

Press Release

LCQ6: Development of financial technologies

Wednesday, April 27, 2016

Following is a question by the Hon Frederick Fung and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (April 27):

Question:

Some members of the financial technology (Fintech) industry have pointed out that while crowdfunding on the Internet has become very popular around the world in recent years, its development in Hong Kong has been extremely slow. Apart from the fact that local crowdfunding activities are small in scale and do not involve any equity investment, most of them are merely fund-raising activities conducted by arts and cultural groups and charitable bodies. Those people consider that such a situation is mainly attributable to the regulatory authorities in Hong Kong adopting a conservative attitude towards crowdfunding activities, and their failure to review and amend the relevant legislation in a timely manner to tie in with the innovations in the relevant technologies and funding approaches. On the contrary, in some jurisdictions, such as the United States, the United Kingdom and Taiwan, dedicated legislation has been enacted to cater for crowdfunding activities. For example, in the United States, equity crowdfunding activities may be exempted from the requirements of the relevant securities laws provided that certain requirements relating to investor protection have been met; in the United Kingdom, enterprises are allowed to raise funds from those retail investors who have fulfilled certain financial conditions through equity crowdfunding platforms; in Taiwan, the authorities enacted legislation in the middle of last year to equity crowdfunding, making Taiwan the seventh jurisdiction in the world in which such activities are permitted. In this connection, will the Government inform this Council:

(1) whether it has carried out any study on how equity crowdfunding activities should be regulated; if it has, of the outcome of the study; whether the authorities will, by making reference to the practices of other jurisdictions, enact legislation and relax relevant requirements, so as to promote the development of equity crowdfunding activities in Hong Kong;

(2) whether it has reviewed if the existing financial regulatory regime can tie in with the development of Fintech; whether it has explored how a balance between the protection of investors and the promotion of the development of Fintech can be struck; if it has explored, of the outcome; if not, the reasons for that; and

(3) given that the authorities established the Steering Group on Financial Technologies (the Steering Group) last year to make recommendations to the Government on how to develop Hong Kong into and promote her as a Fintech hub, and that the Steering Group released a report in February this year, whether the Steering Group, in coming up with the relevant recommendations, had drawn on other jurisdictions' experience in promoting the development of Fintech; if the Steering Group had, of the details; if not, the reasons for that?

Reply:

President,

The Steering Group on Financial Technologies (the Steering Group) was established in April 2015 and chaired by the Secretary for Financial Services and the Treasury. Its mission was to advise the Government on how to develop and promote Hong Kong as a financial technology (Fintech) hub. It submitted a Report to the Government in February 2016, setting out its views on the broad directions and focused areas for supporting the Fintech sector.

In his 2016-17 Budget, the Financial Secretary has also announced a range of measures for early implementation of the Steering Group's recommendations. As one of the announced measures, the Hong Kong Monetary Authority (HKMA), the Securities and Futures Commission (SFC) and the Office of the Commissioner of Insurance (OCI) have established their dedicated Fintech platforms (namely, Fintech Facilitation Office, Fintech Contact Point and Fintech Liaison Team) to enhance communication between regulators and the Fintech community.

My reply to the various parts of the question is as follows:

(1) The regulatory approaches towards equity crowdfunding (ECF) vary

globally across jurisdictions in view of the nascent nature of the business. While some economies have developed dedicated new regimes, others leverage existing rules to regulate such activities. Adequate investor protection remains the fundamental policy objective notwithstanding the differences. Issues relating to potential risk management issues have recently surfaced in various regions, raising concerns that retail investors, even provided with risk disclosure warnings, may still not fully appreciate the high risks inherent in ECF. Therefore, the market may consider making reference to exemptions relating to professional investors under the existing regulatory framework for developing ECF platforms targeting professional investors in Hong Kong.

(2) Apart from ECF, Fintech can be applied to a range of financial services such as payment and remittance, product investment and distribution, robo-advice, peer-to-peer financing, cybersecurity and data security, big data analytics and Blockchain technology. As Fintech may involve different segments and business models, the relevant regulatory frameworks and requirements will differ. For example, the Payment Systems and Stored Value Facilities Ordinance that took effect in November 2015 empowered HKMA to implement a licensing system for stored value facilities and a designation system for retail payment systems as well as to perform relevant supervisory functions. The new regulatory regime will safeguard the safety and efficiency of stored value facilities and retail payment systems, strengthen the public's confidence in the use of these products and services, and foster the development and innovation of the payment industry.

In addition, the dedicated Fintech platforms established by HKMA, SFC and OCI will help enhance communication between regulators and the Fintech community, handle enquiries from the industry and provide information on related regulatory requirements to companies engaging in financial innovation to enhance the industry's understanding of the regulatory environment in Hong Kong. The platforms will also keep track of the latest development in the market through their exchange with the industry.

In developing Fintech, the Government will uphold the "technology neutrality" principle and at the same time attach importance to investor protection. The Government will continue to engage the industry to keep abreast of the dynamic Fintech landscape, and help ensure that an appropriate balance between market innovation and investors' understanding and tolerance

of risks is struck, having regard to the development of Fintech.

(3) In coming up with the relevant recommendations to promote Hong Kong as a Fintech hub, the Steering Group has drawn on Mainland and overseas experiences in fostering Fintech as well as recent developments in Hong Kong. In its report, the Steering Group identifies five key parameters that may impact the Fintech ecology, i.e. promotion, facilitation, regulations, talents, and funding, and examines what enhancements may be required to take Hong Kong's Fintech sector to the next level.

Ends