

# LCQ18: Measures to improve the operation of the financial sector

Following is a question by the Hon Robert Lee and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (July 3):

Question:

Some members of the sector are of the view that there is room for further improvement in both the implementation details and regulatory requirements of the financial measures recently introduced by the Government. In this connection, will the Government inform this Council:

(1) in respect of the new Capital Investment Entrant Scheme, whether Invest Hong Kong will consider increasing the flexibility of the relevant asset test by, for example, (i) accepting that the applicant's net worth of \$30 million in assets are held in the form of a company or otherwise, and (ii) not strictly requiring the applicant's daily net asset balance to be \$30 million, and instead allowing the applicant to provide a monthly statement showing a month-end balance equivalent to the net asset value as proof;

(2) in respect of the Cross-boundary Wealth Management Connect Scheme 2.0, whether the relevant regulatory bodies will further discuss with the relevant Mainland regulatory authorities the lowering of the entry thresholds for eligible Hong Kong brokerage firms (e.g. the requirement of a transaction volume of not less than \$500 million within a specified period of time); and

(3) in respect of virtual asset-related measures, whether the relevant regulatory bodies will expedite the vetting and approval of the upgrading of the relevant licences, and suitably relax the requirements for the distribution of virtual assets by intermediaries (e.g. the requirements to provide warning statements to clients in relation to the relevant products and to conduct a virtual asset knowledge test on clients)?

Reply:

President,

In consultation with Invest Hong Kong (InvestHK), the Immigration Department (ImmD), the Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC), the consolidated reply to the various parts of the question is as follows:

(1) The New Capital Investment Entrant Scheme (New CIES) has been launched for application from March 1 this year with a view to further enriching the talent pool and attracting more new capital to Hong Kong. Since the launch of the New CIES up to June 21, InvestHK received over 300 applications, and

approved the Net Asset Assessment for over 160 applications and the Assessment for Investment Requirements for three applications. Meanwhile, ImmD also granted "approval-in-principle" for 80 applications, enabling the applicants to enter Hong Kong as visitors to make the committed investment, and granted "formal approval" for one application.

According to the Rules for the New CIES, an applicant should demonstrate to the satisfaction of the Director-General of Investment Promotion that he/she has net assets or net equity to which he/she is absolutely beneficially entitled with a market value of not less than HK\$30 million net (or equivalent in foreign currencies) throughout the two years preceding the date on which he/she lodges his/her application for Net Asset Assessment under the New CIES. To facilitate applicants' understanding of the application details, InvestHK has published on the New CIES website a reference guide for completing the net assets statement. Supporting documents that will be accepted include monthly statements and letters issued by banks or securities companies to demonstrate an applicant's fulfillment of the above-mentioned requirement. In addition, the Hong Kong Institute of Certified Public Accountants has issued a circular on reporting relating to the net asset requirement and investment requirements of the New CIES, with details uploaded to the New CIES website for applicants' and service providers' reference.

The requirement for an applicant to demonstrate that he/she has net assets to which he/she is absolutely beneficially entitled with a market value of not less than HK\$30 million net mainly seeks to clearly demonstrate his/her ability to meet the investment requirements under the New CIES. Since the launch of the New CIES, InvestHK also considers accepting proof of net assets owned by an applicant through wholly-owned private companies, subject to the circumstances of individual cases. If an applicant holds assets through other non-wholly-owned entities, his/her share of absolutely beneficial entitlement cannot be clearly determined. The New CIES therefore presently does not accept information on assets owned through non-wholly-owned companies or other means as the proof of net assets under the Net Asset Assessment stage. We will continue to listen to the views of the industry and examine relevant arrangements as appropriate, thereby enabling asset owners to deploy and manage their wealth and fully realise the diversified investment opportunities in Hong Kong.

(2) Cross-boundary Wealth Management Connect (WMC) in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) has seen continuous and steady development since its launch in September 2021. "WMC 2.0" commenced operation on February 26, 2024, with enhancement measures including increasing the individual investor quota from RMB1 million to RMB3 million, lowering the threshold for participating in the Southbound Scheme to support more GBA residents to join the scheme, expanding the scope of participating institutions to include eligible securities firms, expanding the scope of eligible investment products, and further enhancing the promotion and sales arrangements.

The SFC and the China Securities Regulatory Commission are working together to facilitate eligible and interested brokers in the Mainland and

Hong Kong to commence their WMC services as soon as practicable. Licensed corporations (LCs) should be licensed for Type 1 regulated activity; have paid-up capital and shareholders' funds of not less than HK\$100 million; have at least three years of experience in distributing funds and/or bonds and transaction volume of not less than HK\$500 million during any 12-month period in the past three years; and adequate systems of control. In addition, similar to the current arrangement applicable to banks, LCs should partner with one or more eligible Mainland brokers when providing WMC services.

As an innovative financial co-operation measure in the GBA involving three different regulatory systems, WMC has been implemented under a pilot approach in a gradual and incremental manner. We will continue to closely communicate with the industry and Mainland authorities, keep abreast of market developments and monitor the implementation of "WMC 2.0", with a view to jointly fostering the smooth implementation of WMC and continuously exploring further enhancement measures.

(3) To effectively supervise Hong Kong's virtual asset (VA) industry and facilitate its sustainable development, the SFC and the HKMA issued the "Joint circular on intermediaries' virtual asset-related activities" (Joint Circular) in January 2022, and updated the Joint Circular in October and December 2023 respectively to refine the requirements applicable to SFC-regulated intermediaries involved in the distribution of VA-related investment products.

According to the requirements, LCs intending to engage in any VA-related activities shall notify the SFC in advance, while registered institutions shall notify both the SFC and the HKMA. Generally, after notifying the relevant regulatory authority, intermediaries that are licensed or registered for relevant regulated activity can distribute VA-related products and do not need to apply for modification of licensing conditions.

The purpose of the investor protection measures set out in the Joint Circular (e.g. conducting VA knowledge tests on customers, and providing information and warnings on products to customers) is to enhance investor protection by ensuring that customers make informed investment decisions upon fully understanding the characteristics and risks of the products. For VA funds authorised by the SFC for listing and trading on the Stock Exchange of Hong Kong where intermediaries do not engage in solicitation or recommendation activities, intermediaries are not required to follow the suitability requirement or the requirements on the provision of minimum information and warning statements. Sophisticated investors (including institutional professional investors and qualified corporate professional investors) are exempted from certain investor protection measures.

The HKMA and the SFC will keep in view market developments, and review the requirements on VA-related activities as appropriate.