

Speech by the Secretary for Financial Services
At the Special Meeting of the Finance Committee
On Thursday, 22 March 2001

Mr. Chairman,

Introduction

The policy objective of the Financial Services Bureau (FSB) is to enhance Hong Kong's status as a major international financial centre through the provision of an appropriate economic and legal environment for an open, fair and efficient financial market.

2. The expenditure estimate of the Bureau for 2001-02 is \$159.9 million. Of this, personal emoluments will account for about 62%, departmental expenses for about 27% and general non-recurrent expenses for the remaining 11%. The total expenditure estimate for 2001-02 represents an increase of 21.3% over the revised estimate for 2000-01. This is mainly due to an increase in cashflow requirement of some capital account items and the need to reserve sufficient provision in the estimates to ensure that there are adequate resources to settle payments arising from hearings of tribunal cases.

3. The areas of work we will focus on in the coming year cover the following aspects:

I. Enhancing the Financial Infrastructure

4. We will continue to improve our financial infrastructure. The Financial Secretary has already given a brief account of the key initiatives of our financial infrastructure in his Budget Speech. I am not going to repeat all these here. Since

the launch of electronic filing of Financial Resources Rules returns by the Securities and Futures Commission (SFC) in August last year, about 25% of the intermediaries have submitted returns through electronic means. The SFC is planning to extend the applications of the Securities and Derivatives Communication Network (SDNet). For example, the latest information and consultation papers released by the SFC on the Internet could be transmitted to intermediaries through the network.

5. Besides, the Steering Committee on the Enhancement of Financial Infrastructure chaired by the Chairman of the SFC has initiated a study on the forming of a secure and efficient FinNet to draw up details of the implementation plan and timetable. This FinNet will ultimately realize the straight-through processing, scripless transactions and single clearing arrangements of securities trading.

II. Reducing the Costs

6. The Financial Secretary has proposed in his Budget Speech to lower the stamp duty on stock transactions from 0.225% to 0.2% per round transaction. The Government has also proposed to impose an extra transaction levy of 0.002% to finance the setting up of a new Investor Compensation Fund. In combination, these two proposed measures will lower the overall transaction cost to investors by about 10%.

III. Strengthening the Compensation Mechanism

7. The SFC issued a consultation paper on 7 March to seek the views of the market on the specific arrangements of the new compensation scheme. The proposal was drawn up in accordance with the principles of “user pays” and “equal treatment for all investors”. The scope of compensation will cover exchange participants and other non-exchange participants. All the products traded must be products of the Hong Kong Exchanges and Clearing Limited. Under this principle, Internet transactions will also be covered. In addition, the new mechanism will set a limit of

coverage per investor at \$150,000. This will enable investors to know clearly the maximum compensation amount and the risks of investment.

8. We believe that the new compensation arrangements will boost investors' confidence and make the environment more attractive to investors, thus contributing to the long-term development of the market and the industry. We are going to introduce the consultation paper to the LegCo Panel on Financial Affairs on 29 March.

IV. Improving the Regulatory System

9. After more than a year's consultation, we introduced the Securities and Futures Bill to this Council last November. Enactment of the Bill will help to keep our market regulatory regime abreast with those of other international financial centres. It will also consolidate Hong Kong's position as an international financial centre. I hope that, with the full support of Members, the Bill will gain early enactment in the current legislative session.

V. Reforming the Banking Sector

10. We will continue to implement various reforms of the banking practice to promote competition and strengthen the safety and soundness of the banking sector. The Hong Kong Monetary Authority (HKMA) is closely monitoring the conditions of the economy and the financial market to decide whether to deregulate the interest rate rules on savings and current accounts in July this year. The Government understands the public and Members' concern on the protection of bank customers in the light of the adjustment of fees and charges by some banks. However, we recognize that the setting of fees and charges is a commercial decision of the banks concerned. What is most important is that there is real competition in the market and that consumers have choices. To achieve this, the HKMA is working with the industry associations to review the Code of Banking Practice with a view to increasing transparency and clarity in fees and charges. The Administration is also reviewing the role of the

HKMA in consumer protection. We will take into consideration international experience and consult the public in due course.

11. Besides, the HKMA is studying the possibility of establishing a commercial credit reference agency in Hong Kong. This would help increase market transparency, strengthen the risk management system of the banking sector and meet the needs of the small and medium enterprises. The HKMA will provide proposals later this year.

VI. Corporate Governance

12. High standards of corporate governance are the hallmark of a first-class international financial and business centre. The Standing Committee on Company Law Reform is expected to propose initial improvement measures on directors' duties and responsibilities, shareholders' rights and the disclosure of corporate information in next financial year. Public consultation on these measures will be conducted. We will also commission a consultancy study to conduct in-depth research into other topics, for example institutional investors' perception of corporate governance standards in Hong Kong, the correlation between shareholder profile and corporate performance and the latest developments in enhanced corporate governance standards in other regions.

13. Moreover, we intend to introduce a bill into the Legislative Council in the middle of this year to amend the Companies Ordinance to strengthen the accountability of directors and enable shareholders to monitor and participate directly in corporate affairs. The SFC will soon consult the market on the overall review on the codes on Takeovers and Mergers, and Share Repurchases, the listing rules and enforcement procedures, as well as how to strengthen the regulatory regime and legislation for disclosure of market information in Hong Kong. The SFC is actively opening up channels for liaison with minority shareholders, such as setting up consultative groups for relevant users.

VII. Promoting the use of electronic service

14. In line with the principle of environmental protection, we are now monitoring the implementation of a series of measures to promote the distribution of listed companies' documents by electronic means. These measures enable:

- companies to distribute accounts and reports to their shareholders by electronic means;
- listed companies to prepare summary of financial statements for their shareholders, thereby helping them to gain a better understanding of the company operation; and
- further introduction of electronic initial public offering.

VIII. Reviewing the Roles and Functions of the Official Receiver's Office

15. We will commission a consultancy study to review the roles and functions of the Official Receiver's Office in handling insolvency cases. The review, lasting for more than one year, will be conducted in two stages. The first stage will focus on the study of various reform alternatives available. We will then consult the market and the industry, with details on the implementation of the alternative adopted to be worked out in the second stage.

IX. Mandatory Provident Fund System

16. We will actively monitor the implementation of the Mandatory Provident Fund Schemes to ensure its effective and smooth operation. The main tasks for the Mandatory Provident Fund Schemes Authority in the coming year include law enforcement, prosecution against non-compliance, enhancement of protection for schemes members, effective handling of complaints and enquiries, as well as continuation of publicity and educational activities. Moreover, we will review the

operation of the Schemes a year after its operation and consider areas for improvement.

X. Insurance Industry

17. We are committed to prudent supervision of the insurance industry, protection of the interests of insurance policy holders and promotion of the development of the industry. We will also review and update the insurance regulatory regime from time to time, strengthen cooperation with the industry and enhance the quality of insurance intermediaries in order to maintain Hong Kong's position as a leading international insurance centre.

XI. Economic Analysis and Statistics

18. Another important task of the FSB is to provide economic analysis and statistical services. We will closely monitor local and international economic developments and those of the Mainland, study the effects of these developments on Hong Kong's economy, and publish economic reports and provide economic forecasts on a regular basis.

Conclusion

19. Mr. Chairman, I have just briefly described the major tasks of the FSB and the departments concerned in the coming year. My colleagues and I shall be pleased to answer any questions Members may have. Thank you.