



Financial Infrastructure Development Division  
Financial Infrastructure Department  
Hong Kong Monetary Authority  
55/F, Two International Finance Centre  
8 Finance Street, Central, Hong Kong  
By email: [cssab@hkma.gov.hk](mailto:cssab@hkma.gov.hk)

21 August 2013

Dear sir/madam,

**RE: The Proposed Regulatory Regime for Stored Value Facilities and Retail Payment Systems in Hong Kong**

**Introduction**

The Asia Internet Coalition (AIC) appreciates the opportunity to submit our views and comments to the Hong Kong Monetary Authority (HKMA) on the Proposed Regulatory Regime for Stored Value Facilities and Retail Payment Systems in Hong Kong (Consultation Paper). The AIC is an industry association comprising eBay, Facebook, Google, Salesforce and Yahoo! as its members.

We support the stated policy objectives in the Consultation Paper that are driving the intent to develop a new regime for regulating Stored Value Facilities (SVF) and Retail Payment Systems (RPS). In particular we welcome the specific acknowledgement of Hong Kong's existing status as an International Finance Centre (IFC) and its position as the global market leader in retail payment products and services.

A report by The Boston Consulting Group (BCG)<sup>1</sup> found that the internet has contributed HK\$96 billion in 2009, representing 5.9 percent of Hong Kong's GDP. This share is likely to grow by 7 percent annually – contributing 7.2 percent of GDP in 2015 – faster than the forecast GDP growth of 4 percent, reaching HK\$146 billion by 2015.

The Internet has allowed millions of trade and financial service enterprises of all shapes and sizes to revolutionize the way in which they interact with and ultimately grow their customer base.

The report further notes that the Internet will continue to be a significant driver of Hong Kong's future economic growth; driving sales and lowering costs for online businesses as more consumers turn to the Internet to research and transact.

It is important to note that Hong Kong has achieved the status as an IFC and the impressive numbers cited above by acting as an Internet pioneer. Hong Kong's light touch approach to Internet regulation has facilitated the emergence of innovative and evolving business models.

The AIC urges the HKMA to continue a restrained approach when finalizing the regulatory regime for SVF and RPS so as not to stifle Hong Kong's thriving digital economy.

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<sup>1</sup> *"The Connected Harbour: How the Internet is Transforming Hong Kong's Economy"*, The Boston Consulting Group, May 2011, p.6



We provide the following response to the Consultation Paper:

## **Regulatory Framework for SVF**

### **Paragraph 5.2: Definitions of SVF**

- “Single-purpose stored value facility” should be removed from the definition of SVF.
- The reference to the “relevant undertaking” in the definition of SVF is broad enough to include *remittance* transaction.
- The explanatory memorandum or guidance material accompanying the amendment bill should include explicit clarification that restricted coupons or vouchers will not be considered a multi-purpose SVF product.
- A clear statement to the effect that the intention of the proposed definition of a “multi-purpose SVF” is to capture an electronic surrogate for coins and banknotes that have a wide circulation and scope of usage and that coupons or vouchers with limited usage are excluded.

### **Paragraph 5.4.1: Issuer Licence**

- The appropriate corporate structure for a company which intends to issues SVF in Hong Kong should be decided in consultation with HKMA to ensure compliance with local regulatory requirements and continuity of global payments business.
- HKMA must be required to consider the operational and commercial circumstances of the issuer.

### **Paragraph 5.4.5: Licensing Criteria and Conditions**

- *Financial Strength Requirements* – the requirement for an SVF issuer/facilitator to meet a paid up capital balance of its share premium account of not less than HK\$25,000,000 unnecessarily ties up working capital.
- The form of capital set in the licensing conditions should be expanded to include intercompany loans in order to free up working capital to support basic operational costs.

### **Paragraph 5.4.7: HKMA’s Power to Exempt Certain SVF**

- The discretionary powers conferred to HKMA to exempt certain SVF issuers from requiring a licence should be broadened to include discretionary powers with respect to licensing conditions.
- These powers should be broad, eligibility for consideration for exemption should be general and widely applicable and assessed by HKMA on a case-by-case basis.

### **Paragraph 5.5: Float Management and Safeguarding**

- The proposed principles for float safeguarding should be applied selectively and on a case-by-case basis.
- Other safe guarding measures should be acceptable as long as the arrangement can provide the same protection as a bank guarantee or trust fund.

### **Paragraph 5.6.2: AMLO**

- Requiring all SVFs to be subject to Schedule 2 (customer due diligence requirements) of the AMLO regardless of their risk profile would jeopardize the commercial and operational viability of the epayment and ecommerce.
- Epayment services primarily prosper from ecommerce, which is speedy, simple, and mostly



small- and medium business; while traditional financial industry emphasizes on complete risk controls, strict administrative procedure, and high industry entrance threshold. In the spirit of fostering ecommerce and innovation, HKMA should also consider innovated/proved risk control measures from the internet society and be empowered to implement through an appropriately administered policy approach.

**Paragraph 6.4.1: Designation Criteria**

- The proposed quantitative factors to be considered when qualifying the designation criteria for RPS should be set at a high bar to catch large-scale operations as opposed to nominal retail activity.
- The aggregate value of orders processed by a designated RPS should be over HK\$5,000,000 per day and the number of participants or users should be over 10,000 per day.

**Paragraph 10: Transitional Arrangement**

- Support the proposal of not mandating a fixed transitional period of 12 months.
- The transitional period for individual SVF licensees should be reviewed on a case-by-case basis with a flexible approach adopted as a starting point.

We thank you for taking the time to consider our comments and look forward to further engaging with you through this important process. Should you have any further queries in relation to this submission please do not hesitate to contact [director@asiainternetcollition.org](mailto:director@asiainternetcollition.org).

Yours sincerely

A handwritten signature in blue ink, appearing to read 'John Ure', with a horizontal line underneath.

**Dr John Ure**  
Executive Director  
Asia Internet Coalition