

Panel on Financial Affairs

Issues relating to the Government's increased acquisition of shares in the Hong Kong Exchanges and Clearing Limited in September 2007

List of questions/concerns

1. Regarding the Government's recent acquisition of the shares of the Hong Kong Exchanges and Clearing Limited (HKEx) with funds from the Exchange Fund, thereby increasing its shareholding in HKEx from 4.5% to 5.88%, by whom and by what authority was the decision for making the acquisition made and what is the statutory basis for this decision (including the factors being taken into consideration)?
2. Is the Government bound by any requirement, statutory or otherwise, to disclose its increase in shareholding in HKEx? If yes, what are the requirements?
3. According to the Government's press release on 7 September 2007, "This acquisition underlines the Government's support for HKEx and enables the Government, over the longer term, to contribute as a shareholder to the promotion of HKEx's strategic development." In the light of public concern about the acquisition, which is seen as an unusual move by the Government, please elaborate on the following:
 - (a) the policy considerations, background and reasons for the acquisition;
 - (b) the intended objective(s) to be achieved through the acquisition and whether the acquisition is the only and the most appropriate means to achieve these objective(s); and
 - (c) what is the Government's policy stance on the future development of HKEx and how can the increase in the Government's shareholding promote HKEx's strategic development.
4. Following the announcement of the Government's acquisition of HKEx shares, there has been considerable market speculation and a surge in the price of HKEx shares. In this connection, please advise on the following:
 - (a) the Government's plans with the HKEx shares acquired, and plans, if any, to further increase or reduce its shareholding in HKEx;
 - (b) if the Government does not exclude the possibility of a further increase in its shareholding in HKEx, what will be the maximum percentage of HKEx shares that the Government will hold; and
 - (c) changes, if any, to the shareholding and directorate structure of HKEx as a result of the shares acquisition and whether the Government will assume a greater role or control in HKEx. If yes, what measures are in place to safeguard the independence of HKEx?

5. Regarding concerns about Hong Kong's free market economy and its status as an international financial centre, please comment on the following:
- (a) the implications of the acquisition of shares by the Government on the confidence of local and overseas investors in Hong Kong's financial and securities market being free from government intervention;
 - (b) whether the Government would consider reactivating the Exchange Fund Investment Limited for the management of the strategic investment of the Exchange Fund to avoid the perception of government intervention with the market in the event of similar share acquisitions in the future;
 - (c) whether the move is indicative of a change in government policy regarding financial markets, and in particular, the role and status of HKEx and if yes, whether the Government will also increase its shareholding in other listed corporations, such as the Link Real Estate Investment Trust, in the light of this policy change; and
 - (d) whether any governments of other leading international financial centres have acquired the shares of their stock exchanges in ways similar to the recent acquisition of shares by the Hong Kong Special Administrative Region Government.