insurance fund becomes fully depleted or otherwise unavailable.

MARKET SURVEILLANCE

Surveillance systems must be implemented to detect Perp-specific patterns such as material deviations between index and mark prices, abnormal funding rate patterns and clusters of forced liquidations, with real-time cross-market surveillance covering both spot and Perps trading. There should be a comprehensive business continuity and contingency plan to address abrupt or abnormal market situations, and such information should be clearly disclosed to clients.

DISCLOSURE REQUIREMENTS

Platform Operators must provide clear, comprehensive and timely disclosure on their websites of all material risk factors associated with Perps. At minimum, the risk disclosure should explain the key characteristics of Perps and the potential consequences for clients, illustrated with hypothetical transactions and scenarios where practicable, covering risks such as funding rate volatility, position close-out



difficulty, cascading liquidations and total loss of investment.

VATP operators should also make available on their websites comprehensive information on trading rules, product specifications, fees, Key Parameter determination methodologies, settlement arrangements, and default management procedures (including liquidation triggers, loss allocation methodology and insurance fund utilisation).

Real-time disclosure of all Perp transactions (including those resulting from forced liquidation),

specifying execution time, price and size, is also required across all standard display channels.

HOW WE CAN HELP

These three circulars represent important developments for VA brokers and VATP operators in Hong Kong. Businesses looking to offer VA financing, access shared order books, engage affiliated market makers, or offer perpetual contracts should carefully assess their existing operations and controls against the requirements set out in these circulars. Please get in touch if you are interested in discussing any of the above.

CONTACT US



KATHERINE LIU

*Partner, Head of Finance
and Financial Services
Group, Greater China*

+852 2533 2717
katherine.liu
@stephensonharwood.com



JAMES WONG

Managing Associate

+852 3166 6933
james.wong
@stephensonharwood.com



ALAN WONG

Associate

+852 2533 2719
alan.wong
@stephensonharwood.com