

Hong Kong to permit VA exchanges to offer perpetual contracts and engage affiliated market makers

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On February 11, 2026, the Securities and Futures Commission published frameworks allowing licensed virtual asset trading platforms to (a) offer perpetual contracts to professional investors and (b) engage affiliated companies as market makers on their platforms.

Perpetual contracts

Introduction

On February 11, 2026, the Securities and Futures Commission (SFC) published a [circular](#) allowing licensed virtual asset trading platforms (VATPs) to engage affiliated companies as market makers on their platforms and a [paper](#) outlining a high-level framework for VATPs to offer virtual asset perpetual contracts (Perps), a type of virtual asset derivative, to professional investors. The expansion of virtual asset product offerings reflects the SFC's continued commitment to its [ASPIRe roadmap](#) for developing Hong Kong's virtual asset market.

Under this framework, VATPs will be able to submit proposed Perps to the SFC for consideration and approval.

Perpetual contracts

Perps are contracts over virtual assets that have no set expiration date. The SFC's framework applies to contracts with the following characteristics:

- the contracts are traded on-platform, seek to track the price of a reference asset and have no expiration date;
- the reference asset may be either a virtual asset available for spot trading by retail clients on the VATP's platform or an index of such virtual assets;
- the contracts are designed with a price convergence mechanism triggering at least daily to align the product price with market price, typically through funding payments (i.e., periodic payments exchanged between long and short position holders);
- the contracts are leveraged, with potential loss limited to the margin posted; and
- the trading, margining, position liquidation and settlement processes are designed to prevent VATPs from credit exposure to any participants. Where margin is insufficient, positions are liquidated through pre-specified loss allocation mechanisms, such as backstop liquidity sources, a reserve or insurance fund and closing out of opposite positions.

Eligible investors

Perps are a new financial product to the Hong Kong market and carry novel financial risks. As such, the SFC has limited their offering to professional investors (as defined in Schedule 1 to the Securities and Futures Ordinance (Cap. 571)).

VATPs should assess each professional client according to paragraphs 5.1A and 5.3 of the Code of Conduct to ensure that the client understands the product risks and can make an informed investment decision about leveraged derivative contracts subject to forced liquidation.

Contractual capacity of VATPs

The SFC acknowledged that Perps offered by overseas platform operators typically operate without a central clearing house, and is open to accepting models where the platform operator does not act as central counterparty to all Perps traded on its platform.

Trading and settlement

VATPs must ensure orderly trading and settlement of Perps positions. Whether or not acting as contracting party, VATPs are responsible for settling all trades on the platform.

Reference inputs should be objective and accurate.

Pricing references

Key parameters (such as product price, reference asset price, funding rate and position valuation) should be derived from reliable data of active markets featuring a stable transaction volume anchored by genuine transactions. This is in line with the approach taken by the SFC previously in other contexts with products dependent on reference prices.

Margin, valuation and liquidation references

Similarly, references for margining, valuation and liquidation should be based on multiple independent sources to reduce the potential of single-party influence. It will be important for operators to stress test their mark price calculation mechanisms, especially in light of large-scale isolated liquidation events that have occurred recently on some overseas Perps exchanges.

Collateral and liquidation

Only (a) fiat currency or (b) HKMA-regulated stablecoins or tokenized deposits can be accepted as collateral currently. VATPs shall employ automated pre-trade checks to confirm that the required collateral is fully received before allowing the opening of a position.

VATPs must consider position concentration risks when setting margin requirements. For example, operators will typically require (a) a higher initial margin than maintenance margin to provide sufficient buffer for negative price movements after the position is opened and (b) a tiered margin requirement with larger positions subject to a higher margin rate to account for the negative price movement that may be caused by the liquidation of a larger position.

There should be a clear and pre-defined order of priority for position liquidation and loss allocation in the event of user default, including for example (a) order-book liquidation, (b) backstop liquidity providers, (c) reserve or insurance fund and (d) auto-deleveraging (ADL).

VATPs shall ensure that upon a user's default, his position will be liquidated fully, and the user will owe no further liabilities to his contract counterparty beyond his collateral. Last-resort backstop mechanisms such as ADL are therefore essential to prevent on-market liquidation failures due to the lack of liquidity.

Trading rules and disclosures

VATPs must have transparent and comprehensive rules for fair trading, margining, default management, position liquidation and loss allocation.

All inputs for measuring key parameters must be disclosed to clients. The calculation formula must be transparent and consistently applied. The key parameters must be made available in real time and for free. Any automatic, real-time mark-to-market adjustments must be accurately reflected in client accounts.

Default management procedures and order of priority (such as ADL ranking) should be clearly disclosed. Investors should be able to discern the trigger and the applicable parameters for each mechanism relied on.

VATPs should provide certain real-time tracking data for all Perps transactions, specifying execution time, price and size, and disclose in real time its insurance fund levels and assessed likelihood of auto-deleveraging.

VATPs should disclose to clients real-time insurance fund levels available for loss absorption. Should the insurance fund become fully depleted or otherwise unavailable, the VATP should promptly notify all clients with open positions, and issue a clear warning that open positions may be subject to ADL.

A Platform Operator should provide real-time information about the likelihood of open positions being auto-deleveraged, and issue a post-event report to all clients within 24 hours whenever ADL or any last-resort liquidation mechanism is activated.

VATP websites must include disclosure on material risk factors and explain how Perps trading works on the platform. VATPs must allocate sufficient resources to address client education, enquiries and complaints.

Circular on permitting VATPs to accept affiliated market makers

The SFC has made it a priority to enhance liquidity on VATPs and have highlighted the need to attract liquidity providers. To that end, the SFC is permitting affiliated companies of licensed VATPs to engage in market making activities on the respective VATPs, so long as effective conflicts of interest controls are implemented, and client interests are prioritised pursuant to paragraph 13.1 of the VATP Guidelines.

The VATP should:

- ensure its affiliated market maker (AFMM) is functionally independent from them;
- implement robust conflict of interest policies and procedures regarding the AFMM;
- designate at least one Responsible Officer or Manager in Charge (MIC) responsible for overseeing conflicts of interest management regarding the AFMM;
- maintain effective data security measures and information barriers to prevent information leakage;
- identify trades executed by the AFMM in post-trade data; and
- disclose any preferential treatment provided to the AFMM in relation to pre-trade transparency, order placing and execution as well as associated risks to clients.

Notification and application to the SFC

VATPs who wish to accept AFMM participation will be subject to specific SFC-imposed terms and conditions on their license. Before allowing its AFMM to engage in market making activities on its VATP, they must notify the SFC of their intention to accept AFMM participation and submit to the SFC (i) an independent third-party professional report noting their compliance with the specified terms and conditions and (ii) the applicable declaration and undertaking by the VATP's MIC of Overall Management Oversight.

Resources
Crypto Regulation Hub

Visit our Crypto Regulation Hub for links to congressional proposals related to the regulation of crypto assets and other helpful materials.

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