

# CPA Australia's Pre-Policy Address Submission

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Dear Chief Executive Lee

### **CPA Australia's submission to the Hong Kong 2024 Policy Address Public Consultation**

CPA Australia represents the diverse interests of more than 173,000 members in over 100 countries and regions around the world, including more than 15,000 members in the Hong Kong Special Administrative Region (SAR). We make this submission on behalf of our members and in the broader public interest.

Hong Kong has faced numerous challenges in recent years, which have impacted the economy and influenced how people view the city. Throughout this period, CPA Australia has remained a steadfast supporter of policy initiatives that foster a brighter future for Hong Kong.

We believe it is vital for Hong Kong to continue to take measures that reinforce its identity as a global city and as an international financial centre. We also believe that the SAR will benefit from further targeted measures to boost the domestic economy, continued investment technological advancements including artificial intelligence (AI) and cybersecurity, an ongoing focus on developing, attracting and retaining talent, and further activity to address climate change.

With this in mind, the Chief Executive may wish to consider including policy announcements under the following major themes in his Policy Address:

- Reinforce Hong Kong's role as an international financial centre
- Develop Hong Kong into an international innovation and technology (I&T) centre
- Promote environmental, social and governance (ESG) and the green economy
- Boost the domestic economy
- Develop, attract and retain talent.

In this submission, we provide policy suggestions for each of these themes. These have been shaped by member input from our Greater China committees, the data we have collected from our own research in areas such as technology and small to medium-sized enterprises, and our experiences with policy in Australia and other jurisdictions.

If you have any queries, please contact Ms Samantha Yim, Policy Advisor at CPA Australia at [samantha.yim@cpaaustralia.com.au](mailto:samantha.yim@cpaaustralia.com.au).

Yours sincerely,

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## Summary

### INTERNATIONAL FINANCIAL CENTRE

1. optimise the Capital Investment Entrant Scheme by expanding the permissible assets to include (i) private credit within Hong Kong, (ii) investments in single-family offices, (iii) art and collectibles, and (iv) jointly-named assets to be calculated based on a specific ratio
2. provide financial incentives and more clarification on the company re-domiciliation regime
3. setting up a formal listing rules flexibility mechanism on the Growth Enterprise Market (GEM) Board that allows for dynamic adjustment of listing requirements in response to market performance
4. introduce an Initial Public Offering (IPO) Connect scheme
5. expand Exchange-Traded Funds (ETFs) product diversity

### INNOVATION AND TECHNOLOGY

1. establish regulations governing artificial intelligence (AI)
2. develop an AI strategy
3. develop a Digital Enterprise Blueprint to support SMEs in adopting AI solutions and improving cyber resilience
4. develop a cybersecurity roadmap
5. establish a Vulnerability Disclosure Programme (VDP) to encourage the responsible reporting of suspected vulnerabilities or weaknesses in IT services, systems, resources and/or processes which may potentially affect government internet-accessible applications
6. encourage more businesses to implement two-step verification (2SV) for online transactions
7. establish a dedicated taskforce on connecting and aligning academics, industry partners, and the relevant government I&T team to accelerate university R&D IP commercialisation

### ESG AND GREEN ECONOMY

1. promote Hong Kong's capability to offer ESG professional services
2. provide SMEs access to funding and skills to assist them to integrate ESG into their business models

### TALENT & OTHERS

1. continue to take the lead to ensure that all published information is accessible in English and invest in strengthening English language education at all levels
2. implement AI Capacity Building Support Scheme referencing the Green and Sustainable Finance Capacity Building Support Scheme
3. review guideline on flexible work arrangements for employers and increase maternity leave and paternity leave
4. update code of practice for public consultations

## Reinforcing Hong Kong's role as an international financial centre

Our regular engagement with members indicates that accounting and finance professionals are generally cautious over Hong Kong's near-term economic prospects. Actions that can alter that perspective include strengthening Hong Kong's position as an international financial centre, retaining businesses and attracting more investment to the city. Such actions are also important to sustaining the SAR economic vitality and global competitiveness.

The government has done much to retain Hong Kong's status as an international financial centre. We propose the following policy measures to build on that good work:

### Attracting further investment, enterprises and family offices to Hong Kong

- Optimising the Capital Investment Entrant Scheme by
  - (i) **expanding the permissible assets to include private credit within Hong Kong and investments in single-family offices.** We note that [Singapore's Global Investor Programme](#) offers the option to establish a single family office with assets under management of at least SGD200 million;
  - (ii) **expanding the permissible assets to include art and collectibles** to encourage greater participation in the art trading and auction market. This could help Hong Kong maintain its position as one of the world's top art trading centres; and/or
  - (iii) **allowing jointly-named assets to be considered as permissible assets, calculated based on a specific ratio, for example, a 50:50 split**

**To further entice non-Hong Kong companies to transfer their domicile to Hong Kong, we suggest more financial incentives.** This could include subsidies to cover the expenses paid to local professional service providers for non-Hong Kong companies re-domiciled to Hong Kong, subject to a cap. **We also suggest clarification on whether the transfer of shares in re-domiciled companies needs to be registered in Hong Kong, as this could potentially result in higher stamp duty.** We would like to see the government expedite the implementation of its company re-domiciliation regime.

### Stock market

We welcome the recent temporary amendments to the listing requirements for 18C listings and Special Purpose Acquisition Company (SPAC) acquisitions introduced by the Securities and Futures Commission (SFC) and the Hong Kong Exchanges and Clearing Limited (HKEX). These changes represent a proactive response to developments and enhancing market liquidity. To further amplify this momentum and boost transaction volumes, we propose:

- **setting up a formal listing rules flexibility mechanism on the GEM Board that allows for dynamic adjustment of listing requirements** in response to market performance
- **introducing an IPO Connect scheme** to enable Mainland investors to participate in Hong Kong IPOs and allowing Hong Kong investors to subscribe to mainland IPOs.

### Boosting ETF activity

Hong Kong's ETF market is trailing behind other major exchanges in the Asia Pacific. Since 2018, Mainland China has been the most liquid ETF market in the Asia Pacific, with an average daily turnover of US\$16 billion as of 2023. This is followed by Korea, which recorded an average daily turnover of US\$2.3 billion, while Hong Kong stands at US\$1.8 billion. To boost overall ETF activity, we propose:

- **expanding ETFs product diversity**
- digital assets can be a complex concept; relevant bodies, like HKEX could use digital asset ETFs as a starting point to educate and help more people understand this emerging industry.

### Regulation of virtual assets and Web 3

To position Hong Kong as a leading hub for Web 3 and virtual assets, the government should consider integrating the development and regulatory oversight of blockchain applications under the Task Force of Promoting Web 3 Development as recommended by the Financial Services Development Council<sup>1</sup>.

The current regulation of Web 3 activities and custody is dispersed, with different authorities overseeing various aspects. For example, the Customs and Excise Department monitors over-the-counter (OTC) spot brokerage of certain unregulated virtual assets, the Hong Kong Monetary Authority (HKMA) is in charge of stablecoins, and the SFC regulates virtual assets. A single authority would create a cohesive framework, manage compliance and monitoring, and provide educational resources for investors, facilitating the development of the Web 3 industry. We note that Dubai has established a [Virtual Asset Regulatory Authority](#).

## Innovation & Technology

The results of our [Business Technology Report 2024](#) indicate that while cybersecurity remains the most popular technology initiative among businesses, there has been a significant increase in the percentage of companies utilising artificial intelligence (AI). These findings align with the government's growing focus on both areas.

To further develop Hong Kong into an international I&T centre, we suggest this year's Policy Address could include:

### Investments into AI and cybersecurity

- **establishing regulations governing AI.** With the rapid uptake of AI, the government should consider whether regulation is necessary to ensure the technology's responsible use, and if so, what regulatory approach would best suit Hong Kong. Examples can be drawn from the European Union's single AI regulatory law (the [EU AI Act](#)), the United States more risked-based approach ([Blueprint for an AI Bill of Rights](#) and [Mandatory Reporting Requirements for Frontier AI Developers and Compute Providers](#)) and mainland China's approach ([Interim Measures for the Management of Generative Artificial Intelligence Services](#)).
- **developing an AI strategy for Hong Kong.** Reference could be made to the AI strategies of the [United Kingdom](#), [Singapore](#) and [Germany](#)
- we noted that the government has released the Ethical Artificial Intelligence Framework. Ensuring ethical AI practices is crucial for fostering trust and innovation in this rapidly evolving field, we encourage the government to **continue conducting timely reviews of the framework to adapt to new developments and challenges in AI**
- **developing a Digital Enterprise Blueprint to support SMEs in adopting AI solutions and improving cyber resilience.** Reference could be made to [Singapore](#).

<sup>1</sup> See Recommendation 2 on page 36 of [Realising the Potential of Blockchain in Advancing Hong Kong's Financial Services Industry](#) by the Hong Kong Financial Services Development Council, FSDC Paper No. 61, March 2024

- **developing a cybersecurity roadmap.** Reference could be made to the cybersecurity strategies of [Australia](#), [Singapore](#), and the [United Kingdom](#)
- **establishing a Vulnerability Disclosure Programme (VDP) to encourage the reporting of suspected vulnerabilities or weaknesses in critical IT services, systems, resources and/or processes which may potentially affect internet-accessible government applications.** Reference can be made to [Singapore](#).
- **encouraging companies to develop their own VDP** setting out how vulnerability reports will be received and handled
- **encouraging more businesses to implement two-step verification (2SV) for online transactions.** Currently, businesses can opt for either one-step credit card information input or 2SV for customer transactions. This exposes their customers to increased fraud risks. Greater adoption of 2SV would provide an extra layer of security, ensuring that customers verify their identity before completing a transaction. This would enhance online security. If after such activity, the uptake of 2SV is not significant, the government should consider mandating it.

### Smart city

Hong Kong is currently ranked 20th in the IMD 2024 Smart City Index, trailing behind Beijing and Shanghai, while Singapore holds the top spot in Asia. The latest version of the smart city blueprint dates back to 2020. Given the rapidly evolving technology landscape, we suggest that the Policy Address could **announce a review of this blueprint to incorporate more up-to-date and advanced smart city applications.**

Part of such a review could include **a focus on improving government app usability, reliability and performance.** Despite the government releasing many mobile apps for public services in recent years, quite a few have low download rates, and some have been removed due to poor performance. Users of several major public information systems, such as My SmartPLAY and Check-in Smart (HKDSE), have encountered numerous errors, resulting in a loss of confidence in these apps and a decrease in usage. The review should make recommendations on how to improve app performance, how to better involve users in the development process and identify opportunities to consolidate some apps into a single and multifunctional app.

### Research and Development (R&D)

While we recognise that there are existing funds available to support university R&D IP commercialisation, the number of approved projects remains low, and the commercialisation process is slow due to complex requirements. It is crucial to commercialise viable R&D efforts swiftly to capture market opportunities. We propose that the Policy Address announce the **establishment of a taskforce on connecting and aligning academics, industry partners, and the relevant government I&T team to accelerate university R&D IP commercialisation.**

## Promoting ESG & green economy

CPA Australia is committed to incorporating ESG considerations into all our activities to meet the present and future needs of members, employees and other stakeholders. We support initiatives that promote ESG adoption. To further promote ESG and green and sustainable finance in Hong Kong, we suggest the government considers including the following suggestions in the Policy Address:



- **promoting Hong Kong's capability to offer ESG professional services.** Hong Kong is home to a wealth of talent possessing a deep understanding of both international sustainability standards and Mainland China's regulations in ESG. Therefore, the government should highlight and promote that Hong Kong is well-positioned to offer ESG-related professional services, such as ESG advisory, reporting and assurance services. This not only reinforces Hong Kong's status as a leading green finance centre but also creates new business opportunities
- **making greater efforts in promoting the use and supply of new energy in transport.** For example, encouraging aviation fuel suppliers to provide increasing amounts of sustainable aviation fuel (SAF). SAF emits, on average, 70 per cent fewer greenhouse gas emissions than using fossil jet fuel. As an international aviation hub and with Hong Kong's commitment to achieving carbon neutrality, Hong Kong government should take the lead in advancing this initiative. Reference can be made to the [United Kingdom](#), the [European Union](#) and [Singapore](#)
- **providing SMEs access to funding and skills to assist them to integrate ESG into their business models.** For example, establishing a dedicated ESG funding programme similar to the Technology Voucher programme.

## Boosting the domestic economy

We acknowledge that many small and medium enterprises (SMEs) are struggling due to the weak private consumption in Hong Kong. To support the SME sector, we suggest the government **implement strategies that attract tourists and encourage locals to spend in Hong Kong**. We do not believe that more direct funding for SMEs is required at this stage unless such funding is targeted at businesses most in need and with appropriate conditions.

According to the Hong Kong Tourism Board, total visitor arrivals in the second quarter of 2024 are still 40 per cent lower than those recorded during the same period in 2019. To boost the domestic economy, the government should consider a range of initiatives to attract visitors and encourage locals to spend. Some suggestions include:

- holding a series of world-class entertainment and sporting events at the Kai Tak Sports Park when it opens
- providing incentives to attract world-renowned art events, concerts, musicals and other events to be held in Hong Kong
- attracting more international cruise companies to stop in Hong Kong and promote Hong Kong's cruise industry.

## Developing, attracting and retaining talent

In our latest Hong Kong [Economic and Business Sentiment Survey](#), 30 per cent of accounting and finance professionals want the government to improve policies for attracting and retaining talent. This was the second most popular measure, just behind measures aimed at attracting companies and investments.

The Hong Kong government has made significant strides in attracting top outside talent to the city in the past few years. However, developing and retaining local talent is equally crucial for Hong Kong's long-term success. Possible measures that could be announced in the upcoming Policy Address to further develop, attract and retain talent include:



- **the government continues to take the lead to ensure that all published information is accessible in English.** As an international city, English serves as a valuable asset for Hong Kong, enabling vibrant international business activities. However, the English Proficiency Index (EPI) released by Education First (EF) shows that Hong Kong is ranked fourth in Asia, behind Singapore, the Philippines, and Malaysia. The government should **invest in strengthening English language education at all levels** to equip Hong Kong's future workforce with the necessary skills to navigate the global marketplace
- **implementing AI Capacity Building Support Scheme** referencing the Green and Sustainable Finance Capacity Building Support Scheme
- **reviewing guideline on flexible work arrangements for employers.** Cultivating a work culture that aligns more closely with other developed economies should allow Hong Kong companies to better compete in attracting talent. For example, Singapore released mandatory Tripartite Guidelines which require all employers to fairly consider formal requests for flexible work with standardised submission and evaluation processes
- **increasing maternity leave (currently 14 weeks) and paternity leave (currently 5 days) to something closer to that of other advanced economies.** We note the OECD average is 18.5 weeks for maternity leave and 2.3 weeks for paternity leave
- integrating AI practical experience into the education curriculum to better prepare our students for future challenges and opportunities.

## Improving policy engagement

Regular public consultation by government is vital for developing effective policies that reflect the needs and perspectives of the community. It involves actively seeking input from the public, industry experts and community groups to ensure policies are well-informed and practical. By engaging with the community, governments can build consensus, identify potential issues early, and enhance transparency, ultimately leading to more effective and widely supported policy outcomes.

A well-designed policy not only addresses the issues at hand but also considers the perspectives and needs of various stakeholders. To achieve this, governments must prioritise inclusivity and transparency throughout the consultation process.

We would like to see the government enhance its consultation efforts and establish best practice for engaging with stakeholders by **updating its code of practice for public consultations**. The current code, which dates back to 2003, lacks detail, and officials have significant discretion in interpreting general principles such as "timely consultation." The Australian Federal Government's [Best Practice Consultation guidelines](#) maybe a useful in informing such an update.

One example of good policy development process in Hong Kong is the work by government advisory bodies such as the Financial Services Development Council. To improve on this process, the government could commit to publicly responding in a timely fashion to research papers produced by the advisory bodies it establishes.

## Acknowledgements

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