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# The Journal of Robotics, Artificial Intelligence & Law

Editor's Note: The Black Box
Victoria Prussen Spears

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Peter J. Schildkraut, Travis Annatoyn, Eun Young Choi, Deborah A. Curtis, Ronald D. Lee, Thomas A. Magnani, Soo-Mi Rhee, Sandra E. Rizzo, Allison B. Rumsey, Ethan G. Shenkman, Junghyun Baek, Daniel M. Elsen-Rooney, and Emily Orler

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Reza Zarghamee and Sid L. Fowler

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Genna Garver, Deborah Kovsky-Apap, Ethan G. Ostroff, James W. Stevens, and Matthew Russell Morris

China GenAI Litigation Update: Implications for Service Providers
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**5** **Editor's Note: The Black Box**
Victoria Prussen Spears

**9** **Artificial Intelligence Explainability Explained: When the Black Box Matters and When It Does Not**
Courtney M. Dankworth, Avi Gesser, Gordon Moodie, and Diane Bernabei

**17** **Artificial Intelligence and Open Source Data and Software: Contrasting Perspectives, Legal Risks, and Observations**
Neda M. Shaheen, Nigel Cory, and Jacob Canter

**25** **Insuring Intellectual Property: Examining Artificial Intelligence and Fair Use**
Michael S. Levine, Geoffrey B. Fehling, Armin Ghiam, and Madalyn "Mady" Moore

**33** **America's AI Action Plan: What Full Steam Ahead Means for Your Company**
Peter J. Schildkraut, Travis Annatoyn, Eun Young Choi, Deborah A. Curtis, Ronald D. Lee, Thomas A. Magnani, Soo-Mi Rhee, Sandra E. Rizzo, Allison B. Rumsey, Ethan G. Shenkman, Junghyun Baek, Daniel M. Elsen-Rooney, and Emily Orler

**51** **PFAS, HFCs, and Related Chemicals in the Data Center Industry**
Reza Zarghamee and Sid L. Fowler

**57** **The GENIUS Act: What Is It and What's Next?**
Genna Garver, Deborah Kovsky-Apap, Ethan G. Ostroff, James W. Stevens, and Matthew Russell Morris

**65** **China GenAI Litigation Update: Implications for Service Providers**
Ruixue Ran, Sheng Huang, Alexander Wang, Phil Hill, and Xiaoliang Chen

**81** **Hong Kong Poised to Expand Licensing Regime to Cover Virtual Asset Dealers and Custodians**
Dominic James

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# Hong Kong Poised to Expand Licensing Regime to Cover Virtual Asset Dealers and Custodians

Dominic James*

*Hong Kong regulators have published proposals for mandatory licensing of intermediaries dealing in virtual assets (VA) or providing VA custodian services. This article examines key features of the proposals, which signal a major shift in regulatory oversight for the VA ecosystem.*

The Hong Kong Securities and Futures Commission (SFC) and Financial Services and the Treasury Bureau have jointly published proposals to introduce a (mandatory) licensing regime for intermediaries dealing[1] in virtual assets (VAs) or providing VA custodian[2] services. Under the proposals, any person who carries on business of dealing in VAs in Hong Kong, regardless of whether through a physical outlet and/or other platform, or who provides VA custodian services will have to be licensed or registered with the SFC, subject to a fit-and-proper test and other factors deemed relevant by the SFC.

## Context of VA Dealing Licensing Regime

This is a major change to the existing licensing framework that primarily focuses on VA trading platforms (VATPs), namely, centralized trading services facilitating VA trading in Hong Kong or actively marketing such services to Hong Kong investors.

Currently, intermediaries licensed or registered for Type 1, Type 4, and/or Type 9 regulated activities may provide VA dealing and/or advisory services for their existing clients or manage portfolios of VAs provided they partner only with SFC-licensed VATPs for the provision of VA dealing services, whether by way of introducing clients to the platforms for direct trading or establishing an omnibus account with the platforms. At present, selected



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licensed VATPs are allowed to provide trading services to retail investors—subject to stringent due diligence and token admission standards—but over-the-counter (OTC) dealing or other VA-related activities, such as brokerage, block trading, or advisory services, remain unregulated.

To address this gap, the proposals extend the licensing regime to cover all VA dealing activities, including OTC dealers, digital platforms, and mixed-mode operations (physical and digital). The "dealing" definition mirrors existing regulations, covering any business that makes or offers to make agreements for acquiring, disposing of, subscribing for, or underwriting VAs. This encompasses simple VA-to-VA and VA-to-fiat conversions, complex brokerage activities such as block trading and advisory services, and marketing of VAs (including those who actively market to the public, whether in Hong Kong or elsewhere), VA dealing, or custodian services, regardless of whether provided through physical outlets or digital platforms.

A notable change allows licensed VA dealers to execute trades on non-SFC-licensed overseas exchanges rather than be confined to 11 existing SFC-licensed VATPs currently operating in Hong Kong as of the end of June 2025, subject to adequate investor protection safeguards. This could significantly enhance Hong Kong's attractiveness as a VA hub.

## Context of VA Custodian Services Licensing Regime

Under the proposals, any person who carries on the business of providing VAs custodian services in Hong Kong (including safekeeping of private keys or instruments enabling transfer of VAs) will have to be licensed or registered with the SFC.

Currently, VATPs are required to ensure the safe custody of client assets, typically through segregated wallets held by associated entities. However, no regulatory framework exists for third-party VA custodians offering services to non-VATP entities. To address this gap, the proposals require that where VA dealers hold client VAs with a third-party entity, including safekeeping of private keys, they must hold client VAs with a licensed or registered VA custodian in Hong Kong.

## Baseline Regulatory Requirements

Under the "same activity, same risks, same regulation" principle, the requirements are expected to broadly follow those applicable to VATPs for VA dealers and Type 13 providers of depositary services for VA custodians. Further, in-scope intermediaries will be required to maintain minimum financial resources, including HK$5 million paid-up share capital (rising to HK$10 million for custodians), HK$3 million liquid capital, and excess liquid capital equivalent to at least 12 months of operating expenses. For intermediaries catering to retail investors, the proposals also mandate licensed VA dealers to align their token offerings with existing VATP standards, which restrict offers to high-liquidity tokens or coins issued by licensed stablecoin issuers upon implementation of the stablecoin licensing regime in August.

## What Is Out-of-Scope?

VA dealing activities exclude peer-to-peer trading of VAs between individuals where no intermediary is involved as well as offers/redemptions by stablecoin issuers, the latter being separately regulated as of August 1, 2025. Further, depending on the final definition of VA custodian services, VA dealers who hold VAs on behalf of clients wholly incidental to the VA dealing services may qualify for an incidental exemption from the custody licensing regime, provided the VA dealer does not safekeep private keys (or similar instruments) on behalf of clients.

## Next Steps and Key Takeaways

The public consultation period ran until August 29, 2025, with the government aiming to introduce legislation as soon as practicable thereafter. Once implemented, any person who carries on VA dealing services (including Type 1 dealers who take orders to buy or sell VAs or Type 9 managers who place trade orders to dealers in the course of managing a portfolio of VAs), as well as intermediaries who provide VA custodian services (including Type 9 managers who provide self-custody to the funds under their management that invest in VA by way of safekeeping private keys that enable the transfer of fund VAs), risk imprisonment up to seven years and a fine of HK$5 million unless licensed.

Unlike some previous consultations, the proposals do not include "transitional" arrangements for existing operators. Rather, existing regulated entities providing VA-related services (or associated entities of SFC-licensed VATPs) are encouraged to apply ahead of commencement of the new regime under a streamlined approval process to minimize business interruption.

## Notes

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