

**立法會**  
**Legislative Council**

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**Legislative Council**  
**Panel on Financial Affairs**

**Minutes of Meeting held on**  
**Thursday, 19 October 2000 at 3:45 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 CHAN Kam-lam  
Hon SIN Chung-kai  
Dr Hon Philip WONG Yu-hong  
Hon Jasper TSANG Yok-sing, JP
- Non-Panel Member attending** : Hon Sophie LEUNG LAU Yau-fun, SBS, JP
- Members absent** : Hon Emily LAU Wai-hing, JP  
Hon Bernard CHAN
- Public officers attending** : For Item I  
  
Miss Denise YUE, JP  
Secretary for the Treasury

Mr Stanley YING, JP  
Deputy Secretary for the Treasury

For Item II

Mr Stephen IP, JP  
Secretary for Financial Services

Mrs Rebecca LAI, JP  
Deputy Secretary for Financial Services (1)

Ms AU King Chi, JP  
Deputy Secretary for Financial Services (SD)

Miss Susie HO, JP  
Deputy Secretary for Financial Services (2)

Mr K Y TANG, JP  
Government Economist

Mr Ros LAM  
Acting Commissioner of Insurance

Mr Fred HO  
Commissioner for Census and Statistics

Mr Gordon W E JONES  
Registrar of Companies

Mr Eamonn O'CONNELL  
Official Receiver

Mr Simon TOPPING  
Executive Director (Banking Policy),  
Hong Kong Monetary Authority

**Clerk in attendance** : Ms LEUNG Siu-kum  
Chief Assistant Secretary (1)4

**Staff in attendance** : Ms Pauline NG  
Assistant Secretary General 1

Ms Connie SZETO  
Senior Assistant Secretary (1)1

**I Briefing by the Secretary for the Treasury on the Chief Executive's Policy Address 2000**

(Booklet on "Prudent Management of Public Finances", and LC Paper No. BC(1)80/00-01 - Secretary for the Treasury's speaking note)

The Secretary for the Treasury (S for Tsy) briefed members on the initiatives and targets of the Finance Bureau (FB) in the coming year as set out in her speaking notes tabled at the meeting.

Overall position of Government finances

2. Responding to Mr SIN Chung-kai's enquiry about the reason for containing the real growth of government expenditure in 2001-02 to 2.5% in the face of the latest forecast of Gross Domestic Product (GDP) real growth of 8.5% for 2000, S for Tsy explained that owing to the economic adjustment in the years 1998-99 and 1999-2000 and the Government conscious decision to maintain its spending plans in these two financial years so as not to drive the economy into deeper depression, the cumulative growth in government expenditure had temporarily exceeded the cumulative growth in GDP. In order to bring the cumulative growth in government expenditure fully back in line with the cumulative economic growth within the Medium Range Forecast (MRF) period ending 2003-04, the Government decided to restrain expenditure growth to 3% in 2000-01 and 2.5% per annum in subsequent years against the forecast GDP trend growth rate of 4%. S for Tsy further advised that the Government Economist would review the trend growth rate in the next few months and an updated estimate for the MRF period of 2000-01 to 2004-05 would be available in March 2001.

3. On government expenditure for 2001-02, S for Tsy advised that an additional recurrent spending of \$6.8 billion, including the savings achieved from the Enhanced Productivity Programme (EPP) of \$2 billion, would be available to cover all pledges made in the Chief Executive's Policy Address 2000. The majority of these resources had been earmarked for various new or improved services, leaving a balance of about \$500 million yet to be allocated.

4. As regards progress of the reviews on public finances, S for Tsy advised that the Task Force on Review of Public Finances and the Advisory Committee on New Broad-based Taxes had been established to examine whether Hong Kong was facing a structural fiscal problem, and the types of new broad-based taxes suitable for Hong Kong respectively. Both bodies were expected to complete their work by the end of 2001. The Advisory Committee would submit a progress report to the Financial Secretary (FS) next month. The Administration would report the work of the two bodies to the Financial Affairs Panel at the first opportunity.

### Level of fiscal reserves

5. Mr James TIEN opined that given the huge size of the fiscal reserves amounting to \$444 billion by the end of March 2000, there was much room for the Government to increase its spending.

6. S for Tsy responded that FS had explained in detail the use and level of fiscal reserves in his 1998-99 Budget Speech. The purposes of fiscal reserves were to meet the operating and contingency requirements of the Government, as well as to maintain the exchange rate stability of Hong Kong dollar. The Administration considered that an amount equivalent to 12 months' Government expenditure would be adequate to meet the operating and contingency requirements. As for the level of fiscal reserves for monetary purpose, the Government had adopted the Hong Kong dollar money supply under the M1 definition as the benchmark allowing a range of plus and minus 25% of M1. The Administration had to hold substantial public funds in reserve for meeting these three purposes. With the operating deficits in the past few years, the Administration had to monitor the finances closely so that the level of reserves would remain within the guidelines laid down in the 1998-99 Budget Speech. Nevertheless, S for Tsy took note of Mr TIEN's view that the Administration should conduct regular reviews of the level of fiscal reserves. She undertook to convey Mr TIEN's view to FS.

FB

7. As regards comparison with other advanced economies, S for Tsy said that the levels of fiscal reserves were set with reference to unique circumstances of individual economies and she was not aware of any international standard set on this regard.

### Investment returns from fiscal reserves

8. In reply to Mr NG Leung-sing's enquiry about investment returns from fiscal reserves in 1999-2000, S for Tsy advised that the total investment earnings of \$41 billion had greatly exceeded the budgeted return of about \$22 billion due to the revaluation gain from the Hong Kong equities held by the Exchange Fund (EF). Upon members' request, S for Tsy undertook to provide further information on the details of the revaluation gain after the meeting.

*(Post-meeting note: The information was circulated to members via LC Paper Nos. CB(1) 147 and 160/00-01.)*

9. Mr CHAN kam-lam pointed out that volatility in the financial market in recent years had led to fluctuations in the investment earnings of fiscal reserves which in return affected the position of government finances. He suggested the Administration explore alternative ways to present the investment returns in the Government's account with a view to reducing its adverse impact on public finances.

10. In response, S for Tsy advised that the Administration was aware of the increasingly volatile market conditions in recent years. To achieve investment returns with minimum risks, EF adopted a new long-term asset allocation strategy in 1999 which prescribed a 5% ceiling for the Fund's assets to be allocated to the Hong Kong equity market. When fully implemented, this measure would help reduce the adverse impact on investment earnings arising from fluctuations in the financial market. On the other hand, FB was conducting a review on ways to improve the accounting of investment returns for application in the long term. The Administration would take into consideration Mr CHAN's suggestion in the review.

#### Revision of Government fees and charges

11. Given the huge size of fiscal reserves and the possibility that the deficit budget of 2000-01 would turn into a surplus outturn, Mr LEE Cheuk-yan urged the Administration to continue freezing livelihood-related Government fees and charges so as to ease the burden on the general public.

12. In response, S for Tsy stressed that it was necessary for the Administration to revise fees and charges for Government services to uphold the important principle of "User-Pays". Some of the livelihood-related fees, such as water and sewage charges, had not been revised for six years. On water service, the Government was subsidizing over 50% of the cost. The current cost recovery rate could hardly achieve the target cost recovery rate set for the service. With the steady recovery of the local economy evidenced by the positive growth in GDP for five consecutive quarters since mid-1999 and with the improvement in the labour market with unemployment and underemployment rates dropping from 4.9% and 2.8% in March - May 2000 to 4.8% and 2.6% in June - August 2000 respectively, the Administration considered it the right time to consider revising livelihood-related fees and charges. Proposals on fees revision would be put forward to the Financial Affairs Panel for consultation very soon. As the majority of fee revision items would require legislative amendments, even after the Administration and Members had reached a consensus on the proposals, there would be a few months' time before the new fees could come into effect. The Administration was confident that the local economy would improve further by then.

13. As regards the final outturn for the 2000-01 financial year, S for Tsy said that the Administration was not optimistic that the forecast deficit of \$6.2 billion would turn out to be a surplus. The revenues from the Mass Transit Railway Corporation (MTRC) share offer had fallen short of the original estimates of \$15 billion by \$5 billion and investment returns from fiscal reserves might be lower than projected if recent fluctuations in the financial market continued. S for Tsy advised that a one percentage point decrease in the estimated rate of investment returns from fiscal reserves would correspond to a \$4 billion fall in Government revenue.

### Management of Government's estates

14. In reply to Mr CHAN Kam-lam's enquiry about review on the utilization of government sites, S for Tsy said that the Government Property Agency had made good progress in this area in recent years and a total of 95 under-utilized sites had been identified for redevelopment or alternative uses. Of these 95 sites, 51 sites had already been rezoned for other uses. She undertook to provide further details on the 95 sites, including their locations and ultimate uses, for members' reference after the meeting.

*(Post-meeting note: The information was circulated to members via LC Paper Nos. CB(1) 147 and 160/00-01.)*

15. On Mr James TIEN's enquiry about initiatives to achieve greater economical use in office space in view of implementation of the Voluntary Retirement Scheme (VRS) in the civil service, S for Tsy said that FB had already requested all bureaux and departments to review their accommodation needs in the light of implementation of VRS. However, since over half of the applicants of VRS were front-line staff who did not occupy any office space, it was envisaged that there would not be much savings in office space as a result of the implementation of VRS.

## **II Briefing by the Secretary for Financial Services on the Chief Executive's Policy Address 2000**

(Booklet on "International Financial Centre", and LC Paper No. BC(1)80/00-01 - Opening remarks for the Secretary for Financial Services and introductory remarks by the Executive Director (Banking Policy) of the Hong Kong Monetary Authority)

16. The Secretary for Financial Services (SFS) and the Executive Director (Banking Policy), Hong Kong Monetary Authority (ED(BP)/HKMA) briefed members on major initiatives to be undertaken by the Financial Services Bureau and HKMA in the coming year as set out in their speaking notes tabled at the meeting.

### Regulation of the financial services industry

17. Referring to the complaint that some banks had allowed customers to sell shares obtained from MTRC share offer without going through the formal account-opening procedure which brokers were required to comply with, Mr Henry WU raised concern that the different regulatory standards adopted by HKMA and the Securities and Futures Commission (SFC) might adversely affect the level playing field in the securities and futures market.

18. SFS stressed that the Administration was committed to improving the regulatory framework for the financial services sector in order to ensure a level playing field for all parties. He advised that one of the key proposals in the Securities and Futures Bill to be introduced into the Legislative Council shortly was to improve the existing regulatory regimes to ensure conformity in the regulatory approaches of HKMA and SFC. Moreover, the Administration would introduce legislative amendments to the Banking Ordinance (BO) (Cap. 155) to enhance HKMA's supervisory framework for authorized institutions (AIs) in line with the framework for SFC licensed intermediaries.

19. As regards the complaint mentioned by Mr WU, SFS remarked that the Stock Exchange of Hong Kong and SFC had already clarified that the content of the Client Agreement as specified in the exchange rules and provisions in the Code of Conduct for SFC registrants could be modified in order to facilitate one-off sale of shares obtained in initial public offerings (IPO), such as MTR IPO. On supervision of AI's securities business, ED(BP)/HKMA supplemented that as a general rule, HKMA would expect AIs to comply with the spirit and principles of SFC's Code of Conduct and Guidelines in carrying out their business and would conduct on-site examinations at AIs to ensure their compliance.

#### The Mandatory Provident Fund (MPF) System

20. In view of the low enrolment rate of MPF schemes, Mr CHAN Kam-lam expressed concern about the possibility of the full implementation of MPF System on 1 December 2000 and enquired about measures to boost enrolment in MPF schemes.

21. On the latest enrolment position of MPF schemes, SFS advised that up to the end of September 2000, about 80,000 employers representing about 30% of all employers in Hong Kong, had enrolled in MPF schemes. The estimated number of employees covered was about 700,000. Together with the some 800,000 employees already covered by different forms of retirement schemes, about 1.5 million out of the 3.3 million workforce had been covered by retirement schemes.

22. As regards measures to boost enrolment in MPF schemes, SFS said that the Mandatory Provident Fund Schemes Authority (MPFA) had organized over 900 activities since January 2000 to enhance public understanding of MPF System. MPFA would step up efforts in reminding employers and self-employed persons of their obligation to enrol in MPF schemes and not to wait until the last minute. The Administration expected that the enrolment situation would improve considerably in the coming months.

23. Concerning the need to undertake review on MPF System, SFS said that the System was brand new to Hong Kong, it was not surprising that problems would be encountered in the initial stage of implementation. The Administration and MPFA would closely monitor the situation and conduct reviews to improve the System as when necessary.

#### Improvement in financial infrastructure

24. Responding to enquiry about details of the proposal to establish the Commercial Credit Reference Agency (CCRA) for the banking sector, SFS said that HKMA had consulted the banking industry and the corporate sector on the proposal in July 2000. While there had been general support on the proposal which aimed to improve the banking industry's credit risk management and to reinforce borrower discipline, different views had been expressed on the institutional arrangements for setting up CCRA. HKMA would set up a Working Group with representatives from the banking and corporate sectors to look at the technical issues in detail. Report on the results and recommendations of the Working Group would be submitted to the Financial Affairs Panel when they were available.

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25. On Mr James TIEN's enquiry about the capacity of the US Dollar Clearing System launched in August 2000, ED(BP)/HKMA said that the System currently provided settlement service for a wide range of US dollar transactions within the Hong Kong time zone. In the long run, it would be possible to develop the System to include settlement services for various currencies. The ultimate goal of implementing the System was to encourage the trading and issuance of financial products denominated in various currencies in Hong Kong which would further enhance Hong Kong's status as an international financial centre.

26. On initiatives to improve the infrastructure of the securities market, SFS stressed that the long term goal was to promote and achieve electronic trading and scripless operation in the market. To this end, the Steering Committee on the Enhancement of Financial Infrastructure would be reconvened to widely consult the industry and market on the development of a scripless market and straight-through processing of financial transactions and to devise a practical action plan for implementation.

#### Lending to small and medium-sized enterprises (SMEs)

27. Some members pointed out that despite improvement in the liquidity position of banks, access to lending by SMEs remained difficult. Mr NG Leung-sing considered it helpful for HKMA to relax the provisioning levels in relation to loans granted to SMEs. Mr Philip WONG further suggested HKMA prescribe a percentage of SME loans in respect of a bank's loan portfolio.

28. ED(BP)/HKMA said that it would be inappropriate for HKMA to introduce the guidelines suggested by members. Nonetheless, HKMA was aware of the problem faced by SME sector and had conducted two surveys on the financing situation of SMEs since late 1999. The results of the survey released in June 2000 revealed that there was a gap between the demand for bank credits by SMEs and the supply of funds by banks. Banks had expressed concerns about SMEs' inadequate disclosure on financial information and their lack of discipline in the use of credits. SMEs generally perceived that banks had adopted conservative lending policies and relied mainly on the availability of collateral. HKMA believed that these problems had to be resolved with efforts from both sides. ED(BP)/HKMA advised that the Hong Kong banking sector had recovered strongly from the Asian financial turmoil and there was ample liquidity in the sector. Banks were actively looking for lending opportunities, including financing SMEs. Some banks had already taken active steps to improve their services to SMEs, such as by setting up dedicated business units focusing on SME loan market. Besides, banks were constantly encouraged to diversify their loan portfolio to include more corporate lending and not to concentrate only on property lending. Furthermore, the proposed establishment of CCRA would help banks in the assessments of creditworthiness of SME customers.

#### Competition in the banking industry

29. Mr Philip WONG expressed concern that small banks were driven to a disadvantaged position as fierce competition in the industry had lowered the lending rates and adversely affected the profits of small banks.

30. In response, ED(BP)/HKMA said that banks set their own interest rates based on their funding costs. As funding costs eased generally with increase in liquidity in the banking sector, interest rates in the market continued to decline. While HKMA would not prescribe any lending rates for the market, it was aware that some banks were lowering their lending rates particularly for mortgage loans in order to drive competitors out of the market. HKMA would continue to monitor the situation closely ensuring that banks managed their risks properly and that they were making genuine profits at their lending rates. On the concern about the viability of small banks, ED(BP)/HKMA said that there was no sign suggesting that the market was dominated by any particular types of banks. Small banks had developed their own strategies and many had recovered from the economic downturn as good and as quickly as other large banks. HKMA was confident that small banks would continue to innovate and adjust to the changing banking environment. As the regulator, HKMA would step up its efforts in providing an environment facilitating fair competition and innovation for the banking industry.

Banking practices in relation to credit cards

31. On Mr Albert HO's concern about ineffectiveness of the existing Code of Banking Practice for the protection of the interests of credit card holders, SFS said that HKMA had announced a set of proposals to improve the business practices of AIs in relation to the issue of credit cards early this month for consultation of the banking industry and the Consumer Council. The proposals pointed out the importance for banks to promote greater transparency in their credit card business for enhancing protection for consumers.

32. Regarding the concern about the exorbitant interests charged by banks on card holders, SFS said that the annual interest rate charged by banks was usually in the region of 20% to 30%. It was proposed that if banks were to charge rates higher than 48%, which was considered extortionate under the Money Lenders Ordinance (Cap. 163), they had to justify why such rates were not unreasonable or unfair. It was further recommended that banks should adopt a standardized method for calculation of interest rates and provide details on other charges so that customers would make their informed choices.

33. On the need of turning the Code into statutory rules so as to better safeguard the interests of card holders, SFS said that the Code was issued by the Hong Kong Association of Banks and the Deposit-taking Companies Association and endorsed by HKMA. HKMA monitored AI's compliance with the Code as part of its regular supervision and would take appropriate follow up action against breaches, including assessing the properness of the management of AIs. It would also review the need for amending BO to enhance protection for card holders if necessary. As for non-AI credit card issuers, the Finance Houses Association had issued a code of practice for its members which mirrored the Code.

**III Any other business**

34. There being no other business, the meeting ended at 6:05 pm.