

**Panel on Financial Affairs**

**List of outstanding items for discussion**  
(Position as at 8 October 2007)

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|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|
| <p><b>1. The 2008-2009 Budget consultation</b></p> <p>The Financial Secretary (FS)'s consultation with LegCo on the 2008-2009 Budget.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <p>November 2007</p>                                           |
| <p><b>2. Briefing on the work of the Hong Kong Monetary Authority</b></p> <p>The Chief Executive of the Hong Kong Monetary Authority (CE/HKMA) briefs the Panel on the work of HKMA on a regular basis. The briefings are normally held in February, May and November each year. The next briefing will be held in November 2007.</p>                                                                                                                                                                                                                                                                                                                                                                                         | <p>November 2007<br/>February 2008<br/>May 2008</p>            |
| <p><b>3. Proposed amendments to the Mandatory Provident Fund Schemes Ordinance (Cap 485)</b></p> <p>The Administration proposes to seek members' views on its proposals to amend the Mandatory Provident Fund Schemes Ordinance (Cap 485) to strengthen enforcement of the MPF system for better protection of scheme members' interests. The major legislative proposals include imposition of criminal and civil liability on employers for default contributions in respect of non-enrolled employees, and increases in penalty against default contributions and non-enrollment of employees in registered schemes.</p> <p>The Administration intends to introduce the relevant bill into the LegCo in December 2007.</p> | <p>November 2007</p>                                           |
| <p><b>4. Proposal to convert the Rating Adviser (D2) post from a one-rank specialist grade to the mainstream Valuation Surveyor grade</b></p> <p>The Rating Adviser (D2) post belongs to a one-rank specialist grade. The Rating and Valuation Department proposes to convert this post to the mainstream Valuation Surveyor grade and replace it with an Assistant Commissioner of Rating and Valuation (D2) post in order to provide a more appropriate</p>                                                                                                                                                                                                                                                                 | <p>November 2007</p>                                           |

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structure and succession to the subject post.

The Administration plans to submit the staffing proposal to the Establishment Subcommittee and the Finance Committee for consideration on 12 December 2007 and 11 January 2008 respectively.

**5. Briefing by the Financial Secretary on Hong Kong's latest overall economic situation**

The Panel has invited FS to brief the Panel and all other LegCo Members on macro economic issues on a regular basis since mid-1999. The briefing is normally held in June and December each year.

December 2007  
June 2008

**6. Operation of Octopus Cards and EPS payment system in Hong Kong**

The subject was discussed at the Panel meeting on 2 March 2007 in the wake of incidents of failed Octopus EPS add-value transactions in February 2007 in which passengers' EPS-designated bank accounts were debited despite failures in adding value to their Octopus Cards via the EPS payment system. Members expressed concern about the cause of the problem; improvements to the Octopus Card system and Octopus Card add-value services to protect the interests of customers; and whether there was a level-playing field in Hong Kong's multi-purpose stored value card market.

To be advised by  
members

Noting that the Octopus Cards Limited (OCL) had appointed a consultant to conduct an independent review of the incident, members requested OCL to provide the Panel with the review report when such was available. On 27 July 2007, OCL announced the findings of the review. OCL's press release was circulated to members on 30 July 2007 (LC Paper No. CB(1)2216/06-07). The review report provided by OCL was subsequently issued to members on 20 August 2007 (LC Paper No. CB(1)2288/06-07). Upon receipt of the review report, the Panel Chairman has advised that the subject be placed on the Panel's list of outstanding items. Hon TAM Heung-man also requested the Panel to arrange follow-up discussion of the subject (Miss TAM's letter dated 20 September 2007 attached at Annex).

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**7. Impact of banks' branch closure and fee-charging on the public**

The impact of banks' branch closure on the public was discussed at the Panel meeting on 3 July 2006. The Panel followed up the discussion of the subject as well as the concern about the impact of banks' fee-charging on the public at the Panel meeting on 2 April 2007. Pursuant to members' request at the meeting on 2 April 2007, the Hong Kong Association of Banks provided a progress report on examination of feasible measures to facilitate the provision of basic banking services, taking into consideration members' suggestions/views (LC Paper No. CB(1)2344/06-07 issued on 12 September 2007).

To be advised by members

Noting that a number of new initiatives to enhance access to banking services had just been implemented by the banking industry, the Panel agreed that the subject could be re-visited at an appropriate time.

**8. Consultation on reform to broaden the tax base**

When the Panel was briefed on the "Consultation on reform to broaden the tax base" at its special meeting on 18 July 2006, Members noted that the Administration embarked on a nine-month public consultation on the proposal to broaden the tax base on the same day, including the proposed framework for introduction of a Goods and Services Tax (GST). The views and concerns expressed by Members at the special meeting were forwarded to the Administration for consideration and written response. The Administration's written response was issued to members vide LC Paper No. CB(1)2319/05-06(02) on 9 October 2006. Moreover, the list of further questions put forward by Hon SIN Chung-kai on 23 August 2006 and the Administration's written response were issued to members vide LC Paper Nos. CB(1)29/06-07(01) and (02) respectively on 11 October 2006.

To be advised by members

Given the complexity of the subject and the impact of GST on the public, some members suggested at the special meeting on 18 July 2006 that the subject be further discussed at meeting(s) of the Panel before the public consultation ended in March 2007.

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The Administration provided a Legislative Council Brief on "Public Consultation on Tax Reform Interim Report" on 5 December 2006 (issued to members vide LC Paper No. CB(1)438/06-07). In the interim report, the Administration advised that having regard to views collected through the different channels, it is clear that the public is strongly against GST. The Administration considers that at this point in time there is insufficient public support nor are the conditions right for the introduction of GST. The Government will listen carefully and participate in public discussions, so that it can come up with a conclusion for the Government of the next term to consider when the consultation exercise ends in March 2007. The Administration issued the "Final Report of Public Consultation on Tax Reform" on 12 June 2007 (issued to members vide LC Paper No. CB(1)1885/06-07). The Final Report recommends that the Government should continue to study options for broadening the tax base and address this fundamental issue at a suitable time in the future and consult the public on the health care financing proposals as soon as possible.

**9. Scheme for outsourcing summary bankruptcy cases**

The purpose of the Bankruptcy (Amendment) Bill 2004 is to empower the Official Receiver to outsource debtor-petition summary bankruptcy cases to private-sector insolvency practitioners. The Bills Committee on Bankruptcy (Amendment) Bill 2004 requested the Administration to review the outsourcing scheme after implementation of the scheme. The Secretary for Financial Services and the Treasury undertook in his speech during the resumption of the Second Reading debate on the Bill at the Council meeting on 6 July 2005 that the Administration would review the outsourcing scheme 24 months after implementation of the scheme and report the outcome of the review to the LegCo.

2007 - 2008

The Administration was invited to report the outcome of the review to the Panel in due course.

**10. Introduction of a new category of "travel insurance agents"**

At the Panel meeting held on 4 July 2005, members were briefed on the proposal to introduce a new category of "travel

Early 2008

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insurance agents" catering for travel agents. The Administration was asked then to consider how to address the grave concern expressed by insurance intermediaries.

At the Panel meeting held on 5 December 2005, members noted that the insurance industry had accepted the proposal and requested for a report about one year after its implementation on the number and percentage of travel agents who have passed the qualifying examination and obtained registration, as well as on effectiveness of the registration system and its impact on professional standards among insurance intermediaries.

The new category of "travel insurance agents" was successfully introduced in May 2006 and about 2450 travel agency staff have already gone through the requisite examination as at August 2007. The Administration is now in discussion with the industry on a one-off waiver of Form 5 education as registration requirement for experienced travel agency staff. The Administration will provide a progress report on this subject in early 2008.

**11. Progress of the work of the Financial Reporting Council**

At the Panel meeting on 5 July 2007 when the Financial Reporting Council (FRC) briefed the Panel on its work progress, members requested FRC to brief the Panel before March 2008 on the progress in discharging its statutory functions of investigating audit irregularities and accounting non-compliances of listed entities in Hong Kong. The work report should also include relevant information such as a review of the financial and human resources requirements as well as procedures and guidelines for complaint handling and disclosure of information.

First quarter of  
2008

**12. Review of the Personalized Vehicle Registration Marks Scheme**

At the request of the Bills Committee on Revenue (Personalized Vehicle Registration Marks) Bill 2005, the Administration undertook to conduct an overall review of the captioned Scheme one year after its implementation and report the outcome of the review to the relevant Panel. The Bills Committee has referred the issue to the Panel for follow-up action.

First quarter of  
2008

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The Administration was invited in February 2006 to report the outcome of the review to the Panel in due course. In its written reply dated 2 March 2006, the Administration advised that it would be able to report to the Panel in the first quarter of 2008. The Administration's reply was circulated to members vide LC Paper No. CB(1)1138/05-06 on 22 March 2006.

**13. Consultancy study on the feasibility of establishing insurance Policyholders' Protection Funds in Hong Kong**

The Administration commissioned a consultancy study on the feasibility of establishing Policyholders' Protection Funds (PPFs) in Hong Kong in late-2002 and conducted a public consultation exercise from December 2003 to March 2004 on whether and how PPFs should be introduced locally.

To be confirmed

At the Panel meeting on 1 March 2004, members were briefed on major findings of the consultancy study and proposed PPF options. The Administration undertook to revert in due course on the way forward.

The Administration accepted in March 2007 the final consultancy report, the conclusion of which was that while a form of PPF scheme might work in Hong Kong, its success depend heavily on the scope and nature as well as availability of industry and public support.

In pursuance of this, discussions have commenced with the industry on a non-statutory contingency plan bearing prescribed parameters that resembles a post-funded PPF scheme. The Administration will brief the Panel once relevant details are available.

**14. Consultancy study on the supervisory framework of the assets of long term insurers in Hong Kong**

In October 2003, the Administration commissioned a consultancy study to examine effectiveness of the long term asset supervisory framework and assess the need for further enhancements to protect policyholders in Hong Kong.

To be confirmed

The consultant has produced reports covering the overall study framework, review of the present asset supervisory regime, options for a long term assets valuation framework and

safeguarding mechanism, public consultation strategy, etc.

Before proceeding with public consultation, the Administration researched on regulatory trends such as widespread adoption of risk based capital (RBC) regimes and a target set by the International Association of Insurance Supervisors to introduce Solvency II as a global RBC standard by 2010. Since these developments would entail a major overhaul of the present asset supervisory regime and interim measures have been put in place by the Insurance Authority to strengthen its monitoring capability, agreement was reached with the consultant to terminate the study with effect from 29 June 2007.

The Administration will monitor developments and international deliberations on the promulgation of Solvency II as a global RBC standard with a view to assessing its applicability to Hong Kong.

#### **15. Proposal to write off a judgement debt**

The Administration consulted the Panel on 6 June 2005 on the proposal to write off an irrecoverable debt of \$16.8 million (as at 24 June 2005) owed to the Government by the Hong Kong Auctioneers & Estate Agency Ltd. (HKAEAL) [i.e. the contracted auctioneer of the former Government Supplies Department (now Government Logistics Department (GLD)) for disposal of surplus and unserviceable stores]. Members asked whether criminal proceedings should be instituted against the auctioneer and sought further information on the internal investigation conducted. It was agreed that the Panel would further discuss the proposal in due course after the Administration has provided the supplementary information requested.

To be confirmed

The Administration referred the case in July 2005 to the Police for further investigation to establish whether criminal offences might have been committed by the company concerned and its Managing Director. The Police advised GLD on 18 April 2007 that their investigation was completed and there was insufficient evidence to support a charge against any person, hence there would be no prosecution action at this stage.

On 20 April 2007, GLD was advised by the Department of Justice (D of J) that the Managing Director of HKAEAL (the

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2nd Defendant in the High Court Action) had returned to Hong Kong and that it had obtained a prohibition order to prevent him from leaving Hong Kong. D of J also applied for examination of the Managing Director as to his assets for the purpose of enforcement of the debt. Directions for examination were granted by the High Court on 25 June 2007. The examination of the Managing Director was concluded at the hearing on 22 August 2007. According to the information provided by the Managing Director, the balance in his bank accounts is not substantial and is insufficient to satisfy the outstanding debt. The hearing on the bankruptcy petition was held on 5 September 2007. As a result, the Court granted a bankruptcy order with cost against the Managing Director. D of J also advised that they would prepare and file a Proof of Debt with the Official Receiver for sharing of dividends, if any, resulting from the realization of the Managing Director's assets by the Official Receiver. Taking into account D of J's advice that after a bankruptcy order has been granted all powers of investigation and realization will be vested and exercisable by the Official Receiver's Office, the prohibition order against the Managing Director, currently valid up to 19 September 2007, was not extended.

The Administration will keep in view the development of the case and will revert further to the Panel after taking into account the advice of the Official Receiver's Office regarding the outcome of bankruptcy order related follow-up action.

**16. Briefing on the draft Companies (Amendment) Bill 2006**

The Companies (Amendment) Bill 2006 aims to enable the introduction of a scripless securities market allowing securities to be issued and transferred electronically.

To be confirmed

As advised by the Administration the Securities and Futures Commission and the Hong Kong Exchanges and Clearing Limited are considering the best way forward regarding the implementation of a scripless securities market.

**17. Proposal on sale and outsourcing of the funding and administration of loans made to students**

At the Panel meeting held on 5 January 2006, the Administration briefed Members on its plan to sell off the

To be confirmed



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portfolio and outsource the funding and administration of non means-tested student loans to the private sector. Given the possible impact of the proposal on the students having loans under the two non-means tested loan schemes concerned, Members urged the Administration to consult the Panel on Education (Education Panel) and relevant student bodies on the proposal before reverting to the Panel.

When the subject was discussed at the special meeting of the Education Panel held on 26 January 2006, the following motion was passed:

"本委員會反對政府將免入息審查學生貸款出售和外判予私營機構，並要求政府盡快完成檢討整個學生貸款計劃，以達至協助有需要之學生完成學業，而不至於畢業後長期負債。"

(English translation)

"That this Panel opposes the sale of the Government's non-means-tested student loan portfolio and the outsourcing of the funding and administration of these loan schemes to the private sector, and requests that the overall review of all student loan schemes be completed expeditiously for the purpose of providing assistance to the needy students to enable them to finish their studies without having to repay debts over a prolonged period of time after graduation."

In view of the views expressed by different stakeholders, the Government needs to further examine the way forward.