

Leading market transformation via technology and ESG

We embrace technology and sustainable finance in transforming financial markets to serve the needs of real economy. It is crucial to foster a secure Fintech ecosystem and bolster Hong Kong's position as a sustainable finance hub through corporate disclosure standards and intermediation between emerging and developed economies.

Tokenisation to increase industry efficiency

To foster the development of Hong Kong's tokenisation market, the SFC has provided regulatory guidance on tokenisation at various events. We are also an inaugural member of the Architecture Community of the Hong Kong Monetary Authority's (HKMA) Project Ensemble, which aims to develop industry standards for wholesale central bank digital currency (wCBDC), tokenised money and tokenised assets.

Authorising Asia's first virtual asset (VA) spot ETFs

Following the issue of our circular on SFC-authorized funds with exposure to VA in late 2023, we authorised Asia's first batch of VA spot ETFs consisting of three pairs of Bitcoin and Ether spot ETFs, which were listed on the Stock Exchange of Hong Kong Limited (SEHK) in April. As at 30 June, the ETFs had a market capitalisation of \$2 billion (US\$255 million), with an average daily turnover of \$39 million (US\$5 million) since listing.



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VA spot ETFs authorised for listing

In addition, we authorised Asia's first bitcoin futures inverse product. Listed in July 2024, the product allows retail investors to hedge exposure to bitcoin.

Post-transition updates for virtual asset trading platform (VATP) regime

The non-contravention period for VATPs operating in Hong Kong under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO) ended on 1 June. All VATPs operating in Hong Kong must be either licensed by the SFC, or "deemed-to-be-licensed" VATP applicants¹ under the AMLO.

As at 30 June, we received 152 licence applications under the AMLO comprising 17 VATPs (including 11 deemed-to-be-licensed VATP applicants) and 135 individuals (including 66 deemed-to-be licensed individual applicants). Two VATPs and 31 individuals were licensed under the AMLO.

¹ VATPs which were carrying on a business of providing a virtual asset service in Hong Kong before 1 June 2023 (pre-existing VATP) may continue to provide such services in Hong Kong from 1 June 2024 without breaching the licensing requirements, provided that such VATPs are deemed-to-be-licensed applicants under the AMLO. To be eligible for such a deeming arrangement, a pre-existing VATP must meet certain deeming conditions and confirm that it can fully comply with the SFC's regulatory requirements.

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VATP licence applications received

Before the end of the transition period, we issued a statement in late May along with social media posts to provide clarity to investors and emphasise that deemed-to-be-licensed VATP applicants are not formally licensed by the SFC. We urged investors to trade virtual assets only on SFC-licensed VATPs and reminded deemed-to-be-licensed VATP applicants to fully comply with our requirements.

To help investors ascertain whether a VATP is formally licensed by the SFC or still in the application process, we have ramped up our publicity and information

dissemination on our website to enhance transparency. Investors may refer to our Public Register and VATP lists to access the useful information on VATPs' licensing status.

In June, the SFC hosted a briefing session to explain our regulatory expectations to the deemed-to-be-licensed VATP applicants. During this session, Dr Eric Yip, Executive Director of Intermediaries, and Ms Elizabeth Wong, Director of Licensing and Head of Fintech Unit, introduced our on-site inspection programme which aims to assess the applicants' compliance with the SFC's regulatory requirements. We also highlighted that any non-compliance with key regulatory requirements for investor protection found during the inspections will result in our swift refusal of licence applications. Over 60 participants attended the briefing, including representatives from the deemed-to-be-licensed VATP applicants and their consultants.

Licensees under the AMLO

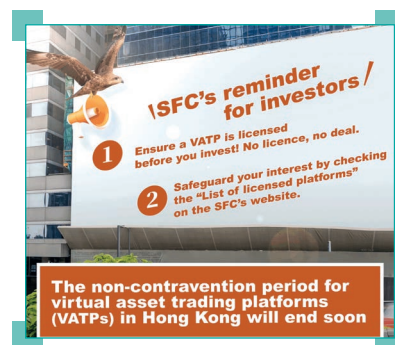
	As at 30.6.2024	As at 31.3.2024	As at 30.6.2023
Licensed providers	2	0	0
Licensed individuals	31	0	0
Total	33	0	0

Licensing applications under the AMLO

	Quarter ended 30.6.2024	Quarter ended 31.3.2024	QoQ change (%)	Quarter ended 30.6.2023	YoY change (%)
Applications for SFC licences	99	11	800.0	19	421.1



SFC's briefing for deemed-to-be licensed VATP applicants in June



Reminder to investors of the end of non-contravention period for VATPs on social media

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Proactive communications to promote Fintech development

The SFC attended the Panel on Financial Affairs of the Legislative Council in April to answer lawmakers' questions on the development of Fintech in Hong Kong. We also participated in a meeting of the Task Force on Promoting Web3 Development in June to discuss Web3 developments.

Speaking at the Greenwich Economic Forum Hong Kong 2024 in June, our Chief Executive Officer (CEO) Ms Julia Leung highlighted the importance of building a responsible and sustainable Web3 ecosystem in Hong Kong to further the financial industry's development. She emphasised that innovation and regulation should go hand in hand and the regulator's job is to provide regulatory clarity, certainty and consistency to facilitate use cases.

During the quarter, the SFC promoted Fintech development by speaking on Fintech-related topics at more than five panel discussions, interviews, webinars, and events organised by professional services firms, media outlets, industry associations and the industry. We also co-organised a briefing session with the HKMA for banks on account opening for VATPs.

Advancing Hong Kong's leading role in sustainable finance

We continue to lead efforts to advance Hong Kong's position as an international sustainable finance hub and develop an effective regulatory framework to support the transition of the financial system.

Our CEO Ms Julia Leung serves as the Vice Chair of the Sustainable Finance Task Force (STF) of the International Organization of Securities Commissions (IOSCO). She also co-chairs the Corporate Reporting Workstream under the STF, which has been promoting the use of the IFRS Sustainability Disclosure Standards published by the International Sustainability Standards Board (ISSB) amongst its members, leading its continued engagement with the ISSB and other international stakeholders, and spearheading work on sustainability assurance.



CEO Ms Julia Leung speaks at Greenwich Economic Forum Hong Kong 2024

As a member of all other IOSCO STF workstreams, we participated in regular meetings during the quarter to share insights and contribute to ongoing policy development and standard setting efforts on transition plans and carbon markets.

In April, we hosted a roundtable on transition plans to understand the key considerations and challenges on developing credible transition plans for companies and financial institutions operating in Hong Kong, Mainland China and the broader Asia-Pacific region. Around 25 industry participants attended the session, including listed issuers, financial institutions, ESG² ratings and data products providers, audit and reporting service providers, and asset owners.



SFC roundtable on transition plans in April

² Environmental, social and governance.

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At the regional level, Ms Christine Kung, our Senior Director and Head of International Affairs and Sustainable Finance, leads the Sustainable Finance Working Group of the IOSCO Asia-Pacific Regional Committee. This group seeks to promote knowledge sharing and capacity building on corporate sustainability disclosures and carbon markets in the region.

In addition, we continued to actively participate in other international initiatives³ to advance sustainable finance during the quarter.

Adopting global sustainability disclosure standards

Disclosures aligned with international standards are integral to meeting investors' needs for comparable, consistent and decision-useful information and reinforce Hong Kong's position in intermediating global capital flows. We are taking steps to support the adoption of the IFRS Sustainability Disclosure Standards in Hong Kong.

At the Green and Sustainable Finance Cross-Agency Steering Group (Steering Group)⁴, the SFC co-chairs a working group on sustainability disclosures with the Financial Services and the Treasury Bureau. The working group is developing a comprehensive Hong Kong roadmap to adopt the IFRS Sustainability Disclosure Standards, comprising four key areas of sustainability reporting, assurance, data and technology, and capacity building.

We collaborate with SEHK to enhance climate-related disclosure requirements for listed companies in Hong Kong. After receiving our approval, SEHK published its consultation conclusions on enhancements to its climate-related disclosure requirements in April, following its public consultation last year. SEHK's new rules will take effect in phases from 1 January 2025, making it among the world's first exchanges to enhance its climate-related disclosure requirements based on International Financial Reporting Standards S2 Climate-related Disclosures.

During the quarter, Ms Christine Kung, our Senior Director and Head of International Affairs and Sustainable Finance, spoke at the Earth Forum 2024 on managing transition risks and ensuring robust climate-related financial disclosures, as well as the 10th Annual Conference on the Green, Social, Sustainability and Sustainability-Linked Bond Principles of the International Capital Market Association and various roundtables and seminars on sustainability disclosures and transition finance.

ESG funds

We continue to gatekeep the retail ESG funds. As at 30 June, there were 233 SFC-authorized ESG funds with total assets under management of \$1,322.1 billion (US\$169.3 billion), increasing 4.0% and decreasing 2.5% from the previous quarter respectively.

Supporting voluntary code of conduct for ESG ratings and data providers

The SFC welcomes the publication of a draft voluntary code of conduct (VCoC) for ESG ratings and data products providers by an industry-led working group in May for a one-month public consultation. The SFC supports and sponsors this VCoC initiative with an aim to promote the IOSCO-recommended best practices among those product providers⁵ in Hong Kong.

³ We have signed the ISSB's COP28 Declaration of Support and are a supporter of the Task Force on Climate-Related Financial Disclosures Recommendations. We are also a member of the International Platform on Sustainable Finance, and a member of the Consultative Group of the United Nations Sustainable Stock Exchanges Initiative.

⁴ The Steering Group was established in May 2020 and co-chaired by the SFC and the HKMA. Other members include the Accounting and Financial Reporting Council, Financial Services and the Treasury Bureau, Environment and Ecology Bureau, Hong Kong Exchanges and Clearing Limited, Insurance Authority and the Mandatory Provident Fund Schemes Authority.

⁵ IOSCO's Final Report on Environmental, Social and Governance Ratings and Data Product Providers (November 2021).