

LCQ9: Promoting development of stablecoins and virtual assets

Following is a question by the Hon Yim Kong and a written reply by the Acting Secretary for Financial Services and the Treasury, Mr Joseph Chan, in the Legislative Council today (June 5):

Question:

There are views that promoting the development of stablecoins and virtual assets (VAs) in Hong Kong will help the Government enhance its initiative of disbursing electronic consumption vouchers to inbound tourists and leverage advanced technologies to drive the development of the local real economy, and that the Government can also take the opportunity to vigorously develop the technologies and industries related to Web 3.0, blockchain, stablecoins and VAs to strengthen Hong Kong's status as an international financial centre in the long run. In this connection, will the Government inform this Council:

(1) given that the Government has introduced measures to provide concessions for inbound tourists, such as the distribution of night market consumption discount vouchers, whether the Government will consider carrying out the relevant work in an electronic and digital manner through related technologies such as blockchain and VAs, so as to enable tourists to obtain and use the consumption vouchers more conveniently at scenic spots, restaurants, hotels or other retail premises, and at the same time effectively reduce the costs of disbursing and managing the consumption vouchers;

(2) whether the Government will collaborate with the relevant industries to launch a platform powered by stablecoin and VA technologies for the disbursement and use of consumption vouchers; if so, of the specific plan; if not, the reasons for that; and

(3) as there are views that Hong Kong has a large pool of talents in finance, Web 3.0 industry and Internet, as well as a regulated financial services industry and a flexible market mechanism that bridges markets in the East and the West, whether the Government will consider leveraging the relevant advantages to further promote innovation and development of virtual and digital currency transactions, so as to strengthen Hong Kong's position as an international financial centre, thereby contributing to the digitisation and internationalisation of Renminbi for the country?

Reply:

President,

In consultation with the Tourism Commission, the Hong Kong Monetary

Authority (HKMA), and the Securities and Futures Commission (SFC), the reply to the question raised by Hon Yim is as follows:

(1) and (2) The Hong Kong Tourism Board (HKTb) has been providing visitors with spending offers through its one-stop web-based e-platform with the aim of making the offers more convenient for visitors and enhancing their efficiencies. For instance, the HKTb handed out about two million sets of "Hong Kong Goodies" visitor consumption vouchers via the one-stop web-based e-platform since February 2023. Visitors could enjoy a welcome drink in one of the participating bars, restaurants or hotels, or redeem their vouchers for an offer in one of the 3 800 participating outlets of attractions, public transport, dining and retail outlets.

Moreover, in support of the Government's call for boosting night-time ambience, the HKTb also handed out one million sets of "Hong Kong Night Treats" visitor consumption vouchers through the one-stop web-based e-platform starting from November 2023. Each voucher offered visitors a HK\$100 discount on night-time dine-in experience in town to encourage visitors to enjoy Hong Kong's night-time gastronomic experiences.

(3) In view of the rapid development of the virtual asset (VA) market, putting in place a robust and transparent regulatory environment capable of adapting to the evolving landscape is of foremost importance to facilitating Web3 development and financial innovation. In this regard, the Government and regulators have been upholding the "same activity, same risks, same regulation" principle in taking forward the orderly development of the VA industry, with suitable measures introduced in the process to mitigate the risks involved in VA activities and protect investors' interest. This policy direction has been clearly set out in our Policy Statement on Development of Virtual Assets in Hong Kong issued in October 2022. A suitable regulation of VA services can facilitate responsible and healthy market development, and protect investor's interests.

With the Legislative Council's (LegCo) passage of the Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Bill 2022 in December 2022, the SFC-administered VA service provider licensing regime commenced operation in June 2023. Currently, there are two licensed platforms providing bitcoin and ethereum trading services to retail investors. The development of VA-related products has been progressing in an orderly and positive manner in Hong Kong. Following the listing of three VA futures exchange-traded funds (ETFs) in Hong Kong in early 2023, the SFC issued a circular in December 2023 to start receiving applications for VA spot ETFs. Within just a few months, the first batch of six VA spot ETFs issued by three fund companies were listed in Hong Kong, as the forerunner in Asia.

Looking forward, we in co-ordination with the financial regulators will endeavour to continue to enhance the regulatory framework, including introducing licensing regimes for fiat-referenced stablecoin issuers and VA over-the-counter service providers. We have completed public consultations on the proposals, and will introduce relevant Bills into LegCo as soon as possible. The HKMA has also launched the stablecoin issuer "sandbox" to allow

institutions planning to issue stablecoins in Hong Kong to conduct testing on their operational plans in a risk-controlled environment and facilitate two-way communications on the proposed regulatory requirements, so as to ensure that the design of the regime will attain the regulatory objective.

Besides, we have been working closely with the financial regulators and industry stakeholders to promote the development of Fintech through multi-pronged measures, including enhancing the financial infrastructure, building a more active Fintech ecosystem, nurturing Fintech talents, as well as strengthening the connection and co-operation with Mainland and overseas parties, thereby solidifying Hong Kong's status as an international financial centre while contributing to the digitisation and internationalisation of Renminbi. In May 2024, the HKMA announced that it would expand the scope of e-CNY pilot in Hong Kong with the People's Bank of China (PBoC). This would facilitate the set-up and use of e-CNY wallets by Hong Kong residents, as well as the top-up of e-CNY wallets through the Faster Payment System, thereby further facilitating cross-boundary retail payments of the residents in both places. In addition, the HKMA will continue to work with the Digital Currency Institute of the PBoC to explore allowing Hong Kong residents to upgrade their e-CNY wallets to higher tiers through real-name verification, as well as enhancing the interoperability in payments to provide more convenient payment experience for users (including individuals and merchants). The central banks in both places will also explore corporate use cases, with a view to facilitating cross-boundary trade settlement.