

**立法會**  
**Legislative Council**

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**Panel on Financial Affairs**

**Minutes of special meeting**  
**held on Wednesday, 19 October 2005 at 8:30 am**  
**in Conference Room A of the Legislative Council Building**

- Members present** : Hon Bernard CHAN, JP (Chairman)  
Hon Ronny TONG Ka-wah, SC (Deputy Chairman)  
Hon James TIEN Pei-chun, GBS, JP  
Ir Dr Hon Raymond HO Chung-tai, S.B.St.J., JP  
Hon James TO Kun-sun  
Hon CHAN Kam-lam, SBS, JP  
Hon SIN Chung-kai, JP  
Hon Emily LAU Wai-hing, JP  
Hon Jeffrey LAM Kin-fung, SBS, JP  
Hon Andrew LEUNG Kwan-yuen, SBS, JP  
Hon Albert Jinghan CHENG
- Members attending** : Dr Hon Philip WONG Yu-hong, GBS  
Hon LAU Kong-wah, JP
- Members absent** : Hon LEE Cheuk-yan  
Dr Hon David LI Kwok-po, GBS, JP  
Hon Abraham SHEK Lai-him, JP  
Hon WONG Ting-kwong, BBS  
Hon CHIM Pui-chung  
Hon TAM Heung-man

- Public officers attending** : Mr Frederick MA, JP  
Secretary for Financial Services and the Treasury
- Mr Alan LAI, GBS, JP  
Permanent Secretary for Financial Services and the Treasury  
(Treasury)
- Mr Kevin HO, JP  
Permanent Secretary for Financial Services and the Treasury  
(Financial Services)
- Ms Julia Leung Fung-yee  
Executive Director (External)  
Hong Kong Monetary Authority
- Clerk in attendance** : Miss Salumi CHAN  
Chief Council Secretary (1)5
- Staff in attendance** : Ms Pauline NG  
Assistant Secretary General 1
- Ms Connie SZETO  
Senior Council Secretary (1)4
- Ms May LEUNG  
Legislative Assistant (1)8
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Action

- I. Briefing by the Secretary for Financial Services and the Treasury on the relevant policy initiatives featuring in the Chief Executive's 2005-2006 Policy Address**  
(LC Paper No. CB(1)20/05-06(01) — Paper provided by the Administration

Relevant documents

- (a) Address by the Chief Executive at the Legislative Council meeting on 12 October 2005 — “Strong Governance For the People”; and
- (b) The 2005-06 Policy Address — “Policy Agenda”)

Briefing by the Secretary for Financial Services and the Treasury

At the Chairman's invitation, the Secretary for Financial Services and the Treasury (SFST) briefed members on the initiatives relating to the Financial Services and the Treasury Bureau (FSTB) in the Chief Executive (CE)'s Policy Address 2005-06 and the progress in implementing the on-going policy initiatives. SFST highlighted the following points:

- (a) The financial services sector was one of the key pillars of the Hong Kong economy contributing to 13% of its Gross Domestic Products (GDP). The Administration would continue to devote efforts to enhance Hong Kong's position as a major international financial centre (IFC) and the premier capital formation centre for the Mainland. These initiatives were aimed at promoting market development and improving market quality.
- (b) The major efforts to review and improve the regulatory regime of the financial services sector and promote market development were as follows -
  - To implement the Basel II for enhancing the banking sector's risk management capability and stability;
  - To introduce a Securities and Futures (Amendment) Bill into the Legislative Council (LegCo) in the 2005-06 session for improving the regulation of listing and giving statutory backing to important listing requirements;
  - To establish the Financial Reporting Council (FRC) as soon as possible for enhancing the oversight of auditors and quality of financial reporting of listed entities. For this purpose, the FRC Bill had already been introduced into LegCo;
  - To promote corporate governance of the financial market of Hong Kong;
  - To provide a conducive environment for the further development of the asset management industry. The bills to abolish estate duty (i.e. Revenue (Abolition of Estate Duty) Bill 2005) and provide profits tax exemption for offshore funds (i.e. Revenue (Profits Tax Exemption for Offshore Funds) Bill 2005) had been introduced into LegCo;
  - To further expand Renminbi (RMB) business in Hong Kong. The Central Authorities had given in-principle agreement to extend the scope of RMB business in Hong Kong. New measures would further promote economic integration between

the Mainland and Hong Kong and facilitate cross-border spending, and improve the mechanism for channelling RMB in Hong Kong back to the Mainland;

- To continue to seize the opportunities brought by the development of the Mainland economy, in particular, to strengthen co-operation with the Pan-Pearl River Delta (Pan-PRD) on financial services. The recent delegation of the Hong Kong's financial services sector to visit Fujian Province in September 2005, which was the first financial services delegation under the Pan-PRD Regional Co-operation Framework, had enabled Hong Kong's financial services sector and entrepreneurs to have a better idea of the latest development and investment opportunities in Fujian, and to showcase Hong Kong's strengths as an IFC with an aim to enhance economic co-operation between the two places. Looking ahead, the Administration would host a Financial Services Forum in March 2006 to highlight Hong Kong's role as the prime capital formation and global investment platform for the Mainland; and
  - To leverage on the opportunities arising from the Pan-PRD regional co-operation, as well as the preferential access given to the financial services sector under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA). The CEPA III entered on 18 October 2005 would enable Hong Kong's financial services providers to gain quicker access to the Pan-PRD region and better promote the regional economy.
- (c) On fiscal policy, the Administration pledged to continue to strive to achieve fiscal balance, avoid deficits, keep the budget commensurate with the growth rate of GDP and in line with the principles of keeping expenditure within the limits of revenue and "Big Market, Small Government".

## Discussion

### *Containing the growth of directorate posts*

2. Referring to the Administration's pledge to keep expenditure within the limits of revenue, Ms Emily LAU urged that the Administration should exercise stringency in the creation of new directorate posts in the civil service. Ms LAU remarked that it was the public expectation that the Administration should contain growth in the number of directorate posts given that there were already about 1 500 such posts in the establishment. She called on the Administration to critically review the need for creation of directorate posts in implementing the new and on-going policy initiatives.

3. SFST took note of Ms Emily LAU's view and assured members that in considering creation of new posts in the civil service for meeting increasing needs of the community, the Administration would uphold the principle of managing public finances in a prudence manner and ensure that the new posts were fully justified.

*Hong Kong's position in the global financial market*

4. Despite paragraph 3 of the Administration's paper indicating that Hong Kong had achieved high rankings in the financial markets and financial services sectors in the world, Ms Emily LAU noted from the World Bank's recent survey on global business environment that Hong Kong's overall position had fallen from 4<sup>th</sup> to 7<sup>th</sup> in the world. Ms LAU expressed concern about the decline in Hong Kong's position in this regard and enquired about the Administration's measures to improve the business environment of Hong Kong. In this connection, she also pointed out that the Administration should present a comprehensive picture of Hong Kong's rankings in different aspects in the global market to provide a balanced view on Hong Kong's overall position and performance.

5. SFST advised that the rankings referred to in paragraph 3 of the Administration's paper were published information. He stressed that it was important for Hong Kong to enhance its competitiveness in the global financial market through continuous efforts to promote market development and improve market quality. With promising prospects in the securities market, the robust banking sector, and rapid development in the insurance and asset management businesses in Hong Kong, SFST envisaged that the financial services sector would further enhance its competitiveness and strengthen Hong Kong's position as a major IFC.

6. The Chairman also referred to paragraph 3 of the Administration's paper and expressed concern that the present establishment of over 180 authorized insurers in Hong Kong had resulted in keen competition in the insurance sector. In response, SFST said that the presence of a large number of insurers had underpinned Hong Kong's status as an IFC. Competition in the insurance market would benefit consumers by lowering insurance premium.

*Expanding RMB business in Hong Kong*

7. Mr Jeffrey LAM appreciated the Administration's efforts in enhancing Hong Kong's position as a major IFC, such as the implementation of Basel II and the proposal to abolish estate duty. He further indicated support of the business sector for the new initiative of expanding RMB business in Hong Kong and enquired about the relevant details.

8. SFST thanked Members for the support in enacting the Banking (Amendment) Ordinance 2005 for implementing Basel II in Hong Kong. He also advised that since RMB business was introduced in Hong Kong in early 2004, it had

been making good progress. At the end of August 2005, total RMB deposits in Hong Kong had reached RMB22.4 billion. As regards the new initiative of expanding RMB business in Hong Kong, SFST advised that the Central Authorities had given in-principle agreement. It was believed that the proposal would further promote economic integration between the Mainland and Hong Kong and facilitate cross-border spending, improve the mechanism for channelling RMB in Hong Kong back to the Mainland, and strengthen Hong Kong's status as an IFC. The Executive Director (External), Hong Kong Monetary Authority (ED(E)/HKMA) added that the new measures would include raising the limit for exchange between RMB and Hong Kong dollar per person per transaction, relaxing the current RMB remittance limit imposed on Hong Kong residents, removing the credit limit for RMB cards issued by banks in Hong Kong, expanding the definition of designated merchants to cover more sectors, permitting the designated merchants to open RMB cash deposits accounts and exchange the RMB deposits one-way into Hong Kong dollar, and allowing Hong Kong residents to issue RMB cheques for a limited amount for consumer spending within Guangdong Province. ED(E)/HKMA advised that the People's Bank of China and the relevant authorities would soon finalize the detailed arrangements of the newly expanded areas and make an official announcement.

9. Mr SIN Chung-kai enquired about whether the Administration had discussed with the Mainland authorities on establishing Hong Kong as an overseas RMB clearing centre for the Mainland. ED(E)/HKMA advised that new measures of developing RMB business in Hong Kong aimed at diversifying the existing limited range of RMB services available in Hong Kong. It was believed that these measures would help establish a clearing and settlement platform for RMB transactions in Hong Kong in the long run. Regarding the timetable for establishing Hong Kong as an overseas RMB clearing centre, ED(E)/HKMA advised that RMB was not yet fully convertible and there was concern about possible adverse impact on RMB exchange rate arising from free flows of RMB. The expansion of RMB business in Hong Kong had to be implemented in a progressive manner and compatible with the process of financial liberalization in the Mainland. SFST stressed the need to expand the scope of RMB business on a sound footing to achieve a win-win situation for the Mainland and Hong Kong.

10. Mr Jeffrey LAM pointed out that the business sector welcomed early implementation of the new measures. He requested the Administration to brief Members on the details as early as practicable.

*Investment of Mainland funds in Hong Kong*

11. Mr SIN Chung-kai suggested that the Administration should consider extending the Capital Investment Entrant Scheme (CIES) to cover Mainland residents so as to promote investment of Mainland funds in Hong Kong.

12. In response, SFST said that the Mainland had implemented a number of measures to allow some institutions such as the National Social Security Fund, to invest funds in overseas markets, including Hong Kong. Given that there was still restriction on Mainland individuals making capital investments overseas, SFST said that Mr SIN Chung-kai's suggestion of incorporating Mainland residents under the CIES might not be appropriate. Nonetheless, the Administration would step up efforts in promoting the investment of Mainland funds in Hong Kong.

*Promoting Hong Kong as an asset management centre*

13. On measures to promote Hong Kong as an asset management centre, Mr Andrew LEUNG enquired about the Administration's plan to publicize the implementation of the Revenue (Abolition of Estate Duty) Ordinance after its enactment so as to promote the holding of assets in Hong Kong. Moreover, Mr LEUNG noted from recent press reports that there was concern about the benefits for Hong Kong to be brought by the proposal of exempting offshore funds from profits tax. He asked how the Administration would address the concern.

14. SFST appealed for Members' support for the early passage of the Revenue (Abolition of Estate Duty) Bill 2005. He advised that the Administration would launch publicity programmes both locally and in overseas markets, including making promotion through contact networks of the Economic and Trade Offices and overseas visits of government officials, to attract investment of foreign assets in Hong Kong. Regarding the proposal of exempting offshore funds from profits tax, SFST stressed that while it would be difficult for the Administration to quantify the economic benefits for Hong Kong, the proposal would help attract new offshore funds to Hong Kong and encourage existing offshore funds to continue to invest in Hong Kong. He added that anchoring offshore funds in Hong Kong market could also help maintain international expertise, promote new products, further develop the local fund management industry, and ultimately reinforce the status of Hong Kong as an IFC. The Administration had consulted the funds industry on the proposal in the past years and gained its support. SFST supplemented that the Revenue (Profits Tax Exemption for Offshore Funds) Bill 2005 was being scrutinized by a Bills Committee of LegCo. The Bills Committee and the industry had raised concerns on the details of the Bill and the Administration would endeavour to address the concerns to facilitate the early passage of the Bill.

*Developing human resources in the financial services sector*

15. Mr Ronny TONG pointed out that besides tax concession measures, investment decisions were influenced by other more important factors, such as economic and political environment of Hong Kong, and the presence of high quality services professionals. He was concerned that the Administration had not allocated sufficient resources for the development of human resources for the financial and professional services sectors. He urged that the Administration should give due consideration to enhance professional services quality in formulating policies and programmes for promoting economic development of Hong Kong.

16. In reply, SFST emphasized that the Administration fully recognized the importance of investing in education to upgrade the quality of workforce for promoting economic development of Hong Kong and enhancing Hong Kong's status as an IFC. He pointed out that the education sector remained the largest sector in terms of Government annual expenditure with an average of over \$50 billion. It was the Government's policy that no person would be denied of the opportunity to receive education due to a lack of means. The Administration had been providing various financial assistance schemes to help needy students. Regarding the development of human resources for the financial services and professional services sectors, SFST said that with rapid economic development in the Mainland and globalization in the financial markets, human resources training needed to be geared towards the provision of quality services to the Mainland and the rest of the world. To this end, it was important to upgrade biliterate and trilingual proficiency of students and the local workforce. SFST stressed that the Administration and the business community would step up concerted efforts in the development of human resources in the financial services sector. He advised that the Advisory Committee on Human Resources Development in the Financial Services Sector, which comprised members from various segments of the financial services sector, including banking and brokerage, as well as academia, was a dedicated committee set up by the Government for promoting the work in this area.

*Regulation of warrants trading in Hong Kong*

17. In view of recent public concern about risks associated with warrants trading, Mr CHAN Kam-lam enquired about the regulatory regime of such trading activities and measures to be taken by the regulator to enhance protection for investors.

18. On the regulation of warrants trading, SFST stressed that the Administration was committed to improving the regulatory regime of the financial market with a view to enhancing protection for investors and upgrading market quality. To achieve these aims, the Administration would continue to strengthen investor education on risks involved in warrants trading and support actions of the Securities and Futures Commission (SFC) and the Hong Kong Exchanges and Clearing Limited (HKEx) to combat malpractices in the market. As regards concern about recent incidents of



suspected malpractices in warrants trading in the market, SFST advised that the SFC and the HKEx were conducting investigation into the matter. The Administration had also requested the SFC and the HKEx to look into the concerns raised by public and the market, and to submit a report as soon as practicable.

19. In this connection, the Chairman said that the Panel had agreed to invite the Administration, the SFC and the HKEx and relevant parties to discuss the subject of regulation of warrants trading at a meeting of the Panel. The Clerk would liaise with the Administration on the timing for discussion of the item.

*Business environment of the small and medium sized local brokers*

20. Mr CHAN Kam-lam noted that the small and medium sized local brokers had expressed concern about the increased competition in business from banks and large overseas brokerage firms. While agreeing that investors would benefit from market competition, Mr CHAN considered that the small and medium sized local brokers performed an important role in the financial market and the Administration should address their concern.

21. While appreciating the contribution made by the small and medium sized local brokers in building up Hong Kong as an IFC, SFST agreed that changes in the business environment of the securities brokerage industry in recent years did bring challenges to this sector. It was vital for the small and medium sized local brokers to upgrade their services and enhance their competitiveness to meet the challenges. In this connection, the Working Group on the Business Environment of the Stockbroking Industry (the WG) was formed in early 2003 by the Administration, the SFC and the HKEx to devise measures in this area. The WG had submitted its report with a number of recommendations, majority of which had been put into implementation. These measures included lowering the fees and charges imposed by the SFC and the HKEx on the small and medium sized local brokers, and encouraging them to participate in placement activities organized by public bodies, such as the securitization of the government tolled tunnels and bridges, and issuances of Government bonds. SFST supplemented that the rapid development in the financial markets of Hong Kong in recent years resulting in growth in market depth and liquidity had not only enabled the small and medium sized local brokers to maintain but also to expand their business. SFST said that the SFC had been making regular surveys on the business performance of small and medium sized local brokers. He undertook to liaise with the SFC to provide information on the number and business performance of Category C Stocks Exchanges of Hong Kong participants in recent years with a view to illustrating the impact of changes in the business environment of the securities brokerage industry on these brokers.

*(Post-meeting note: The information provided by the Administration on Category C brokers was circulated to Panel members and non-Panel Members vide LC Paper No. CB(1)226/05-06(02) on 4 November 2005.)*

*Benefits of CEPA III for the financial services sector*

22. The Chairman was of the view that implementation of CEPA had provided limited benefits for the financial services sector of Hong Kong, in particular the insurance sector. In reply, SFST advised that many of the co-operation activities between the Mainland and Hong Kong on financial services were conducted outside the scope of the CEPA framework. He re-iterated that it had been an on-going commitment of the Administration to capitalize on the opportunities brought by the development of the Mainland economy by promoting Hong Kong as the premier capital formation centre for the Mainland and encouraging Mainland enterprises to use Hong Kong as a platform for global investment. CEPA had provided benefits for the financial services sector of Hong Kong. Apart from providing preferential market access to insurers and banks in Hong Kong to operate in the Mainland, CEPA III would further facilitate the operation of banks by relaxing the operating capital requirement for individual bank branch offices. As for the accountancy sector, SFST advised that CEPA III would extend the duration of provisional licence for accounting firms to operate in the Mainland from one year to two years. Moreover, CEPA III would facilitate Mainland securities firms to establish offices in Hong Kong.

*New admission scheme for talents from the Mainland and overseas*

23. Mr James TIEN welcomed the new initiative to introduce a new scheme for admitting talents from the Mainland and overseas who met specific eligibility criteria to stay and work in Hong Kong without the need to meet the requirement of securing offer of local employment beforehand. Pointing out that the new initiative, coupled with the abolition of estate duty and further facilitation for overseas companies to set up businesses in Hong Kong, would benefit Hong Kong's economic development in the long run, Mr TIEN urged that the Administration should co-ordinate its efforts in pursuing these measures.

24. In reply, SFST re-iterated that the Administration would step up efforts to promote Hong Kong as an asset management centre to the Mainland and overseas markets, as well as encourage Mainland and overseas companies to invest in Hong Kong. He also appealed for assistance of the funds industry in promoting the new measures in this regard. As regards the proposed new admission scheme for talents to work and settle in Hong Kong, SFST advised that there was established mechanism for implementation of talent admission schemes under the leadership of the Financial Secretary with the participation of the relevant bureaux, including the FSTB, the Commerce, Industry and Technology Bureau, and the Economic Development and Labour Bureau. He assured members that there would be coordinated efforts from the relevant bureaux and departments in formulating and implementing the new scheme. SFST also took note of Mr James TIEN's view that there was a need to involve the Security Bureau for working out the details of the scheme.

*Expenditure on capital works*

25. Dr Raymond HO considered that asset sale and securitization programmes, and privatization of government services would help raise funds for implementation of more capital works projects. He pointed out that Government bonds issuance in late 1980s and similar financing programmes in other jurisdictions had demonstrated the success of such programmes in promoting economic growth. However, Dr HO expressed concern that the lack of consultation with civil servants affected by the privatization proposals and low transparency in the process had failed to gain staff's support for the proposals. Pointing out that the unemployment rate of the construction sector stood high at 14% against the overall unemployment rate of 5.5%, Dr HO urged that the Administration should consider expediting implementation of capital works projects to help alleviate the unemployment problem in the construction sector.

26. SFST said that the Administration was aware of the serious unemployment problem in the construction sector and was committed to address the problem through various measures, such as facilitating infrastructural development and implementation of more capital works projects to create more jobs for the construction industry. To achieve this, the Administration would keep its pledge to set aside an average of about \$29 billion in each financial year for implementation of works projects.

27. Regarding the concern about staff consultation on privatization proposals, SFST said that the Administration was fully aware of the importance of taking care of the interests of affected staff and would conduct consultation to address their concerns.

#### *Fiscal position of the Government*

28. Mr Ronny TONG referred to paragraph 28 of the Administration's paper where it was mentioned that "The Consolidated Account recorded a surplus of \$21.4 billion for the year [2004-05]. After discounting the proceeds from bond issuances, there was a small deficit of \$4 billion". He pointed out that while it appeared that the fiscal position for the year had improved, as Government bonds were liability of the Government, the Administration should not take the problem of fiscal deficit lightly. Mr TONG cautioned that the Administration should exercise more care in presenting information on the fiscal position so as to provide an accurate picture to the public. SFST took note of Mr TONG's view.

**II. Any other business**

29. There being no other business, the meeting ended at 9:30 pm.

Council Business Division 1  
Legislative Council Secretariat  
2 December 2005