

立法會
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Panel on Financial Affairs

**Special minutes of meeting
held on Tuesday, 27 March 2007 at 8:30 am
in Conference Room A of the Legislative Council Building**

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

Mr CHOI Yiu-kwan
Deputy Chief Executive

Mr Edmond LAU
Executive Director (Strategy & Risk)

Hong Kong Police Force

Mr WONG Fook-chuen
Assistant Commissioner of Police

Mr YU Shi-cheung
Chief Inspector of Police
(Commercial Crime Bureau)

Clerk in attendance: Miss Polly YEUNG
Chief Council Secretary (1)5

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

Ms Rosalind MA
Senior Council Secretary (1)8

Ms Sharon CHAN
Legislative Assistant (1)8

Action

I. Issues related to counterfeit HK\$1,000 banknotes in circulation recently in Hong Kong

(LC Paper No. CB(1)1224/06-07(01) — Information paper on "Counterfeit HK\$1,000 banknote (2000 and 2002 series issued by Hongkong and Shanghai Banking Corporation Limited (HSBC)" provided by Hong Kong Police Force

LC Paper No. CB(1)1224/06-07(02) — Information paper on "Recent surfacing of counterfeit HSBC \$1,000 notes" provided by Hong Kong Monetary Authority

- LC Paper No. FS15/06-07 — Fact sheet on "Press reports on the recent appearance of counterfeit HK\$1,000 banknotes (based on press reporting from 15 March 2007 to 26 March 2007)" prepared by Research and Library Services Division of the Secretariat (Chinese version only)
- LC Paper No. CB(1)1243/06-07(01) — Power-point presentation material on "Counterfeit HKD1000 banknote" provided by the Hong Kong Police Force (tabled at the meeting and soft copy issued on 27 March 2007)
- LC Paper No. CB(1)1243/06-07(02) — Power-point presentation material on "Presentation on Security Features of the New Series Banknote" provided by the Hong Kong Monetary Authority (tabled at the meeting and soft copy issued on 27 March 2007))

The Chairman welcomed representatives from the Hong Kong Monetary Authority (HKMA) and the Hong Kong Police Force (the Police) to attend the meeting to brief the Panel on issues related to the recent surfacing of counterfeit HK\$1,000 banknotes, including recent developments and progress made in addressing the problem.

Briefing by the Hong Kong Police Force

2. At the invitation of the Chairman, the Assistant Commissioner of Police (AC/P) gave a brief account of the background on the surfacing of the counterfeit \$1,000 banknote, based on the 2000 and 2002 series issued by HSBC (the counterfeit \$1,000 banknote), and the actions taken by the Police to combat the counterfeit. AC/P advised that the counterfeit \$1,000 banknote was first discovered by a branch of a local bank on 10 March 2007 and reported to the Commercial Crime Bureau of the Police on 12 March 2007. Subsequently, the Police received six further reports involving the discovery of more counterfeits. In view of these developments, the Police decided to notify the banking industry of this problem and after consultation with HKMA, issued a public alert through a press conference on 15 March 2007. To date, the Police had received 66 reports involving a total of 1 414 pieces of counterfeit \$1,000 banknotes of which 1 011 pieces were believed to have originated outside Hong Kong. On the investigation front, a total of 30 persons had been arrested and four of them had been charged for "passing counterfeit banknotes".

3. With the aid of power-point presentation, the Chief Inspector of Police (Commercial Crime Bureau) (CIP/CCB) briefed members on the major features for distinguishing between genuine and the counterfeit \$1,000 banknotes. Whilst pointing out that the recently discovered counterfeit note was of a higher quality than the previous counterfeits, CIP/CCB stressed that the counterfeit note could be differentiated through careful examination.

Briefing by the Hong Kong Monetary Authority

4. At the invitation of the Chairman, the Deputy Chief Executive of the Hong Kong Monetary Authority (DCE/HKMA) briefed members on HKMA's response to the recent surfacing of counterfeit \$1,000 banknotes. He said the note issuance policy of HKMA was to ensure a sound note-issuing arrangement consistent with the objective of maintaining currency stability in Hong Kong. HKMA had therefore been making serious efforts over the years to enhance the security features of the banknotes in order to stay ahead of counterfeiters. Five new series of \$1,000 banknotes had been introduced since 1985, including the latest 2003 series which remained robust in terms of security. As a result of these efforts, the counterfeit rate of Hong Kong banknotes was maintained at a relatively low level i.e. on average equivalent to 10 parts per million, compared with 65 parts per million for the Euro, 249 parts per million for the Sterling Pound and 329 parts per million for the Canadian dollar.

5. DCE/HKMA added that the recent surfacing of the counterfeit \$1,000 banknotes was confined to the old 2000 and 2002 series of HSBC \$1,000 banknotes. It was estimated that there were 20 million of the old series banknotes in circulation, accounting for 23% of the \$1,000 banknotes in circulation. Upon being alerted to the surfacing of this new counterfeit note, HKMA had been liaising closely with the Police, HSBC and the Hong Kong Association of Banks (HKAB) to deal with this problem. In this regard, HKAB had issued a circular on 14 March 2007 to alert all licensed banks accordingly and to request them to stop re-circulating the old series HSBC \$1,000 banknotes to customers but to return these notes to HSBC. A further circular was issued by HKAB on 20 March 2007 to request banks to make adequate preparation to meet customer demand for exchanging banknotes. These measures had been effective in facilitating a speedy and orderly return of the old series HSBC \$1,000 banknotes. Since the public alert issued by the Police on 15 March 2007, more than 3 million pieces of such notes had been withdrawn from circulation in an orderly manner without causing any public panic or major disruption to the banking system.

6. With the aid of power-point presentation, the Executive Director (Strategy & Risk), HKMA (ED(SR)/HKMA) briefed members on the new security features of the new 2003 series \$1,000 banknotes which were not found in the 2000 and 2002 series. ED(SR)/HKMA emphasized that these features remained very robust and there was abundant supply of the new series banknotes to meet the demand of the public. In the next few weeks, HKMA would step up efforts to educate bank staff

and retailers on how to identify the counterfeit \$1,000 banknotes as well as to remind the public of the new security features in the 2003 series banknotes through distribution of leaflets at bank branches and District Offices. In response to Mr Jeffrey LAM's request, HKMA undertook to provide the said leaflet for members' information.

(Post-meeting notes: The leaflet provided by HKMA was issued to members vide LC Paper No. CB(1)1250/06-07 on 28 March 2007.)

Discussion

Measures to contain the problem and to address public concern about the counterfeit banknote

7. Mr Andrew LEUNG asked whether the Administration considered the measures undertaken so far to be effective in restoring public confidence in the security of Hong Kong banknotes. He also enquired whether the Administration had fully evaluated the pros and cons of an active recall of all the old series HSBC \$1,000 banknotes.

8. DCE/HKMA said that the steps taken by HKMA and the banking industry to replace the old series HSBC \$1,000 banknotes had been effective. Since 15 March 2007, over 3 million pieces of such banknotes (i.e. about 15% of the total number of the old series \$1,000 banknotes in circulation) had been withdrawn from circulation without causing any panic or disruption. The arrangement for all banks to return the old series HSBC \$1,000 banknotes to HSBC and not to re-circulate these banknotes to customers would help contain the problem. Though some retailers might still receive old series \$1,000 banknotes from customers, there was no cause for grave concern about receiving counterfeit banknotes given the prevailing low counterfeit rate (i.e. 1 414 pieces discovered among the 20 million pieces in circulation). HKMA considered that a complete recall of the relevant banknotes might not be an appropriate measure because this could result in the return of large number of notes within a short period of time, thereby causing undue pressure on bank frontline staff whose ability to detect the counterfeits might also be weakened as a result. There would also be logistical difficulties in delivering large quantities of banknotes to the bank branches for exchange to customers.

9. Mr James TIEN pointed out that as observed by Members of the Liberal Party, the business sector was concerned about the impact of the counterfeit banknotes on their business operations and on the confidence of local and overseas customers. He was concerned whether there were clear provisions in the existing law on the question of liability when a service supplier/retailer received a counterfeit banknote from a customer. In response, DCE/HKMA advised that generally speaking, a person in possession of a counterfeit banknote would be liable for the loss incurred. He/she also had the responsibility to report the matter to the Police.

10. Mr Albert HO commented that public concern about the recent surfacing of the counterfeit \$1,000 banknotes was understandable given the high quality of the counterfeit and the large denomination involved. Miss TAM Heung-man expressed similar concern that small service suppliers/retailers might be put in a difficult position given the difficulty to distinguish the latest counterfeit banknotes and the Government's advice that it was against the law to refuse acceptance of \$1,000 banknotes which were legal tender. Mr HO was also concerned about the potential confrontation between the service supplier/retailer and the customer if the former was unwilling to accept \$1,000 banknotes from the latter in business transactions. In this connection, Mr HO sought information on the circumstances under which the Government would consider demonetizing a banknote and whether there were precedents of demonetization.

11. DCE/HKMA reiterated that the active replacement of the old series HSBC \$1,000 banknotes had proved to be an appropriate measure in the circumstances. The relevant banknotes were being withdrawn in an orderly and speedy manner. As far as the banknotes issued by note issuing banks (NIBs) were concerned, the Administration had so far not resorted to drastic measures such as a complete recall of all the notes from the market. Nevertheless, HKMA would monitor the situation closely and would not rule out the possibility of adopting other measures as and when necessary to tackle the problem. On the question of refusal to accept the \$1,000 banknotes, DCE/HKMA advised that \$1,000 banknotes were legal tender in Hong Kong and were regarded by law as sufficient and valid for payment. However, in commercial transactions, parties to a transaction might determine the terms of the transaction including the mode of payment. He believed that conflicts between parties to a transaction regarding the acceptance or otherwise \$1,000 banknote were civil matters to be resolved by the court. A relevant factor to be taken into consideration was whether the service supplier/retailer concerned had clearly specified the preferred mode of payment for providing the service/sale of goods in question.

12. Responding to Mr Albert HO's further enquiry on whether refusal to accept a legal tender note would constitute a criminal offence, AC/P advised that the Police would usually treat this as a dispute between the service supplier/retailer and the customer and would try to assist by conciliation. However, where there were reasonable grounds to suspect foulplay (e.g. large amount of \$1,000 banknotes was involved in a transaction), the Police would investigate further to see if any criminal element was involved. ED(SR)/HKMA added that the Legal Tender Notes Issue Ordinance (Cap.65) only provided for the legal tender status of the notes issued by NIBs but had not prescribed any offence for refusal to accept such notes. The Chairman asked whether it was lawful for a service supplier/retailer to request a customer to provide his identity card number for registration in accepting \$1,000 banknotes for payment. ED(SR)/HKMA advised that this would be a matter to be agreed between the parties concerned. However, he pointed out that issues related to the protection of personal data as governed by another Ordinance would also need to be taken into account.

13. Mr WONG Ting-kwong enquired whether it was appropriate for a service supplier/retailer to return a suspected counterfeit note to the customer who used it for payment. He was also concerned about the possible loss suffered by civic-minded citizens who reported to the Police suspected counterfeit banknotes in their possession. In reply, AC/P advised that disputes might arise if a service supplier/retailer returned a suspected counterfeit banknote to his customer. Under the existing law, any person who continued to possess a counterfeit note with such knowledge would have committed an offence. AC/P therefore encouraged any member of the public to report to the Police if he suspected a banknote to be a counterfeit. If in doubt, members of the public could always seek the assistance of the Commercial Crimes Bureau which had set up a hotline for this purpose.

14. Mr James TO considered the measures taken by the Administration in tackling the recent surfacing of the counterfeit \$1,000 banknote appropriate and reasonable, except the earlier remark made by the Financial Secretary on the liability arising from refusal to accept legal tender notes which had caused some public concern. However, Mr TO was pleased to note that the paper provided by the Administration for the meeting had presented a more balanced view on the subject. On the arrangements for withdrawal of the old series \$1,000 banknotes, Mr TO was of the view that demonetization of the note was too drastic and might affect international confidence in the Hong Kong currency and the monetary system. Nevertheless, he asked whether it was possible to launch a more proactive programme to encourage the public to return the banknotes to the banks. Mr Ronny TONG also expressed concern about measures to expedite the return of banknotes.

15. In the regard, DCE/HKMA informed members that HKMA had issued a press release on 20 March 2007 which contained clear advice to members of the public that they could return the old series HSBC \$1,000 banknotes to any bank for deposit or exchange into other banknotes. In response, good progress had been made in the return of the relevant banknotes, at a rate of some 400 000 to 500 000 pieces each day. As the current measure could achieve the intended purpose, HKMA saw no compelling reasons to expedite this process. Responding to Miss TAM Heung-man's concern about the estimated time required for withdrawal of the remaining 17 million pieces of the old series \$1,000 banknotes from the market, DCE/HKMA said that it would be difficult to make such an estimation given the various unknown factors involved such as the number of these banknotes outside Hong Kong and the preference of individuals to keep these banknotes as collection items.

16. To alleviate public concern about the acceptance of counterfeit \$1,000 banknotes, Mr Ronny TONG asked whether the Administration could highlight one or two prominent features in the latest counterfeit to facilitate members of the public in differentiating between the genuine and the counterfeit banknotes. He also opined that the Administration should work out measures to educate the public on the use of legal tender notes as the medium of payment and the implications of refusal to accept such notes.

17. In reply, AC/P and CIP(CCB) highlighted for members' information three main features of the counterfeit \$1,000 banknote which could be identified with care. These included: the window thread had less shimmering effect; the text on the thread lacked clarity; and the concealed denomination in the lower right hand rectangular block was weak or missing. ED(SR)/HKMA added that HKMA had recently put the relevant information with the aid of pictorial illustration on its website for ease of reference by the public. HKMA could also make use of its educational seminars for service suppliers/retailers to strengthen education on the implications of refusing to accept legal tender notes.

Measures to combat counterfeiting

18. Mr James TIEN and Mr James TO expressed concern about international cooperation in combating counterfeiting and requested the Police to provide information on the assistance sought from the Mainland and overseas authorities in its investigations. Mr Jeffrey LAM was also concerned about efforts in combating counterfeiting, in particular the cooperation with the Mainland and the Macao authorities.

19. In response, AC/P advised that cross-border and international cooperation was a key aspect of the investigation and enforcement efforts against counterfeiting. For example, with cooperation from the Macao authorities, the Police had successfully cracked down on a syndicate which manufactured counterfeit \$100 banknotes in 2004. A local syndicate which manufactured counterfeit \$10 coins had also been combated with cooperation from the Shenzhen authorities in 2006. As regards the recent surfacing of the counterfeit \$1,000 banknote, the Police had already established contacts with the Interpol and other enforcement authorities in the region. The Police had set up a round-the-clock notification arrangement with the Guangdong and Macao authorities to exchange intelligence relating to the current counterfeit problem. On the international level, the Police had also liaised with the International Currency Processing Centre and noted that it had only processed a small amount of Hong Kong banknotes.

20. Mr SIN Chung-kai sought information on the number of persons prosecuted so far and the criteria for filing charges against individuals who possessed counterfeit banknotes. In response, AC/P informed members that among the 30 persons arrested so far, four had been charged for "passing counterfeit notes" and the remaining 26 had been released on bail for investigation. The Police's primary objective was to trace the source of the counterfeits. Where an offence could not be substantiated the arrested persons would be released after Police investigation. Regarding Mr SIN Chung-kai's further enquiry about the circumstances under which the Police would arrest the persons concerned upon discovery of counterfeits, AC/P explained that the persons concerned would be arrested where there were reasonable grounds to suspect that a criminal offence had been committed. Regarding to members' concern about individuals who had actively returned or deposited the banknotes to banks and alerted the bank staff in advance about suspected counterfeit banknotes, AC/P said

that if there was no prima facie evidence that they had the intention to commit an offence, the Police would not make any arrest.

21. Referring to the allegations that traffic congestion at some border control points such as Sha Tau Kok had worsened due to more thorough inspections by Mainland customs officers to stop the inflow of counterfeit banknotes into Hong Kong, Mr WONG Ting-kwong sought confirmation of these allegations and whether there were other ways of control which would help minimize the inconvenience caused to cross-border vehicle drivers. In reply, AC/P confirmed that the Police had sought the help of the Guangdong authorities in the investigation of the counterfeit banknotes. However, he was not in a position to comment on the operations taken by Mainland enforcement authorities.

Measures to enhance the security of banknotes

22. Mr Jeffrey LAM expressed support in principle for HKMA's approach in handling the problem. He was however concerned about the possible surfacing of counterfeit banknotes of other denominations, such as the \$500 and \$100 banknotes. Noting that five new series of \$1,000 banknotes had been introduced since 1985, Mr LAM was concerned whether the banknote-printing technology of Hong Kong had in fact lagged behind those of other jurisdictions and it was therefore necessary to print new series of banknotes to catch up with the latest security features.

23. DCE/HKMA said that one of the reasons for counterfeiters to target the Hong Kong banknotes might be the circulation of the banknotes in different cities in the region given the status of Hong Kong as the regional and international financial centre (IFC). He stressed that the introduction of new series during the past two decades was a reflection of the need to keep the security of the Hong Kong banknotes under constant review so as to stay ahead of the counterfeiters. This should not be taken to mean that the printing technology of Hong Kong was behind that of other jurisdictions. AC/P added that there was no evidence to suggest that the problem of counterfeits had extended to other denominations of banknotes.

24. Miss TAM Heung-man commented that the incident would undoubtedly have an adverse impact on Hong Kong's status as an IFC. She enquired whether the existing security features of the new series \$1,000 banknotes were adequate to guard against the risk of counterfeiting and whether the Government would consider the issue of polymer banknotes to enhance the security of Hong Kong banknotes. Mr Jeffrey LAM also asked whether polymer banknotes would be a more secure printing technology for currency notes.

25. In response, DCE/HKMA advised that the security features in the new series banknotes were regarded as robust and effective by experts in the currency industry. The use of polymer banknotes was a relatively new development and some of its major benefits included durability and security. The experience of countries like Australia and New Zealand, after full conversion to polymer banknotes, had shown a drop in counterfeit rates. While the Administration was actively exploring the

viability of the introduction of polymer banknotes in Hong Kong by issuing a polymer \$10 note on trial, it would be prudent to evaluate the effects of the trial, including public acceptability, before deciding to extend it to other denominations of banknotes. If the trial issue of \$10 note turned out to be successful, this would be an option worthy of consideration in future reviews.

26. Noting the reduced counterfeit rates in overseas countries where polymer banknotes were in use, Miss TAM Heung-man asked whether HKMA would expedite its plan in this regard. DCE/HKMA responded that HKMA was planning for the circulation of the polymer \$10 note around mid-2007 on a trial basis for about two years. It would be necessary to evaluate the performance and public acceptance of the note before deciding on the way forward for wider introduction of polymer banknotes. ED(SR)/HKMA added that despite the reduction in counterfeit rates in some countries following the conversion to polymer banknotes, the introduction of such banknotes in Hong Kong still needed to be proceeded with in a cautious manner. If the public was not yet familiar with the new substrate, counterfeiters might still have room to continue their unlawful activities.

Conclusion

27. In conclusion, the Chairman said that in view of the high quality of the latest counterfeit banknote and its impact on public confidence in the Hong Kong currency, the Administration should make every effort to withdraw the old series \$1,000 banknotes from the market speedily. He noted that as the active replacement of the relevant banknotes would only take place within Hong Kong, there was a need to strengthen cooperation with neighbouring jurisdictions to trace the source of the counterfeit banknotes. He urged HKMA to make the best endeavour to effectively contain this problem, which was crucial to maintaining Hong Kong's status as an IFC. The Chairman commented that the discussion at the meeting had facilitated better understanding of the subject which, he believed, could help ease the worry of the public.

II. Any other business

28. There being no other business, the meeting ended at 10:05 am.

Council Business Division 1
Legislative Council Secretariat
1 June 2007