

Terms and conditions for providing staking services

General

1. A reference in these Terms and conditions for providing staking services to “staking services” means any arrangement which involves the process of committing or locking client virtual assets (as defined in the Guidelines for Virtual Asset Trading Platform Operators) to participate in a blockchain protocol’s validation process based on a proof-of-stake consensus mechanism, with returns generated and distributed for that participation, and a reference to a “validator” means the operator of one or more nodes participating in a blockchain protocol’s validation process based on a proof-of-stake consensus mechanism.
2. If any obligations of a Platform Operator (as defined in the Guidelines for Virtual Asset Trading Platform Operators) under these Terms and conditions for providing staking services can only be performed together with its Associated Entity or solely by the Associated Entity on behalf of the Platform Operator, the Platform Operator should ensure that its Associated Entity observes such obligations.
3. A Platform Operator should only provide staking services to persons which are, and remain at all times, its clients.
4. A Platform Operator or its Associated Entity should at all times maintain possession or control of all mediums through which the client virtual assets may be no longer “staked”, such as possession or control of both the withdrawal address private key and the pre-signed voluntary exit message. For the avoidance of doubt, custody of client virtual assets by third party service provider is not permitted.
5. In providing staking services, a Platform Operator and its Associated Entity are expected to observe the requirements in the Guidelines for Virtual Asset Trading Platform Operators, in particular, the Platform Operator and its Associated Entity are expected to observe the requirements in Part X (Custody of Client Assets) of the Guidelines for Virtual Asset Trading Platform Operators as if:
 - (a) any reference to a virtual asset included a “staked” virtual asset;
 - (b) any reference to a client included a person to whom the Platform Operator or its Associated Entity provides staking services;
 - (c) any reference to client virtual assets included “staked” client virtual assets; and
 - (d) any reference to seeds or private keys included seeds or private keys which are mediums through which the “staked” client virtual assets may be no longer “staked” (for example, the withdrawal address private key for the “staked” client virtual assets).

For the avoidance of doubt, “staking services” form part of the “incidental services” referred to in sub-paragraph (b) of the definition of “Relevant Activities” as set out in paragraph 1.1 of the Guidelines for Virtual Asset Trading Platform Operators.

6. A Platform Operator should establish and maintain:
- (a) effective policies and procedures to prevent or detect errors, omissions, fraud and other unauthorised or improper activities associated with the staking services and to ensure proper identification and management of the risks associated with the staking services, in particular, to ensure the “staked” client virtual assets are adequately safeguarded;
 - (b) internal controls to manage operational risks and address actual or potential conflicts of interests which may arise from the provision of staking services. Controls should include:
 - (i) a systematic whitelist control to ensure that the withdrawal address specified in the staking instructions to the validator is limited to designated whitelisted addresses only and managed by the private key of the Platform Operator’s client cold wallet;
 - (ii) before broadcasting staking instructions to the blockchain, the Platform Operator should independently verify, through a systematic control process, that the final message is properly configured, ensuring that the withdrawal address is correctly set to direct the withdrawal to the designated whitelisted client cold wallet address;
 - (iii) in instances where the Platform Operator uses a third party validator and has a contingency plan that incorporates a pre-signed withdrawal message, the Platform Operator should verify the validity of the message upon receipt to ensure that the withdrawal request can be executed independently of the validator when necessary.
 - (c) operational rules governing the provision of staking services which cover, for example, staking and unstaking procedures, arrangements during outages, business resumption arrangements and custodial arrangements;
 - (d) procedures for responding to slashing events, rising inactivity rates, or any events that may negatively impact clients’ staked assets, including the initiation of withdrawals from the staking contract as appropriate; and
 - (e) to protect against potential losses arising from “staked” client virtual assets, additional resources as required by the Commission from time to time.¹
7. A Platform Operator should ensure that the private key or seed of the withdrawal wallets are subject to the same internal controls and governance, and secured with the same level of protection, as that of the client cold wallet for non-staked client virtual assets.

¹ The SFC will assess each submission on a case-by-case basis to decide whether additional requirements regarding resources are required to be imposed on the Platform Operator.

8. A Platform Operator should only provide staking services in accordance with the client's standing authority (as set out in paragraphs 10.17 to 10.18 of the Guidelines for Virtual Asset Trading Platform Operators) or one-off written direction. Both prior to the initiation of the staking process and promptly after the completion of the staking process, the Platform Operator should confirm with its clients the relevant terms (such as the name of the virtual asset to be staked, amount or value of the virtual asset to be staked, and the fees and charges to be borne by the client). For the avoidance of doubt, the statements of account as set out in paragraphs 9.33(d) to 9.33(g) of the Guidelines for Virtual Asset Trading Platform Operators should include details of the provision of staking services relating to client virtual assets held for that account.
9. Where the Platform Operator plans to cease or suspend staking services or staking services relating to particular blockchain protocols, the Platform Operator's decision to terminate the provision of such staking services should take due account of the best interests of its clients. The Platform Operator should make adequate disclosure of all relevant material information in relation to the termination of the staking services to all its clients in an appropriate and timely manner.

Note: Such information should include without limitation termination decisions, options available (for example, unstaking) and material changes in circumstances arising during the termination process.

10. A Platform Operator should retain, and should ensure that its Associated Entity retains, the records relating to the provision of staking services for a period of not less than seven years, including:
 - (a) records showing particulars of all "staked" client virtual assets held by it but not belonging to it, identifying for whom such "staked" client virtual assets are held, the relevant validators and wallet addresses (for example, validator index and public key, withdrawal address) associated with such "staked" client virtual assets, the date on which they were staked and unstaked, and the returns associated with such "staked" client virtual assets; and
 - (b) records relating to the selection of blockchain protocols for which it will be providing staking services (as provided in paragraphs 14 to 17 below) and the most appropriate arrangement to participate in a blockchain protocol validation process ("Validation Process") (as provided in paragraphs 18 to 22 below).

Disclosures

11. A Platform Operator should make adequate disclosure of information (as well as any material changes to the information) on the staking services which is necessary to enable clients to make an informed decision regarding whether to employ its staking services.
12. A Platform Operator should, at a minimum, make the following information available on its website and mobile application (if applicable):

- (a) specific virtual asset(s) for which staking services are provided and any third parties involved in the provision of such services (such as third party validators);
 - (b) operational rules relating to the provision of staking services (including those set out in paragraph 6(c) above);
 - (c) the risks that clients may be exposed to in using the Platform Operator's staking services, including the types and nature of additional risks that the "staked" client virtual assets may be subject to (for example, slashing risk, lock-up risk due to delayed unstaking processes, blockchain protocol staking-related technical error / bug risk, hacking risk and inactivity risk relating to the validators, and the legal uncertainty relating to staking which may affect the nature and enforceability of a client's interest in client virtual assets which have been staked);
 - (d) requirements for participation, types of returns offered, sources of returns, method of calculation of the returns, staking amount limitations, return limitations, timing relating to the returns, minimum lock-up periods, unstaking process and length;
 - (e) fees and charges for the provision of staking services (including those as agreed with any third party service provider) and the method of calculation of the fees and charges; and
 - (f) manner in which losses relating to the risks identified in paragraph 12(c) above will be dealt with (such as compensation arrangements (if any) for slashing incidents).
13. Except for dealing with institutional and qualified corporate professional investors (as defined in the Guidelines for Virtual Asset Trading Platform Operators), prior to providing staking services to its clients, a Platform Operator should obtain an acknowledgement executed by the client confirming that the client understands the risks involved in using the Platform Operator's staking services including the risks specified in paragraph 12(c) above.

Selection of blockchain protocol

14. A Platform Operator should ensure that its token admission and review committee (as set out in paragraph 7.1 of the Guidelines for Virtual Asset Trading Platform Operators) is responsible for establishing, implementing, enforcing and regularly reviewing the criteria for including or excluding blockchain protocols for which it will be providing staking services.
15. A Platform Operator should act with due skill, care and diligence when selecting blockchain protocols for its staking services and ensure that they continue to satisfy all the inclusion criteria. The Platform Operator should consider the factors set out in the non-exhaustive list of factors as set out in paragraph 7.6 of the Guidelines for

Virtual Asset Trading Platform Operators within the context of the provision of staking services.

16. A Platform Operator should ensure that its or any third party validator's internal controls and systems, technology and infrastructure could support and manage any risks specific to the provision of staking services for the blockchain protocol selected.
17. A Platform Operator should establish and maintain an effective governance procedure to continuously monitor future developments of the blockchain protocol, evaluate any changes that may impact the functionality of the staking mechanism, and take appropriate action to ensure that client virtual assets are properly safeguarded.

Management of validator operations

18. A Platform Operator should exercise due skill, care and diligence in the selection of the most appropriate arrangement to participate in a Validation Process (including whether to engage a third party validator and selection of the third party validator).
19. The Platform Operator's assessment of a Validation Process should reflect a comprehensive and well-documented evaluation of, amongst other things:
 - (a) the hardware and software infrastructure;
 - (b) whether a smart contract audit has been conducted by an independent assessor (if a smart contract is used);
 - (c) the blockchain protocols which are supported;
 - (d) experience and track record of the validator in participating in the Validation Process of that blockchain protocol (such as validator server downtime, validation error, and risk mitigation measures);
 - (e) management of actual and potential conflicts of interest;
 - (f) the validator's organisational capabilities, for example the cybersecurity risk management measures;
 - (g) security controls over key generation, storage, management, transaction signing and business continuity planning;
 - (h) the documented process of handling software upgrades to the devices used by the validator;
 - (i) financial soundness of the validator; and

- (j) depending on the particular arrangement, whether the validator has maintained insurance cover for the risks that the “staked” client virtual assets may be subject to (for example, for compensating slashing events).
20. Where the provision of staking services involves outsourcing to a third party validator, a Platform Operator should also exercise due skill, care and diligence in arranging for the appointment of the third party validator including making appropriate arrangements to ensure that the Platform Operator meets the requirements in these Terms and conditions for providing staking services. In particular, the Platform Operator or its Associated Entity should enter into a formal agreement with the third party validator which specifies the terms of services and responsibilities of the third party validator. This agreement should be regularly reviewed and revised, where appropriate, to reflect any changes to the services provided, outsourcing arrangements or regulatory developments.
21. A Platform Operator should exercise due skill, care and diligence in the ongoing monitoring of the appointed validator. This would include regularly monitoring the on-chain status of staked client assets and the performance of the appointed validator (including validator server downtime, validation errors, and reconciliations should be performed regularly regarding the staking rewards).
22. On an ongoing basis, a Platform Operator should satisfy itself as to the continued suitability and financial standing of any appointed validator. For example, a Platform Operator should request for and review the audited financial statements of the appointed validator.

Approval and notification requirements

23. A Platform Operator should obtain the SFC's prior written approval of any plan or proposal to include any blockchain protocol for the provision of staking services to retail clients, or terminate the staking services which were made available to retail clients.
24. A Platform Operator should notify the SFC in writing in advance of any plan or proposal to include any blockchain protocol for the provision of staking services to professional investors only, or terminate the staking services which were made available to professional investors only.
25. A Platform Operator should report to the SFC as soon as practicable upon the happening of any actual or suspected material non-compliance with these Terms and conditions for providing staking services and provide any information in relation to its provision of staking services as may be requested by the SFC from time to time. The SFC may request information on a periodic or ad hoc basis.