

**立法會**  
**Legislative Council**

LC Paper No. CB(1)2289/01-02  
(These minutes have been seen  
by the Administration)

Ref : CB1/PL/FA/1

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

**Minutes of meeting held on**  
**Monday, 6 May 2002 at 10:00 am**  
**in Conference Room A of the Legislative Council Building**

**Members present** : Hon Ambrose LAU Hon-chuen, GBS, JP (Chairman)  
Hon Henry WU King-cheong, BBS (Deputy Chairman)  
Hon Albert HO Chun-yan  
Hon LEE Cheuk-yan  
Hon Eric LI Ka-cheung, 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  
Hon MA Fung-kwok

**Members absent** : Hon James TIEN Pei-chun, GBS, JP  
Dr Hon David LI Kwok-po, GBS, JP

**Public officers attending** : For item IV  
  
Mr Joseph YAM, GBS, JP  
Chief Executive  
Hong Kong Monetary Authority  
  
Mr David CARSE, JP  
Deputy Chief Executive  
Hong Kong Monetary Authority

Action

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

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

For item V

Ms AU King-chi  
Deputy Secretary for Financial Services

Ms Salina YAN  
Principal Assistant Secretary for Financial Services

For item VI

Miss Elizabeth TSE  
Deputy Secretary for the Treasury

Mr SHUM Man-to  
Director of Accounting Services

Mr Alan CALDER  
Assistant Director (Accounting Services)  
Treasury

Mr LAM Wai-man, Frankie  
Chief Treasury Accountant  
(Financial Management Services), Treasury

**Attendance by  
invitation**

: For item V

Mrs Alexa LAM  
Executive Director,  
Intermediaries and Investment Products  
Securities and Futures Commission

Mr Stephen PO  
Director, Intermediaries Supervision  
Securities and Futures Commission

Action

For item VI

Mr GOH Lin-piao  
Partner, Accenture Co Ltd.

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

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

Mr WONG Tin-yau, Anthony  
Senior Assistant Secretary (1)8

For item I

Ms Elyssa WONG  
Deputy Head  
(Research & Library Services Division)

Mr Jackie WU  
Research Officer 1

Mr Michael YU  
Research Officer 7

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**I Confirmation of minutes of meeting and matters arising**  
(LC Paper Nos. CB(1)1489/01-02, CB(1)1565/01-02 and  
CB(1)1626/01-02)

The minutes for the meetings held on 4 February, 21 February and  
1 March 2002 were confirmed.

Draft research outline on Governance of the Hong Kong Monetary Authority  
(LC Paper No. CB(1)1628/01-02(01))

2. The Chairman informed that members had agreed at the meeting on  
9 April 2002 to discuss the subject of "Governance of the Hong Kong Monetary  
Authority (HKMA)" at the meeting scheduled for 5 July 2002, and to request the  
LegCo Research and Library Services Division (RLSD) to conduct a research to  
facilitate discussion on the subject. He invited members to refer to the draft  
research outline prepared by RSLD and comment on it.

Action

3. Mr Henry WU noted that the research outline had proposed to compare the governance, structure and accountability arrangements of HKMA with selected government departments and statutory bodies. He asked if other statutory bodies, such as the Estate Agents Authority, should also be included to make the scope of research more comprehensive. Mr SIN Chung-kai and Mr CHAN Kam-lam were of the view that the departments and statutory bodies to be covered in the research were already quite representative and would provide meaningful comparison with HKMA. Members agreed.

4. Mr CHAN Kam-lam suggested that in addition to comparing the governance of HKMA with that of other government departments, the research should also compare HKMA's governance with comparable regulatory authorities of overseas jurisdictions. His views were shared by Mr SIN Chung-kai. Members agreed.

5. As the scope of the research had been expanded, members agreed to allow more time for RLSD to undertake its task. After deliberation, it was agreed that the research should be completed in August 2002 and discussion on the subject would be deferred to September 2002. The date of the September meeting would be decided at a later stage.

(In view of some members' concern about the impacts of the proposed accountability system of principal officials on the governance of HKMA, members agreed that the research should also cover this issue. (see paragraph 30 - 35 below))

**II Information papers issued since last meeting**

6. The Panel noted that no information papers had been issued since last meeting.

**III Date and items for discussion for next meeting**  
(LC Paper Nos. CB(1)1628/01-02(02) and (03))

Regular meeting on 3 June 2002

7. Members agreed to hold the next regular meeting of the Panel on Monday, 3 June 2002, at 10:45 am to discuss the following items:

- (a) Monitoring of the financial position of authorized insurers in Hong Kong and the compensation arrangements for insurance policy holders; and

Action

- (b) Proposed improvement measures for the future operation of the Rating and Valuation Department.

Special meeting on 13 June 2002

8. The Chairman advised that the Financial Secretary (FS) had been invited to brief the Panel on the overall economic development of Hong Kong at a special meeting on Thursday, 13 June 2002, at 2:30 pm.

9. The Chairman reminded members that in concluding the discussion on the subject of “Consumer protection in the banking sector” at the special meeting on 26 February 2002, it was agreed that the subject should be revisited in June in the light of HKMA’s review on its role in protecting consumers in the banking sector, the operation of the revised Code of Banking Practice and the enforcement mechanism for the Code. Members agreed to revisit the subject at the special meeting on 13 June 2002 and to invite the parties, including the Hong Kong Association of Banks, the Deposit Taking Companies Association, and the Consumer Council, which gave views on the subject at the previous discussion to attend the meeting.

10. On some members’ suggestion to revisit the subject on “Proposal on sharing of positive consumer credit data” (last discussed at the meeting on 9 April 2002) in June 2002 in view of recent developments in the proposal, the Chairman said that a decision on the timing for discussing this subject would be made in consultation with the Administration and the Privacy Commissioner for Personnel Data.

*(Post-meeting note: The Privacy Commissioner for Personnel Data (PC) has advised that it will issue a public consultation document on the proposal by end of June 2002. Both the Administration and the PC are of the view that it will be more meaningful to discuss the related issues after the consultation document has been released. The Clerk will keep the matter in view.)*

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

LC Paper Nos. CB(1)1538/01-02(01), CB(1)1628/01-02(04) and CB(1)1628/01-02(05))

11. The Chairman welcomed the Chief Executive and the three Deputy Chief Executives of HKMA to the meeting.

12. At the invitation of the Chairman, the Chief Executive of HKMA (CE/HKMA) presented the HKMA Annual Report 2001 and briefed the Panel on its major areas of work.

Action

13. CE/HKMA said that despite the confluence of economic risks Hong Kong was confronted with, the Hong Kong dollar exchange rate and market interest rates had remained stable which reflected the strong confidence in the Linked Exchange Rate System and Hong Kong's economic prospect. CE/HKMA, however, cautioned that Hong Kong, being a small open economy without capital controls, would continue to face risks posed by proxy hedge for investment in other economies. He stressed that the HKMA would continue to monitor and deal with these risks prudently.

14. CE/HKMA said that there were growing concerns about the rising trend of personal bankruptcies, credit card charge-off and delinquency ratios. The HKMA had been working closely with authorized institutions (AIs) to monitor the situation and ensure that their credit card business was conducted in a prudent manner. The HKMA had continued to study possible measures to assist homeowners in negative equity. Latest records showed that although there was an increase in terms of number of cases, the total assets in negative equity were on the decline. Moreover, the HKMA would continue to upgrade Hong Kong's financial infrastructure.

15. Lastly, CE/HKMA also briefed members on the performance of the Exchange Fund (EF). Members noted that for the first four months of 2002, EF had recorded an investment income of HK\$9.3 billion and its accumulated surplus had risen by HK\$3.9 billion.

Discussion with members

*Banking stability*

16. Mr CHAN Kam-lam expressed concern that relaxation in the entry criteria to the banking industry might fuel competition in the market and pose new pressure on the profit margins of banks. Coupled with the anticipated implementation of the deposit insurance scheme which would likely increase banks' operating cost, Mr CHAN was concerned that banks might be induced to engage in high-risk businesses.

17. In response, CE/HKMA stressed that the HKMA, as the regulator for banks, would ensure in its supervisory process that banks managed their risks appropriately and monitor institutions' asset quality, lending policies and business practices closely.

18. As regards implementation of the deposit insurance scheme, the Deputy Chief Executive, HKMA (DCE/HKMA) advised that the consultation period for the second public consultation paper on the scheme would be due on 31 May 2002. The HKMA noted the industry's concern about the cost of the scheme and would keep it as low as possible. The proposed differential premium system, which meant that the best managed banks would pay less premium, and

Action

the compensation ceiling below \$100,000 for depositors might help to lower the operating cost of the scheme.

19. Mr NG Leung-sing appreciated the HKMA's efforts in maintaining the stability of the Hong Kong dollar and the banking system. In view of the increasing trend of consolidation in the banking sector, Mr NG asked if the increasing number of bank mergers and acquisitions would adversely affect competitiveness of smaller banks.

20. CE/HKMA said that smaller banks would inevitably be affected during the process of consolidation of the banking industry. He stressed that although the HKMA welcomed consolidation in the industry as it helped maintain the long-term competitiveness of the industry, merger and acquisition activities were entirely commercial decisions of banks having regard to factors like globalization of financial markets and rapid development in technology. The HKMA's role was to facilitate the process and to ensure that relevant issues were properly dealt with.

21. As regards the impact of removing the three-building condition on foreign banks, CE/HKMA explained that the new measure was to provide foreign institutions with greater flexibility in doing business in Hong Kong. There had not been any significant increase in the number of new branches of these banks in the market since the removal of the condition.

22. Mr SIN Chung-kai noted that the HKMA issued the Exchange Fund Bills and Notes (EFBN), and that a number of large corporations also issued other bonds and debt instruments. In this regard, Mr SIN asked whether the HKMA would consider reducing the issuance of EFBN.

23. CE/HKMA said that EFBN was a means for AIs to obtain liquidity to facilitate their daily operation. The EFBN, as a component of the monetary base, helped stabilize the market interest rates and enhance stability of the banking system. The EFBN also provided reliable interest rate benchmarks against which private sector debt was priced. The HKMA therefore considered it appropriate to continue issuing EFBN.

*Issues related to credit cards*

24. Responding to Mr Henry WU's enquiry about reasons for the deterioration of quality of credit card receivable in the fourth quarter of 2001 as evidenced by the high delinquency and charge-off ratios, CE/HKMA explained that the situation was related to the downturn of the economy. DCE/HKMA supplemented that the rise in delinquency ratio was attributed partly to the rise in unemployment and to structural changes in the market, such as a sharp rise in number of personal bankruptcies in recent quarters, and a shift in business of banks to consumer finance.

## Action

25. As regards measures to address the problem, CE/HKMA advised that in addition to issuing circulars to AIs setting out measures they could take to prevent abuses of the bankruptcy provisions, the HKMA also conducted special on-site examinations of AIs which were active credit card issuers to ensure that their credit card business were conducted prudently.

26. On Mr CHAN Kam-lam's comment that the high delinquency ratio on credit card receivable might be caused by the high interest rate charged by banks on outstanding balances, CE/HKMA said that the proposal for banks to share positive consumer credit data would enable banks to conduct better assessments of the creditworthiness of individual borrowers and in turn should bring real benefits to good borrowers in terms of more favourable pricing.

### *Capital flows between the Mainland and Hong Kong*

27. In response to Mr NG Leung-sing's enquiry on the HKMA's plans to promote greater mobility of capital flows between the Mainland and Hong Kong, CE/HKMA said that the move would benefit both economies in terms of stimulating economic growth and creating more jobs. The HKMA's work in this regard was to continue discussion with the Mainland authorities on developing and enhancing financial infrastructure to facilitate activities between the two economies. During such process, care should be taken to avoid hasty financial liberalization of the Mainland market that might undermine its monetary and financial stability. As regards how Renmanbi (RMB) deposit-taking in Hong Kong could enhance capital flows between the two economies, CE/HKMA said that promoting RMB deposit-taking in Hong Kong would help Hong Kong capture financial intermediation activities denominated in RMB and improve the availability of credits in the market.

28. Mr CHAN Kam-lam noted in CE/HKMA's presentation material that the ratio of Mainland's GDP to that of Hong Kong was 7:1 in 2001, while the ratio of Mainland's direct investment in Hong Kong to that of Hong Kong's direct investment in the Mainland was 1:3 in 2000. He commented that the ratios had not taken into account factors, such as cyclical changes in the two economies, and that a more meaningful comparison should be made with statistics for the past few years. He was of the view that the mobility of capital flows from the Mainland would depend on the pace of financial liberalization in the Mainland. CE/HKMA shared Mr CHAN's view. He added that the statistics were only to illustrate the asymmetric capital flows between Hong Kong and Mainland.

### *The HKMA and the proposed accountability system for principal officials*

29. Mr Albert HO expressed concern that the proposed accountability system for principal officials (the accountability system) might affect the governance of the HKMA. He was concerned that when Financial Secretary (FS), the principal official for monetary and financial policies, became a political



Action

appointee under the accountability system, the work of the HKMA might be vulnerable to political interference. In this connection, Mr HO recalled that there was a proposal to clearly set out the objectives and functions of HKMA in a legislation. Mr HO asked whether the Administration had taken forward the proposal.

30. Miss Emily LAU shared Mr Albert HO's concern, and further suggested to the Administration that arrangements should be put in place to ensure the independence of the HKMA upon the implementation of the accountability system. These arrangements might include setting up an independent body to replace the existing Exchange Fund Advisory Committee (EFAC) to monitor the operation of the HKMA, or setting out the objectives, mandates, structure and accountability arrangements of the HKMA in legislation.

31. Mr TO Kun-sun remarked that the independence of the HKMA could be best ensured through enhancing transparency in its operation and strengthening its accountability arrangements. In this regard, Mr TO suggested that the HKMA should provide more monetary and banking information to the public at regular intervals.

32. While recognizing members' concerns, CE/HKMA said that he did not envisage that the accountability system would have any significant impact on the governance of the HKMA. He stressed that the objectives, powers and responsibilities of the HKMA had been clearly laid down and arrangements were in place to ensure the HKMA discharged its functions effectively and professionally in a highly transparent and accountable manner. The existing arrangements were operating well. As such, there should not be concern about political interference in the HKMA and there was no imminent need to clarify the HKMA's functions and powers by legislative means. Nonetheless, he noted that the Administration would review the detailed arrangements under the accountability system and that the Panel would discuss the governance of the HKMA at a future meeting.

33. In view of members' concern about the impact of the proposed accountability system on the governance of HKMA Miss Emily LAU suggested, and members agreed, that this subject should be included in the research to be conducted by RLSD.

34. In respect of provision of monetary and financial information, CE/HKMA said that the HKMA had been disseminating such information on a regular basis. He stressed that the HKMA would endeavour to provide more information as long as disclosure of such information would not adversely affect market operations.

Action

*Remuneration of HKMA staff*

35. Miss Emily LAU said that while CE/HKMA had reduced his salary voluntarily by 10% since October 2001, she noted that pay cuts for senior executives in the banking sector were on the whole more than 10%. In this regard, she expressed concern that the salary for CE/HKMA might not be in line with his counterparts in the financial services sector. Miss LAU also opined that the HKMA should provide more information on the staff salary structure of the HKMA for public information.

36. CE/HKMA clarified that the salary levels of the HKMA staff were determined by FS in consultation with EFAC. He had never been involved in his own salary adjustment process, with the only exception when he voluntarily suggested to FS in October 2001 that his salary be reduced by 10%. The HKMA had been very forthcoming in providing information on the staff salary structure and the level of transparency was on a par with listed companies in the private sector. In response to Miss LAU's enquiry about the pay trends in the banking sector, CE/HKMA said that according to the annual survey on salary levels and trends in the financial services sector, the general trend was a pay freeze rather than a reduction of over 10% as noted by Miss LAU.

*The Exchange Fund*

37. Mr SIN Chung-kai recalled that during the HKMA's last briefing in February 2002, some members had requested the HKMA or the Administration to consider alternative arrangements for the fiscal reserves placed with EF in sharing the annual investment return to EF in order to reduce the volatility in the annual return to the fiscal reserves. He enquired about the progress of discussion on this matter.

38. CE/HKMA said that a number of alternative arrangements were available for calculation of annual return to the fiscal reserves, such as reverting to the "deposit" arrangement, or using a three-year moving average of the rate of investment return. He had given his views on the matter to FS. CE/HKMA stressed that the final decision was with FS and not the HKMA.

39. On Mr SIN Chung-kai's enquiry about how the purchase of the new office accommodation for the HKMA was reflected in the accounts of EF, CE/HKMA advised that the new accommodation was a fixed asset of EF. He added that the total procurement cost of \$3.7 billion was paid by instalments. The deposit and first instalment amounting to \$558 million was reflected accordingly in the accounts of EF (i.e. p.87 of HKMA Annual Report 2001).

40. Noting the HKMA's hope, when market conditions permit, in disposing the remaining Hong Kong equity portfolio acquired in August 1998 by the end of 2002, Mr SIN Chung-kai asked if the HKMA would consider winding up the Exchange Fund Investment Limited (EFIL) afterwards. CE/HKMA said that no

Action

disposal timetable had yet been determined by EFIL. According to the investment guideline of EF, about 5% of the Fund was to be invested in Hong Kong equities. He was of the view that EFIL should continue to manage the equity portfolio of EF. The HKMA would review the role of EFIL at a later stage.

41. The Chairman thanked representatives of the HKMA for attending the meeting.

**V Proposed Amendments to the current Financial Resources Rules**  
(LC Paper No. CB(1)1628/01-02(06))

42. At the Chairman's invitation, the Deputy Secretary for Financial Services (DS/FS), and the Executive Director, Intermediaries and Investment Products, Securities and Futures Commission (ED/SFC) briefed members on the proposed amendments to the current Financial Resources Rules (FRR).

43. ED/SFC explained that the proposals were to apply a 80% haircut on certain stocks and warrants pledged with securities margin financiers and brokerage firms as margin collateral, and to include in a firm's ranking liabilities the amount of its total borrowings secured by re-pledging margin clients' securities that was in excess of 65% of the total amount of loans extended to margin clients.

44. DS/FS said that the proposals would address problems arising from imprudent and risky practices adopted by some firms of accepting large quantity of "illiquid stocks" as collateral for margin loans; and pooling securities belonging to "non-borrowing or low borrowing margin clients" to repledge to banks for loans for financing the firms' business. The proposed amendments would require a firm which accepted "illiquid collateral" to maintain more liquid capital, and that which relied heavily on borrowings secured by clients' securities for its operational funding to bring in additional liquid capital to better manage the financial risks brought on by pooling and repledging clients' securities. The proposals would reduce risks posed to a securities firm and its clients, enhance protection to clients and reduce systemic risks in the market.

45. The Director, Intermediaries Supervision, SFC then gave a presentation explaining how the proposed amendments of 80% haircut and 35% gearing adjustment rates (i.e. 100%-65%) would apply to a firm's liquid capital for FRR purpose.

46. Mr Henry WU said that the market generally supported introducing measures to reduce brokerage firms' risks. The industry also noted that in addressing its concerns, the SFC had revised the haircut and gearing adjustment from the originally proposed rates of 90% and 50% to 80% and 35% respectively. Mr WU added that while the industry noted that the proposed amendments would

Action

address risks of firms as they operated under financial pressure during the current market downturn, in the long run it was necessary for the SFC to review the arrangement for firms to pool and replege clients' securities, as well as the need to tailor regulatory capital requirements to firms based on their line of business and the regulated activities for which they were licensed.

47. The Administration and the SFC noted Mr WU's comments and confirmed that the various issues would be reviewed in the context of an overall review of the existing regulatory framework in respect of risk management of intermediaries and market participants. The SFC aimed at issuing a White Paper setting out the proposals for public consultation later in 2002.

48. Mr CHAN Kam-lam expressed concern that the definition of "illiquid collateral" might have a negative labeling effect on the identified stocks and warrants and would adversely affect their value and market liquidity.

49. In response, ED/SFC explained that no particular stocks or warrants would be labeled as "illiquid collateral" per se. The haircut rate would apply to those stocks and warrants pledged as margin collateral which would likely take more than one month to liquidate based on their respective trading volume during the previous six months, or those stocks and warrants that constituted 5% or more of the market capitalization of the shares or the issue size of the warrants. The analysis would be applied only to those stocks and warrants identified as the three largest collateral holdings of each firm's top 20 margin clients. As the collateral portfolios of firms were different, their "lists of illiquid collateral" would be different. Hence, the concept of "illiquid collateral" would not create negative impact on particular securities. She added that it was already an existing requirement for securities dealers and margin financiers to submit information on the collateral portfolios of their top 20 margin clients in their FRR returns submitted to the SFC. Such information was also provided to the Exchanges. Hence, firms should not have difficulty in complying with the new requirement.

50. As to Mr Albert HO's enquiry about the mechanism for calculating the trading volume of stocks and warrants in the previous six-month period, ED/SFC explained that the average monthly turnover of the stocks and warrants would be taken into account. She added that the SFC had discussed the method of calculation with the industry. In order to facilitate compliance of firms, the SFC would allow one month's lead time for firms in the calculation so that the relevant "six-month" period would be the six months immediately preceding the month prior to the month in which the calculation was made.

51. Mr Albert HO recalled that during the discussion of the Securities (Margin Financing) (Amendment) Bill 1999, there was a proposal to restrict the amount of credit which a financier could obtain from banks by repledging clients' collateral to 120% of the aggregate amount of margin loans the firm granted to its clients. Mr HO remarked that such a restriction should help address risks of

## Action

pooling and enhance clients' protection. Hence, he sought clarification on the need to introduce the 35% gearing adjustment. He was concerned that the gearing adjustment, which seemed to be more stringent than the 120% credit limit, would pose operation problems to firms.

52. In response, ED/SFC said that the 120% limit on repledging clients' securities for bank credits was stipulated in the Code of Conduct for securities margin financiers. The Code was guidelines promulgated by the SFC setting out the expected business practices of financiers and was non-statutory where breach of it would not result in legal sanctions. On the proposed gearing adjustment, ED/SFC advised that the rule would be effective in reducing risks and protecting clients as FRR was a subsidiary legislation which had legal effect.

53. As to the concern that the proposed gearing adjustment would affect the general operation of the industry, in particular that of small scale firms, ED/SFC said that the rate had been revised downward to 35% from the original 50% in response to market comments. The SFC considered that the revised rate had struck a balance between protecting the investors and allowing flexibility for the brokerage firms to operate. She added that according to SFC's estimate, about 95% of securities margin financiers and dealers providing securities margin financing would not be required to inject additional capital as a result of the proposed amendments. Hence, the impact on the industry would be minimal. The SFC would work with the affected firms to ensure compliance with the new requirements. In the event that there were genuine difficulties in complying with the new requirements, the SFC would consider granting temporary modifications where appropriate.

54. Mr Albert HO expressed support for the proposed amendments in FRR. He also welcomed the SFC's move to review FRR regularly to meet market needs and development.

## **VI Proposed replacement of Government Financial Management Information System**

(LC Paper No. CB(1)1628/01-02(07))

55. At the Chairman's invitation, the Director of Accounting Services (D/AS) gave a presentation on the Administration's proposal to replace the Government Financial Management Information System (GFMIS).

### Functions of the new Government Financial Management Information System

56. Mr LI Ka-cheung asked how the new GFMIS would facilitate the implementation of accrual accounting in the Government and what improvement in efficiency in provision of financial information would be expected from the new system.

Action

57. In response, D/AS advised that, at present, the Government accounting system was a cash-based system where the limited accrual accounting requirements were met by manual operations. However, with the implementation of accrual accounting system in 2002-03, the greater demand for accrual reporting would require the provision of system functionality and automated processes for accrual accounting. The fixed assets functionality of the new GFMIS would support better tracking, utilization and management of government assets. As regards enhancement in efficiency, D/AS said that the current GFMIS was able to provide financial and accounting information within a reasonable period of time. It was envisaged that the new GFMIS would greatly enhance efficiency and reduce manpower requirement in various processes.

58. In reply to Mr NG Leung-sing's enquiry about the additional function of automatic fund checking for transactions under the new GFMIS, D/AS explained that it was a standard accounting procedure to check the availability of funds under the relevant Heads or Subheads prior to arranging procurement of goods and services. While the current GFMIS was equipped with this function, the new GFMIS would automate the process and enhance the efficiency.

Cost and benefit analysis of the new system

59. On Mr CHAN Kam-lam's enquiry about the actual savings to be achieved with the implementation of the new GFMIS, D/AS advised that the annual savings from 2007-08 onward would amount to \$40.3 million, which included realizable savings, mainly from the anticipated deletion of 32 posts, and notional savings arising from reduction in overhead costs and office space. The annual recurrent cost of the new GFMIS was \$44.6 million which included mainly system maintenance and provision of technical support services. Hence, the recurrent operating cost of the new GFMIS would be slightly more than that of the current system. The Deputy Secretary for the Treasury (DS/T) drew members' attention to Annex C of the information paper which provided a cost-benefit analysis for replacing the system.

60. On Mr Henry WU's enquiry about breakdown on non-recurrent costs, the Chief Treasury Accountant (Financial Management Services), Treasury advised that among the estimated cost of \$91.1 million for the acquisition of hardware, software and network equipment, about \$55 million would be used for obtaining software licences (i.e. rental cost for using the software) from the system developers. On the other hand, about \$158 million out of the total of \$168.2 million for provision of system development and implementation services would be used for engaging service providers to design, build and implement the system.

Action

Development of the new Government Financial Management Information System

61. Mr CHAN Kam-lam asked whether the Administration had considered the feasibility of engaging local universities or research institutes to develop the software systems for the new GFMIS which might save cost and would benefit the development of information technology (IT) industry in Hong Kong. Mr Eric LI stressed the importance of providing timely maintenance service for the new system and opined that service providers which were local companies might better meet the requirement in this respect. He suggested that this factor should be taken into account in the selection of service providers.

62. In respect of the development of the software systems for the new GFMIS, D/AS said that the Administration had considered the pros and cons of developing software systems using its in-house resources vis-à-vis procuring systems available in the market. Given that suitable and reliable software systems were available in the market and that there was successful experience in overseas governments and large corporations, such as the Hong Kong Jockey Club and the MTR Corporation Limited, of using procured software systems in their financial management systems with appropriate modifications, the Administration considered the present proposal viable. D/AS added that in view of the enormous scale and complexity of the new GFMIS, development of the software systems would involve high risks and take considerable time. As the current GFMIS was outdated and maintenance and technical support for the system could not be guaranteed beyond 2007, in the event that development of the software systems failed, the replacement programme would be jeopardized.

63. As regards whether the local universities had been approached on the matter, D/AS confirmed that the Administration had not contacted the universities. Nonetheless, he noted and agreed to consider Mr CHAN Kam-lam's suggestion.

Treasury

64. On the provision of maintenance and technical support services for the new GFMIS, D/AS concurred that a local service provider would be able to provide more speedy service. The Administration would give due regard to this factor in selecting the service provider for the project. He added that given the large scale of the project, it was envisaged that interested international and local companies would enter into joint ventures in bidding for the project. The successful bidder would be responsible for providing the hardware and software equipment, system design and development, project implementation, and maintenance and technical support services. It was likely that a local-based service provider would be assigned to take up the maintenance and technical support services for the whole system.

65. Mr SIN Chung-kai expressed support for the proposal to replace the GFMIS. He suggested that the Administration should consider the feasibility of outsourcing the entire system to the private sector to achieve greater cost-

Action

effectiveness. Pointing out that the hardware equipment would become obsolete and depreciate quickly over time, he considered it not cost-effective for the Government to buy and own the computer hardware of the new system.

66. Mr LI Ka-cheung concurred that by outsourcing the entire system, the hardware equipment could be upgraded where necessary and the system could be benefited from development of latest technology in the market. On the other hand, he opined that the Administration should allow flexibility for potential service providers to submit plans for developing the new GFMIS rather than setting out the requirements rigidly in the tender document. Such arrangement would provide more options in the tendering exercise and might also help cut down the cost for the project.

67. In reply, D/AS said that it was also the intention of the Administration to outsource the entire project. However, in order to protect the integrity of the new system in the event of unforeseeable circumstances, such as operational problems in the service providers, the Administration would retain the ownership of the hardware. This arrangement would enable speedy take over of the operation of the system should any problems arise and would minimize disruption in service to the user departments. D/AS stressed that the cost for the hardware equipment contributed only a small portion of the total cost for the entire system.

Protection of intellectual property right of Government developed systems

68. Mr MA Fung-kwok expressed concern about protection of intellectual property (IP) right of the newly developed system. He also urged the Administration to formulate a policy for using the IP rights accumulated from software programmes developed by service providers on behalf of the Government. He opined that appropriate uses of IP rights might generate revenue for the Government and benefit the development of local IT industry.

69. In response, D/ST assured members that the Administration was committed to protecting the IP rights of Government developed systems. In scrutinizing government contracts and agreements, the Department of Justice would ensure that relevant IP rights would be retained by the Administration as appropriate.

70. In this connection, the Chairman noted that exploitation of IP rights was a much broader subject beyond the scope of the GFMIS proposal. He nevertheless requested the Administration to consider providing information, as far as possible, on past experiences on protection of the IP rights for software systems and further uses of such rights for members' reference after the meeting.

*(Post meeting note: the Administration provided the requested information which was circulated to members vide LC Paper No. CB(1)2282/01-02(01) dated 15 July 2002)*



Action

71. The Chairman said that members were supportive of the proposal in principle and urged the Administration to consider their views. He also drew members' attention that the Administration had planned to submit the proposal for approval of the Finance Committee at its meeting on 24 May 2002.

**VII Any other business**

72. There being no other business the meeting ended at 1:00 pm.

Legislative Council Secretariat  
17 July 2002