

立法會
Legislative Council

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**Report of the Panel on Financial Affairs
for submission to the Legislative Council**

Purpose

This report gives an account of the work of the Panel on Financial Affairs during the Legislative Council session 2000-2001. It will be tabled at the meeting of the Council on 11 July 2001 in accordance with Rule 77(14) of the Rules of Procedure of the Council.

The Panel

2. The Panel was formed by a resolution passed by the Council on 8 July 1998 and as amended on 20 December 2000 for the purpose of monitoring and examining Government policies and issues of public concern relating to financial and finance matters. The terms of reference of the Panel are at **Appendix I**.

3. The Panel comprises 15 members, with Hon Ambrose LAU Hon-chuen and Hon Henry WU King-cheong elected as Chairman and Deputy Chairman respectively. The membership list of the Panel is at **Appendix II**.

Major work

Hong Kong's economic development

4. During the 2000-01 session, the Panel continued to provide a forum for LegCo Members to discuss with the Financial Secretary matters relating to the economic development in Hong Kong. Two briefings were held on 4 December 2000 and 4 June 2001 respectively. Pursuant to the decision of the House Committee, the briefing on 4 June 2001 had also served as a forum for LegCo Members to share with the new Financial Secretary,

Mr Antony LEUNG, his vision and aspirations in managing his policy portfolio, his views on how the fiscal reserves should be managed and used, the budgetary process for the 2002-03 Budget and how he would work with LegCo Members in bringing forward Government policies in enhancing Hong Kong's economic development.

5 At the meetings with the Financial Secretary, members explored the various means to enhance Hong Kong's competitiveness and to help the small and medium enterprises and the low-skilled worker confront the difficulties arising from the economic restructuring in Hong Kong. Given the large fiscal reserves, members considered that the Government had the capacity to help these sectors which were badly hit by the economic downturn through increasing public spending to stimulate the economy and create more job opportunities, freezing Government fees and charges, and providing more training and retraining for low-skilled workers.

6. While the former Financial Secretary stressed the importance of prudent public finance management to achieve fiscal balance, the new incumbent pointed out the need to keep a healthy and robust level of fiscal reserves to maintain international confidence and favourable credit rating for Hong Kong. Both saw new opportunities for Hong Kong in China's imminent accession to the World Trade Organization, in particular the financial services sector and related professional services.

7. The Panel noted that the Government's strategy for taking the economy forward was to invest in high-value-added industries, which in turn would spearhead the development of other industries, such as the service industry which provided employment opportunities for low-skilled workers. Hong Kong should be positioned as the "Manhattan Plus" in the South-east Asia region, aiming at becoming a centre for international finance, trade and telecommunications, tourism, transport services, health care services and higher education. The Panel also noted that the Government's strategy to facilitate long-term growth was to provide a suitable environment conducive to economic development. Short and medium term measures would include increasing quota for visitors from the Mainland to promote tourism and developing Hong Kong's financial services industry.

Management of public finance

Fiscal reserves

8. The management of public finance, in particular the level of fiscal reserves to be maintained, were major areas of concern of members of the Panel. Hong Kong's fiscal reserves had reached over \$440 billion, on the basis of a formula used by the Government for determining the appropriate level of the fiscal reserves since 1998. Some members considered that this

fiscal management policy ought to be relaxed so as to provide room for the Government to earmark more public funds to introduce new initiatives to improve the livelihood of the general public. In this respect, the Administration maintained that it was the long established budgetary strategy of the Government to maintain fiscal balance and to ensure that the growth of expenditure over time did not exceed the overall growth in the economy. The phenomenon of successive operating deficits had made it all the more important for the Government to adhere to the principle of maintaining prudence in the management of public finance.

9. The Panel noted that the purposes of the fiscal reserves as perceived by the Administration 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 therefore considered it important to hold substantial public funds in reserve for meeting these three purposes. To assist members in considering the subject from different perspectives, the Panel invited academics and experts in relevant fields to give their views on the management of the fiscal reserves. The Panel also decided to conduct a research into the management and use of fiscal reserves in overseas jurisdictions.

Tax regime

10. The Panel noted that in response to the successive operating deficits in the past few years, the Government had established the Task Force on Review of Public Finances and the Advisory Committee on New Broad-based Taxes 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 Administration had undertaken to report the work of the two bodies to the Panel at the first opportunity.

Government fees and charges

11. As the general public had yet to benefit from the recovery of the economy, the Panel discussed with the Administration the ways to ease the burden on the low and middle-income groups and the business sector. In reviewing Government fees and charges, the Panel noted that it was Government's policy to revise fees and charges for Government services to uphold the "user pays" principle. While members generally supported the adoption of this principle, some of them had expressed concern about the methodology in computing the costs for various Government services. To reduce the pressure of fee increases, the Administration was urged to make every endeavour to contain costs, in particular staff cost which accounted for over 80% of the total costs involved in providing Government services.

12. The Panel noted that notwithstanding its appeals for the freezing of Government fees and charges, the Administration announced in October 2000 the possibility of revising some of the livelihood-related fees and charges. The Panel welcomed the Financial Secretary's decision announced in November 2000 that there would not be any increase for four major categories of livelihood-related fees, namely water tariffs, sewage charges, school fees and medical fees. The decision was made having regard to the fact that despite the economic recovery, many people were still suffering from the effects of the financial turmoil and economic adjustments. The Panel noted that there was no predetermined timeframe as to when revision of these fees would be resumed. Relevant LegCo Panels would be consulted on the appropriate timing of the revision in due course. The Panel also welcomed the statement made by the new Financial Secretary in June 2001 that the Government would keep its earlier promise of not increasing the relevant livelihood-related fees and charges in 2001-02.

Government's financial reporting methodology

13. The Panel also noted that the Task Force set up by the Government in April 1999 to review the Government's financial reporting policy had completed its review. The main recommendation of the Task Force was that in addition to the existing cash-based Annual Accounts of the Government, a set of consolidated accrual-based accounts would also be prepared to help increase the Government's transparency and accountability.

Hong Kong Monetary Authority

14. During the session, the Panel received briefings by the Chief Executive of Hong Kong Monetary Authority (CE/HKMA) on three occasions on the work of HKMA in relation to its objectives of 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.

15. In respect of promoting banking stability, the Panel noted that the HKMA would pursue a number of banking reform measures to increase the competitiveness and to strengthen the soundness and robustness of the banking system. The proposed measures included the introduction of a deposit 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.

16. On consumer protection, some members expressed concern about the plan of some banks to raise charges for bank services. According to CE/HKMA, the revision of charges was a commercial decision and HKMA was not inclined to interfere in such matters. Importance had nevertheless been attached to

ensuring that banks would operate in a fair and transparent manner so that customers could make free and informed choices on banking services. The Panel noted that HKMA had conducted comparative studies on how the banking consumer protection and competition arrangements in Hong Kong were compared with those in two other jurisdictions i.e. the United Kingdom and Australia. The Panel also noted that the HKMA was reviewing the Code of Banking Practice with a view to enhancing protection of bank consumers.

17. Members of the Panel were seriously concerned about the Financial Secretary's decision to use \$3.699 billion from the Exchange Fund to purchase permanent office accommodation for the HKMA. In spite of the Financial Secretary's assertion that the legality of using the Exchange Fund to purchase permanent office accommodation for the HKMA was beyond question and that such use was in line with the law, the Panel had sought advice from the Legal Adviser of LegCo Secretariat who opined that against the constitutional requirement that public expenditure had to be approved by the Legislative Council under the Basic Law and the fact that the use of the Exchange Fund to purchase office accommodation for a government department was no doubt public expenditure, the reliance by the Financial Secretary on section 6(a) of the Exchange Fund Ordinance to justify charging that expenditure to the Exchange Fund would need very strong and compelling arguments. The CE/HKMA had provided to the Panel, upon its request, all the legal advice he had obtained on the matter. The Panel had also invited the new Financial Secretary to seek advice from the Department of the Justice so that the Panel could pursue the matter further with him in the next session.

18. On the question of accountability, some members considered that the present legislation did not provide sufficient checks on the work of HKMA. The Panel noted that an internal review was being conducted by HKMA of its organizational structure and powers with a view to further clarifying HKMA's policy objectives, authority and accountability arrangements.

Financial infrastructure

19. Since November 2000, the Panel was briefed on a number of legislative proposals which would have far-reaching impact on the financial infrastructure and practices of the banking, securities and futures industries in Hong Kong. These included the Securities and Futures Bill which aimed to consolidate ten existing ordinances governing the securities and futures market with a view to building up a modern and user-friendly regulatory regime for the development of a fair, orderly and transparent market; the Banking (Amendment) Bill 2000 which aimed to enhance the HKMA's supervisory framework for authorized institutions in line with the standards adopted by the Securities and Futures Commission (SFC) for regulating the licensed intermediaries; and the Banking (Amendment) (No. 2) Bill which aimed to raise the level of corporate governance in the banking industry.

20. In December 2000, the Panel decided to conduct a fact-finding visit to the United Kingdom and the United States with a view to understanding their financial systems and their regulatory framework. In April 2001, jointly with the Bills Committee which studied the Securities and Futures Bill and the Banking (Amendment) Bill 2000, the Panel visited London, Washington, DC and New York. In the 9-day visit, the delegation met with the government authorities and legislative committees responsible for financial services, regulators, major financial institutions and market players, and shared their experiences in introducing changes to the financial systems in face of challenges arising from globalization and the diversification of businesses of enterprises. A report containing the findings of the visit and recommendations of the delegation was tabled at the meeting of the Council on 4 July 2001.

Implementation of the Mandatory Provident Fund System

21. With the implementation of the Mandatory Provident Fund System on 1 December 2000, the Panel monitored the progress of enrolment and examined the difficulties encountered by the parties concerned. Members noted the low enrolment rate of MPF schemes, in particular in the Industry Schemes which were set up for the construction and catering industries. Much discussion was focused on the measures adopted by the Mandatory Provident Fund Schemes Authority (MPFA) to boost enrolment in the schemes and on the enforcement action against non-complying employers and self-employed persons. As the System was new to Hong Kong, members urged the Administration and the MPFA to monitor the implementation of the schemes closely and to improve the System as and when necessary. In March 2001, the Panel was consulted on the proposed amendments to the Mandatory Provident Fund Schemes Ordinance and the Mandatory Provident Fund Schemes (General) Regulation aiming at promoting protection of the interests of scheme members and removing ambiguities in the MPF legislation.

Other issues

22. Other issues which had been considered by the Panel were the problems arising from the initial public offering of the Mass Transit Railway Corporation, the work of the Advisory Committee on Human Resources Development in the Financial Services Sector of Hong Kong, the implementation of the Insurance Intermediaries Quality Assurance Scheme and the monitoring of the financial position of insurance companies and the compensation arrangements for insurance policyholders.

23. The Panel was also consulted on a number of legislative proposals to improve the corporate governance of listed companies, including proposals to facilitate preparation of Summary Financial Statements by listed companies for their shareholders, to streamline the existing requirements or facilitate

electronic transactions, and to provide a statutory corporate rescue procedure. The Panel also gave views on the Securities and Futures Commission Budget for 2001/02, new investor compensation arrangements, Strategic Change Plan for the Companies Registry and two Members' Bills, namely Bank of China (Hong Kong) Limited (Merger) Bill and The Bank of East Asia, Limited Bill.

24. From October 2000 to July 2001, the Panel held a total of 15 meetings.

Council Business Division 1
Legislative Council Secretariat
4 July 2001

Legislative Council

Panel on Financial Affairs

Terms of Reference

1. To monitor and examine Government policies and issues of public concern relating to financial and finance matters.
2. To provide a forum for the exchange and dissemination of views on the above policy matters.
3. To receive briefings and to formulate views on any major legislative or financial proposals in respect of the above policy areas prior to their formal introduction to the Council or Finance Committee.
4. To monitor and examine, to the extent it considers necessary, the above policy matters referred to it by a member of the Panel or by the House Committee.
5. To make reports to the Council or to the House Committee as required by the Rules of Procedure.

**Legislative Council
Panel on Financial Affairs**

Membership list

Chairman Hon Ambrose LAU Hon-chuen, GBS, JP

Deputy Chairman Hon Henry WU King-cheong, BBS

Members Hon James TIEN Pei-chun, GBS, JP
Hon Albert HO Chun-yan
Hon LEE Cheuk-yan
Hon Eric LI Ka-cheung, JP
Dr Hon David LI Kwok-po, GBS, JP
Hon NG Leung-sing, JP
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

(Total : 15 Members)

Clerk Mrs Florence LAM

Date 1 July 2001