

立法會
Legislative Council

LC Paper No. CB(1)1963/06-07

Ref. : CB1/PL/FA

**Report of the Panel on Financial Affairs
for submission to the Legislative Council**

Purpose

This report gives an account of the work of the Panel on Financial Affairs from October 2006 to end June 2007. It will be tabled at the meeting of the Legislative Council (LegCo) on 4 July 2007 in accordance with Rule 77(14) of the Rules of Procedure of LegCo.

The Panel

2. The Panel was formed by a resolution passed by the Council on 8 July 1998 and as amended on 20 December 2000 for the purpose of monitoring and examining government policies and issues of public concern relating to financial and finance matters. The terms of reference of the Panel are in **Appendix I**.

3. For the 2006-07 session, the Panel comprises 16 members, with Hon CHAN Kam-lam and Hon Bernard CHAN elected as Chairman and Deputy Chairman respectively. The membership list of the Panel is in **Appendix II**.

Major work

4. During the 2006-07 session, the Panel continued to provide a forum for LegCo Members to exchange views with the Financial Secretary (FS) on matters relating to macro economic issues. The Panel also received briefings by the Chief Executive of the Hong Kong Monetary Authority (CE/HKMA) on the work of HKMA. Issues related to banking services, the regulatory framework for securities and futures and corporate governance also received ongoing attention. The Panel also examined the impact of incidents which caused widespread public concern such as the surfacing of counterfeit banknotes and the operation of Octopus Cards.

Hong Kong's macro economy

5. The Panel was pleased to note that Hong Kong's economy continued to show broad-based expansion in the first quarter of 2007, with Gross Domestic Product (GDP) growing solidly by 5.6% in real terms over a year earlier and showing above-trend growth for 14 consecutive quarters. Members also noted that domestic demand sustained strong momentum while export performance stayed resilient.

Employment

6. The Panel was pleased to note that the seasonally adjusted unemployment rate fell to 4.3% in the first quarter of 2007, which was the lowest in 8½ years. Since the trough in mid 2003, a total of nearly 300 000 net additional jobs had been created. Notwithstanding, some members drew the Administration's attention to the number of under-employed persons in the first quarter of 2007 which had risen steadily since the first quarter of 2006. They remained concerned that low-skilled workers might not be able to benefit from the economic upturn and urged the Administration to take necessary measures to strengthen retraining services so as to upgrade their skill competency, where practicable.

7. The Panel noted from the Administration's information that Hong Kong's overall economic growth had been propelled by the continued strong performance of the services sector, notably the financing and insurance sectors. The construction sector however remained slack, even though private sector output was stable. In this connection, members queried the underspending in recent years of the annual provision of \$29 billion earmarked for public works projects. There was grave concern that as the unemployment problem was serious in the construction sector, the Government should expedite the implementation of major capital works projects so as to create more employment opportunities. While noting that certain statutory requirements and procedures must be fulfilled before major works projects could be implemented, the Panel urged the Administration to critically re-examine its existing internal procedures to identify room for streamlining in order that public works projects, including those outstanding projects of the former Municipal Councils which had the support of the District Councils concerned, could be taken forward in a timely manner without undue slippage. FS took note of members' concern and referred to a number of major projects in the pipeline, such as the South East Kowloon Development and West Kowloon Cultural District, which would boost construction activities and create more jobs.

Inflation

8. Following years of economic expansion since the trough in 2003, the Panel kept in view the inflationary trend and noted FS's latest report that consumer price inflation stayed moderate, with the year-on-year rate of increase in Composite

Consumer Price Index (CCPI) averaged at only 1.7% in the first quarter of 2007. Notwithstanding, some members pointed out that the depreciation of the Hong Kong dollar along with the US dollar, as well as the gradual appreciation of the renminbi (RMB) would drive up the operating costs for businesses and increase the cost of living. According to the Administration, Hong Kong would continue to experience benign inflation in the next five years as a result of its economic growth and the forecast rate of 1.5% increase in CCPI for 2007 was considered healthy. FS advised that the Administration would monitor the impact of inflationary pressure on the general public but highlighted that various one-off factors including the Rates waiver for two quarters, the public housing rental cut to be implemented and the implementation of the Pre-primary Education Voucher Scheme would also bring down the CCPI level.

Household income

9. With a view to ascertaining how far the community could benefit from Hong Kong's economic recovery, the Panel sought regular updates on the distribution of household income. Members noted that in the first quarter of 2007, the number of households with monthly household income below \$4,000 (low-income households) had risen by 0.6% over a year earlier to 176 600. According to the Administration, this was mainly due to the rise in the number of economically inactive low-income households. The number of economically active low-income households however fell as a result of the improvement in the employment situation for the lower-skilled workers.

10. The Panel noted, on further analysis, that more than two-thirds of the low-income households in the first quarter of 2007 were one-person households comprising elderly persons aged 60 or above. Of the 65 900 household members living in economically inactive low-income households, more than one-third were aged below 20 and aged 60 or above (primarily consisting of students and retirees). Members remained gravely concerned about the problem of poverty and urged the Administration not to slacken its effort on this front, especially since the Commission on Poverty chaired by FS would be dissolved at the end of June 2007. They also stressed the need for the Administration to formulate proactively suitable strategies to cope with an ageing population, such as revisiting the idea of setting up a universal old-age pension scheme.

Monetary Affairs

11. In examining Hong Kong's monetary issues, the Panel followed closely the developments in the Mainland, Hong Kong's role as an international financial centre, currency stability and issues related to the Exchange Fund (EF).

Overheating concerns in the Mainland

12. Noting the buoyant economic activities in the Mainland in terms of investment, industrial production and private consumption, the Panel exchanged

views extensively with CE/HKMA on the impact of the Mainland's overheated economy on Hong Kong. The Panel was aware that if the Mainland authorities intensified macro-economic adjustments, there might be a decline in domestic demand leading to a drop in Hong Kong exports to the Mainland and in-bound tourism from the Mainland. Given the combined market capitalization of H-shares and red chips companies at some 47% of Hong Kong's total market capitalization, members considered that volatility in the Mainland stock market would inevitably be transmitted to the local equity market. The Panel therefore urged HKMA and the Administration to keep in view the developments and apprise the community where appropriate.

13. In sharing with the Panel the research that Hong Kong would be resilient to Mainland shocks, CE/HKMA advised that simulations of a large shock associated with an investment retrenchment in the Mainland showed that the effects on Hong Kong were relatively moderate, reducing economic growth by a cumulative 3.3% in the following two years. CE/HKMA nevertheless pointed out that the impact on Hong Kong's financial markets might be more profound. Regarding concerns about undertaking simulations, members were advised that simulations were conducted by HKMA as and when necessary. HKMA also recognized the importance of properly managing market expectation and where circumstances so warranted, would not hesitate to come forward and advise the public, including investors, to be prudent and mindful of market changes.

Hong Kong as an international financial centre

14. On the regional front, the Panel noted that HKMA had enhanced cooperation with central banks in the region on bond market development, monitoring of monetary and financial stability and crisis management. Nevertheless, some members asked HKMA to consider measures to boost Hong Kong's foreign exchange (Forex) turnover which currently lagged behind Singapore. While the relatively stable exchange rate of the Hong Kong dollar left little room for speculative trading, Hong Kong had its competitive edge such as its sound financial infrastructure and the efficiency of the Real time Gross settlement (RTGS) system. HKMA would continue to liaise with the People's Bank of China and the State Administration of Foreign Exchange to promote more use of Hong Kong's financial markets for the Mainland's foreign reserves management.

15. The Panel noted that Hong Kong had established itself as a premier capital formation centre for Mainland enterprises, as evidenced by a series of successful initial public offerings (IPOs) of Mainland corporations in Hong Kong. Among them, the IPO of the Industrial and Commercial Bank of China in October 2006 was the world's largest IPO to date, with dual listing in Hong Kong and Shanghai.

16. The Panel welcomed the expansion of the Qualified Domestic Institutional Investors Scheme announced by the China Banking Regulatory Commission in May 2007 which allowed Mainland commercial banks to invest in

equities, subject to certain conditions. Members noted the favourable market response to the expansion as it would provide Hong Kong's banking and financial industry with more business opportunities. It also provided a new channel for the orderly outflow of funds from the Mainland, while establishing an interactive and cooperative relationship between the financial systems of the Mainland and Hong Kong¹.

Currency stability

17. Noting that for the past year or so, the Hong Kong dollar exchange rate had weakened slightly while the RMB appreciated gradually, members were concerned about the impact of a "stronger" RMB on Hong Kong and its inflationary effect. According to HKMA, a certain degree of price convergence between Hong Kong and the Mainland was expected in the process of economic development of the Mainland. The inflationary effect might not be significant as goods imported from the Mainland for domestic consumption in Hong Kong constituted only about 5% of the total goods imported. However, the Mainland's demand for goods and services provided by Hong Kong would likely rise due to the latter's price competitiveness, thereby creating more business opportunities.

18. Members also exchanged views with CE/HKMA on the question of establishing a stable exchange rate between the Hong Kong dollar and RMB. According to HKMA's researches, the business synchronization was higher between Hong Kong and US than that between Hong Kong and the Mainland. HKMA affirmed its position that the US dollar remained the most appropriate anchor for the Hong Kong dollar. For the time being, as RMB was not a freely convertible currency or a reserve currency, it was technically not feasible for the Hong Kong dollar to be linked to RMB. Members also noted the Administration's position that the existing Linked Exchange Rate System had served Hong Kong well since 1983 and should not be changed without sound justification.

The Exchange Fund

19. The Panel continued to monitor issues related to the investment and management of EF and noted that as at end March 2007, the accumulated surplus of EF amounted to HK\$519.7 billion while the Fiscal Reserves placed with EF were about HK\$380.1 billion. Members also noted the revised income-sharing arrangement between the Fiscal Reserves and EF effective since 1 April 2007 under which the return on the Fiscal Reserves would be calculated on the basis of the average rate of return of the EF's investment portfolio over the past six years, or the average yield of three-year EF Notes of the preceding year, whichever was higher. For the fiscal year 2007-08, the rate of return would be 7%.

¹ On 20 June 2007, the China Securities Regulatory Commission announced a further expansion whereby eligible securities and fund management companies in the Mainland will be allowed to invest in overseas financial markets through the Qualified Domestic Institutional Investors Scheme starting from 5 July 2007.

Securities and futures

Regulatory and enforcement issues

20. Given Hong Kong's importance as an international financial centre, members were keen to ensure that the regulatory framework applicable to listed companies was equitable and effective, as well as capable of inspiring confidence in local and international investors. In view of the public concern over the proposed change in shareholding of PCCW Limited, a major telecommunications network and service provider in Hong Kong, announced in June 2006, the Panel met with the Administration, the Securities and Futures Commission (SFC), and The Stock Exchange of Hong Kong Limited (HKEx) to discuss issues of regulatory concern.

21. On the transparency of regulatory and enforcement actions taken/to be taken by SFC and HKEx, some members were gravely concerned about the application of the secrecy provision under section 378 of the Securities and Futures Ordinance (Cap. 571) (SFO) whereby SFC normally would not make public the fact that it was or was not conducting a statutory inquiry or investigation, or any of its findings or conclusions, save in exceptional circumstances or where required to do so by law. They queried whether the regulators had all along over-relied on the provision in declining to disclose information in the public interest. SFC provided its detailed analysis of section 378 of SFO and advised that disclosure of information on regulatory action was decided on a case by case basis in the light of the functions and objectives of SFC under SFO. However, under no circumstances would SFC disclose details of an ongoing case so as not to prejudice the investigation or cause reputational damage to the company in question. Members agreed that SFC should strike a balance between the need to preserve the secrecy of sensitive information and the need to disclose information to maintain and promote confidence in the market. While noting that the regulators in the United Kingdom (UK) and Australia were subject to similar confidentiality requirements under their respective law, some members maintained that SFC should enhance the transparency of enforcement actions and make known the criteria governing the disclosure or otherwise of information. In consideration of members' concern, SFC undertook to disclose as much information as possible within the parameters as set out in SFO. SFC would also publish its policy on disclosure of information on its website and keep the policy under review.

22. To improve the existing checks and balances on the regulatory and investigatory powers of SFC, the Administration/SFC were asked to consider reviewing the jurisdiction and composition of the SFC's Process Review Panel (PRP)² with reference to the Operations Review Committee of the Independent

² The Process Review Panel (PRP) is an independent, non-statutory panel established by the Chief Executive in November 2000 to review and advise upon the adequacy of the SFC's internal operational procedures; and to determine whether SFC has duly followed such procedures in its decisions and actions. As at 6 June 2007, the PRP comprises 10 members, including eight unofficial members and two ex-officio members (the representatives of the Secretary for Justice and the Chairman of SFC).

Commission Against Corruption (ICAC). The Administration confirmed that reference had been made to ICAC's Operations Review Committee and overseas practice when the terms of reference of PRP were first drawn up. It undertook to keep under review the adequacy of checks and balances to ensure that SFC discharged its statutory obligations, including those under section 378 of SFO, in a consistent, fair and accountable manner.

The Securities and Futures Commission

23. The Panel was briefed on the SFC's revised estimates for 2006-07 and its Budget for 2007-08. In the course of deliberation, members expressed concern about the staff turnover rate of 13% to 14% experienced by SFC in 2006 and whether this had constrained SFC's regulatory role. SFC concurred that the private sector was competing with SFC for experienced personnel and the turnover problem was more acute at the middle management level. The average 5% pay increase implemented in 2007-08 and the provision of staff training were some of the measures taken by SFC to retain staff and ensure the proper discharge of functions.

24. With a view to better ascertaining the cost-effectiveness of SFC in performing its various functions, members requested SFC to consider devising and including key performance indicators (KPIs) in its future Budgets. SFC agreed to devise KPIs where appropriate.

Proposal to give statutory backing to major listing requirements

25. The Panel gave views on the Administration's proposal to amend the SFO to give statutory backing to major listing requirements. While agreeing in principle to bring Hong Kong's regulatory regime on par with international standards, members expressed concern about the compliance burden of the new requirements, when enacted, on small and medium listed companies. They were keen to ensure that SFC should not target enforcement action at small companies only. The Administration and SFC assured members that all listed companies, irrespective of their size, would be subject to the same statutory requirements. As commercial dealings were subject to changes, there was a concern that SFC should exercise greater flexibility in enforcement, particularly when dealing with alleged breaches of statutory requirements relating to information disclosure.

26. As under the current proposal, statutory listing requirements such as full and prompt disclosure of price-sensitive information would be set out in SFO in the form of general principles, question was raised on whether such general provisions had sufficient legal certainty for enforcement and prosecution purposes. SFC would take this view on board when drafting the legislative amendments.

Electronic Disclosure Project

27. The Panel noted the launch of Phase 1 of the Electronic Disclosure Project on 25 June 2007 under which it would be optional for Main Board listed issuers to publish paid announcements in newspapers so long as they published the full announcement on their own website, in addition to the HKEx website. As the Project would eventually lead to the abolition of the requirements on listed issuers to publish their announcements in newspapers, concern was raised about the adequacy of the new arrangement in safeguarding investors' right to know and the dissemination of information by listed issuers. The Panel would exchange views with the Administration, HKEx, the Newspaper Society of Hong Kong and the Hong Kong Institute of Investors on the subject at the meeting in July 2007.

Mandatory Provident Fund (MPF) system*Review of maximum and minimum relevant income levels*

28. The Panel received a briefing by the Administration and the Mandatory Provident Fund Schemes Authority (MPFA) on the outcome of the review on the minimum and maximum relevant income levels conducted in accordance with section 10A of the Mandatory Provident Fund Schemes Ordinance (Cap. 485) (MPFSO) to ascertain whether there were grounds to adjust the income levels for the purpose of calculating MPF contributions. The Panel had also met with deputations and considered their views.

29. On MPFA's recommendation to increase the maximum relevant income level from \$20,000 to \$30,000 a month, some members and deputations were concerned that the resultant increase in employers' MPF contributions might add to the financial burden of small and medium enterprises. There might be a possibility that employers would try to offset their increased MPF contributions by withholding wage increases for their employees. As employees earning over \$20,000 were likely to have other retirement or savings plans, the need to raise the maximum relevant income was doubtful. The Panel noted that according to MPFA's projection, the overall increase in employers' MPF contributions as a result of the proposed increase would be relatively small when compared to the overall operating costs. While the maximum relevant income had not been raised to \$30,000 a month in 2002 due to the adverse economic conditions at that time, MPFA saw no strong reason not to do so on this occasion, given Hong Kong's economic recovery in recent years.

30. There were different views on MPFA's recommendation to maintain the existing minimum relevant income level at \$5,000 a month. Some members considered that it should be raised to \$6,000 a month to relieve the financial burden of lower income earners in making MPF contributions; while some members cautioned that excluding more workers from the contribution net might not be consistent with the objective of the MPF system to provide retirement protection to the general workforce.

31. To facilitate consideration, the Panel had sought further information relating to the investment return of MPF schemes, the impact of the proposed increase in maximum relevant income on tax revenue, as well as the investment behaviour of higher-income employees. The Panel also urged the Administration to consider whether the existing adjustment mechanism for maximum and minimum relevant income levels should be reviewed. The Administration assured members that it would consider MPFA's recommendations, the views expressed by the Panel and deputations, as well as other relevant factors before making a decision.

Proposed amendments to the Mandatory Provident Fund Schemes Ordinance

32. The Panel gave views on the proposed amendments to MPFSO proposed by MPFA following a review conducted by the MPF Schemes Operation Review Committee. On the proposal to include housing allowance and other housing benefit in the scope of "relevant income" as defined in MPFSO, some members from the business sector queried the implications of the revised definition on other labour legislation such as the Employment Ordinance, as well as the justification for the proposed amendment. The proposal however had the support of some other members who opined that it would prevent abuse in cases where the employer designated a sizable portion of the employee's income as housing allowance, thereby reducing the amount of relevant income for calculating MPF contributions. The Panel also expressed support for legislative amendments to step up enforcement action and to safeguard the benefits of scheme members. The relevant Bill was introduced into LegCo on 27 June 2007 and being scrutinized by a Bills Committee.

Currency notes and electronic money

Surfacing of counterfeit banknotes

33. The surfacing of a counterfeit HSBC \$1,000 note in March 2007 aroused widespread public concern. With a view to examining the extent of the problem and the enforcement/remedial action taken, the Panel followed up the matter with the Administration and HKMA. While commenting that the authorities concerned had made reasonable and appropriate efforts to tackle the problem, members were keen to ensure that the incident would not undermine public confidence in Hong Kong's currency.

34. Noting that banks had been asked to return the old series HSBC \$1,000 banknotes to HSBC and not to re-circulate them to customers, members questioned whether a general recall of the banknotes in question would be a more effective measure to contain the problem. HKMA assured the Panel that the active replacement exercise taken by HKMA and the banking sector had proved to be effective without causing any disruption or public panic and it would monitor the situation closely. The Panel noted that up to the end of May 2007, over 11 million

(over 50%) of the old series banknotes had been withdrawn from circulation. Members also sought the Administration's clarification on the liability, if any, arising from the refusal to accept the old series HSBC \$1,000 banknotes in payment transactions. They also highlighted the importance of international and cross-border cooperation in combating counterfeiting. On some members' call for early conversion to polymer banknotes to safeguard against counterfeiting, HKMA advised that the wider introduction of polymer banknotes would be considered in the light of the outcome of the trial scheme on polymer \$10 banknotes.

Operation of Octopus Cards

35. The application of electronic money in Hong Kong, manifested by the widespread use of multi-purpose stored value cards (MPCs) such as the Octopus Card, received active attention by the Panel. Following the failure of some Octopus cardholders to add value to their Octopus Cards via the EPS add-value terminals at several Mass Transit Railway (MTR) stations, the Panel discussed with the Administration, HKMA, the Octopus Cards Ltd (OCL) and the EPS Company (Hong Kong) Limited (EPSCO) the extent and causes of the problem and rectification measures.

36. In reviewing the refund arrangement carried out by OCL, members asked OCL to consider encouraging the use of automatic add-value service and Personalized Octopus Card in which the identity of the cardholder was ascertainable to facilitate refund in faulty or failed transactions. To restore public confidence in the use of Octopus Cards and improve the existing system, members put forward a number of suggestions, including the provision of more channels (e.g. via the Internet) to enable cardholders to check their card balance and more frequent checks and upgrading of the Octopus Card infrastructure. OCL/EPSCO were also asked to examine the feasibility of re-engineering the workflow so that value could be added to the Octopus Cards first before EPS accounts were debited, subject to availability of funds in the accounts concerned. OCL agreed to consider members' views and implement improvement measures where practicable.

37. The Panel noted that pursuant to the Banking Ordinance, the Monetary Authority had appointed an Adviser to OCL and had required OCL to commission an independent auditor, whose scope of work included the investigation of the root cause of the problem, recommendation of rectification measures, review of the refund policies and procedures. OCL would provide the report of the independent review to the Panel when ready.

38. The Panel also took the opportunity to examine the policy on and regulatory framework for the MPC market in Hong Kong, in particular whether there was a level playing field for new entrants to enhance competition. HKMA reaffirmed that in line with the Government's competition policy, it had all along encouraged fair competition in the electronic money market. Members also asked OCL to consider opening up its technical platform, where practicable, for use by other market players. OCL noted members' concern and indicated its readiness to

do so subject to security requirements and reasonable commercial considerations.

Banking services

Impact of closure of bank branches

39. Given that the closure of quite a number of bank branches in recent years had aroused considerable public concern, the Panel examined the matter with the Hong Kong Association of Banks (HKAB), the Consumer Council, HKMA and the Administration. While appreciating that it was the commercial decision of individual banks to decide on the number and location of their branches, members highlighted banks' corporate social responsibility to ensure the availability of basic banking services, especially for disadvantaged social groups and elderly persons. The Panel welcomed the various initiatives taken by the banking industry in the past year to address their special needs. Members also examined whether and how the Government should play a role in ensuring the provision of basic banking services instead of relying primarily on the cooperation of the banking sector.

40. Members urged the Administration to take steps to facilitate the setting up of automatic teller machines (ATMs) at government premises or premises managed by the Housing Authority, The Link Management Limited and the Hospital Authority. To ascertain how far newly set up branches could meet basic banking needs, the Panel sought information on the number and location of new bank branches and whether their scope of service included basic banking facilities rather than specialized services such as personal finance. Members also asked the Administration/HKAB to explore the feasibility of delivering counter service through other means such as mobile banks and post offices. While pointing out that there might be limitations, the Administration/HKAB took note of members' suggestions for further consideration.

41. The Panel also put forward suggestions on ways to facilitate the use of e-banking by disadvantaged social groups, such as the adoption of biometrics and other advanced technology as means of personal identification to access ATM facilities and the feasibility of interconnecting the two main ATM networks in Hong Kong. Notwithstanding technical constraints, HKAB advised that the banking industry would continue to keep in view the latest development in technology. While fee exemption policies were the decision of individual banks, HKAB would discuss further with member banks the suggestion to exempt payroll accounts of low-income earners, which usually maintained a low balance, from bank charges. The Panel would continue to monitor the effectiveness of various improvement measures.

Banking services for money changers and remittance agents

42. The Panel was keenly aware of the importance of the services provided by banks to various sectors and was therefore gravely concerned about the difficulties reported by remittance agents and money changers (RAMCs) that major

banks had refused to provide account services to them since RAMCs were regarded as high-risk customers in terms of prevention of money laundering and banks had to meet more stringent requirements in providing services to this group of customers.

43. While members did not dispute the need for Hong Kong to discharge its international obligation to combat money laundering, they shared the concern that legitimate institutions which played an important intermediary role in Hong Kong's financial market should not be unreasonably deprived of necessary banking services. The Panel noted that RAMCs had no objection in principle to comply with additional requirements, if necessary. While there was no immediate plan to step up regulatory requirements on RAMCS, the Administration undertook to consult relevant sectors when there were plans to do so. Noting that HKMA had started the process of holding discussions with RAMCS and HKAB, the Panel urged the parties to continue their dialogue with a view to resolving their differences. Members also stated their hope that pending the outcome of further discussion, banks would withhold their decision to terminate the accounts of RAMCs. At the Panel's request, HKAB had written to its member banks to convey the concerns of the Panel and RAMCs.

44. While it was individual banks' commercial decision on whether to maintain business relationship with certain customers, some members pointed out that the Government should play a more active role in ensuring the availability of banking services to various economic sectors in order to maintain Hong Kong's diversified activities as an international financial centre. Concern was also raised about the possibility of banks monopolizing the provision of remittance and money exchange services thereby impeding market competition. According to the Administration and HKMA, many banks were still providing account services to RAMCs. They would monitor developments and provide a report to the Panel in due course.

Summary Results of the 2006 Population By-census

45. In examining the Summary Results of the 2006 Population By-census conducted from 15 July to 1 August 2006 on 230 000 households in sampled quarters, the Panel was very concerned about the compilation of the Gini Coefficient and the study on household income distribution since they were important indicators of the extent of the poverty problem in Hong Kong. Noting that the Gini Coefficient had not been released together with the 2006 Summary Results, members discussed with the Administration the existing methodology for compiling Gini Coefficients in Hong Kong which had not taken into account most of the income redistribution effects brought about by taxation and various social benefits. The Administration considered that simply releasing the Gini Coefficient from the household income data of the By-census would not provide complete information. Instead, the Administration would conduct a comprehensive study and compile a Thematic Report on Household Income Distribution. The Panel also requested the Administration to make available the

Thematic Report in time for Members' further consideration in June/July 2007.

46. Given the importance of the 2006 Population By-census, and the fact that the subjects covered in the Summary Results and the ensuing seven Thematic Reports would straddle different policy areas, the Panel agreed that individual panels/committees could follow up related issues within their respective purview. To ensure that issues related to income disparity would be addressed, it was also agreed that the Subcommittee to Study the Subject of Combating Poverty would follow up the findings of the Thematic Report on Household Income Distribution.

Rewrite of Companies Ordinance

47. The Panel was updated on the progress of the rewrite of the Companies Ordinance (Cap. 32) (CO) and noted that the rewrite exercise would be taken forward in two phases. Phase I would deal with core provisions affecting the operation of some 600 000 live companies and would form the subject of a White Bill for issuance in mid-2009; while Phase II would deal with winding-up and other insolvency-related provisions.

48. In principle, the Panel supported the rewrite exercise to modernize the corporate regulatory regime. However, query was raised at the long time taken for the exercise and the high cost involved. In response to calls to expedite the process, the Administration highlighted the complexity of the issues involved and the experience of some overseas jurisdictions which also took years to complete the review of their company law. Noting that the review of the UK Companies Act 2006 was completed in November 2006 and that similar reviews had been conducted in some common law jurisdictions, the Administration was asked to make reference to these developments and to capitalize on their operational experience to enhance the cost-effectiveness of the rewrite exercise. The Administration noted members' concern and undertook to keep the Panel posted of further progress.

49. From October 2006 to end June 2007, the Panel held a total of 14 meetings.

**Legislative Council
Panel on Financial Affairs**

Terms of Reference

1. To monitor and examine Government policies and issues of public concern relating to financial and finance matters.
2. To provide a forum for the exchange and dissemination of views on the above policy matters.
3. To receive briefings and to formulate views on any major legislative or financial proposals in respect of the above policy areas prior to their formal introduction to the Council or Finance Committee.
4. To monitor and examine, to the extent it considers necessary, the above policy matters referred to it by a member of the Panel or by the House Committee.
5. To make reports to the Council or to the House Committee as required by the Rules of Procedure.

**Legislative Council
Panel on Financial Affairs**

Membership list for 2006 - 2007 session

Chairman	Hon CHAN Kam-lam, SBS, JP
Deputy Chairman	Hon Bernard CHAN, GBS, JP
Members	Hon James TIEN Pei-chun, GBS, JP Hon Albert HO Chun-yan Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP Dr Hon David LI Kwok-po, GBS, JP Hon James TO Kun-sun Hon SIN Chung-kai, JP Hon Emily LAU Wai-hing, 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 CHIM Pui-chung Hon TAM Heung-man (Total : 16 members)
Clerk	Miss Polly YEUNG
Legal Adviser	Mr KAU Kin-wah
Date	16 November 2006