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## Response to the Report of the Steering Group on Financial Technologies

April 2016

1. With reference to the Report of the Steering Group on Financial Technologies, the Office has garnered views from its FinTech Working Group which it comprises of startup entrepreneurs, professionals in the ICT sector and other stakeholders to respond to the Report and the Administration's paper.
2. We welcome a number of sound suggestions that are made, such as to establish dedicated contact points to liaise with the industry, a one-stop office to assist startups and more. However, there is a common view that **more substantive measures should be included to update the regulations for FinTech innovations, nurture and draw talents, and boost the investment in FinTech businesses.**
3. In a short survey (results can be found in the Appendix) conducted in January 2016, FinTech Working Group members were invited to contribute their views on the state of FinTech development in Hong Kong, specifically on the risks, key metrics of competitiveness, areas of priority, and actions necessary for the government and industry to take. Availability and affordability of skilled labour, access to funding and regulatory environment were rated as most important factors to Hong Kong's competitiveness in FinTech.
4. From applying for licenses, opening bank accounts to applying loans and subsidies, FinTech entrepreneurs often find themselves facing hurdles as their business models are 'illegal' under existing laws. There is an urgent need to update the regulations to cater for FinTech innovations. The concern that FinTech talents are lacking in Hong Kong as in the ICT sector at large is also a long-existing problem that solutions are overdue. Another typical concern lies in the inadequate investment in FinTech which as a world-class financial centre, Hong Kong pales in comparison with its global counterparts. Suggestions below are made to complement the government initiatives proposed.

## Comments:

### **A strategic focus on shaping the platforms needed for FinTech**

5. There should be a broader strategic discussion in Hong Kong on how it can lead the changes in the future development of financial services when we talk about FinTech. This is critical for Hong Kong to remain competitive especially when Singapore recently overtook Hong Kong as the world's number three financial centre according to a London-based research firm. It will be narrow just to focus on the specifics of FinTech and overlook the bigger picture.
6. It is recommended that the discussion should be framed as driving a new way of offering platform-based financial services, which addresses customer needs, offers greater transparency, control and reliance on technology. Policy initiatives should therefore, first look at how to drive the adoption of platform-based services in finance, then look at specific elements that are needed to enable the platforms.

### **Promote government and FI adoption in new technology and innovation**

7. This office has long been making the suggestion that the government, as one of the biggest users in ICT services and products in Hong Kong, should take the initiative to explore the use of new technology to benefit people using the public services and as a support to the local ICT industry.
8. The 2016 Budget revealed the government will encourage the use of blockchain technology in the industry is a positive move but Australia took it further. In January, Australian Securities Exchange confirmed that it is developing a private blockchain with US-based firm Digital Asset as a post-trade solution for the Australian equity market. Monetary Authority of Singapore last year set up the FinTech & Innovation Group to work with the industry and relevant parties to test-bed innovative new solutions.
9. It is recommended that the government, apart from adopting new technology and innovation, should work closely with the FinTech community and promote the collaboration between FinTech community and financial institutes, and facilitate the participation of FinTech community and start-ups in other government initiatives, such as the Smart City development.

### **Offer incentives to drive investment in FinTech**

10. According to a recent report<sup>1</sup> by UK Ernst & Young (commissioned by UK government), the investment in FinTech and the market size of FinTech in Hong Kong are relatively small comparing to cities like London, New York and California.
11. There is a strong opinion in the FinTech community that tax incentives should be provided for start-ups to promote investment and incentivise entrepreneurship, innovation, and R&D. There are

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<sup>1</sup> "UK FinTech: On the cutting edge", Ernst & Young, February 2016

different policies in play in UK, US and Singapore which tax relief is offered to start-ups. Australia launched its National Innovation and Science Agenda last December which included new measures like concessional tax treatments for investors who support innovative start-ups. The initiative was modelled on the UK's Seed Enterprise Investment Scheme (2012) which raised over HKD\$2 billion in start-up investment for almost 2,900 companies in its first two years of implementation. Bold initiative was also seen in UK as the government confirmed in the Budget last July that interest earnings from P2P lending will be tax-free.

## Feedback on the 5 main areas in the Report:

### Regulations

12. Respondents from the survey conducted by this Office identified the regulatory regime as one of the top three impediments to the development of FinTech in Hong Kong. The challenges to obtain a legal greenlight on the innovations some FinTech entrepreneurs are attempting render them a high cost of compliance and the difficulty to apply for loans and funds. In light of these frustrations, the recommendation in the Report to establish dedicated contact points for the FinTech community to see how they can cope with the existing regulations is thus not enough. Last year, Monetary Authority of Singapore set up a FinTech & Innovation Group to undertake regulatory changes for new technology and Japan will relax laws to open doors to FinTech, such as blockchain technology. There should be an immediate review on the existing regulations to cater for the FinTech innovations in Hong Kong.
13. The latest report<sup>2</sup> from the Financial Services Development Council on putting forth a regulatory framework for equity crowdfunding is a welcoming move. There are suggestions that securities offering disclosure should not be set too high and whether there should be restrictions to protect funders in equity crowdfunding should be matters of concern in later discussion. Similar policy actions should also fall on other innovations such as P2P lending, cryptocurrency, to name a few. There are also respondents proposing to soften the Stored Value Facility regulations and requirements to foster the development of FinTech innovations in payments and money transfer.
14. One way to ameliorate the regulatory barrier in a short timeframe is for the government to offer a Regulatory Sandbox, which is the case in UK where the Financial Conduct Authority is planning to allow businesses to test out new products and services in an environment that is exempt from existing regulations. It is appreciated that the 2016 Budget proposed for the Hong Kong Monetary Authority, Securities and Futures Commission and Office of the Commissioner of Insurance to set up FinTech dedicated platforms to liaise with the FinTech community, however, it has been stressed that the views gathered from the community should be channeled into concrete actions by the government as soon as possible.

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<sup>2</sup> "Introducing a Regulatory Framework for Equity Crowdfunding in Hong Kong", Financial Services Development Council, March

#### Recommendations:

- Review on the existing regulations to cater for FinTech innovations.
- Offer exemptions to businesses testing new products and services.
- Balance between consumer protection and lowering compliance cost for start-ups.
- Explore the recommendations put forward by the FSDC in the Equity Crowdfunding paper.

#### Talents

15. The aforementioned EY's report on UK Fintech ranks Hong Kong at the bottom in terms of FinTech talents. This has accorded with the survey result gathered by this office which respondents worried about the lack of talents in this field. It comes as no surprise as the local ICT sector has long encountered the manpower problem which is undermining Hong Kong's potential. Google has already chosen to establish its fourth global engineer hub in Singapore and more and more countries are teaching coding in schools. A rigorous reform in our STEM education should be quickly implemented. Greater industry involvement to keep ICT curriculums and teacher training up-to-date should also be encouraged.
16. Despite the shortage of technology talents in Hong Kong, experts in financial services are in no shortage and the immigration policy has been quite highly regarded in accommodating overseas talents. There is great potential for Hong Kong to develop FinTech but if only we have an adequate supply of workforce in the ICT sector to support. Apart from stepping up in STEM education, a repeated effort has been made from this office to urge the government to cut down on the use of temporary contracts in hiring ICT staff which has seen a year-on-year rise. Such a practise by the government is impairing the career prospect of local ICT workers.
17. It is also recommended that the government should undertake a proactive approach in seeking talents from overseas. Singapore Economic Development Board and Ministry of Manpower together created Contact Singapore, a campaign for foreign talents to easily find information about relocating to Singapore. The government can consider building a similar platform to facilitate overseas talents to find jobs in Hong Kong.

#### Recommendations:

- Reform the STEM education and provide coding courses in schools.
- Reduce the use of temporary contract in hiring ICT staff in the government.
- Proactively draw talents from overseas.

## Funding

18. It is encouraging to see the 2016 Budget has released a number of measures specifically for FinTech, such as the Cyberport to provide space and support for 150 FinTech start-ups over the next five years. However, with more seed capital available for FinTech start-ups, growth capital has not been abundant. As such, there should be measures to make the FinTech start-ups more accessible to grow investors. Effective ways can be organising investor conferences for local and overseas VCs and investors to meet the Hong Kong FinTech community and setting up a new fund for later-stage financing of the FinTech start-ups.
19. It is also mentioned in the 2016 Budget that the Enterprise Support Scheme under the ITF will provide financial support to Fintech R&Ds. While this is a notable initiative, it is important for the vetting process to be done by personnels that understand the global innovation and technology development and who can identify projects that will have a positive impact to the market.
20. The government should also consider a more aggressive way to fund innovations. Monetary Authority of Singapore launched the Financial Sector Technology & Innovation scheme last year and committed US\$225 million to help financial firms set up innovation labs and to fund infrastructures to deliver FinTech services.

### Recommendations:

- Organise investor conferences to meet the FinTech community.
- Establish a government fund for later-stage financing of FinTech start-ups.
- A proper vetting process for the ESS under the ITF.
- Help financial firms set up innovation labs and fund for FinTech infrastructures.

### Remarks:

21. The release of the Report is a promising move which the government initiatives shall see Hong Kong charting the way forward in the development of FinTech. However, a strategic focus should be made to enable platforms where innovations in financial and non-financial sectors can flourish but for this to happen, regulations have to be updated to cater for innovations and additional measures have to be implemented for companies to test new products and services before we see regulatory changes.
22. Equally important will be to nurture more ICT talents to support the development of FinTech in Hong Kong and boost the relevant investment. It will be appreciated if the government can consider the suggestions that are mentioned and raised by the FinTech community and the ICT industry.

## Appendix:

### Office of the Hon Charles Mok, Legislative Councillor (IT) FinTech Working Group survey results – Summary

#### 1. Key opportunity areas

##### Top priority

8 out of 8 people answered this question

1	Payments/Money Transfer	3 / 38%
2	Crypto/Blockchain	1 / 13%
3	Data Analytics	1 / 13%
4	Institutional Tools	1 / 13%
5	Personal Finance	1 / 13%

##### Second priority

8 out of 8 people answered this question

1	Investment/Wealth Management	2 / 25%
2	Payments/Money Transfer	2 / 25%
3	Crowdfunding	1 / 13%
4	Data Analytics	1 / 13%
5	Peer-to-Peer Lending	1 / 13%

##### Third priority

8 out of 8 people answered this question

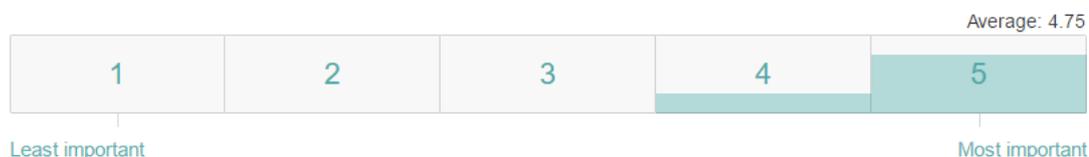
1	Crypto/Blockchain	3 / 38%
2	Investment/Wealth Management	2 / 25%
3	Institutional Tools	1 / 13%
4	Peer-to-Peer Lending	1 / 13%
5	Security/Digital Identity	1 / 13%

## Importance of factors affecting FinTech development in HK (In descending order)

1. Availability and affordability of skilled labour
2. Access to funding
3. Regulatory environment

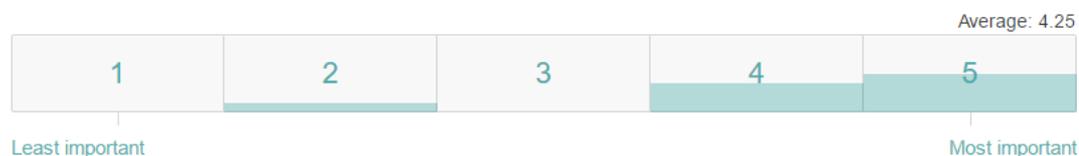
### Availability and affordability of skilled labour

8 out of 8 people answered this question



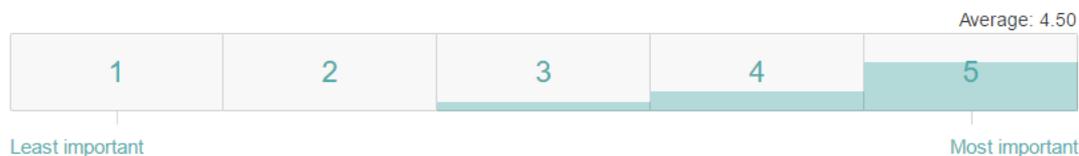
### Access to funding

8 out of 8 people answered this question



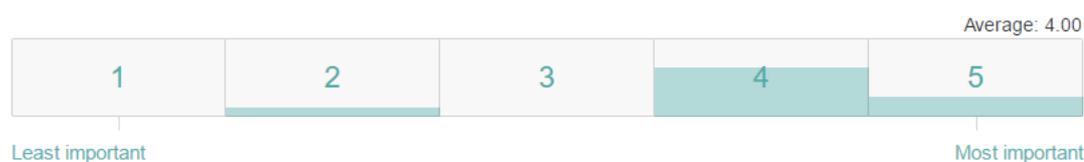
### Regulatory Environment

8 out of 8 people answered this question



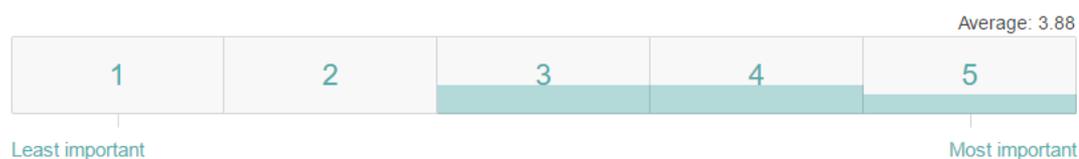
### Technology infrastructure

8 out of 8 people answered this question



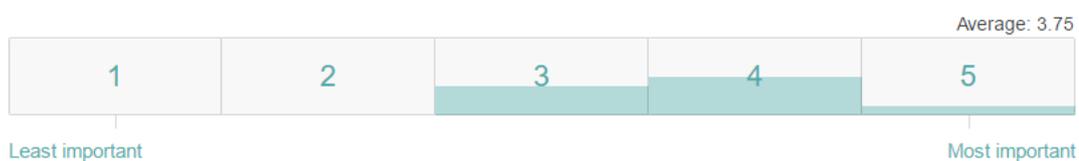
### Integration and synergies among key players

8 out of 8 people answered this question



### Access to Business Advisors / Mentors

8 out of 8 people answered this question



### Capability-building within financial institutions

8 out of 8 people answered this question

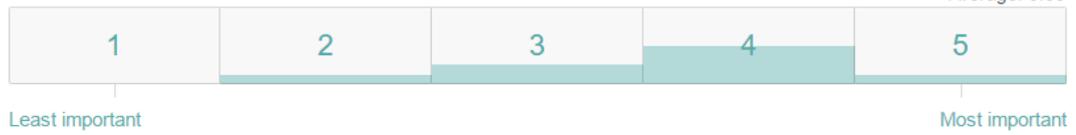
Average: 3.63



### Start-up accelerators

8 out of 8 people answered this question

Average: 3.63



### Industry-led Fin Tech clusters

8 out of 8 people answered this question

Average: 3.38

