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space is undermined by the spillover of the excessive risks taken on by a few firms. Bringing

Amendment Bill[7] makes it mandatory for centralised virtual asset exchanges offering services in Hong Kong to be licensed by the SFC. Upon the passage of the Bill, the SFC will consult the public on the more detailed requirements.

During the Bills Committee stage, a lot of feedback was received from LegCo members and the public on whether access to SFC-licensed VASP should be restricted to professional investors only, even though this is not hardwired into the Bill. Those arguing for the professional investor requirement said any relaxation would "legitimise" crypto assets. Those in favour of retail access to SFC-licensed platforms claimed that denying access would push retail investors to trade on online virtual asset trading platforms located overseas that are subject to little or no regulation. In fact, some are downright frauds.

In light of the feedback, the SFC is minded to consult the public on whether the professional-investor-only requirement could be relaxed; and if so, what should be the governance procedures and listing criteria for the VASP to admit tokens for secondary market trading by retail investors. The SFC's Fintech unit is now intensively soft consulting the industry and stakeholders on this and other issues before finalising the proposals.

Future of Finance

Ladies and gentlemen, in closing, I'd like to say we could be on the cusp of the future of finance, if we get it right. And that's a big if.

In this future vision, the underlying technology is so potent that traditional finance as we know it today could be reshaped. More efficient clearing and settlement of transactions would be enabled by DLT. Investors would be offered a whole suite of financial products leveraging DLT and smart contracts. But whether that vision could be realised depends on a lot of things. First and foremost of them is trust.

As we all know, traditional finance is built on trust. It is founded on a well-balanced regulatory system that revolves around intermediaries, brokers, fund managers and the like, and is also focused on investor protection and orderly, fair and transparent markets. But the selling point of the DeFi ecosystem is its "peer-to-peer" nature, which aims at disintermediating Tradfi institutions by a series of smart contracts and digital protocols. Some DeFi operators are intentionally elusive to minimise liability, regulatory scrutiny or both.

Following the lead of the FSB, regulators worldwide will be relentless in pursuing a regulatory solution to DeFi and other parts of the crypto ecosystem to protect investors and market integrity. Just like the Metabo law, robust regulation is good for your health, it is good for the sustainable development of the crypto ecosystem and it helps build trust among the public and counterparties in Tradfi. So, my final message for you today is to embrace innovation and regulation as the pathway to the future of finance.

Thank you.

[7] The Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Bill was introduced into the Legislative Council for first reading on 6 July 2022 (https://www.info.gov.hk/gia/general/202206/24/P2022062300509.htm)