



## SFC Virtual Asset Update: New Guidance on VA Margin Financing, Perpetual Contracts and Affiliated Market Makers

On 11 February 2026, the Securities and Futures Commission (the **SFC**) announced a package of measures aimed at enhancing liquidity and expanding the range of permissible virtual asset (**VA**) products and services in Hong Kong. These measures represent the latest phase of the SFC's structured development approach under the ASPIRe Roadmap, published on 19 February 2025, and collectively signal a broadening of the regulatory perimeter for both SFC-licensed brokers providing VA dealing services through an omnibus account arrangement (**SFC-licensed VA Brokers**) with SFC-licensed VATP operators and SFC-licensed virtual asset trading platforms (**SFC-licensed VATPs**).

The SFC's initiatives are implemented through three separate circulars issued on the same date. The first permits SFC-licensed VA Brokers to offer margin financing for VA dealing to their securities margin clients, subject to meeting collateral and investor protection requirements. It also allows SFC-licensed VA Brokers to route client orders to shared order books operated by SFC-licensed VATP operators and their overseas affiliates, sets out the conditions to which this is subject, and imposes obligations on SFC-licensed VA Brokers that allow client VA withdrawals. The second circular allows affiliates of SFC-licensed VATPs to act as market makers on their platforms, subject to robust conflict-of-interest safeguards. The third circular sets out a high-level framework to guide SFC-licensed VATPs in developing proposals for VA perpetual contracts — a form of leveraged derivative instrument — for offering exclusively to professional investors.

This newsletter examines each of the three circulars and sets out their key requirements.

### SFC Circular on Virtual Asset Financing, Shared Order Book Access and Safeguards for Client Virtual Assets relating to Withdrawals

The SFC's "[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](#)" (**SFC VA Broker Circular**) is directed at SFC-licensed VA Brokers that offer VA dealing through an omnibus account arrangement with an SFC-licensed VATP operator. The SFC VA Broker Circular addresses three distinct topics: the introduction of a framework under which SFC-licensed VA Brokers may, for the first time, extend credit to clients for the purpose of VA dealing; the regulatory expectations that apply when SFC-licensed VA Brokers route client orders through shared order books operated by SFC-licensed VATPs and their global affiliates; and enhanced safeguards that SFC-licensed VA Brokers must put in place where they offer clients the ability to withdraw VAs to

external wallets.

## SFC Lifts Prohibition on Margin Financing for Virtual Asset Dealing

Until now, paragraph 4.4 of the [Terms and Conditions for Licensed Corporations or Registered Institutions Providing Virtual Asset Dealing Services under an Omnibus Account Arrangement \(Terms and Conditions\)](#) prohibited the provision of any financial accommodation by SFC-licensed corporations and registered institutions to clients for VA acquisition. Under Pillar P (Product) of the ASPIRe Roadmap, the SFC has now relaxed this prohibition to permit SFC-licensed VA Brokers that engage in securities margin financing to extend credit to their margin clients for VA dealing (**VA Margin Financing**), provided that such financing is supported by sufficient collateral and subject to the safeguards set out in the SFC VA Broker Circular. The SFC has indicated that the Terms and Conditions will be revised to reflect this relaxation.

### Who Is Eligible for VA Margin Financing in Hong Kong?

SFC-licensed VA Brokers can only make VA Margin Financing available to their existing securities margin financing clients. The extension of credit must be assessed on the basis of the client's financial capability and the quality of the securities and VA collateral posted by the client. Importantly, the SFC cautions against treating the availability of VA financing as a reason, in and of itself, to increase the credit limit of a margin client.

Where an SFC-licensed VA Broker takes into account a client's VA holdings in assessing financial capability, it must give due consideration to a range of VA-specific risk factors, including:

- **asset-level risks:** the quality, historical price volatility and price gap risk of the relevant VA, the sustainability of its valuation, and the depth of its market liquidity;
- **idiosyncratic risks:** events such as infrastructure failures or other disruptions specific to a particular VA;
- **digital asset sector concentration:** overexposure to the digital asset sector across the client's portfolio as a whole, taking into account not only direct VA holdings but also holdings of VA-related products and securities of digital asset operators and digital asset treasury companies;
- **correlation risk in stress scenarios:** the potential for returns on digital assets and equities to become more closely correlated during periods of market stress;
- **repayment capacity:** the potential for a downturn in VA markets to erode the client's ability to service its repayment obligations; and
- **corporate group exposure (corporate clients only):** where the client's financial capability is dependent on or referable to the financial soundness of group companies or related parties, the VA exposure of those entities must also be assessed.

The SFC VA Broker Circular also notes that VAs as an asset class have limited performance records during major systemic shocks, that even the most actively traded VAs have experienced sizeable price declines over both intraday and multi-day periods, and that increased leverage through derivatives and margin lending may amplify downside risk.

### VA Collateral: Eligibility and Haircuts

The SFC VA Broker Circular strikes a cautious tone on the use of VA collateral. It urges SFC-licensed VA Brokers to think carefully about whether reliance on such collateral is prudent at all, given the risk characteristics of the asset class. Those that do choose to accept it face two major constraints:

- only bitcoin and ether qualify as eligible VA collateral; and
- SFC-licensed VA Brokers must apply a haircut of at least 60% to the market value of VA collateral.

The SFC has reserved the right to revise this haircut as the VA market and VA financing develop, and will provide prior notice to the industry.

VA collateral should generally be valued on the basis of prices at the SFC-licensed VATP at which the client's VA orders are executed, and SFC-licensed VA Brokers must maintain a contingency plan to address potential operational disruption (such as a system outage) at the VATP.

An SFC-licensed VA Broker that accepts VA collateral is required to clearly document in its margin lending policy the methodologies adopted to assess the VA risk factors described above, the process for translating assessment outcomes into acceptable credit exposure limits, and the procedures for ongoing identification and monitoring of vulnerable VA exposures in its margin loan portfolio. An SFC-licensed VA Broker must additionally monitor the volatility of VA collateral in real time and take timely action to manage its credit exposure.

### **VA Margin Financing Integration with Hong Kong's Securities Margin Financing Framework**

Rather than create a standalone regime, the SFC has chosen to layer VA Margin Financing onto the existing regulatory architecture for securities margin financing. The SFC Guidelines for Securities Margin Financing Activities (**SMF Guidelines**) and all other requirements relating to securities margin financing continue to apply, with the principles applicable to securities margin financing under the SFC's codes and guidelines being extended to VA financing and VA collateral, as supplemented by the SFC VA Broker Circular. In practical terms, this means that any credit advanced for VA dealing forms part of the SFC-licensed VA Broker's aggregate margin loans for SMF Guidelines purposes, that collateral concentration limits must apply to both traditional securities collateral and VA collateral (with specific attention to digital asset sector concentration), and that VA collateral is ring-fenced from rehypothecation — brokers may not repledge, reuse or otherwise encumber it, except to enforce the collateral following a client default.

The SFC also reminds SFC-licensed VA Brokers of the need to set conservative margin call and lending suspension triggers under the SMF Guidelines. Where a client's outstanding margin loan balance exceeds the market value of the collateral in their account, or where a margin client has an unmet margin call and a track record of failing to settle margin calls promptly, the SFC-licensed VA Broker is expected to halt further lending and additional VA purchases under the margin facility, and to undertake an ad hoc review of the client's credit and trading limits.

### **SFC Governance Requirements for VA Margin Financing**

The SFC VA Broker Circular places explicit accountability on an SFC-licensed VA Broker's senior management — specifically its responsible officers, the manager-in-charge (**MIC**) for overall management oversight and the MIC for risk management — to ensure that the firm's policies, procedures and controls are fit to manage the risks that VA financing introduces.

### **Capital Treatment of VA Collateral under the Financial Resources Rules**

The SFC has flagged that a consultation on the capital requirements for various VA-related activities, including VA financing, will be launched in due course. Until the capital requirements are revised, VA collateral will be subject to a 100% haircut under the Securities and Futures (Financial Resources) Rules.

### **Requirements for SFC-licensed VA Brokers Routing Client Orders through SFC-licensed VATP Shared Order Books**

The SFC VA Broker Circular also allows SFC-licensed VA Brokers to route client orders to shared order books operated by SFC-licensed VATP operators and their global affiliates. By way of background, SFC-licensed VATP operators are permitted, under a separate [SFC circular on shared liquidity](#), to merge their order books with those of affiliated overseas platform operators, creating a pooled trading environment (a **Shared Order Book**) in which orders can be matched and executed across multiple venues.

SFC-licensed VA Brokers can now route client orders to a Shared Order Book on an agency basis, consistent with their best execution obligations, but only after conducting a thorough risk assessment. The areas the SFC expects to be covered by the risk assessment include any potential conflicts of interest on the part of the entities operating the Shared Order Book, a detailed understanding of how settlement works (including the allocation of responsibilities among the parties, the expected timeline and the risk of settlement delays or failures), the circumstances in which trades might fail to settle and the resulting default management or trade cancellation procedures, the adequacy of risk mitigation measures, such as reserve funds and insurance, and the extent of client protection, clients' rights and recourse. SFC-licensed VA Brokers must also provide sufficiently clear and comprehensive disclosure to allow clients to reach an informed view on whether they wish to trade through the Shared Order Book.

Retail client access to the Shared Order Book is subject to additional conditions. An SFC-licensed VA Broker may offer retail clients access only if:

- (i) it has explained the additional risks associated with order matching and settlement involving overseas jurisdictions, including the risk that client protection in those jurisdictions may be lower than in Hong Kong; and
- (ii) the clients have expressly elected to participate in the Shared Order Book.

The explanation of risks should be prominently communicated to retail clients to facilitate their understanding of the additional risks before they make a decision.

### **Safeguarding Client VAs on Withdrawal**

The final section of the SFC VA Broker Circular addresses the safeguarding of client VAs in the context of VA withdrawals. Under paragraph 7.1 of the Terms and Conditions, SFC-licensed VA brokers are already required to properly handle and safeguard client VAs and to guard against loss arising from theft, fraud or other dishonest acts, professional misconduct or omissions. The SFC notes, however, that while custody of client VAs is maintained with an SFC-licensed VATP operator, the withdrawal functionality offered by the SFC-licensed VA Broker introduces an additional layer of cyber and operational risk, in that a compromise of the SFC-licensed VA Broker's own systems could enable a malicious actor to impersonate a client and issue fraudulent withdrawal instructions to the SFC-licensed VATP operator, resulting in a loss of client assets.

To address this, SFC-licensed VA Brokers that permit client VA withdrawals are now expected to implement controls proportionate to this heightened risk exposure. At the system level, this means ensuring that their systems, authentication processes, access controls and security arrangements are sufficiently robust to prevent, detect and respond to unauthorised attempts to initiate client withdrawals. From an operational standpoint, the SFC-licensed VA Broker must run continuous monitoring with effective incident escalation and suspension mechanisms around the clock — not only during business hours — irrespective of whether the SFC-licensed VA Broker processes withdrawals on a 24/7 basis. Finally, the SFC requires SFC-licensed VA Brokers to work with their VATP operators to bolster detection of anomalous withdrawal activity, for example by agreeing on appropriate withdrawal thresholds at the omnibus account level or for recently whitelisted client wallets, blocking suspicious withdrawal attempts, and ensuring that alerts are escalated to the SFC-licensed VA Broker without delay.

### **SFC Circular Permitting SFC-licensed VATP Operators to Accept Affiliated Market Makers**

The SFC's "[Circular on permitting virtual asset trading platform operators to accept affiliated market makers](#)" sets out the requirements for SFC-licensed VATP operators wanting to permit an affiliated company (**AFMM**) to engage in market making activities on their VATPs to improve liquidity.

Under the existing VATP Guidelines, and in particular paragraph 13.3 thereof, a group company of an SFC-licensed VATP operator is not permitted to conduct proprietary trading in VAs through the operator's platform, except where permitted by the SFC on a case-by-case basis. The circular creates an exception to this prohibition for the specific purpose of affiliated market making, provided that the specified conditions and safeguards are satisfied.

The SFC recognises that permitting AFMMs to engage in market making on a VATP introduces heightened risks of conflicts of interest, given that AFMM orders may interact with client orders. Accordingly, SFC-licensed VATP operators are reminded of the need to exercise effective conflict of interest controls to address these risks.

### **Terms and Conditions for SFC-licensed VATPs to Allow AFMM Participation**

An SFC-licensed VATP operator that allows an AFMM to conduct market making on its platform will be subject to the terms and conditions set out in the [Appendix](#) to the circular (**Terms and Conditions for AFMM**), which will be imposed on its licence.

Condition 1 of the Terms and Conditions for AFMM provides that an SFC-licensed VATP operator may permit an AFMM to engage in market making on its VATP provided that effective conflicts of interest controls are implemented. The required controls are set out under three headings: functional independence, order handling and disclosure. The specific requirements are set out in the table below.

| Condition no.                  | Condition   |
|--------------------------------|---|
| <b>Functional independence</b> |   |
| 1(a)                           | The AFMM must be functionally independent from the SFC-licensed VATP operator, with organisational and administrative segregation from the operator's operating environment (per paragraph 11.5 of the VATP Guidelines).  |
| 1(b)                           | Robust conflicts of interest policies and procedures must be implemented regarding the AFMM to prevent, manage and monitor any actual or potential conflicts of interest, and at least one Responsible Officer (RO) or Manager-in-Charge (MIC) must be responsible for conflicts of interest management regarding the AFMM.   |
| 1(c)                           | Effective data security policies and procedures as well as information barriers must be implemented (i) to prevent the AFMM from accessing the VATP operator's confidential data, including client data, system data and client pre-trade information, and (ii) to prevent information leakage to the AFMM (per Section IV of the Management, Supervision and Internal Control Guidelines).   |
| 1(d)                           | Periodic reviews of access logs must be conducted to ensure the continued effectiveness of the information barriers implemented.  |
| <b>Order handling</b>          |   |
| 1(e)                           | Client orders must always have priority over the AFMM's orders when being transacted at the same price level.   |
| 1(f)                           | When providing post-trade data to clients, the SFC-licensed VATP operator should indicate, on a trade-by-trade basis, which trades were executed by the AFMM.   |
| 1(g)                           | Technical access available to the AFMM and other market makers (if any), including market data feeds, connectivity and order type availability, must be identical.  |
| <b>Disclosure</b>              |   |
| 1(h)                           | <p>The SFC-licensed operator must clearly disclose to clients the AFMM's presence and role on the VATP and the associated risks to clients, including:</p> <ul style="list-style-type: none"> <li>• all formal and informal arrangements with, or preferential treatment to, the AFMM in relation to pre-trade transparency, order placing and execution;</li> <li>• whether there is any difference in the AFMM's access to the order book compared to client access; and</li> <li>• whether the SFC-licensed VATP operator provides any extra services to the AFMM, or vice versa.</li> </ul> |

### Other Ongoing Obligations under the Terms and Conditions for AFMM

In addition to the conflicts of interest controls set out in condition 1, the Terms and Conditions for AFMM impose three further ongoing obligations on the SFC-licensed VATP operator.

| Condition no. | Condition   |
|---------------|---|
| 2             | The orders and trades of an AFMM must be captured in the VATP operator's market surveillance systems. The focus should be on reinforcing independence and governance to ensure that existing surveillance obligations are applied effectively to AFMM activity.   |
| 3             | An SFC-licensed VATP operator is required to report immediately to the SFC (a) any actual or potential material breach or infringement of, or non-compliance with, the Terms and Conditions for AFMM, or (b) any regulatory action taken by any regulatory or law enforcement authorities in respect of the AFMM. |

|   |   |
|---|---|
| 4 | Compliance with the Terms and Conditions for AFMM must be covered in an annual review by an independent professional firm of the SFC-licensed VATP operator's activities and operations, and reported to the SFC. |
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## Notification and Pre-Commencement Requirements

### ***Mandatory Pre-Notification to the SFC***

Before permitting its AFMM to commence market making activities on its VATP, an SFC-licensed VATP operator must:

- notify the SFC in writing of its intention to do so; and
- submit to the SFC a report prepared by a qualified independent professional firm containing a detailed review of the compliance of the operator's policies and controls with the Terms and Conditions for AFMM, and confirming their effectiveness.

The written notification to the SFC must be signed by the SFC-licensed VATP operator's MIC of Overall Management Oversight (**MIC OMO**) and must be submitted with:

- a declaration by the MIC OMO confirming that the SFC-licensed VATP operator has established, and continues to maintain, effective policies and controls that fully comply with the Terms and Conditions for AFMM; and
- an undertaking by the MIC OMO, given on behalf of the operator, that the operator will immediately suspend the AFMM's market making activities on the VATP should there be any breaches of the Terms and Conditions for AFMM having a significant client impact, as determined by the SFC.

### **SFC-licensed VATP Operators: Senior Management Responsibilities**

The circular emphasises the role of senior management in ensuring ongoing compliance. The senior management of an SFC-licensed VATP operator, in particular its ROs, MIC OMO, MIC of compliance and the board of directors, are expected to be vigilant in fulfilling their responsibilities to implement policies, procedures and controls that effectively manage conflicts of interest and ensure compliance with the Terms and Conditions for AFMM. The SFC makes clear that ongoing compliance with the Terms and Conditions for AFMM is a prerequisite for permitting an AFMM to continue participating on the operator's VATP.

### **SFC Circular: A High-level Framework for Virtual Asset Perpetual Contracts Offering by SFC-licensed VATPs**

The SFC's third [circular](#) published on 11 February 2026 sets out its approach to permitting SFC-licensed VATP operators to offer virtual asset perpetual contracts (**VA Perps**) to clients. The framework forms part of the SFC's broader ASPIRe roadmap, specifically Pillar P, which is directed at expanding the range of VA products available in Hong Kong with the aim of deepening market liquidity, broadening investors' risk management tools, and reinforcing Hong Kong's standing as a global virtual asset hub. The SFC invites interested SFC-licensed VATP operators to submit proposed VA Perp structures to the SFC for discussion, provided the proposals incorporate the safeguards and investor protection measures outlined in the circular and explain how the product can be accommodated within Hong Kong's existing regulatory and legal framework.

### **What are VA Perps under the SFC framework?**

For the purposes of the framework, VA Perps are instruments offered by an SFC-licensed VATP operator with the following characteristics:

- they are traded on-platform, seek to track the price of an underlying asset or index, and have no expiry date (or are spot contracts with automatic rollover);
- they incorporate an intra-day and/or daily price convergence mechanism whereby periodic funding rate payments are exchanged between long and short position holders to keep the contract price aligned with the spot market price;
- they are leveraged, but a client's potential loss is limited to the margin posted; and

- the trading, margining, position liquidation and settlement processes are designed to ensure that the SFC-licensed VATP operator has no credit exposure to any participant. Where margin is insufficient, positions are liquidated through pre-specified loss allocation mechanisms, such as backstop liquidity sources, a reserve or insurance fund established by the SFC-licensed VATP operator and, where applicable, the closing out of opposite positions.

### Who can Trade VA Perps in Hong Kong and what are the Eligible Reference Assets?

Given the relative novelty and distinct risk profile of VA Perps, the SFC requires that they be offered only to professional investors as defined under the Securities and Futures Ordinance. Since VA Perps are leveraged contracts traded with margining and are subject to forced liquidation, an SFC-licensed VATP operator must assess the client's knowledge of derivatives in accordance with paragraphs 5.1A and 5.3 of the SFC Code of Conduct before providing VA Perps trading services to the client.

The reference asset of a VA Perp can be either:

- a virtual asset that is already available for spot trading by retail clients on the SFC-licensed VATP operator's platform; or
- an index of such virtual assets administered by a benchmark administrator that complies with the IOSCO Principles for Financial Benchmarks.

If the SFC-licensed VATP operator suspends spot trading in a VA Perp's reference asset, trading of the corresponding VA Perp is generally expected to be suspended as well.

### SFC Requirements for VA Perps Trading and Settlement

The SFC emphasises that the design and operation of VA Perps introduce financial risks that are distinct from those associated with traditional futures or spot trading. SFC-licensed VATP operators are therefore required to:

- establish, maintain and effectively enforce transparent and comprehensive rules governing fair trading, position margining, default management, position liquidation and loss allocation;
- ensure all aspects of their VA Perps activities have a well-founded, clear, transparent and enforceable legal basis;
- ensure orderly trading, settlement and position liquidation even under extreme but plausible stressed market conditions; and
- conduct regular stress testing of their trading systems to ensure operational resilience.

SFC-licensed VATP operators are responsible for settling all trades on their platforms, regardless of whether they are a contracting party to the trades.

The product price or mark price (i.e., the reference price used to calculate mark-to-market profit and loss, and to trigger liquidations), reference asset price, funding rate and position valuation (each a **Key Parameter**) must be:

- determined on the basis of transparent and consistently applied methodologies and procedures;
- derived from timely and reliable data sourced from active markets with stable transaction volumes, and anchored by bona fide observable transactions;
- capable of objective verification, and made available to clients in real time and free of charge.

Funding rate inputs, calculation windows and settlement frequency must be clearly disclosed, with funding rate payments settled at least once every 24 hours.

References used for margining, mark-to-market valuation and liquidation must be based on multiple independent sources to mitigate the risk of manipulation or undue influence by a single entity. Where an index is used, the SFC-licensed VATP operator must disclose its compilation methodology, computation, update frequency and the circumstances in which it may be modified or discontinued. Appropriate contingency arrangements must be put

in place to provide for alternative determination methodologies where market disruption, insufficient data or other factors render the determination of fair prices, rates or values unreliable. Automated failover mechanisms are also required to mitigate the risk of stale or manipulated pricing data giving rise to unfair liquidations. Real-time mark-to-market adjustments must be applied automatically and accurately reflected in client accounts to ensure that position valuations remain consistent with prevailing market prices at all times.

### **SFC Requirements for Margin Arrangements and Loss Allocation Management**

An SFC-licensed VATP operator is required to ensure, by means of automated pre-trade checks, that the required margin has been received in full prior to accepting any order. The extension of credit for margin purposes is not permitted. Acceptable forms of margin collateral are limited to fiat currency, or stablecoins and tokenised deposits that are regulated by the Hong Kong Monetary Authority. Margin requirements should be set with appropriate regard to position concentration risk, so as to facilitate the orderly liquidation of positions where margin requirements are not maintained.

An SFC-licensed VATP operator must adopt a clearly defined and pre-determined order of priority for default management, position liquidation and loss allocation. This hierarchy should typically comprise order-book liquidation, backstop liquidity providers, a reserve or insurance fund, auto-deleveraging (ADL), and any other last-resort loss allocation mechanisms. The specific circumstances that trigger each mechanism, together with the applicable parameters, must be clearly disclosed to clients. The default management procedures should be designed to facilitate the timely containment of client losses and must be applied consistently.

Automated liquidation must occur at pre-defined thresholds, such as where the maintenance margin requirement ceases to be met. An SFC-licensed VATP operator is expected to regularly review and test its margining and liquidation mechanisms to ensure their effectiveness, with particular attention to periods of heightened market volatility.

With respect to insurance fund transparency, an SFC-licensed VATP operator must disclose to clients, on a real-time basis and in a clear, accurate and non-misleading manner, the insurance fund levels available for loss absorption. In the event that the insurance fund becomes fully depleted or otherwise unavailable, the operator must promptly notify all clients holding open positions and issue a clear warning that such positions may become subject to ADL. The operator must also disclose the arrangements for funding the insurance fund and the treatment of any surplus. Furthermore, an SFC-licensed VATP operator must provide real-time information regarding the likelihood of open positions being auto-deleveraged and must issue a post-event report to all affected clients within 24 hours of the activation of ADL or any other last-resort tools.

### **SFC-licensed VATP Operators' Market Surveillance Obligations**

An SFC-licensed VATP operator must implement surveillance systems capable of detecting trading patterns specific to VA Perps, including material deviations between index and mark prices, abnormal funding rate patterns, and clusters of forced liquidations. Real-time cross-market surveillance should be conducted across both spot and VA Perps trading. The operator is further required to implement a comprehensive business continuity and contingency plan to address abrupt or abnormal market conditions, and the details of that plan must be clearly disclosed to clients.

### **Disclosure Requirements**

To ensure transparency and support informed decision-making, an SFC-licensed VATP operator must provide clear, comprehensive and timely disclosure on its website of all material risk factors associated with VA Perps. The disclosure must explain how each risk may affect clients, including its potential impact on position valuation and profit and loss, in sufficient detail to enable clients to make informed investment decisions.

At a minimum, the risk disclosure must explain the key characteristics of VA Perps and the potential consequences for clients, illustrated with hypothetical transactions and scenarios where practicable. The risks to be addressed include funding rate volatility, losses arising from funding rate payments, difficulty in closing positions owing to the absence of an expiry date and limited liquidity, potential discrepancies between calculated underlying asset prices and actual spot market prices, substantial divergence between VA Perp prices and underlying asset prices during volatile market conditions, the absence (where applicable) of an expiry date for price convergence, market volatility and price gap risk, cascading liquidations during periods of market stress, the potential unavailability of liquidity providers for position close-out during default management, forced close-out of non-defaulting clients' positions under pre-specified loss allocation mechanisms, and the possibility of total loss of investment.

An SFC-licensed VATP operator must also make available on its website, in a clear and comprehensible manner, detailed information covering trading rules, product specifications, applicable fees and any fee incentives or rebates, the methodologies for determining the underlying asset price, VA Perp price, funding rate, margining, position and collateral valuation and profit and loss, the client's ability to select preferred leverage levels or cross margining, the operator's payment obligations, settlement arrangements for margin, funding rate and other payments, and default management procedures including liquidation triggers, settlement pricing for liquidated positions, loss allocation methodology, insurance fund utilisation and replenishment, and any risk mutualisation arrangements.

Real-time disclosure of all VA Perp transactions, including those resulting from forced liquidation, must be provided across all standard display channels such as trading feeds, user interfaces and APIs. Each disclosed transaction must specify the execution time, price and size so as to ensure full transparency of trading activity.

Given the innovative and inherently risky characteristics of VA Perps, an SFC-licensed VATP operator is expected to allocate adequate resources to client education, the handling of client enquiries and the effective management of client complaints.

SFC-licensed VATP operators are encouraged to discuss their proposed VA Perp structures with the SFC. The principles set out in the circular represent the SFC's initial approach to regulating VA Perp offerings and may be refined or expanded as products evolve and market conditions change. The SFC may issue further guidance to the industry following its consideration of proposals received from SFC-licensed VATP operators.

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