

Press Release

LCQ16: Attracting financial technology start-ups to develop businesses in Hong Kong

Wednesday, June 29, 2016

Following is a question by the Hon Chan Kin-por and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (June 29):

Question:

It has been reported that quite a number of financial technology (Fintech) start-up companies (start-up companies) have chosen Singapore, instead of Hong Kong, as their first choice for establishing their presence when developing their businesses in Asia. There have been comments that such situation is attributable to the Singaporean government's ample financial support for Fintech development and a more flexible regulatory regime. Moreover, Singapore provides a testing environment (the so-called "sandbox") for conducting trials on innovative products and services, and similar practices have also been adopted in the United Kingdom(UK) and Australia. On the other hand, the "risk-based" and "technology-neutral" regulatory approach currently adopted by the Hong Kong Monetary Authority lacks flexibility and has thus discouraged quite a number of start-up companies from developing their businesses in Hong Kong. In this connection, will the Government inform this Council:

(1) whether the authorities will study the provision of a "sandbox" testing environment in Hong Kong, so as to encourage start-up companies to come to Hong Kong for business development, and make Hong Kong the base of their businesses in Asia; if they will, of the details; if not, the reasons for that, and whether there is any other option that can achieve the same effect;

(2) given that Hong Kong's existing rules and regulations are also applicable to activities conducted under new business models (including peer-to-peer online lending or equity crowdfunding), and that if such activities involve making offers to the public to purchase securities, they will be subject to requirements more stringent than those applicable to activities involving professional investors only, whether the authorities have reviewed if the exemptions

provided under the existing regulatory regime are conducive to the development of start-up companies, and whether they have studied the feasibility of introducing more exemptions, so as to allow start-up companies to provide their new products and services to non-professional investors on a limited scale; if they have reviewed and studied, of the details; if not, the reasons for that; and

(3) of the respective numbers of (i) Mainland entrepreneurs, (ii) venture capital funds, and (iii) related Mainland organisations that participated in the StartmeupHK Festival launched by Invest Hong Kong in January this year; the authorities' current measures to enhance Hong Kong's role as the springboard for Fintech enterprises to enter the Mainland market; whether the authorities will be more proactive in cooperating with the Mainland authorities in organising more large-scale Fintech exchange activities, and step up their efforts in inviting Mainland investors to participate in such activities, so as to enhance Hong Kong's role as the Fintech hub of Asia; if they will, of the details; if not, the reasons for that?

Reply:

President,

(1) In promoting the development of innovative financial products and services, the Government will strike an appropriate balance between market innovation and investors' understanding and tolerance of risks.

Regarding the provision of a "sandbox", we noted that a number of overseas regulatory authorities, including the Financial Conduct Authority of the UK, the Australian Securities and Investments Commission and the Monetary Authority of Singapore, are carefully prescribing the confines of the sandboxes within which rules are relaxed or waived for particular types of Fintech business that meet specific eligibility criteria, and only for innovative companies that have in place arrangements to protect potential investors, including through the availability of dispute resolution mechanisms and compensation arrangements. We will keep abreast of the development following the implementation of the sandboxes, and examine whether exemptions provided in the existing regulations in Hong Kong could achieve the same effect.

For example, the Payment Systems and Stored Value Facilities Ordinance enacted last year contains certain exemption clauses which would allow specific types of stored value facilities (SVFs) to operate without an SVF license granted by the Hong Kong Monetary Authority, so long as these SVFs do not pose significant risks to the users, payment system or financial system. The industry welcomes the exemption arrangement, as they see it a helpful measure which allows the industry to launch innovative Fintech products and services to market in a smaller scale for the purpose of conducting trials.

(2) The regulatory approaches towards some types of Fintech business, including peer-to-peer (P2P) online lending and equity crowdfunding (ECF), vary globally across jurisdictions in view of the nascent nature of the business. Adequate investor protection, however, remains the overarching policy objective notwithstanding the differences. Issues relating to risk management for these businesses have surfaced in various regions, raising the concern that non-professional investors may not fully appreciate the inherent high risks in P2P online lending and ECF even if risk warnings are disclosed and the products and services are provided on a limited scale.

Therefore, the market may consider making reference to exemptions relating to professional investors under the existing regulatory framework for developing P2P online lending and ECF platforms targetting professional investors in Hong Kong.

(3) Hong Kong's position as a business centre to connect the Mainland with the global markets provides an ideal platform for start-up companies and existing financial institutions to develop and apply Fintech for the Mainland, regional and global markets.

The StartmeupHK Festival organised by Invest Hong Kong (InvestHK) in January this year attracted over 5,300 entrepreneurs, venture capitalists, and representatives from other entrepreneurship- and innovation-related organisations from Hong Kong, the Mainland and overseas. In particular, the Fintech-themed programme, "Fintech Finals 2016", attracted over 700 participants.

To strengthen Hong Kong's role as the Fintech hub of Asia, InvestHK is

setting up a dedicated Fintech team to strengthen the promotion of Hong Kong's Fintech sector. In addition to formulating branding strategies, InvestHK is also organising and sponsoring large-scale Fintech forums, seminars and other activities in Hong Kong during the second half of this year and first half next year to attract Mainland and overseas Fintech entrepreneurs, investors and other stakeholders to gather in the city. The team will also join overseas events and organise roadshows proactively to showcase the development of the Fintech sector in Hong Kong and various support measures being made available.

Regarding promoting Hong Kong as a springboard for Fintech companies to enter the Mainland market, the Financial Services and the Treasury Bureau on June 13 signed an agreement with the Shanghai Municipal Government Financial Services Office on further financial cooperation between Hong Kong and Shanghai on various fronts, with Fintech being one of the key areas. Support will be given to Fintech companies in Shanghai and Hong Kong to assist the former to "go global" by using Hong Kong as a platform and the latter to gain access to the Mainland market via Shanghai. In addition, Hong Kong Science and Technology Park and Cyberport will facilitate start-up companies in Fintech and other sectors to enter the Mainland market by organising roadshows and providing support through their Mainland representative offices.

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