

**Presentation by Secretary for Financial Services  
at the Special Meeting of the Finance Committee  
on Monday, 25 March 2002**

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 business environment and regulatory framework for an open, fair and efficient financial market.

2. The expenditure estimate of the Bureau for 2002-03 is \$165.4 million. Of this, personal emoluments will account for about 67%, departmental expenses for about 25% and general non-recurrent expenses for the remaining 8%. The total expenditure estimate for 2002-03 represents an increase of 8.7% over the revised estimate for 2001-02. This is mainly due to the need to reserve provision in the estimate to ensure that there are adequate resources to meet the expenses arising from hearings of tribunal cases as well as the possible creation of posts within the year.

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

**(1) Striving to improve the legal framework and enhancing the quality of the market**

4. First of all, I am very grateful to Members for their support in passing the Securities and Futures Ordinance on 13 March. In the coming months, we will work closely with the subcommittee recently set up by the Legislative Council to work out a number of pieces of subsidiary legislation for commencing the new ordinance. In drafting the subsidiary legislation, we will continue to consult the public, take the market views into account, make sure that the provisions are practicable, and facilitate compliance by the industry. I hope that the work can be completed by the end of this year so as to bring the new legislation into force at an early date. The implementation of the new legislation to set up a sound regulatory framework for the financial market can help enhance the quality of the local market by making it in line with international standards and attractive to local and overseas investors.

5. Our next legislative reform will focus on strengthening corporate governance. The Government has all along placed much emphasis on enhancing Hong Kong's corporate governance standards because good corporate governance is key to improving cost-effectiveness, increasing market attractiveness and investment confidence, as well as promoting the soundness of the financial system. We are committed to reforming and updating various ordinances and regulations to ensure that our system moves with the times. We have achieved good results in this area by working closely with the Standing Committee on Company Law Reform (SCCLR), the Securities and Futures Commission (SFC), the Hong Kong Exchanges and Clearing Limited (HKEx) and relevant professional bodies. At the meeting of the LegCo Panel on Financial Affairs on 14 March, we briefed Members on the major initiatives.

6. In the next twelve months, we will follow up the Phase I proposals contained in the consultation paper on corporate governance published by the SCCLR last July. The SCCLR will continue conducting the Phase II review and publish another consultation paper upon completion of the exercise. Moreover, the HKEx will follow up a series of proposed amendments to the Listing Rules regarding corporate governance.

### **(2) Strengthening the financial infrastructure and establishing a scripless market**

7. We will continue to improve the infrastructure of the financial market to enhance efficiency and reduce the overall operating costs of the market. In the coming year, we will take steps to establish a scripless market to further enhance the competitiveness of our market.

### **(3) Developing the financial market and increasing liquidity**

8. We will continue to develop Hong Kong's financial market proactively. As pointed out by the Financial Secretary in his Budget Speech, the financial services sector is an important area that can give impetus to our economy. We will strive to facilitate market development, increase liquidity and enhance our market system further.

9. The Financial Market Development Task Force I set up at the end of last year is considering ways to facilitate market development and the introduction of new investment products with a view to attracting more financial product issuers, capital and investors to Hong Kong. There are five Working Groups under the Task Force. They are severally responsible for examining ways to promote market development in the banking, securities and futures, debt, fund management and insurance sectors. For example, we are pursuing the recommendations made by the Task Force to facilitate the development of the debt market, which include the introduction of a series of measures to simplify the issuance procedures for retail bonds. These

measures mainly focus on the deficiencies in the existing issuance procedures for bonds. For instance, the Securities and Futures Commission will issue guidelines which will allow bond issuers to launch more promotional activities before issuing the bonds, thus enabling investors to make better preparation. Besides, the contents of the prospectus will also be simplified to reduce the cost for issuers. More subscription channels will also be allowed to make it easier for investors to invest. The above measures are expected to be implemented in the near future if no legislative amendments are involved. Other proposals, such as the proposed shelf registration system which will allow issuers to have the prospectus for the same series of debts registered only once and the subsequent issuing procedures to be simplified, cannot be implemented at least until the next LegCo session as legislative amendments have to be made.

10. To facilitate market development, we will streamline procedures so as to reduce the operating costs of the industry. At the beginning of this month, SFC published a consultation paper on licensing fees of intermediaries. Generally speaking, the application fees and annual licence fees for companies and individuals will be reduced by 3% from the existing levels. When the newly enacted Securities and Futures Ordinance comes into force, an additional discount of 5% will be offered to intermediaries who apply to migrate to the new single licensing regime in the first year of the two-year transition period. In other words, intermediaries may be able to enjoy a discount up to 8% in the application and annual fees during that period.

11. Besides, the fee that HKEx charges issuers for listing derivative warrants will also be reduced from the current HK\$80,000 for each issue to HK\$60,000 for the initial issuing of derivative warrants on underlying stocks or related investment instruments by the same issuer, and the fee for the subsequent issuing of derivative warrants on the same stock or related investment instruments by the same issuer will be further reduced to HK\$40,000 for each issue. Compared with the existing rate, the proposed fee represents a reduction of 25% to 50%. Corresponding fees payable to the SFC will also be adjusted downward.

#### **(4) Implementing banking reforms**

12. We will continue with the banking sector reforms to enhance the safety and soundness of the banking system, and to promote a level playing field. For example, the newly enacted Banking (Amendment) Ordinance 2000 and the Securities and Futures Ordinance level the regulatory standards applicable to banks and brokerage houses, minimize the regulatory overlap to reduce unnecessary regulatory expenses and enhance protection for investors.

13. To improve the stability of the banking system and offer a higher degree of protection for depositors, the Hong Kong Monetary Authority (HKMA) is working on the detailed design features of the proposed Deposit Insurance Scheme. It is expected that the drafting of the relevant legislation will be completed by the end of the year for submission to the Legislative Council.

14. The HKMA is working with the banking industry on the proposed sharing of positive consumer credit data to tackle the problem of rising personal bankruptcy cases. At the same time, we are working closely with the Privacy Commissioner for Personal Data and the Consumer Council to ensure that personal privacy is properly protected. Besides, banks have agreed to join the Commercial Credit Reference Agency on a voluntary basis so as to improve their credit risk management and reinforce borrower discipline, thereby further enhancing the soundness and stability of the banking system in Hong Kong.

#### **(5) Reviewing the role and functions of the Official Receiver's Office**

15. As regards the consultancy study to review the role and functions of the Official Receiver's Office (ORO) in handling insolvency cases, we expect the first stage of the study to be completed in mid 2002, and the public will then be consulted on the reform options. We will consider how to implement the selected option, having regard to the views of various parties.

#### **(6) Handling bankruptcy cases**

16. The Government has been working closely with the Hong Kong Association of Banks (HKAB), HKMA and the Office of the Privacy Commissioner for Personal Data in tackling the problem of rising consumer debts and bankruptcy cases. Since September last year, we have had two round-table meetings with the parties concerned to discuss the various measures to address this problem and have made good progress in implementing the measures. The parties concerned recognize the need for credit information to be shared among banks so that banks can be in a better position to assess applications for credit. In this connection, the Office of the Privacy Commissioner for Personal Data announced in February 2002 changes to the existing Code of Practice on Consumer Credit Data. These changes include extending the period of retention of credit application data and file activity data. Another measure relates to the HKAB's proposal on positive consumer data sharing. As I have just mentioned, the HKMA will discuss this proposal with the Office of the Privacy Commissioner for Personal Data and the Consumer Council.

17. The ORO and the Police have stepped up enforcement action against those who have abused the bankruptcy provisions. Furthermore, the HKMA reminds authorized institutions from time to time that they should

adopt prudent principles in issuing credit cards and extending personal loans to applicants.

### **(7) Mandatory Provident Fund System**

18. In the coming year, the Mandatory Provident Fund Schemes Authority (MPFA) will continue to actively monitor the operation of the Mandatory Provident Fund schemes, and protect the interests of scheme members through enforcement action and publicity. Besides, the MPF Schemes Operation Review Committee under the MPFA will commence the second phase of its review within this year to improve the existing legislation, with a view to ensuring the smooth and effective operation of the MPF system.

### **(8) Insurance**

19. Our objective is to maintain Hong Kong's position as a major international insurance centre. The Office of the Commissioner of Insurance (OCI) will continue to closely monitor the development of the insurance market in Hong Kong (such as the rapid growth of investment-linked life insurance products), observe international trends and take appropriate measures to ensure that our supervisory framework not only meets the needs of the market development in Hong Kong but is also on par with international standards. The OCI will review the relevant legislation and issue guidelines to the industry from time to time. For example, the OCI is consulting the industry on the draft guidelines relating to the corporate governance of insurance companies. As always, the OCI is working closely with the industry in promoting the development of the insurance industry in Hong Kong and enhancing the quality of insurance intermediaries so as to protect the interests of the insured.

### **(9) Economic analysis and statistics**

20. Another important task of the FSB is to provide economic analysis and statistical services. The Census and Statistics Department has completed the 2001 Census. In the coming year, we will continue to closely monitor the local and global economic developments and those of the Mainland, study and analyze the implications of these developments on Hong Kong's economy, and publish economic reports and provide economic forecasts on a regular basis.

### **Conclusion**

21. 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.