

QUINLAN  
& ASSOCIATES

# END OF THE OPT-IN ERA

HONG KONG'S CLAMPDOWN ON  
VIRTUAL ASSET TRADING PLATFORMS

## RATIONALE FOR THE CLAMPDOWN UNDERLYING MOTIVATIONS



### PROTECT INVESTORS

There is no legal framework to protect Hong Kong retail investors involved in virtual asset trading, with many losing considerable money from various high-profile scandals



### ENHANCE AML / CTF

The non-traceable and anonymous nature of virtual asset transactions opens up potential to be abused for criminal activities, such as money laundering and terrorist financing



### REDUCE MARKET ABUSE

With no proper regulatory oversight, there have been many cases of traditionally unacceptable market practices amongst the virtual asset exchanges, market makers, and custody service providers

## POTENTIAL IMPACT

HKSFC POSITION PAPER (6 NOV 2019) & HKFSTB PUBLIC CONSULTATION (3 NOV 2020)

OPT-IN REGIME

2019



MANDATORY

2020

Theme	Description
Licensing	• <b>Platforms are now required to apply and acquire HKSFC Type 1 and Type 7 licences</b>
Reg. Sandbox	• Licensed platforms will be placed under the SFC's regulatory sandbox
Supervision	• All licensed virtual asset trading platforms will now fall under the SFC's supervision
Reg. Reporting	• A monthly business report must be submitted to the SFC (second week of each month)
Audit Req.	• Exchanges must hire an independent firm to submit an annual review report to the SFC
Due Diligence	• Stringent due diligence of assets must be conducted before their listing and trading
Market Making	• Market-making activities for liquidity should be conducted by an independent third-party
Capital Req.	• Exchanges must possess liquid assets worth at least 12 months of operating expenses
Cold Wallet	• At least 98% of assets under custody must be kept in cold wallets and partially insured
Hot Wallet	• The maximum 2% of assets that can be kept in hot wallets must be fully insured
Investors	• <b>Only professional investors (Net worth &gt; HKD 8m) are allowed to trade virtual assets</b>
Trading Limit	• Each and every client account must be assigned a trading limit and position limit
Trade Settlement	• Institutional, professional clients can be allowed to make intraday settlements at best

■ Virtual Asset Exchange    
 ■ Investors    
  Critical Changes

## NEXT STEPS FOR VIRTUAL ASSET TRADING PLATFORMS DECISION FRAMEWORK



### EXIT



### ADAPT

EVALUATE

#### EXPLORE ALTERNATIVE MARKETS

Conduct detailed industry and competitor analysis, market sizing, and regulatory requirement checks to comprehend the various gaps and opportunities that are available in alternative geographies

#### CREATE GO-TO-MARKET STRATEGY

Conduct detailed market research and analysis to identify appropriate product, client, pricing, and channel strategy and operating model. Develop a detailed business case and map out future expansion strategy

#### TRANSITION PLANNING

Outline a roadmap of operational milestones and assess ease of implementation, looking at cultural fit, alignment with current mission and vision, corporate structuring requirements, and talent acquisition strategy

#### EVALUATE COMPLIANCE STANDARDS

Perform an entity-wide review of policies, processes, and systems, to determine gaps vs. required compliance standards; identify key shortfalls and determine potential remediation measures, including the cost of compliance

#### REVIEW OPERATING MODEL

Evaluate operating model against industry best practice to determine required adaptations to talent proposition, internal operations and processes, risk and compliance frameworks, and infrastructure / data standards

#### REVISE STRATEGY

Revise strategy in light of new compliance standards and operating model. Benchmark current offerings against competitors, anticipate future demand trends, and adapt business model to optimise future P&L

PLAN

DEVELOP

## HOW WE CAN HELP OUR SOLUTIONS

### 1. Opportunity Evaluation

- Detailed market sizing opportunities, taking into account regional market dynamics and expected demand from market participants / target customers
- Review industry trends, demand drivers, and benchmark current offerings against competitors

### 2. Strategy Development

- Define an end-to-end strategy that capitalises on key revenue opportunities while considering the client's specific objectives and capabilities
- Develop a detailed business case outlining full revenue and cost implications of new strategy

### 3. Regulatory Submission & Compliance

- Support the regulatory submission process, including creation of application documents, ongoing refinements, and post-submission support
- Conduct regulatory due diligence to identify any operational gaps, enabling adjustments and improvements to current processes
- Benchmark operations against industry best practices to optimise compliance-related procedures

### 4. Operating Model Design

- Identify required adaptations to policies, processes, and systems to support the client's growth strategy, including people / organisation, operations / processes, risk / compliance, and IT / infrastructure
- Outline a roadmap for product diversification, with clear and feasible operational milestones

## OUR PARTNERS BIOGRAPHIES

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**BENJAMIN QUINLAN**  
CEO & MANAGING PARTNER

Benjamin Quinlan is the CEO and Managing Partner of Quinlan & Associates.

Benjamin is the Chairman of the FinTech Association of Hong Kong, an adjunct Professor at the AIT School of Management, a Managing Director at EFADRIN, a Senior Advisor at Emotics and Picowork, a Guest Contributor for eFinancialCareers and Regulation Asia, and was named as one of the top 50 FinTech influencers in Hong Kong in 2018 by Lattice 80.

Prior to founding Quinlan & Associates, Benjamin was the Head of Strategy for Deutsche Bank's Equities business in Asia Pacific and its Investment Bank in Greater China. He also worked at Oliver Wyman, UBS, and PwC.

Benjamin holds a combined BCom (Hons 1) / LLB (Hons) (on scholarship) from Macquarie University, Sydney.



**YVETTE KWAN**  
COO & PARTNER

Yvette Kwan is a Partner and COO at Quinlan & Associates.

Yvette has over 20 years of experience in corporate strategy and investment banking. Prior to joining Quinlan & Associates, Yvette was the Regional Operating Officer (COO) for UBS AG's Corporate Client Services division in APAC. Before this, she was an Executive Director in UBS's Group Strategy and M&A departments in Zurich, Sydney, and Hong Kong.

Before joining UBS, Yvette worked in the Greater China and Corporate Finance team at Credit Suisse First Boston in Hong Kong. She began her career in Emerging Business Services and Corporate Tax at PwC in Sydney.

Yvette holds an MBA from the Australian Graduate School of Management and a BCom (with merit) from UNSW.

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## OUR EXPERIENCE RELEVANT EXPERTISE

Quinlan & Associates has extensive experience in the financial services and FinTech industry, helping our clients address their most pressing strategic and operational issues – from strategy formulation to product development, pricing, and new market entry.

As an official consulting partner to the R3 network, we have worked extensively with companies in the blockchain and digital assets space, including exchanges, blockchain-focused venture capital funds, proprietary trading houses, digital asset managers, brokerages, and family offices.

We pride ourselves on proving straightforward, data-driven advice that is unique to each and every one of our clients, with a commitment to delivering tangible, commercial outcomes in each and every engagement.



**Official  
Consulting  
Partner**

### SAMPLE PROJECTS

- Corporate strategy development
  - New Market entry / international expansion
  - Product development and pricing
  - Strategic / commercial due diligence
  - Competitor benchmarking
  - Market / industry research and analysis
  - Review of regulatory compliance processes
  - Target operating model (TOM) design
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STRATEGY WITH A DIFFERENCE

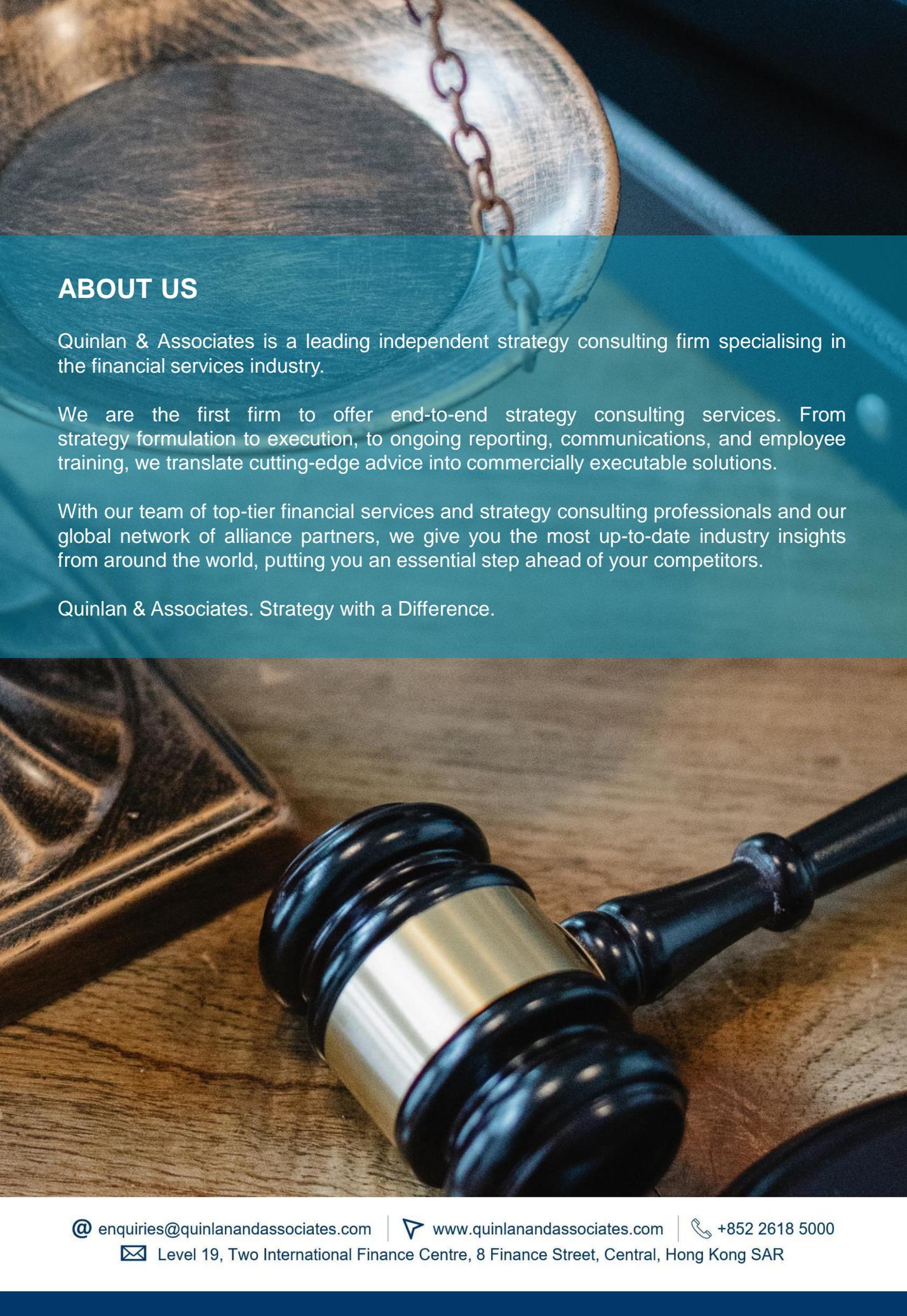
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## ABOUT US

Quinlan & Associates is a leading independent strategy consulting firm specialising in the financial services industry.

We are the first firm to offer end-to-end strategy consulting services. From strategy formulation to execution, to ongoing reporting, communications, and employee training, we translate cutting-edge advice into commercially executable solutions.

With our team of top-tier financial services and strategy consulting professionals and our global network of alliance partners, we give you the most up-to-date industry insights from around the world, putting you an essential step ahead of your competitors.

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