

Written Submission to the Fifth Meeting of the  
Bills Committee on Companies (Amendment) Bill 2004

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Overview

My main concern over the definition of subsidiaries is that any changes should not impair Hong Kong's status as an international financial centre. As Hong Kong is developing her debt market, and subsequently, securitization will have substantial growth potential. Given Hong Kong's excellent financial infrastructure, e.g., US dollar clearing, Euro clearing, active foreign exchange market, etc, Hong Kong has no doubt will become a major player in securitization. It is a common practice for financial institutions (FIs) to set up subsidiaries in form of Special Purpose Entities (SPEs), so that FIs can circumvent the reporting of many financial activities. In other words, many of the activities of the SPEs are off-balance sheet items. The off-balance items can help FIs to generate greater flexibility and enhance their economic performance.

Specific Issues

- Though adequate regulation and supervision is necessary for the development of financial market, if the revision of SPE definition requires the reporting of previous off-balance items, it will not be beneficial to Hong Kong.
- When compared with other markets, variations in adopting the International Accounting Standard (IAS) on SPE consolidation are observed. My view is that Hong Kong should consider such variations, and should not adopt the IAS instantly.
- When the issue of consolidation is examined, it is necessary to consider securitization and other speculative off-balance sheet activities separately.
- If off-balance sheet activities of SPEs have to be consolidated, then the revised definition should lay down clearly which kinds of off-balance sheet activities are to be consolidated. A close working relationship with the Hong Kong Monetary Authority (HKMA) on this issue is necessary, as supervision of FIs is one of the major duty of the HKMA.