

The Law Society of Hong Kong's 5th Belt and Road Conference:

“Metaverse and Money on the Belt and Road”

10 November 2022

[The Virtual Assets Licensing Regime and the development of Digital Assets]

Joseph Chan

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The Law Society of Hong Kong's 5th Belt and Road Conference

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FINANCIAL SERVICES AND THE
TREASURY BUREAU
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Policy Statement on Development of Virtual Assets in Hong Kong

This statement issued by the Financial Services and the Treasury Bureau ("FSTB") sets out the Government's policy stance and approach towards developing a vibrant sector and ecosystem for Virtual Assets ("VA") in Hong Kong.

Our vision and approach

2. As an international financial centre, Hong Kong is open and inclusive towards the global community of innovators engaging in VA businesses. We applaud the achievements of the community in pioneering distributed ledger technologies ("DLT"), and in developing new financial innovations aiming to be more cost-efficient, inclusive, agile, and future-proof. We recognise VA is here to stay, given how it has attracted attention of global investors and is increasingly viewed as a conduit for financial innovations, not to mention the future opportunities that will be opened up as VA moves into the areas of Web 3.0 and the Metaverse. The Government, in conjunction with the financial regulators, are working towards providing a facilitating environment for promoting sustainable and responsible development of the VA sector in Hong Kong. We are ready to calibrate our legal and regulatory regime as part of our effort to provide the aforesaid facilitating environment having regard to the evolving nature and innovative approach of VA.

3. We recognise the potential of DLT and Web 3.0 to become the future of finance and commerce, and under proper regulation they are expected to enhance efficiency and transparency, which in turn will reduce or resolve existing frictions

1

• Policy Statement on Development of Virtual Assets in Hong Kong (Oct 2022)

Vision and approach

- Hong Kong is open and inclusive towards the global community of innovators engaging in VA businesses
- Providing a facilitating environment for promoting sustainable and responsible development of the VA sector in Hong Kong
- Timely and necessary guardrails to mitigate actual and potential risks in line with international standards

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Regulations

- New licensing regime for VA Service Providers
- Exchange Traded Funds (ETFs) on VA in our market
- Public consultation on how retail investors may be given a suitable degree of access to VA
- Regulatory regime for stablecoins
- Review on property rights for tokenised assets and the legality of smart contracts

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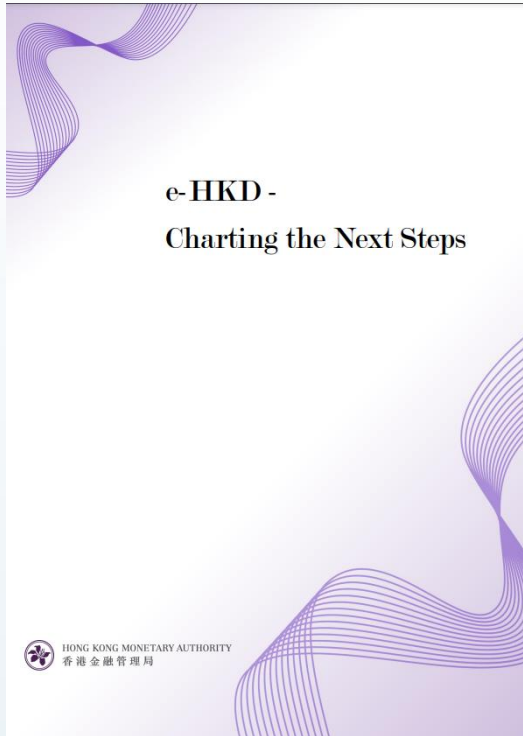
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Pilot projects

- Non-fungible token (NFT) issuance for Hong Kong Fintech Week 2022
- Green bond tokenization
- e-HKD

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- **e-HKD**

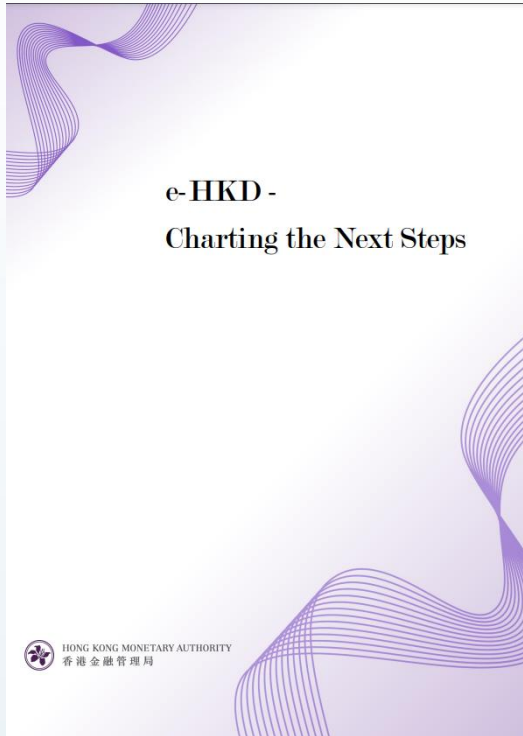
- We adopt a proactive and open-minded approach in regard to the issuance and application of **Central Bank Digital Currency (CBDC)**, with a view to providing a more convenient, secure and innovative tool for citizens and enterprises to make retail, wholesale and cross-boundary payments.
- In September 2022, the HKMA released a position paper titled “e-HKD: Charting the Next Steps” to set out its policy stance on retail CBDC, i.e. e-HKD. The paper concludes the results of its two rounds of consultation on e-HKD, as well as its roadmap of implementation.

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- **e-HKD**

- The HKMA will implement the e-HKD on a 3-rail approach:-

- (i) to develop the necessary technological framework and legal foundation for implementation;
- (ii) in parallel with (i), to examine use cases and implementation details; and
- (iii) to set the timeline for launching e-HKD, taking into account the pace of local and international markets.



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- **e-CNY**

- HKMA also cooperates with the Digital Currency Institute of the People's Bank of China (PBoC) to expand the scope and scale of the technical testing of using e-CNY in cross-boundary payments in Hong Kong.

- It includes the testing the **top-up of e-CNY wallet** through the **Faster Payment System**, and inviting more banks and merchants to participate in the testing, etc., thereby facilitating Hong Kong residents to use e-CNY in the Mainland in the future, and promoting the integration of the GBA.



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- **e-CNY**

- The use of e-CNY will offer an additional means which is safe, convenient and innovative for cross-boundary retail consumption to residents in Hong Kong and Mainland.
- It will also enhance the efficiency and user experience of cross-boundary payment services, promote mutual access in the GBA, and support the consolidation of Hong Kong's status as a global offshore RMB business hub.



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• Multiple CBDC Bridge

- The HKMA is conducting the “Multiple CBDC Bridge” project, in collaboration with the PBoC, as well as the Bank of Thailand, the Central Bank of the United Arab Emirates and the Bank for International Settlements Innovation Hub Centre in Hong Kong, to explore the capabilities of distributed ledger technology in facilitating real-time cross-border foreign exchange payment-versus-payment transactions.



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 **BIS** Innovation Hub

• Multiple CBDC Bridge

- The mBridge trial platform has demonstrated the potential of CBDCs in facilitating real-time cross-border foreign exchange payment-versus-payment transactions, cutting the processing time of cross-border payments from days to near real-time.
- mBridge also offers a range of potential benefits in different use cases.

Example: The mBridge trial platform **addresses the principle pain points of cross-border payments** in International Trade Settlement:

- high cost;
- low speed; and
- operational complexities;
- while also ensuring that policy, regulatory compliance, and privacy mechanisms are appropriately integrated.

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- **Security Token Offerings (STOs)**



- STOs typically refer to specific offerings which are structured to have features of traditional securities offerings, and involve Security Tokens which are digital representation of ownership of assets (eg, gold or real estate) or economic rights (eg, a share of profits or revenue) utilising blockchain technology.
- Security Tokens are normally offered to professional investors only.

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• Security Token Offerings (STOs)

- STOs had already been issued in Hong Kong and there was a strong pipeline of over 10 interested issuers.
- The Government supports the healthy growth of Fintech, including STOs in Hong Kong, which offers a wide spectrum of innovative financial services to the community to support the growth of the real economy.
- We support the sustainable development of STO business in Hong Kong that meets the relevant regulatory and compliance requirements, particularly on ensuring investor protection and addressing the risk on the anti-money laundering/combating of terrorist-financing aspect.



Thank You



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Appendix: Pillars of Hong Kong as an International Financial Centre

Vibrant Equities Market

- ◆ Over HKD 330bio of funds raised via IPO in 2021, ranked world's #1 seven times in the past thirteen years
- ◆ Average Daily Turnover at HKD167.7bio in 2021, up by 29% over 2020

Region's Leading Bond Centre

- ◆ Largest Centre for arranging Asian international bond issuance in 2021
- ◆ Asia's largest centre for arranging first-time bond issuance in 2021
- ◆ Largest Centre for arranging Green and Sustainable Bonds in Asia in 2021

Open Insurance Market

- ◆ Insurance penetration ranked #2 in the world, #1 in Asia
- ◆ Insurance density ranked #2 in the world, #1 in Asia

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Appendix: Pillars of Hong Kong as an International Financial Centre

- ◆ Asset and wealth management business (end-2021): US\$4.6 trillion, up by 2% YoY; # of asset managers up by 5% in 2021
- ◆ Cross-border Wealth Center in AUM (2021): #2 in the world, #1 in Asia
- ◆ Largest number of Hedge Funds in the Asia Pacific Region (March - 2022)
- ◆ 2nd largest Private Equity hub in the Asia Pacific Region (Jun 2022)
- ◆ Largest Offshore Renminbi Centre
 - ◆ World's largest pool of RMB liquidity at RMB 906 billions (Jun 2022)
 - ◆ Handled about 75% of World's offshore RMB payment