

立法會
Legislative Council

LC Paper No. CB(1) 428/02-03
(These minutes have been seen
by the Administration)

Ref: CB1/HS/1/01/1

**Subcommittee on draft subsidiary legislation
to be made under the Securities and Futures Ordinance**

**Minutes of meeting
held on Monday, 7 October 2002 at 8:30 am
in Conference Room A of the Legislative Council Building**

- Members present** : Hon SIN Chung-kai (Chairman)
Hon Margaret NG (Deputy Chairman)
Hon NG Leung-sing, JP
Hon Jasper TSANG Yok-sing, GBS, JP
Hon Henry WU King-cheong, BBS, JP
Hon Audrey EU Yuet-mee, SC, JP
- Members absent** : Hon Albert HO Chun-yan
Hon Eric LI Ka-cheung, JP
Dr Hon David LI Kwok-po, GBS, JP
Hon James TO Kun-sun
Hon Mrs Sophie LEUNG LAU Yau-fun, SBS, JP
Hon Ambrose LAU Hon-chuen, GBS, JP
- Public officer attending** : Miss Vivian LAU
Principal Assistant Secretary for Financial Services and
the Treasury (Financial Services)
- Attendance by invitation** : Mr Stephen PO
Director, Intermediaries Supervision Department,
Securities and Futures Commission
- Mr Joe KENNY
Director, Intermediaries and Investment Products,
Securities and Futures Commission
- Mrs Yvonne MOK
Associate Director, Intermediaries Supervision

Department, Securities and Futures Commission

Mr Leo LAM
Senior Manager, Intermediaries Supervision
Department, Securities and Futures Commission

Clerk in attendance : Ms Connie SZETO
Chief Assistant Secretary (1)4

Staff in attendance : Mr KAU Kin-wah
Assistant Legal Adviser 6

Mr S C TSANG
Senior Assistant Secretary (1)7

Action

I Confirmation of minutes of previous meetings

- LC Paper No. CB(1) 2607/01-02 -- Minutes of meeting held on 7 June 2002
- LC Paper No. CB(1) 2608/01-02 -- Minutes of meeting held on 9 July 2002
- LC Paper No. CB(1) 2609/01-02 -- Minutes of meeting held on 15 July 2002

The minutes of meetings held on 7 June, 9 and 15 July 2002 were confirmed.

II Consideration of draft subsidiary legislation

- LC Paper No. CB(1) 2494/01-02 -- Securities and Futures (Financial Resources) Rules

2. Members agreed that the Subcommittee would scrutinize the English version of the draft subsidiary legislation. The Legal Service Division (LSD) was requested to examine the Chinese version and follow up with the Law Draftsman on drafting and other technical matters. In the event that there were unresolved issues, LSD would raise them at meetings.

3. The Subcommittee deliberated (Index of proceedings attached at the **Annex**).

Action

Admin 4. The Administration undertook to take follow-up actions as follows:

- (a) Registered institutions (RIs) were not required to comply with the Securities and Futures (Financial Resources) Rules (FRR). In view of anticipated growth in the securities business of RIs in the long run which would become one of their core businesses, the Hong Kong Monetary Authority might need to consider how best to address risks associated with RIs' securities business.
- (b) Volatility in the securities market might affect the liquidity position of firms and pose operational problems for compliance with FRR requirements. The Securities and Futures Commission (SFC) would publish frequently asked questions and answers on its web site to help the industry understand the FRR requirements.
- (c) As different types of regulated activities would be subject to different provisions of FRR, the SFC would provide guidelines or tables to the industry setting out the relevant provisions applicable to different types of regulated activities.
- (d) The SFC would issue guidelines to the industry on criteria for approving non-dealing director to make declaration on the financial returns as required under clause 60(4) and (5) of FRR, as well as the procedure for making application to SFC.
- (e) The Administration would keep under review disclosure requirements on listed companies and consult the Legislative Council Panel on Financial Affairs on any new proposals involving legislative amendments.
- (f) The SFC would review the term "listed" used in the rules.
- (g) The SFC would consider improving the definition of "equity linked instruments" in clause 2 and clarify with the Hong Kong Exchanges and Clearing Limited on the Chinese character "鈎" in the definition.
- (h) The SFC would consider whether it would be appropriate to stipulate under clause 3(4) the criteria for SFC in granting approval for corporations to adopt different accounting principle.
- (i) The SFC would maintain close liaison with the industry to explain the new FRR and help identify appropriate software to facilitate compliance with requirements.

III Any other business

5. Members agreed to hold the next meeting on Thursday, 24 October 2002 at 2:30 pm.

Action

6. There being no other business, the meeting ended at 10:00 am.

Council Business Division 1
Legislative Council Secretariat
3 December 2002

**Proceedings of the meeting of the
Subcommittee on draft subsidiary legislation
to be made under the Securities and Futures Ordinance
on Monday, 7 October 2002 at 8:30 am
in Conference Room A of the Legislative Council Building**

Time marker	Speaker	Subject(s)	Action required
000000 - 000321	Chairman	Opening Remarks	
000321 - 002252	Administration SFC Mr Henry WU Chairman	Securities and Futures (Financial Resources) Rules (FRR) Confirmation that "fee receivables" which had not been outstanding for more than one month were accepted as liquid assets	
002252 - 002527	Mr Henry WU Administration SFC	Concern that registered institutions (RIs) were not subject to FRR RIs were subject to a range of stringent capital requirements including capital adequacy ratio, liquidity ratio and limits on risk exposures. The securities operations of brokerage firms and RIs were different and it would be impossible to work out a standard set of capital rules for the two kinds of intermediaries.	
002527 - 004008	Mr Henry WU Administration SFC Chairman	The securities business would become the core business of RIs in the long run. The Hong Kong Monetary Authority might need to consider how best to address risks associated with RIs' securities business.	Admin
004008 - 004630	Mr Henry WU Chairman Administration SFC	Concern that volatility in the market might pose operational difficulties for brokerage firms to comply with FRR The SFC would publish frequently asked questions and answers on its web site to help the industry understand the FRR requirements. It would consider granting waivers or modifications where appropriate if	Admin

Time marker	Speaker	Subject(s)	Action required
		firms had genuine difficulties in complying with the rule.	
004630 - 004849	Mr Henry WU SFC	Confirmation that "equity linked instruments" listed on the Stock Exchange of Hong Kong would be included in liquid assets calculation	
004849 - 005606	Mr Henry WU Chairman SFC Administration	As different types of regulated activities would be subject to different provisions of the FRR, to facilitate licensees, the SFC would provide guidelines or tables to the industry setting out the relevant provisions applicable to different types of regulated activities.	Admin
005606 - 005911	Mr Henry WU SFC	Enquiry on the criteria and application procedures for approving non-dealing director to make declaration on the financial returns as required under clause 60(4) and (5) The SFC would issue guidelines for reference by the industry.	Admin
005911 - 010208	Mr Henry WU Administration SFC	Concern that brokerage firms were subject to more disclosure requirements than listed companies The disclosure requirements on licensed corporations were important for SFC to monitor the financial position of firms and risks implications on investors and market. The Administration would keep under review disclosure requirements on listed companies and consult the Panel on Financial Affairs on any new proposals involving legislative amendments.	Admin
010208 - 011012	ALA6 Chairman Administration SFC	Concern about the consistency of the term "listed" used in FRR The SFC would review the term.	Admin
011012 - 011157	Chairman	Clause-by-clause examination of the	

Time marker	Speaker	Subject(s)	Action required
		draft FRR	
011157 - 011323	Mr Henry WU Mr Jasper TSANG Chairman Administration SFC	Clause 2 - query on whether the Chinese character "鈎" used in the definition of "equity linked instruments" was correct The SFC would clarify with the Hong Kong Exchanges and Clearing Limited on the matter.	Admin
011323 - 011440	ALA6 Administration SFC	Clause 2 - concern about the definition of the term "equity linked instruments" The SFC would consider improving the definition.	Admin
011440 - 012904	Chairman Mr Henry WU Administration SFC	Clause 3(4) - enquiry on SFC's criteria in granting approval for licensed corporations to adopt different accounting principle The SFC would consider whether it would be appropriate to stipulate the approving criteria in the clause.	Admin
012904 - 013032	ALA6 Mr Henry WU Administration SFC	Enquiry on whether software was available in the market to facilitate the industry to comply with new FRR requirements The SFC would maintain close liaison with the industry to explain the new requirements and help identify appropriate software to facilitate industry's compliance with the rules.	Admin
013032 - 013232	Chairman	Cancellation of meeting on 8 October 2002 and date of next meeting	

Note: The audio records of the above proceedings are kept at the Legislative Council Library.