

立法會
Legislative Council

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by the Administration)

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Legislative Council
Panel on Financial Affairs

Minutes of Meeting held on
Thursday, 11 January 2001 at 2:30 pm
in the Chamber of the Legislative Council Building

Members present : Hon Ambrose LAU Hon-chuen, JP (Chairman)
Hon Henry WU King-cheong, BBS (Deputy Chairman)
Hon James TIEN Pei-chun, JP
Hon Albert HO Chun-yan
Hon LEE Cheuk-yan
Hon Eric LI Ka-cheung, JP
Dr Hon David LI Kwok-po, JP
Hon NG Leung-sing
Hon James TO Kun-sun
Hon Bernard CHAN
Hon CHAN Kam-lam
Hon SIN Chung-kai
Dr Hon Philip WONG Yu-hong
Hon Jasper TSANG Yok-sing, JP
Hon Emily LAU Wai-hing, JP

**Public officers
attending**

: For Item IV

Hong Kong Monetary Authority

Mr Joseph YAM, JP
Chief Executive, Hong Kong Monetary Authority

Mr David CARSE, JP
Deputy Chief Executive, Hong Kong Monetary Authority

Mr Norman CHAN, SBS, JP
Deputy Chief Executive, Hong Kong Monetary Authority

Mr Anthony LATTER, JP
Deputy Chief Executive, Hong Kong Monetary Authority

For Item V

Financial Services Bureau

Miss Susie HO
Deputy Secretary for Financial Services (2)

Companies Registry

Mr G W E JONES
Registrar of Companies

Miss Peggy LAU
Chief Companies Registration Officer

Clerk in attendance : Mrs Florence LAM
Chief Assistant Secretary (1)4

Staff in attendance : Ms Connie SZETO
Senior Assistant Secretary (1)1

I Confirmation of minutes and matters arising
(LC Paper No. CB(1) 295/00-01)

The minutes of the Panel meeting held on 6 November 2000 were confirmed.

Overseas duty visit

2. On the proposal for the Panel to conduct an overseas duty visit to London and New York in April 2001, the Chairman said that the House Committee decided at the meeting on 15 December 2000 to form a subcommittee to review the membership and funding arrangements for overseas visits of committees. He informed members that the Bills Committee on Securities and Futures Bill and Banking (Amendment) Bill 2000 was considering to conduct a visit jointly with the Panel to study the regulatory frameworks and legislative reforms in the securities and futures markets of the above two places. Pending the recommendation of the subcommittee, the Secretariat had started preparations for the visit.

Visit to the Hong Kong Exchanges and Clearing Limited

3. The Chairman reminded members that the captioned visit had been scheduled for Thursday, 18 January 2001 from 10:45 am to 12:15 pm. Eleven members had indicated interest in participating in the visit.

II Information paper issued since the last meeting

(LC Paper No. CB(1) 271/00-01 -- Centralized information system for Mandatory Provident Fund Schemes)

4. Members noted that the above paper had been issued since the last meeting.

III Date of the next meeting and items for discussion

(LC Paper Nos. CB(1) 419/00-01(01) and (02))

5. Members agreed to discuss the following items at the Panel meeting scheduled for 5 February 2001 at 10:45 am:

- (a) Review of the Growth Enterprise Market listing rules;
- (b) Statutory Corporate Rescue Procedure; and
- (c) Revised Financial Resources Rules.

(Post-meeting note: As advised by the Administration, item (a) was deferred to a later meeting.)

IV Briefing by the Chief Executive of the Hong Kong Monetary Authority

(LC Paper No. CB(1) 419/00-01(03) -- presentation material tabled at the meeting)

6. The Chief Executive of the Hong Kong Monetary Authority (CE/HKMA) gave a computer power point presentation on the work of HKMA. The presentation covered the implementation of on-going programmes and new initiatives in respect of HKMA's four main responsibilities namely, maintaining the stability of the Hong Kong dollar, promoting the safety and stability of the banking system, developing and enhancing the financial infrastructure, and managing the Exchange Fund. CE/HKMA also informed members that the Exchange Fund Advisory Committee had approved the proposal for HKMA to purchase its own office premises in order to save office rentals in the long run. The matter was being pursued with the developers concerned.

Maintaining currency stability

7. CE/HKMA said that the Hong Kong dollar exchange rate had remained remarkably stable during 2000. However, risks and vulnerabilities in the global economy, including the moderation of the US economy, volatility in major currencies, slow progress in the structural reforms in Asian economies and in the reform of the international financial architecture, as well as a recent crisis in public finance and external payment flows in Argentina, might have an adverse impact on the stability of the Hong Kong dollar.

8. Miss Emily LAU asked whether there were any measures that HKMA could take to alleviate the impact of the moderation of the US economy on Hong Kong. CE/HKMA said that HKMA was concerned that a "hard landing" of the US economy might adversely affect Hong Kong's economy which in turn could affect the stability and confidence in the Hong Kong dollar. HKMA would continue to enhance the transparency of the currency board operations and provide the market with relevant monetary information and analyses in order to promote the confidence in the Hong Kong dollar and to further strengthen Hong Kong's monetary system.

9. With regard to the structural reforms in the Asian economies, CE/HKMA said that the progress in this area had been slow. He said that regional central bank forums had regular discussion on the pace and form of the reforms. HKMA would continue its efforts to enhance cooperation with counterparts in the region through formal and informal contacts. The International Monetary Fund would also be an appropriate forum for the discussion of cooperative measures, such as the setting up of surveillance systems in the region. As regards reforms to the international financial architecture, CE/HKMA said that there was consensus among central banks that volatile international capital flows should be monitored as such activities would have an adverse impact on small, open economies like Hong Kong. It was recognized that enhanced information disclosure and transparency of bank exposure to hedge funds were important for regulators to monitor such activities and to promote international financial stability. HKMA would continue to support international efforts in this area and push for early implementation of measures that had been agreed.

Promoting banking stability

10. CE/HKMA said that the banking sector had remained robust and healthy as evidenced by the continuous growth of aggregate profits of local banks and improvement in their asset quality. HKMA would pursue a number of banking reform measures to increase the competitiveness and strengthen the soundness and robustness of the banking system. The proposed measures included the introduction of a depositor protection system, the establishment of a Commercial Credit Reference Agency, the implementation of the final phase of interest rate deregulation, and encouraging consolidation in the banking sector.

Protecting banking customers

11. Referring to the announcement made by some banks that they were planning to raise charges for services rendered to small depositors, some members expressed concern that this would increase the burden on bank customers, particularly those low-salaried employees who had fixed payroll accounts with these banks. They asked whether HKMA was empowered under the Banking Ordinance (BO) (Cap. 155) to deal with such consumer protection issues.

12. In response, CE/HKMA remarked that some banks might increase fees and charges for their services in view of increasing competition in the banking sector. HKMA was not inclined to interfere in matters relating to the revision of a bank's fees and charges as this was a commercial decision. HKMA attached more importance to ensuring that banks operate in a fair and transparent manner so that customers could make free and informed choices on banking services. The problem about compulsory payroll arrangements, which would leave employees with limited choices, would need to be addressed. HKMA would continue with the review on the Code of Banking Practice (the Code) relating to fees and charges with a view to enhancing consumer protection in this respect.

13. The Deputy Chief Executive, HKMA (DCE/HKMA) supplemented that the Code required banks to provide customers with sufficient information on charges and fees. For instance, under revisions to the Code currently being considered, customers would have to be notified individually and 30 days in advance about changes in fees and charges as well as the bases for their calculations. On the proposal by some banks to increase fees and charges for their services, DCE/HKMA said that certain banks did have exemptions for certain customers, such as those on social welfare and elderly people.

14. As regards protection for banking customers, CE/HKMA said that there was an increasing need to address the issue as the banking sector had become more competitive. He explained that under BO, the objective of HKMA was to provide a measure of protection to depositors and promote the general stability and effective working of the banking system. There was no clear mandate for HKMA to function as a consumer watchdog and such a role might be inconsistent with its role as a prudential regulator of banks. As such, HKMA was planning to review the need for it to have a more explicit mandate in dealing with consumer issues. If it was necessary for HKMA to strengthen its power to better safeguard the interest of banking customers, HKMA would consider the need for legislative amendments and the associated resources implications. HKMA would soon undertake a study on overseas experience, including the legislative framework and institutional arrangements. Miss Emily LAU requested the HKMA to provide information on overseas experience for members' reference. She further suggested that the LegCo Research and Library Services Division should conduct a research on this subject to facilitate future discussion by the Panel. Miss LAU's suggestion was agreed.

15. Noting that HKMA would remain as the front-line regulator supervising the securities business of banks under the proposed regulatory regime of the Securities and Futures Bill, Mr Henry WU enquired about the measures that HKMA would take to protect the interest of investors.

16. In response, DCE/HKMA said that the new regulatory regime was aimed at reducing duplication in the regulation of intermediaries in the securities market, promoting a level playing field between the securities corporations licensed by the Securities and Futures Commission (SFC) and the securities arms of banks, as well as enhancing protection for investors. The HKMA would supervise the securities business of banks in a manner and according to standards that were consistent with those applied by SFC to its licensees, such as the Code of Conduct for SFC registrants. Unlike SFC which had the statutory power to make rules for protecting the investors, BO did not vest HKMA with specific power to deal with consumer protection issues. In supervising the securities business of banks, HKMA would monitor their compliance with BO and investigate customers' complaints which might well be related to the quality of internal control systems of banks.

Enhancement in the financial infrastructure

17. CE/HKMA told members that HKMA had been putting a lot of efforts in developing the local debt market since early 1990s. A total of \$110 billion Exchange Fund Bills and Notes had been issued so far. The objective of HKMA was to further strengthen the financial infrastructure to attract issuers from major international financial markets so as to enhance the development of Hong Kong's debt market. As a means to expand the investor base of debt securities, the minimum investment for Exchange Fund Bills and Notes had been lowered to \$50,000 to facilitate investment by retail investors. It was envisaged that the implementation of the Mandatory Provident Fund System would stimulate the issuance of new debt papers and help in developing the local debt market.

Management of the Exchange Fund

18. Given the huge size of the Exchange Fund (EF) amounting to HK\$1,020.8 billion at the end of 2000, Mr James TIEN opined that HKMA should consider increasing the share of the fiscal reserves in the investment income of EF so as to cover possible deficits in the 2000-01 budget.

19. In reply, CE/HKMA advised that the net investment income of EF for 2000 amounted to HK\$34.3 billion. On the basis of the new sharing arrangements which came into effect in April 1998 and enabled the fiscal reserves placed with EF to enjoy the same return achieved by EF as a whole, HK\$18.1 billion was accrued to the fiscal reserves, leaving the balance of HK\$16.2 billion to be added to the accumulated surplus of EF. But since the EF returns were calculated on calendar year basis, it would be far too early to tell what the investment income for the fiscal reserves for the fiscal year ending on 31 March 2001 might be. It would be for the Finance Bureau

to calculate the exact amount, taking account of the EF's investment return in the first two months of 2001 and the unpaid portion of the investment income for 1999.

20. CE/HKMA explained that the primary purpose of EF was to safeguard the exchange value of the Hong Kong dollar and to maintain the stability and integrity of Hong Kong's monetary and financial systems. The Financial Secretary was responsible for the use of EF in achieving the above purposes. On the appropriate size of EF to be maintained, CE/HKMA said that in theory, it would be sufficient for EF to maintain the foreign currency assets at a level adequate for backing the monetary base of HK\$215.4 billion. But given the risks and vulnerabilities in the regional economy and the global financial market, it would be advisable to maintain EF at a higher level for defending the Hong Kong dollar.

21. Upon members' request, CE/HKMA undertook to provide information on the investment returns of the fiscal reserves placed with EF since the financial year of 1998-99 for member's reference after the meeting.

(Post-meeting note: The information was circulated to members vide LC Paper No. CB(1) 533/00-01 dated 2 February 2001.)

Accountability of HKMA

22. Miss Emily LAU asked whether the possible introduction of a new appointment system of principal officials of the Government to enhance their accountability to the public would have any impact on HKMA. Noting the trend for financial regulators to be set up as independent authorities in order to enhance their public accountability, Mr SIN Chung-kai remarked that the Democratic Party would support arrangements for strengthening the independence of HKMA.

23. In response, CE/HKMA reiterated HKMA's commitments to maintaining its fairness, impartiality and transparency in discharging its duties. While recognizing members' concern, CE/HKMA said that under present circumstances the current system worked well. But it would be useful to keep in review, having regard to changing circumstances, whether the immunity of the system to political interference could be further enhanced. He thought that it might be useful in any case to lay out more clearly the policy objectives of the HKMA, its powers and responsibilities, and the related governance and accountability arrangements.

Frequency of future briefings

24. Members welcomed regular briefings on the work of HKMA and suggested that the schedule should be agreed with HKMA in due course.

V Strategic Change Plan for the Companies Registry

(LC Paper Nos. CB(1) 419/00-01(04),(05) and (06) (presentation material tabled at the meeting))

25. The Chief Companies Registration Officer (CCRO) took members through the information paper on the Strategic Change Plan (SCP) for the Companies Registry (CR) with the aid of computer power point. CCRO said that the objective of SCP was to establish an electronic CR by late 2004 for receiving, processing, storing and disseminating information electronically, providing fast, inexpensive, user-friendly and high quality services to its customers and promoting a paperless electronic business environment. The SCP Study Final Report completed in June 2000 recommended the implementation of 11 key initiatives for achieving the vision of SCP. These included, inter alia, the development of a new Integrated Companies Registry Information System (ICRIS) in two phases, introducing legislative amendments to simplify filing requirements and to strengthen the legal framework for future electronic operations, conducting reviews of existing forms, restructuring the organization of CR and providing necessary training for staff, as well as identifying new value-added products and services to develop new income source for CR. For the implementation of SCP, the Administration had proposed to create a supernumerary post of Development Manager (DM) at D1 level for a period of four years. The proposal would be submitted to the Establishment Subcommittee for consideration at the meeting to be held on 17 January 2001.

26. Members generally supported SCP. In view of the rapid advancement in information technology (IT) and the urgent need to enhance CR's existing computer systems for increasing efficiency and improving services, members urged that SCP should be completed as early as possible. They suggested that the Administration should identify suitable computer systems available in the market so as to save time for developing ICRIS.

27. In response, the Registrar of Companies (R of C) said that the completion of SCP by late 2004 was the best estimate made by the project consultants. Given that SCP was a major and highly complex project involving an overhaul of CR's operation, the proposed timetable was already tight. Sufficient time would be required to complete the various key programmes mentioned in the paper. Nonetheless, the Administration fully noted members' view about the importance of early completion of SCP and would endeavour to expedite its progress as far as possible. CR would explore whether suitable soft wares were available in the market for adoption in ICRIS so as to speed up the development of the system.

28. While supporting the creation of the supernumerary post of DM to oversee SCP, Mr Henry WU remarked that the proposed four-year period for the post should be shortened if the completion of SCP could be advanced.

29. In response, the Deputy Secretary for Financial Services explained that the duration of the supernumerary post was proposed to be four years in order to tie in with the development of SCP. The Administration would review the need of the post in the light of progress made. The post could be deleted if SCP was completed before the scheduled completion by late 2004.

30. With a view to building up the technical expertise within CR for the management of ICRIS in future, Mr SIN Chung-kai suggested that instead of engaging external consultants and system contractors to develop the system, CR should strengthen its IT capabilities and recruit temporary staff to undertake related projects on its own. In this connection, Mr CHAN Kam-lam suggested that the Administration should explore the feasibility of contracting-out CR's corporate information service so as to save operating costs.

31. CCRO said that according to the consultant's recommendation, as ICRIS would support the core activities of CR, it should be owned and managed by CR for protecting the security and integrity of corporate information. CR would consider engaging system contractors to develop ICRIS. R of C supplemented that CR recognized the importance of strengthening its IT capabilities to prepare for the implementation of SCP. There were plans to set up an Information Technology Division (to be headed by an Information Technology Manager) and a Development Division in-house to provide the necessary technical expertise and support for SCP and promote the use of IT in developing CR's business in the long run.

32. Regarding the impact of the implementation of SCP on existing staff provisions, CCRO advised that SCP would enhance work efficiency and enable the deletion of 99 posts. Of these, 76 were permanent posts while the remaining 23 posts were occupied by contract staff. The majority of permanent staff affected, who were members of the general and clerical grades, would be deployed within the civil service. There would be no staff redundancy resulting from the implementation of SCP.

33. Noting that there would be annual savings of about \$48.1 million after the implementation of SCP, Mr CHAN Kam-lam enquired about the possibility to reduce fees and charges for CR's services in the long run.

34. R of C advised that the computerization programme in the companies registry in the United Kingdom had resulted in savings and a reduction in fees and charges for its services. CR would certainly consider reducing fees and charges for its services if possible after the implementation of SCP.

35. On the enquiry about new business opportunities for CR, R of C said that corporate information filed with CR was already available for public inspection upon the payment of statutory fees. The dissemination of certain specified information on companies to the public was for the protection of those parties which had dealings with the companies concerned, such as creditors. Upon the implementation of SCP,

CR would introduce value-added products and services to generate new income. This might include packaging corporate information in ICRIS into saleable products.

VI Any other business

36. There being no other business, the meeting ended at 4:30 pm.

Legislative Council Secretariat
1 March 2001