

LegCo Panel on Financial Affairs

List of follow-up actions arising from discussions in previous sessions
(Position as at 5 May 2005)

Subject	Date(s) of relevant meeting(s)	Follow-up actions	Outcome
1. Reinsurance cover for employee compensation insurance policies	20 December 2001	The Administration was requested to provide written reports, on a quarterly basis, on the up-to-date market situation of reinsurance coverage for terrorist activities on treaty arrangements and the Administration's assessment of the continued need for the \$10 billion facility as approved by Finance Committee on 11 January 2002.	The eleventh quarterly report provided by the Administration was circulated to members vide LC Paper No. CB(1)650/04-05(01) on 7 January 2005.
2. Loan Guarantee Scheme for Severe Acute Respiratory Syndrome Impacted Industries	Referred by the Finance Committee at its meeting held on 25 April 2003	The Administration undertook to report the operation of the Scheme to the Panel one year after its implementation, and to submit progress report at six month intervals thereafter.	The third report on the operation of the Scheme was circulated to members vide LC Paper No. CB(1)1420/04-05(01) on 29 April 2005.
3. Briefing by Financial	6 December 2003	The Administration was requested to provide	The Administration provided an

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Secretary on Hong Kong's latest overall economic situation		information in due course regarding the estimated number of jobs created in Hong Kong as a result of the "individual visit" scheme for the Mainland visitors to Hong Kong and the Closer Economic Partnership Arrangement (CEPA) between the Mainland and Hong Kong.	information paper on "Mainland and Hong Kong Closer Economic Partnership Arrangement - Impact on Hong Kong economy" (LC Paper No. CB(1)1259/04-05) to the Panel on Commerce and Industry (CI Panel). The paper was discussed at the meeting of CI Panel held on 19 April 2005.
4. Briefing on the work of the Hong Kong Monetary Authority (HKMA)	17 February 2005	Given that 24 AIs were required to make appropriate changes to their safe deposit agreements to rectify inconsistencies of the exemption of liability clauses with the Code of Banking Practice by 31 March 2005, HKMA was requested to consider disclosing the names of the AIs concerned, and to provide a written report to the Panel after 31 March 2005 on the compliance situation of the AIs concerned, as well as the actions taken/to be taken by HKMA on them.	The reply from HKMA was circulated to members vide LC Paper No. CB(1)1269/04-05(01) on 14 April 2005.
5. Proposal of re-structuring the filing fees for non-Hong Kong companies	3 January 2005	The Administration was requested to report to the Panel in due course on the situation about non-Hong Kong companies' compliance with the new requirement for them to file a full annual return. The report should include, inter alia, the statistics on compliance, non-compliance and late returns,	Information awaited.

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		enforcement actions taken/to be taken (if any), and measures proposed by the Administration to improve the situation.	
6. Proposals to enhance the oversight of public interest activities of auditors and establish a Financial Reporting Council (FRC)	7 March 2005	<p>The Administration was requested to provide a paper covering the following items:</p> <p>(a) The unique circumstances in Hong Kong that justified the establishment of a FRC;</p> <p>(b) Experience of overseas jurisdictions in the regulation of accounting profession, including the following aspects -</p> <p>(i) the regulatory regime, in particular, whether the accounting profession was subject to a self-regulatory regime;</p> <p>(ii) whether the self-regulatory body or other bodies were responsible for:</p> <ul style="list-style-type: none"> ● investigating suspected irregularities of auditors of listed corporations in relation to the audit of published accounts or financial statements of such corporations and the preparation of any auditors' reports 	<p>The paper provided by the Administration was circulated to members vide LC Paper No. CB(1)1312/04-05(07) on 29 April 2005.</p> <p>The item will be discussed under Agenda Item V of the Panel meeting to be held on 6 May 2005.</p>

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		<p>for inclusion in prospectuses (i.e. the functions of the Audit Investigation Board proposed by the Administration); and</p> <ul style="list-style-type: none"> ● enquiring into suspected non-compliance of the financial reports of listed corporations with relevant accounting requirements under the legislation and rules (i.e. the functions of the Financial Reporting Review Committee proposed by the Administration); <p>(iii) the funding arrangements for performing the functions mentioned in item (ii) above.</p>	
7. Management of Government investment incomes	7 March 2005	<p>I. The Administration was requested to provide a paper to address the following issues raised by members:</p> <p><u>Dividend payout policy</u></p> <p>(a) To provide the reasons why the Kowloon-Canton Railway Corporation (KCRC), Airport Authority (AA) and Hong</p>	The Administration's response to item I was circulated to members vide LC Paper No. CB(1)1189/04-05(03) on 1 April 2005.

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		<p>Kong Science and Technology Parks Corporation (HKSTPC) had not paid any dividends to the Government in some of the years where profits were recorded;</p> <p>(b) The Administration should put in place a proper mechanism to govern the dividend payout policy of public corporations. The mechanism should cover the circumstances under which the dividends payable to the Government should be paid or waived; and</p> <p>(c) It was noted that HKSTPC signed a shareholder agreement, which covered the dividend payout policy, with the Government in 2004. The same arrangement should be adopted for other public corporations.</p> <p><u>Role of public officers appointed to boards of public corporations</u></p> <p>(d) The Administration should strengthen the role of public officers appointed to public corporations in ensuring the protection of Government investment interests;</p>	

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		<p><u>Value for money audit</u></p> <p>(e) Apart from the MTR Corporation Limited (MTRCL) which was a listed company, other public corporations should be required to conduct value for money audit to ensure that the public moneys invested in the corporations were properly used, and the audit reports should be published to enhance transparency.</p> <p>II. The Administration was requested to provide a paper to address the following points of concern raised by members on the land grant policy and the impact of the policy on government revenue:</p> <p>(a) Land and revenue generated from its sale were important sources of income for the Government. The Administration should ensure the effective use of the limited land resources and that its land grant policy was able to safeguard public interest, maximize financial gains for the community, achieve fair competition and maintain market stability;</p> <p>(b) The Administration should ensure that the land granted to public corporations was put</p>	<p>The Administration's response to item II was circulated to members vide LC Paper No. CB(1)1395/04-05(01) on 27 April 2005.</p> <p>As agreed at the meeting on 7 March 2005, the Panel on Financial Affairs will hold a joint meeting with the Panel on Planning, Lands and Works to follow up the issues relating to land grant policy and its impact on government revenue. The joint meeting is scheduled for 24 May 2005 from 2:30 pm to 3:30 pm</p>

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		<p>into effective use for the development of their core business, such as the large piece of land on the Airport Island granted to AA. It was suggested that any part of the land which had not been used for the core business of AA should be returned to the Government and put up for sale through open bidding;</p> <p>(c) The policy of subsidizing commercially operated infrastructural projects in the form of land was in contravention of the Basic Law;</p> <p>(d) The policy of subsidizing commercially operated infrastructural projects in the form of land, which was a remnant of the colonial era, no longer suited the present day circumstances. In particular, it was unjustified for the Government to apply the policy to MTRCL since the listing of the corporation in October 2000;</p> <p>(e) The Government, in considering whether it should subsidize a commercially operated infrastructural project in the form of land, should ensure that the granting of such a subsidy would be in the interest of the public. In this connection, the Administration should</p>	

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		<p>set up a transparent and professional mechanism for:</p> <ul style="list-style-type: none"><li data-bbox="981 443 1637 603">(i) assessing the value of the land involved and the financial gains to be achieved by putting up the land for sale through open bidding; and<li data-bbox="981 651 1637 762">(ii) assessing the rate of return for the Government on the assumption that such a subsidy has been granted to the project. <p>(f) As pointed out by the Hong Kong Institute of Surveyors, the application of the “green field site” principle in the premium assessment for the two railway corporations imposes an important assumption (i.e. no railway development) into the valuation process and thus would have significant implications for the premium assessment. Other things being equal, the availability of railway development would normally enhance accessibility and thus land values. In other words, the application of the “green field site” principle in the premium assessment for the two railway corporations had resulted in the loss of revenue. The Administration was requested</p>	

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		<p>to address this concern and provide the justifications for applying the principle in premium assessment; and</p> <p>(g) On the land premia paid by MTRCL and KCRC for each of the development projects set out in Appendices II and VII to the Administration's paper issued in February 2005 (LC Paper No. CB(1)1020/04-05(07)), the Administration was requested to explain the basis for calculating the amounts of the land premia involved.</p>	
<p>8. Legislative proposal to provide profit tax exemption to offshore funds</p>	<p>4 April 2005</p>	<p>I. To facilitate members' understanding of the proposed exemption and deeming provisions, the Administration was requested to provide the following information:</p> <p>(a) The operation of offshore funds in Hong Kong;</p> <p>(b) The operation of the existing provisions in IRO relating to profits tax liability and exemption for offshore funds and onshore funds, including the effect of the provisions on resident and non-resident investors (including individuals, partnerships, trusts and</p>	<p>The paper provided by the Administration was circulated to members vide LC Paper No. CB(1)1425/04-05(02) on 3 May 2005.</p>

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		<p>corporations) of the funds;</p> <p>(c) The operation of the proposed exemption provisions in respect of offshore funds, including the effect of the provisions on resident and non-resident investors (including individuals, partnerships, trusts and corporations) of the funds;</p> <p>(d) The operation of the proposed deeming provisions in order to -</p> <p>(i) prevent abuse of the exemption or round-tripping; and</p> <p>(ii) address the concern about the beneficial owners of a fund concealing their interests in the fund to circumvent the proposed 30% threshold.</p> <p>II. To facilitate members' understanding of the impact of the proposal to provide profits tax exemption to offshore funds, the Administration was requested to take the following actions:</p> <p>(a) To set out the financial implications of the</p>	

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		<p>proposal in the following two scenarios, including the estimated amount of tax revenue foregone -</p> <ul style="list-style-type: none"> (i) The exemption provisions apply with retrospective effect to the year of assessment commencing on 1 April 1996; or (ii) The exemption provisions apply without retrospective effect. <p>(b) To quantify the economic benefits of the proposal, including -</p> <ul style="list-style-type: none"> (i) The estimated number of jobs to be created for the financial services sector and other sectors; and (ii) Other benefits for the economy of Hong Kong. 	
<p>9. Securities and Futures (Amendment) (No. 2) Bill 2005 - Proposals to give statutory backing to major listing requirements</p>	<p>4 April 2005</p>	<p>To facilitate members' consideration of the proposals and to address members' concern about the checks and balances on the powers of the Securities and Futures Commission (SFC) in the regulation of listing, the Administration was</p>	<p>The information was circulated to members vide LC Paper No. CB(1)1463/04-05(01) on 5 May 2005.</p>

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		<p>requested to provide information on practices in overseas jurisdictions (including United Kingdom and Canada), as follows:</p> <ul style="list-style-type: none"><li data-bbox="904 485 1637 600">(a) The compositions of relevant overseas regulatory bodies and whether they are comparable to that of SFC;<li data-bbox="904 647 1637 842">(b) The powers of relevant overseas regulatory bodies, in particular whether they had the power to impose civil fines on issuers, directors and officers and if they had, the upper limit; and<li data-bbox="904 890 1637 1005">(c) The mechanism for reviews/appeals on the regulatory decisions relating to listing made by relevant overseas regulatory bodies.	