

## Virtual Asset Exchange Traded Fund (ETF) Trading

### 1. What are Virtual Assets?

Virtual Assets (VAs) are digital representations of value which may be in the form of digital tokens, any other virtual commodities, crypto assets, or other assets of essentially the same nature. They exclude digital representations of fiat currencies issued by central banks (i.e. Central Bank Digital Currencies, or CBDCs). VAs are developed based on blockchain or distributed ledger technology.

### 2. What are the different types of Virtual Assets?

Virtual Assets include cryptocurrencies (e.g., Bitcoin, Ether, and altcoins) and digital tokens which are divided into:

- Security Tokens: Represent digital ownership of assets (like gold or real estate) or economic rights (shares of profits).
- Stablecoins: VAs pegged to an underlying asset (such as fiat currencies) to maintain stable value.
- Non-fungible Tokens (NFTs): Non-divisible, unique representations of ownership of a specific asset (such as digital artwork).
- Utility Tokens: Tokens providing access to specific services or products on a specific blockchain ecosystem.

### 3. What is a Virtual Asset exchange-traded fund (VA ETF)?

A VA ETF is an exchange-traded fund that allows investors to gain investment exposure to virtual assets through traditional regulated exchanges (like the HKEX), eliminating the need to directly purchase and store the underlying VAs on cryptocurrency platforms.

### 4. What is the difference between a VA Spot ETF and a VA Futures ETF?

VA Spot ETFs directly hold the physical virtual assets (e.g., Bitcoin) and track their spot prices. VA Futures ETFs invest in futures contracts of the virtual assets (derivatives, such as those traded on the CME) and track those futures contracts, meaning they do not hold the physical virtual assets directly.

### 5. Which virtual assets can be held by SFC-authorized VA Spot ETFs in Hong Kong?

Currently, VA Spot ETFs authorized by the SFC are only permitted to invest in virtual assets that are accessible to the Hong Kong public for trading on SFC-licensed virtual asset trading platforms (VATPs). These currently include Bitcoin, Ether, and Solana.



## **6. What are VA Futures Inverse Products?**

These are derivative products that aim to deliver a daily return equivalent to the opposite (inverse) return of a specified VA futures index (e.g., -1x return). If the underlying index drops, the inverse product is designed to rise in value, and vice versa.

## **7. What are VA ETFs and VA futures ETFs?**

They are virtual asset-related exchange-traded products which:

- Have a principal investment objective or strategy to invest in VAs;
- Derive their value principally from the value and characteristics of VAs; or
- Track or replicate the investment results/returns which closely match or correspond to VAs.

## **8. What are the differences between VA ETFs/VA futures ETFs and other VA-related products?**

VA Spot/Futures ETFs are packaged as traditional investment products and traded on regulated exchanges (like the HKEX). Investors do not have to manage the technical aspects of holding digital assets (such as setting up digital wallets and private keys). Other VA-related products (like buying tokens directly on a cryptocurrency exchange) require investors to manage self-custody or trust a platform's custody, exposing them directly to counterparty insolvency, hacking, and direct asset loss.

## **9. Are VA ETFs covered by statutory investor compensation or deposit protection schemes?**

No. Virtual asset-related products and VA ETFs are generally not covered by any statutory investor compensation, customer asset protection, or deposit protection schemes in Hong Kong or other jurisdictions.

## **10. Who is eligible to trade Virtual Asset ETFs?**

To be eligible to trade Hong Kong-listed VA ETFs, you must hold an active investment account, successfully complete and pass the Virtual Asset Knowledge Assessment (VAKA) with derivatives knowledge. Please note that only investors who are Hong Kong ID holders currently ineligible to trade VA ETFs.



**11. What if I don't pass the Virtual Asset Knowledge Assessment (VAKA)?**

To trade virtual asset-related products in Hong Kong, you must pass the VAKA. If you do not pass on your first attempt, you will not be permitted to trade these products immediately. However, you will be asked to complete watching the educational video to acquire the related product knowledge before retaking the assessment.

**12. I have a Joint Account. Do both of us need to pass the Virtual Asset Knowledge Assessment (VAKA)?**

Yes. For Joint Accounts, all account holders are required to successfully complete and pass the Virtual Asset Knowledge Assessment (VAKA) with derivatives knowledge.

**13. How does the 24/7 nature of cryptocurrency markets affect Hong Kong-listed VA ETFs?**

Virtual assets and futures contracts trade 24/7 globally, whereas Hong Kong VA ETFs only trade during HKEX trading hours. Value changes in the underlying VAs outside Asian trading hours cannot be acted upon by HK-based investors and may lead to the ETF opening at a significant premium or discount to its NAV.

**14. What are the asset concentration risks of investing in VA ETFs?**

Conventional ETFs usually track highly diversified stock indices. In contrast, VA ETFs are typically subject to extreme concentration risk because they reflect the price volatility of a single underlying virtual asset (e.g., Bitcoin only) or a single futures contract.

**15. Can I lose more than my principal investment in VA-related products?**

Under normal circumstances, you cannot lose more than your initial investment in plain-vanilla VA ETFs. However, under exceptional market circumstances, or if trading VA-related products that utilize margin or leverage features, you may lose all of your investment, and potentially more than your principal.

**16. Are overseas-listed VA ETFs subject to the same regulations as Hong Kong-listed VA ETFs?**

No. VA ETFs offered in overseas markets may not be authorized by the Hong Kong SFC. Their structures, operations, and offering documents are not governed by Hong Kong rules, meaning investors will not enjoy local regulatory protections (such as under the SFO) if issues arise.

**17. What are the risks of investing in VA ETFs and VA futures ETFs?**

The primary additional risks include:

- Lack of secondary market risk: Insufficient active buyers/sellers to liquidate easily.
- Legal and regulatory uncertainty: Rapidly changing local/international laws.
- Custody & structural risks: Lack of statutory protection/compensation schemes.
- Overseas asset risks: Assets received or held outside Hong Kong may lack local regulatory protection.

**18. What is "fork risk" in virtual assets?**

A "fork" represents a sudden, unexpected change to a virtual asset's software. If a "hard fork" occurs and the community splits, with one prong running the earlier version of the software and the other running the updated software, resulting in the existence of two versions of VA network running in parallel and a split of the blockchain underlying the VA network, it creates two parallel blockchains. This can result in severe price volatility, system outages, or the partial/total loss of value of one version of the VA.

**19. What are the risks of investing in Virtual Assets?**

The key risks of VAs include: lack of intrinsic value, legal and regulatory uncertainty (whether they qualify as "property"), high price volatility, verification and custody risks (cyberattacks/hacking of wallets), market manipulation, potential conflicts of interest on trading platforms, money-laundering vulnerabilities, and technological risks (irreversible transactions, hard forks, or network collapse).

**20. Does a VA Futures ETF track the spot price of the underlying virtual asset precisely?**

No. The performance of a VA Futures ETF can significantly deviate from that of the VA's spot price. This is because the ETF invests in futures contracts (derivatives) rather than physical VAs, making them subject to unique futures market conditions and contract pricing differences.

**21. What is "rollover risk" (or roll cost) in a VA Futures ETF?**

Futures contracts have expiry dates. To maintain continuous exposure, the ETF must "rollover" its contracts (sell expiring contracts and buy longer-term ones). If the longer-term contracts are pricier than expiring ones (a "contango" market), the ETF's proceeds from selling won't be enough to buy the same amount of new contracts, causing a loss (negative roll yield) that drags down the ETF's NAV.

**22. Are VA Futures Inverse Products suitable for a "buy-and-hold" strategy?**

No. These inverse products are designed as short-term trading tools (with typically a one-day rebalancing interval). Due to daily rebalancing and the compounding effect, their returns over a period longer than one day may deviate significantly from—and may even be the opposite of—the inverse return of the underlying index.

**23. What is "position limit risk" in VA Futures ETFs?**

Regulated futures exchanges (like the CME) enforce statutory limits on the maximum number of Bitcoin or Ether futures contracts a single entity can hold. If the ETF's holdings grow to this limit, it will be unable to acquire more contracts, preventing the creation of new ETF units and causing the market trading price to deviate from the fund's NAV.

**24. What is the additional risks specific to VA futures ETFs?**

Additional risks specific to futures-based ETFs include:

- Leverage and pricing differences: High volatility, where futures prices diverge from spot prices.
- Liquidity risk: Illiquidity in the developing VA futures market.
- Rolling costs: Negative roll yields in "contango" markets that erode the ETF's NAV over time.
- High concentration risk: Exposure to single asset volatility.
- Margin & operational risk: Sudden margin calls demanding immediate liquidation under extreme market conditions.
- Position limit risk: Statutory restrictions on the number of contracts held.

**25. What does the "Investment Eligibility" function do?**

This function lets you acquire knowledge on derivatives and Virtual Asset before you invest in any related products.