

**立法會**  
*Legislative Council*

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**Paper for the House Committee meeting  
on 29 June 2001**

**Report of the Bills Committee on  
Revenue (No. 3) Bill 2001**

**Purpose**

This paper reports on the deliberations of the Bills Committee on Revenue (No. 3) Bill 2001.

**The Bill**

2. The Revenue (No. 3) Bill 2001 seeks to amend the Stamp Duty Ordinance (Cap. 117) and the Securities and Futures Commission (Levy) (Securities) Order (Cap. 24 subsidiary legislation) to give effect to a number of revenue proposals in the 2001-2002 Budget.

**The Bills Committee**

3. The House Committee agreed at its meeting on 27 April 2001 to form a Bills Committee to study the Bill. Under the chairmanship of Hon Margaret NG, the Bills Committee held two meetings with the Administration. The membership list of the Bills Committee is in **the Appendix**.

**Deliberations of the Bills Committee**

Stamp duty on stock transactions

4. The Administration proposes to reduce stamp duty on stock transactions by 11% from the existing 0.225% to 0.2% per round transaction in 2001-02, following a 10% reduction in the duty rate in 2000-01. This is in line with the worldwide trend of reducing or entirely abolishing such stamp duty in order to lower transaction costs of stock trading. The proposal also seeks to complement the efforts made by the Hong Kong Exchanges and Clearing Ltd.

(HKEx) to abolish minimum brokerage commission rate and to open up the brokerage trading rights from 1 April 2002.

5. Members support the proposed reduction as a positive move to promote the further development of Hong Kong's financial market.

#### Levy on stock transactions

##### *Removing the levy income for Stock Exchange of Hong Kong*

6. Under section 52(1) of the Securities and Futures Commission Ordinance, the purchaser and the seller of every securities transaction recorded on or notified to the Stock Exchange of Hong Kong (SEHK) shall each be liable to pay to the Securities and Futures Commission (SFC) a levy at such a rate as may be specified by order of the Chief Executive in Council. At present, the transaction levy is charged at the rate of 0.01% and the levy income collected is equally shared between the SFC and the SEHK.

7. Since the SEHK has become a subsidiary of the HKEx, the Administration considers it no longer justifiable for the SEHK to rely on the statutory levy as a source of income. Following discussions, the Administration and the SEHK have agreed to remove the portion of the levy going to the SEHK and replace it by a trading fee, which will initially be set at the same rate as the levy reduction. The fee level would be subject to review by the SFC and the SEHK after it has come into effect for a year.

##### *Unified Exchange Compensation Fund and proposed new Investor Compensation Fund*

8. The Securities Ordinance (Cap. 333) provides for the establishment of a compensation fund, namely the Unified Exchange Compensation Fund (UECF), to provide compensation to investors who suffer from pecuniary loss as a result of default by a stockbroker, who is an exchange participant of the SEHK.

9. The Commodities Trading Ordinance also provides for the establishment of the Commodity Exchange Compensation Fund (CECF), to provide compensation to investors who suffer from pecuniary loss as a result of default by a commodity futures contract dealer, who is an exchange participant of the Hong Kong Futures Exchange.

10. The Administration plans to set up a new Investor Compensation Fund as envisaged in the Securities and Futures Bill (SF Bill), which is currently being considered by a bills committee. The new Fund would cover not only the defaults of exchange participants, but also other licensed persons or exempt dealers authorised to provide intermediary services in securities and commodity futures contracts relating to products traded on the two exchanges in Hong Kong. Money for the new Fund would come from the balance of the existing UECF

and CECF and from an *ad valorem* levy on securities transactions.

11. As announced in the 2001-02 Budget Speech, the Administration proposes to increase the existing levy on securities by 0.002% until the new Fund has accumulated \$1 billion. Pending the setting up of the new Fund, the income from the proposed 0.002% levy would be received by the SFC, which would pay the monies in full to the UECF.

12. Since the Bills Committee on the Securities and Futures Bill and Banking (Amendment) Bill 2000 has not yet completed its scrutiny of the SF Bill, members consider it inappropriate to agree to the proposed levy increase under this Bill for the purpose of setting up the new Fund under the SF Bill. For this reason, members have asked the Administration to defer the proposal until the new Fund has been approved.

13. In response, the Administration has pointed out that the existing UECF needs topping up and has provided the following supplementary information to the Bills Committee to justify the need to increase the levy for the purpose -

- (a) Taking into account the compensation payments for the claims for the four default cases (namely C.A. Pacific, Foreground, Forlux and Chark Fung) that occurred during the Asian financial crisis, the UECF has a balance of approximately \$658 million.
- (b) There is no recurrent source of levy income to maintain the UECF.
- (c) The four default cases referred to in (a) above incurred a total projected payment of approximately \$500 million.
- (d) Under the model developed by the consultant engaged by the SFC and using the existing compensation arrangements, the UECF should maintain assets at about \$780 million in order to reach a prudent level.
- (e) The consultant's model also shows that, under the existing compensation arrangements, the UECF may have to pay out about \$5 billion in a scenario of defaults of the largest single retail broker.
- (f) With the proposed increase of 0.002% in the securities transaction levy and based on recent market turnover value, the UECF would receive about \$100 million levy income each year.

14. Taking into consideration the above information, the Bills committee has agreed to the proposed increase in the securities transaction levy, subject to two undertakings to be made by the Administration, i.e. that following the enactment of the Bill -

- (a) the SFC will, pursuant to section 99(2) of the Securities Ordinance (Cap. 333), pay to the UECF all the monies received from the 0.002 percentage point increase of the rate of levy payable on securities transactions; and
- (b) after the assets of the UECF have reached the level of HK\$800 million following the levy increase, a review on the funding needs of the UECF will be conducted to consider whether the 0.002 percentage point increase of the rate of levy should continue, and whether legislative amendments should be introduced to give effect to the outcome of the review.

15. The Administration has confirmed in writing that it will include the above undertakings in the speech to be delivered by Secretary for the Treasury when the Second Reading debate on the Bill is resumed.

### **Recommendation**

16. The Bills Committee recommends that the Second Reading debate on the Bill be resumed on 11 July 2001.

### **Advice sought**

17. Members are invited to support the recommendation of the Bills Committee in paragraph 16 above. A verbal report was made by Hon Margaret NG, Chairman of the Bills Committee, at the House Committee meeting on 22 June 2001.

Council Business Division 2  
Legislative Council Secretariat  
28 June 2001

**Bills Committee on Revenue (No.3) Bill 2001**

**Membership list**

<b>Chairman</b>	Hon Margaret NG
<b>Members</b>	Hon Mrs Selina CHOW LIANG Shuk-ye, JP
	Hon CHAN Kam-lam
	Hon SIN Chung-kai
	Hon Ambrose LAU Hon-chuen, JP
	Dr Hon TANG Siu-tong, JP
	Hon Henry WU King-cheong, BBS
	(Total : 7 Members)
<b>Clerk</b>	Ms Doris CHAN
<b>Legal Adviser</b>	Ms Bernice WONG
<b>Date</b>	21 June 2001