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Opinion | Advancing Hong Kong as the International "New Finance" Centre through the Policy Address

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As global financial markets continue to evolve and technologies advance rapidly, Hong Kong, as the International Financial Centre ranked the 3rd in the world, faces both challenges and opportunities. The Hong Kong Special Administrative Region (HKSAR) Government has clearly addressed and outlined a series of policy directions in the 2024 Policy Address, including promoting FinTech innovations to strengthen and enhance Hong Kong's International Financial Centre status.

Hong Kong's Unique Competitive Advantages: Legal System, Language, and Policy

As the world's number three International Financial Centre, Hong Kong enjoys unique competitive advantages that other financial hubs find it hard to replicate. First, Hong Kong's legal system is based on common law, and one of the official languages is English. This gives Hong Kong a clear edge in international financial transactions, dispute resolution, and cross-border capital flows. Compared to emerging financial centres like Shanghai and Shenzhen, Hong Kong's legal and linguistic environment is more open and friendly for international investors, especially in handling contracts and legal matters, and offers more transparent and internationally-aligned legal protection.

At the same time, Hong Kong's flexibility and foresight in web3 policies provide ample room for development in the field of virtual assets. The Policy Address emphasises that Hong Kong will actively promote new financial services such as Central Bank Digital Currencies (CBDC), virtual asset trading, real-world asset tokenization, digital money and digital securities. Compared to cities like Shanghai and Shenzhen, which have prohibitions in these fields or cities like Tokyo, which rely more on traditional finance, Hong Kong's policies are more open and forward-looking, enabling it to swiftly adapt to the web3 trends in New Finance.

Expanding Policy Advantages for Virtual Assets and Digital Currencies

The Policy Address clearly states that Hong Kong will vigorously promote the development of virtual assets (VA). By the end of 2024, the government plans to submit a bill to the Legislative Council to establish a licensing regime for fiat-referenced stablecoin issuers. Additionally, the government aims to complete the second round of public consultations on the regulation of over-the-counter virtual asset trading by 2025 and submit proposals for the licensing of virtual asset custodians. These initiatives will bring a more transparent and comprehensive regulatory framework to the virtual asset market in Hong Kong, which will further attract international players and investors.

Compared to Shanghai and Shenzhen, Hong Kong's financial regulatory system is more flexible and adaptive to changes in the virtual asset market. While the financial markets in Shanghai and Shenzhen are large, they are prohibitive in terms of virtual asset regulation and policy. In contrast, Hong Kong offers a free and open environment in this area and has become an attractive destination for global virtual asset trading platforms and investors.

Recommendations to Drive Hong Kong's Development as an International "New Finance" Centre

Guided by the Policy Address, Hong Kong is well-positioned to achieve a leadership role in FinTech and become the global virtual asset hub in the coming years. We recommend that the Hong Kong government take the following actions to accelerate the achievement of this goal:

1. Establish Dedicated Subsidy Funds for Virtual Asset Upskilling and Training

To ensure that financial professionals in Hong Kong can quickly adapt to the needs of the virtual asset market, the government should establish dedicated subsidy fundings to provide retraining opportunities for those in the financial sector. These training courses should cover essential knowledge of blockchains, virtual assets, risk management, and the business applications to ensure that talents and professionals are equipped with the necessary skills to furnish the virtual asset market.

Additionally, subsidies should be provided to small and medium-sized financial institutions to support the upgrading of their trading systems to enable virtual asset trading. This is particularly crucial for smaller brokers and financial institutions because they may be short in financial resources for system upgrades. With government support, these institutions will be able to enter into the virtual asset market and expand their business scopes quicker.

2. Enhance Public Knowledge on Virtual Assets to Prevent Financial Fraud

As the virtual asset market develops rapidly, public understanding and knowledge of virtual assets needs to keep pace. The government should strengthen its efforts to promote and educate the public on virtual assets, particularly on the awareness of the basic concepts, investment risks, and prevention of related financial frauds and scams. This will not only enhance public interest and knowledge about virtual assets but also effectively reduce the risk of financial frauds and scams due to information asymmetry.

3. Promote Publicity Internationally and Attract Investors Globally

Hong Kong should take on the international stage with a more proactive approach in promoting its commitments and strengths in virtual assets and the web3 market. The government can leverage platforms such as international financial forums and investment summits to showcase Hong Kong's policy advantages and market opportunities, attracting more global investors to invest in Hong Kong's virtual asset market. At the same time, Hong Kong can bring in more international virtual asset players and web3 companies to establish a fintech ecosystem, further paving its way to the global virtual assets hub.

4. Strengthen the Regulatory Framework for Virtual Asset Market Development

The Policy Address mentions that Hong Kong will establish a licensing regime for stablecoin issuers by the end of 2024 and complete the regulation of over-the-counter virtual asset trading by 2025, along with proposals for the licensing of virtual asset custodians. It will complete a regulation framework to cover the spectrum of virtual assets activities and a sound regulatory system is essential for the long-term development of the virtual asset market. It is recommended that Hong Kong continuously improves its regulatory framework to ensure a transparent, open, and fair environment for virtual assets that market participants can operate in while potential financial risks are mitigated.

Hong Kong has the opportunity to further strengthen its International Financial Centre status by promoting innovations in virtual assets, digital currencies, and asset tokenization. With its unique competitive advantages in legal system, language environment, and open financial policies, Hong Kong is well-positioned to stand out in the global financial market and become a leader in the "New Finance" sector. In the coming years, as the policies outlined in the Policy Address are implemented, Hong Kong is expected to attract more international capitals and become the global virtual asset hub and International "New Finance" Centre.

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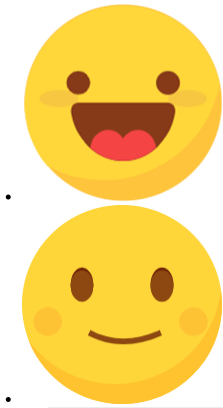


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