

Press Release
LCQ20: Boosting the growth of Hong Kong
into a financial technologies hub

Wednesday, May 10, 2017

Following is a question by the Hon Kenneth Leung and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (May 10):

Question:

The Government has implemented a number of initiatives to promote the development of financial technologies (Fintech) in Hong Kong to boost its growth into a Fintech hub. Fintech have brought new applications, processes, products or business models to the financial services industry, e.g. peer-to-peer payments, virtual currencies based on blockchain technologies, digital wallets, crowd-funding and microloans. While the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Cap. 615) stipulates that the Customs and Excise Department (C&ED) is the relevant authority for regulating money service operators (MSOs), it has not entrusted C&ED with the role to boost the growth of Hong Kong into a Fintech hub. In this connection, will the Government inform this Council:

(1) of the details (including the offences involved) of the law enforcement actions taken in the past three years by C&ED in relation to the operation of a money service with Fintech by licensed and unlicensed MSOs;

(2) whether C&ED has studied (i) how the development of Fintech will impact on the effective performance of its regulatory functions under Cap. 615, and (ii) if the Department has the relevant expertise and the right tools to perform its functions to regulate MSOs operating money services with Fintech; if so, of the outcome; if not, the reasons for that; and

(3) whether C&ED has actively liaised with other local regulatory bodies regarding the promotion and development of Fintech in Hong Kong?

Reply:

President,

(1) The Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance was enacted in April 2012 to impose requirements relating to customer due diligence (CDD) and record-keeping on specified financial institutions including money service operators (MSOs).

Under the Ordinance, any person who operates a money service must obtain a licence from the Customs and Excise Department (C&ED). Licensed MSOs are required to comply with the statutory obligations on CDD, record-keeping and other licensing requirements. From 2014 to 2016, C&ED had taken prosecution actions against 24 unlicensed money service operators (UMSOs) and 11 licensed MSOs for failing to comply with CDD, record-keeping and licensing requirements. Having consulted the Department of Justice, C&ED also issued written warnings to 83 non-compliant MSOs and two UMSOs, and initiated civil sanction proceedings against five non-compliant MSOs. None of the foregoing cases involved the application of novel financial technologies.

(2) To ensure effective regulation of the MSO industry, C&ED strives to develop a pool of skilled officers with professional knowledge in criminal and financial investigation. From time to time, technical experts from other regulatory bodies, law enforcement agencies and the private sector are invited to deliver seminars and thematic talks and share experience with C&ED officers. Relevant officers are sponsored to attend courses relating to anti-money laundering and counter-terrorist financing compliance issues, which provide them with financial investigation and Fintech-related training. On a regular basis, C&ED also sends representatives to attend international meetings on anti-money laundering organised by international organisations such as the Financial Action Task Force, so as to keep in view the latest trend, typology and development in the regulatory landscape of MSOs.

(3) The C&ED has been working closely with other statutory regulators of financial institutions (namely the Hong Kong Monetary Authority, the Securities and Futures Commission and the Office of the Commissioner of Insurance) in the supervision of the MSO sector. Regular meetings and seminars are convened to exchange information and share experience on enforcement strategies and regulatory issues, including challenges posed by

emerging Fintech for financial regulators.

The C&ED will continue to deploy resources flexibly to meet challenges brought about by technological advancement and the ever-changing regulatory landscape, with a view to ensuring effective supervision of MSOs.

Ends