

USFST's opening remarks at Asian Financial Forum "Dialogues for Tomorrow" (English only) (with photo)

Following are the opening remarks by the Under Secretary for Financial Services and the Treasury, Mr Joseph Chan, at the Asian Financial Forum "Dialogues for Tomorrow – The Future of Web 3 in Financial Services and Application of Virtual Assets" today (January 25):

Distinguished guests, ladies and gentlemen,

Good morning. It is my great pleasure to speak to you today at the Asian Financial Forum (AFF) as we examine the transformative potential of Web3 and virtual assets (VA) within the financial services sector. The Hong Kong Special Administrative Region (SAR) Government is steadfast in our commitment to fostering these emerging technologies, fully aware of their capacity to revolutionise financial and commercial landscapes. Web3, built on the solid foundation of blockchain technology, is a fast-evolving area. We have to act earlier than otherwise. Hong Kong always emphasises the resilience of our financial markets – it is the same for the more nascent segment of it, including VA.

Hong Kong is Asia's leading international financial centre as we consistently lead in various league tables in the region. According to an industry report released last year, Hong Kong is the top cross-border wealth booking centre in Asia by assets under management, and is on track to take over the world's number one position by next year. In capital markets, Hong Kong secured the top spot as the arranging location for Asian international bond issuance in 2022 for the seventh consecutive year. In the realm of risk management, Hong Kong stood first in Asia and second globally in insurance density according to a report released last year. Of course, we are also the biggest offshore Renminbi (RMB) centre in the world, possessing the largest offshore RMB liquidity pool in the world, and processing about 75 per cent of global offshore RMB payments. These are not just numbers; they are a testament to our robust financial ecosystem which sets the stage for Hong Kong to be a leader in fintech. As most financial institutions have set up their Asian headquarters or Asia's biggest business presence in Hong Kong, fintech and Web3 companies can enjoy tremendous potential customers, investors and business partners here.

As we stand at the dawn of this new digital era, our approach is proactive and clear: we are not mere observers but active participants fostering an environment favourable to the growth of VA and the Web3 ecosystem.

Back in October 2022, we issued the Policy Statement on Development of VA in Hong Kong, setting out the vision and policy direction of the

Government. As the policy maker, we are guided by the risk-based approach – ensuring that our regulatory system manages and mitigates the actual and potential risks of VA, while offering the industry a transparent, certain and predictable regulatory environment to develop their business. We adopt the "same activity, same risks, same regulation" principle, and put in place timely and necessary guardrails so that VA innovations can thrive in Hong Kong in a responsible and sustainable manner.

Our licensing regime for VA service providers commenced in June last year. Under the regime, anyone running a VA exchange must get a license from the Securities and Futures Commission (SFC). Our regime is among the first worldwide in meeting the Financial Action Task Force's international standards for anti-money laundering and counter-terrorist financing, and it also provides full regulatory requirements on investor protection. This comprehensive regulatory approach has been recognised by both the International Organization of Securities Commission and the International Monetary Fund.

Two VA service providers have been granted licenses in Hong Kong, both of which have obtained licence upgrades under the Securities and Futures Ordinance regime to offer VA services to retail investors. At the moment, 12 other service providers have submitted their license applications which are currently being reviewed by the SFC. This information is accessible in the SFC website as part of its efforts to disseminate information on VA business in a clear, transparent and timely manner. As a next step, we intend to amend the law to bring the activities of buying and selling of VAs by the "VA OTC shops" into the regulatory remit.

On stablecoins, we launched the public consultation on the proposed regulatory regime for stablecoin issuers in December last year for comments until the end of February this year. Under our proposed regime, an issuer would be required to obtain a licence from the Hong Kong Monetary Authority (HKMA) if it issues a stablecoin that references the value of one or more fiat currencies (fiat-referenced stablecoin) in Hong Kong. The HKMA will introduce a sandbox arrangement to facilitate the exchange of views between regulators and the industry on the regulatory requirements.

In linking VA and traditional financial instruments, we advanced our securities regulatory requirements to allow regulated intermediaries to offer trading of eligible VA futures exchange traded funds (ETFs) to retail investors in Hong Kong through the issuance of joint guidance to intermediaries by the SFC and the HKMA in January 2022. This was followed by the SFC issuing a circular in November 2022 clearly specifying its readiness to accept authorisation of VA futures ETFs in Hong Kong. Within a few months' time, we are glad to see that three VA futures ETFs had already been listed and traded on the Hong Kong Stock Exchange.

The SFC-HKMA joint guidance was further refined last month to clearly set out the latest requirements for intermediaries distributing SFC-authorized investment products including SFC-authorized VA spot ETFs, together with which the SFC issued another circular to indicate its readiness

to accept applications for the authorisation of other funds with exposure to VA, including VA spot ETFs. Again, this made Hong Kong a pioneer in both the Asian and global market.

In fact, the Hong Kong SAR Government has also led by example in applying virtual asset technology to the issuance of traditional financial instruments. In February last year, we launched the world's first batch of tokenised Government green bonds as a pilot project under our Government Green Bond Programme. It brings together financial instruments and participants on a single digital platform to enhance the efficiency of the entire process, and largely reduces the time required for the issuance of traditional bonds. Building on the success of the inaugural tokenised issuance, the Government intends to, through a second tokenised issuance, test out more advanced features in tokenised issuances and potentially broaden investor participation, with a view to creating a further demonstrative effect and providing a promising use case for market participants interested in conducting similar issuances in Hong Kong, hence promoting a larger and wider-scale issuance and trading of tokenised bonds in the future.

On securities token offerings (STO), we acknowledge the potential benefits in the use of DLT (distributed ledger technologies) in security issuance and trading, which may bring efficiency, transparency and lower costs to traditional finance. Indeed, we have seen a variety of STOs already issued in Hong Kong, and the SFC has issued clear guidance to the industry on tokenisation of traditional securities and SFC-authorised investment products and the conduct standards expected of intermediaries engaging in tokenised securities-related activities.

Ladies and gentlemen, acknowledging the transformative power of these technologies, the Hong Kong SAR Government is committed to positioning ourselves at the forefront of this revolution, ensuring that our policies and frameworks are conducive to the growth and responsible adoption of VA and Web3 infrastructure. To date, more than 170 Web3 related companies from more than 20 economies from the Mainland, Americas, Europe and other parts of Asia have established their presence in Hong Kong, and many more have expressed their interest to set up in Hong Kong in light of our transparent, certain and predictable regulatory regimes.

In the subsequent panel discussion, front-line industry leaders will offer valuable insights, and two of the panel speakers are members of the Government's Task Force on Promoting Web3 Development, which was established last year as we actively engage with and listen to industry leaders and experts in the Web3 sector.

Before the panel, I would like to take this opportunity to encourage our guests visiting from abroad not only to enjoy the fruitful discussion at the AFF, but also to enjoy a series of side events and guided tours we have curated for you. These are designed to immerse you in the vibrant life of Hong Kong. Enjoy the culture, the colours, and the dynamism of our city during your stay. Thank you.

