

## **Appetite for Virtual Assets in the Private Wealth Management world: Navigating the complex landscape**

As the virtual asset (VA)\* sector continues to captivate the attention of the global investment community, private wealth managers are increasingly tasked with navigating this rapidly evolving landscape. This article examines the growing interest in virtual assets among high-net-worth individuals (HNWIs) and outlines the key regulatory shifts shaping the industry in Hong Kong. By staying informed on regulatory developments, addressing client concerns, and selectively incorporating virtual assets into well-diversified portfolios, wealth managers can help clients capitalize on the potential of this transformative asset class while mitigating associated risks.

### **Regulatory Shifts in Hong Kong**

Hong Kong has taken proactive steps to strengthen its virtual asset regulatory framework, even as some other jurisdictions appear to be taking a step back. The Securities and Futures Commission (SFC) has introduced new licensing requirements for Virtual Asset Trading Platforms (VATPs), ensuring market participants adhere to high standards of investor protection.

For example, VATPs are now required to conduct thorough client suitability assessments and due diligence on trading tokens, as well as implement monitoring procedures to regularly review the status of virtual asset trading. These new requirements will foster financial innovation while safeguarding investors' interests, thereby building public trust in Hong Kong's digital ecosystem.

In line with these developments, the SFC has received 17 applications for VATP licenses in the second quarter of 2024. What's more: the regulator authorized Asia's first batch of VA spot ETFs in April. As of mid-August, these six VA spot ETFs listed in Hong Kong have traded smoothly with a total market capitalization of \$2.4 billion (US\$310 million).

### **Common Concerns Among Clients**

While the allure of virtual assets is undeniable, skepticism surrounding the perceived volatility and associated risks deter clients from including this nascent asset class in their investment portfolios. One common concern is threat of cybersecurity – malicious actors are employing increasingly sophisticated tactics to steal virtual assets. According to a Chainalysis report, hackers of cryptocurrency platforms stole around \$1.7 billion in 2023.

Difficulty arises in accurately valuing digital assets due to their volatility and the absence of standardized valuation methodologies. Clients also seek greater clarity on issues such as custody, tax implications, and the regulatory landscape, all of which can influence their investment decisions.

### **Strong Appetite for Virtual Assets**

Despite lingering concerns, the appetite for virtual asset exposure remains strong, driven by a desire for portfolio diversification and the potential for outsized returns. A Fidelity Digital Assets survey published in June 2024 reveals that institutional investors remain invested in digital assets, with 69% of Asian investors and 60% of global HNWI investors currently investing in this space. Furthermore, appetite for



virtual assets is expected to grow, even stronger in Asia, with 74% of Asian investors indicating plans to buy digital assets in the future, compared to a global average of 65%.

### **Navigating the Path Forward**

Navigating this evolving landscape requires private wealth professions to exercise prudence and foresight. By staying informed on regulatory developments, addressing client concerns, and selectively incorporating virtual assets into well-diversified portfolios, managers can help clients capitalize on the potential of this transformative asset class while mitigating associated risks. Through proactive education and thoughtful investment strategies, private wealth managers can guide clients towards informed and responsible virtual asset participation.

*\*Virtual assets are defined, according to Hong Kong's Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO), cryptographically secured digital representation of value that can be traded electronically and used for various purposes, including purchasing goods, settling debts or investing.*