

FinTech Advocacy Study

19th September 2017



OUR HONG KONG
FOUNDATION
團結香港基金



政策研究院
PUBLIC POLICY INSTITUTE

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Background to Hong Kong FinTech Ecosystem

➔ There are no Hong Kong-based FinTech companies in the first 30 places in the 2016 FinTech100 list

Top 10 leading FinTech innovators in the world

Rank	Name	Category	Location
1	Ant Financial (螞蟻金服)	Payments	China
2	Qudian (趣店)	Lending	China
3	Oscar	Insurance	USA
4	Lufax (陸金所)	Capital Markets	China
5	ZhongAn (眾安保險)	Insurance	China
6	Atom Bank	Lending	UK
7	Kreditech	Lending	Germany
8	Avant	Lending	USA
9	SoFi	Lending	USA
10	JD Finance (京東金融)	Lending	China

Background to Hong Kong FinTech Ecosystem (Con't)

➔ Hong Kong's FinTech regulatory regime is not supportive

Level of Regulatory Support for FinTechs

More supportive



Less supportive



UK: Easy to engage;
Well-informed; High-
impact programmes

Score: 4/4



Singapore: Highly
responsive and active;
Nascent efforts and
initiative

Score: 3/4



Australia: Nascent
FinTech dialogue;
Conservative

Score: 2/4



Germany: Active, but
could be more
collaborative; Complex;
Time-consuming

Score: 2/4



**California & New York,
USA:** Limited
collaboration;
Fragmented; Complex

Score: 1/4

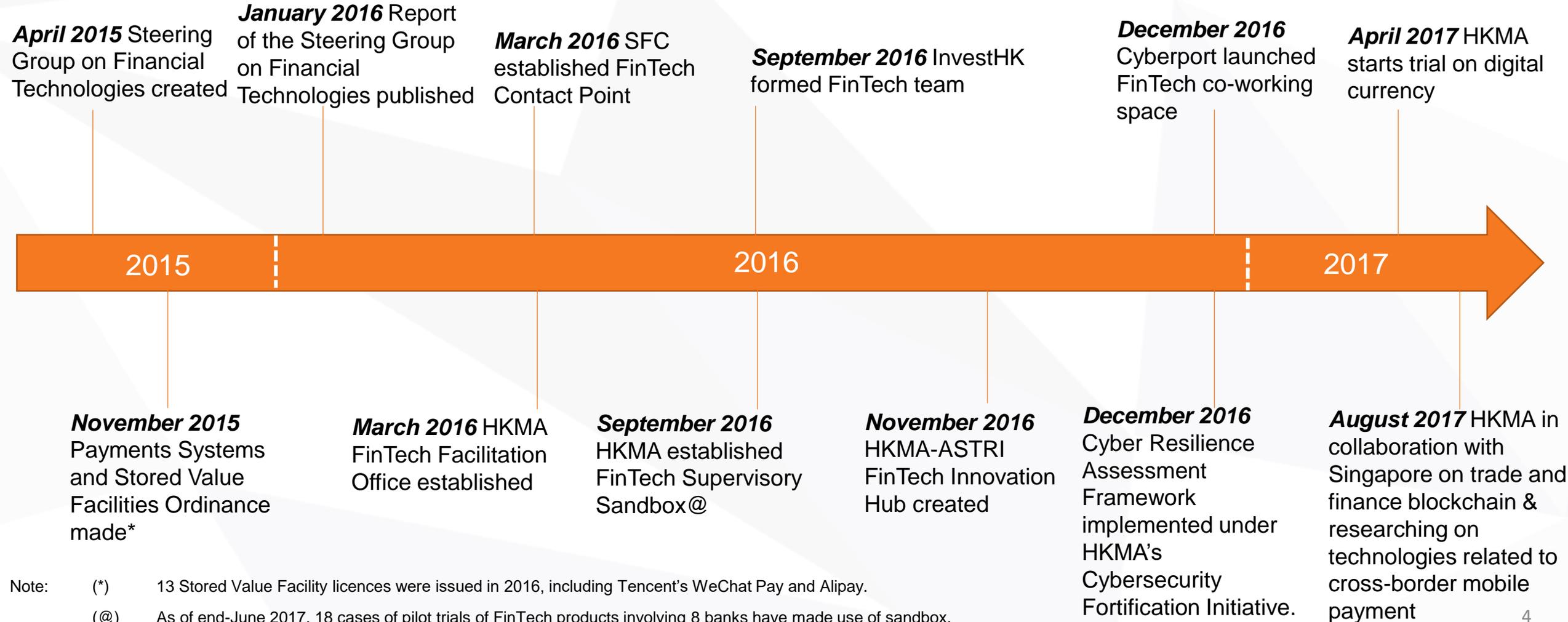


Hong Kong: Lacks clarity,
transparency and
innovative engagement;
Barrier to sector growth

Score: 1/4

Background to Hong Kong FinTech Ecosystem (Con't)

➔ Key events in Hong Kong's FinTech development



Note: (*) 13 Stored Value Facility licences were issued in 2016, including Tencent's WeChat Pay and Alipay.

(@) As of end-June 2017, 18 cases of pilot trials of FinTech products involving 8 banks have made use of sandbox.

Source: HKMA, SFC, 2016 Hong Kong Yearbook

Regulatory change or Sandbox testing?

➔ Example: Equity Crowdfunding



Major Ordinance	Title III of JOBS Act	Financial Services and Markets Act
Suitability Requirements	<p><u>Annual income ("AI") or net worth ("NW") less than US\$107,000 (HK\$832,000):</u> the greater of US\$2,200 (HK\$17,100) or 5% of the lesser of AI or NW</p> <p><u>AI and NW greater than US\$107,000 (HK\$832,000):</u> 10% of AI or NW, whichever is lesser but capped at US\$107,000 (HK\$832,000)</p>	Retail investors may invest up to 10% of their net assets
Disclosure Requirements	Start-ups must release audited financial statements	Companies need to certify that disclosures are accurate
Fundraising Limit	US\$1M	£5M

Regulatory change or Sandbox testing?

⇒ Crowdfunding are not regulated in Hong Kong and according to the SFC in *Notice on Potential Regulations Applicable to, and Risks of, Crowd-funding Activities* published on 7th May 2014, may be subject to the provisions of the following:

Companies (WUMP) Ordinance



Offence for the company and every person who is knowingly a party to the issue to issue a prospectus which does not comply with the relevant disclosure and registration requirements*

Securities and Futures Ordinance



Offence for a person to issue any advertisement, invitation or document which to his knowledge is or contains an invitation to the public to acquire securities or participate in a collective investment scheme, unless the issue has been authorized by the SFC or an exemption applies

Money Lenders Ordinance



P2P lending platforms[^] may need to obtain a money lender's licence and operate pursuant to the requirements of the ordinance

Note: (*) According to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, an offer to professional investors or to not more than 50 persons does not fall within definition of *Prospectus*.

([^]) MoneySQ, the Hong Kong P2P lending company holds a money lender's license and works with Bridgeway, an SFC-licensed asset management company, that allows it to operate a collective investment scheme and accept funding from professional investors.

Regulatory change or sandbox testing?

➔ **Regulatory change in Hong Kong is difficult, without regulatory change, a “FinTech regulatory sandbox” can be used**



A FinTech regulatory sandbox is a ‘safe place’ for FinTech entities to conduct testing of their products / services without incurring the usual regulatory consequence of pilot activities.

This helps FinTech entities grapple with regulatory uncertainty (or outright illegality), costs, and time-consuming licensing process before they bring it to the open market.

The sandbox will also provide opportunities to engage with regulators who in turn may use their increased insight and knowledge to create a more favourable regulatory environment for FinTech entities, including changes to existing regulations / ordinances.

First problem of Hong Kong existing sandbox

- ⇒ Hong Kong does have a FinTech regulatory sandbox, but **ONLY** for the HKMA

	HKMA	SFC	Insurance Authority
Sandbox established?	 (FinTech Supervisory Sandbox created in Sep 2016)		
Eligible participants	Authorised Institutions	Not applicable	Not applicable

First problem of Hong Kong existing sandbox (Con't)

➔ Moreover, Hong Kong's FinTech Supervisory Sandbox is **not cross-sectorial**

	Hong Kong (Monetary Authority)	Australia (Securities and Investments Commission)*	Singapore (Monetary Authority)	UK (Financial Conduct Authority)
Deposit / Payment-related	✓	✓	✓	✓
Investment-related	✗	✓	✓	✓
Insurance-related	✗	✓	✓	✓

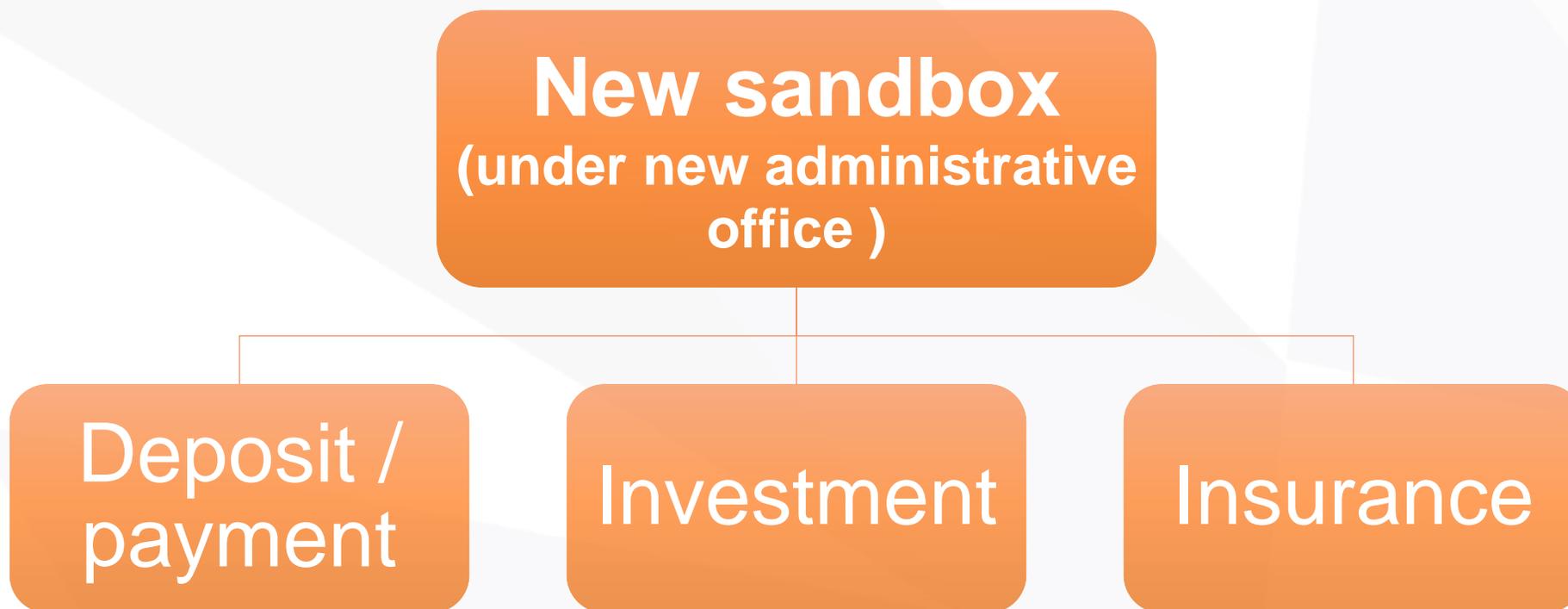
Note: ASIC's "FinTech licensing exemption" is eligible for FinTech businesses to test certain types of eligible products which are defined to include: deposit products, payment products, general insurance, liquid investments, and consumer credit contracts.

Source: HKMA, ASIC, MAS, FCA

Consideration I

Hong Kong needs a new and more inclusive sandbox

- ➔ The new and inclusive sandbox can allow testing of cross-sectorial products, e.g. a FinTech entity wants to test both payment and investment-related products.



Second problem of Hong Kong existing sandbox

➔ Hong Kong FinTech Supervisory Sandbox is also not eligible for FinTech start-ups / businesses

Target Audience	Hong Kong (Monetary Authority)	Australia (Securities and Investments Commission)	Singapore (Monetary Authority)	UK (Financial Conduct Authority)
Financial institutions/ Authorised institutions	✓	✗	✓	✓
FinTech start-ups / businesses	✗	✓	✓	✓
FinTech start-ups / businesses in collaboration with authorised institutions	✓	✗	✓	✓

Consideration II

The new sandbox will be open to start-ups and businesses

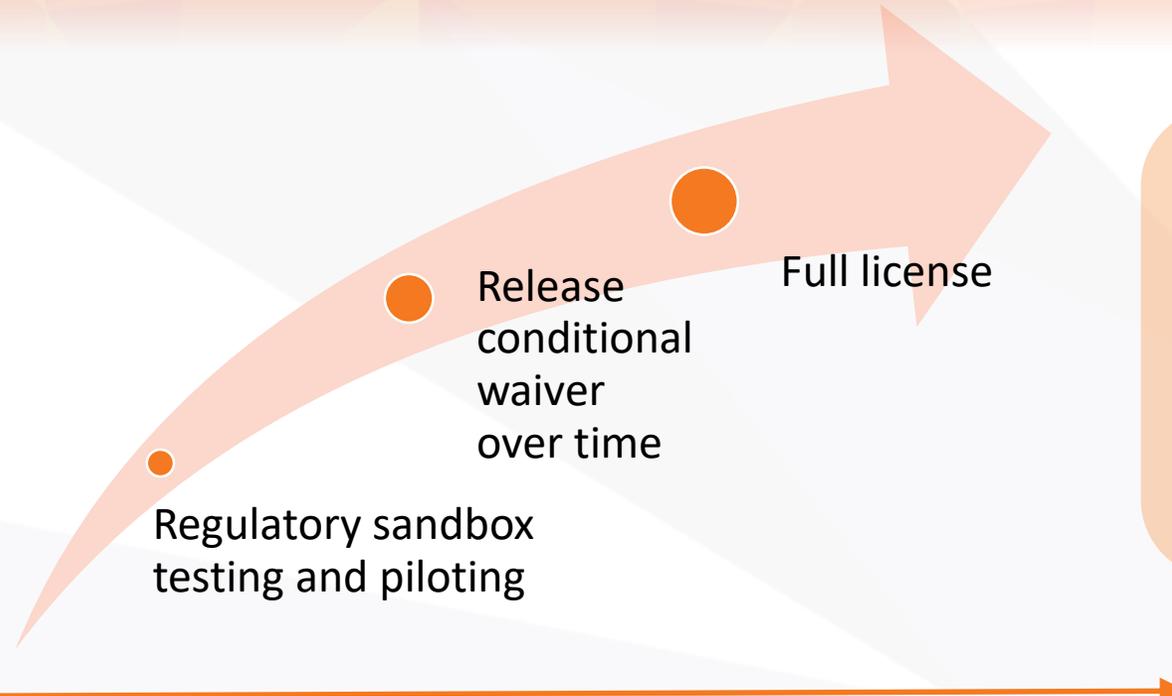
- ➡ FinTech start-ups / SMEs will be given the opportunity to test customer-facing products and evaluate their viability
- ➡ The application to the sandbox will be vetted, eligible FinTech start-ups / businesses will be under certain restrictions agreed upon in a case-by-case basis. E.g. In the UK, restrictions may include a maximum number of companies involved and restricted to only UK companies / investors.
- ➡ Eligible FinTech start-ups will be given a testing period of up to 24 months.

Third problem of Hong Kong existing sandbox

➔ **Problem: Successful start-ups / SMEs may need to expand their market reach**

Consideration III: Release a conditional waiver on their business restrictions over time for eligible start-ups

Client size,
capital size,
resources etc.



Example: In the UK, upon successful completion of sandbox testing, start-ups / SMEs can apply to have restrictions lifted, such as unlimited number of companies and types of investors / companies extending to the EU.

Regulatory complexity,
Fixed costs of regulation

Fourth problem of Hong Kong existing sandbox

➔ **There is no single point of contact for oversea large operating FinTech companies**

Example: Lufax chose Singapore over Hong Kong to set up their first overseas office

“In Singapore we only need to deal with one regulator, while in Hong Kong there are different regulators. **There is no single regulator in Hong Kong taking the lead in FinTech development in the different financial sectors.**”

“We had a request that all our processes must be completed on a mobile platform. In other words, account opening, customer authentication, evaluation, verification, transactions, etc. will all be completed on the phone. **Many international financial centres were not willing to give this request a try, only Singapore permitted us to give it a try.** Therefore we chose Singapore.”

Gregory Gibb, Co-Chairman and Chief Executive of Lufax

There are more and more large FinTech companies
Ant Financial, Qudian, ZhongAn, and JD Finance etc.

Consideration IV

Establish an administrative office to act as a single license point of contact

- The administrative office which may be under the Financial Stability Committee* will consider and act on how Hong Kong can fit in these operating overseas companies into the existing regulatory framework.
- The office will vet and assist leading and operating FinTech companies in getting the appropriate license(s), and to actively deal with the different regulatory bodies
- Additionally, if the FinTech product is not covered by current regulations, the sandbox will be opened to test their products, but without restrictions and time limit for testing. The company can migrate out of the sandbox once the relevant regulators deem it suitable to issue license(s)

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