

立法會
Legislative Council

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Panel on Financial Affairs

Minutes of meeting
held on Monday, 4 May 2009 at 10:45 am
in the Chamber of the Legislative Council Building

Members present : Hon CHAN Kam-lam, SBS, JP (Chairman)
Hon Ronny TONG Ka-wah, SC (Deputy Chairman)
Dr Hon David LI Kwok-po, GBM, GBS, JP
Hon James TO Kun-sun
Dr Hon Philip WONG Yu-hong, GBS
Hon Emily LAU Wai-hing, JP
Hon Abraham SHEK Lai-him, SBS, JP
Hon Vincent FANG kang, SBS, JP
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon WONG Ting-kwong, BBS, JP
Hon CHIM Pui-chung
Hon KAM Nai-wai, MH
Hon Starry LEE Wai-king
Hon Paul CHAN Mo-po, MH, JP
Hon CHAN Kin-por, JP
Hon Tanya CHAN
Hon Mrs Regina IP LAU Suk-ye, GBS, JP

Member attending : Hon Albert CHAN Wai-yip

Member absent : Hon Albert HO Chun-yan

Public officers attending : Agenda items IV and V

Ms Julia LEUNG
Acting Secretary for Financial Services and
the Treasury

Mr Clement LEUNG, JP
Deputy Secretary for
Financial Services and the Treasury (Treasury) 2

Agenda item IV

Mr Kenneth CHENG
Principal Assistant Secretary for
Financial Services and the Treasury (Treasury)

Mrs Alice LAU
Commissioner of Inland Revenue

Agenda item V

Miss AU King-chi, JP
Permanent Secretary for
Financial Services and the Treasury
(Financial Services)

Mr Edmond LAU, JP
Executive Director (Monetary Management)
Hong Kong Monetary Authority

Agenda item VI

Mr Dominic LEUNG, JP
Deputy Commissioner for Census and Statistics

Miss CHAN Ka-lin, JP
Assistant Commissioner for Census and Statistics
(Social)

Mr KWONG Ming-fai
Systems Manager, Census and Statistics Department

Ms Jenny CHAN
Principal Assistant Secretary for
Financial Services and the Treasury (Financial Services)

Clerk in attendance: Ms Rosalind MA
Chief Council Secretary (1)5

Staff in attendance : Mr Noel SUNG
Senior Council Secretary (1)4

Miss Amy LEE
Senior Council Secretary (1)8

Ms Haley CHEUNG
Legislative Assistant (1)8

Action

I Confirmation of minutes of meeting and matters arising

(LC Paper No. CB(1)1386/08-09 — Minutes of meeting on
26 February 2009

LC Paper No. CB(1)1410/08-09 — Minutes of meeting on
6 April 2009)

The minutes of the meetings held on 26 February 2009 and 6 April 2009 were confirmed.

II Information papers issued since the last meeting

(LC Paper No. CB(1)1174/08-09(01) — Administration's response to
Hon Mrs Regina IP's letter

LC Paper No. CB(1)1296/08-09(01) — Administration's paper on
first quarterly report of 2009
on Employees Compensation
Insurance — Reinsurance
Coverage for Terrorism

- LC Paper No. CB(1)1349/08-09 — Hong Kong Monetary Authority Annual Report 2008
- LC Paper No. CB(1)1413/08-09(01) — Hon Starry LEE's letter on investment of Mandatory Provident Fund contributions (Chinese version only)
- LC Paper No. CB(1)1413/08-09(02) — Administration's response to questions 1 and 2 of Hon Starry LEE's letter
- LC Paper No. CB(1)1428/08-09 — Hong Kong Deposit Protection Board's consultation paper on enhancing deposit protection under the Deposit Protection Scheme
- LC Paper No. CB(1)1440/08-09(01) — Administration's response to the submission on the increase of tobacco duty from the Committee on Youth Smoking Prevention)

2. Members noted the information papers issued since the last meeting.

III Date of next meeting and items for discussion

- (LC Paper No. CB(1)1408/08-09(01) — List of outstanding items for discussion

- LC Paper No. CB(1)1408/08-09(02) — List of follow-up actions)

Special meeting in May 2009

3. Members agreed that the special meeting originally scheduled for 18 May 2009 be re-scheduled to 21 May 2009 at 10:45 am to facilitate attendance of members who would join the Legislative Council delegation to visit the Pearl River Delta Region. The following items would be discussed at the special meeting:

- (a) Briefing on the work of the Hong Kong Monetary Authority (HKMA); and

- (b) Remuneration policies of the HKMA and remuneration levels of its senior executives.

4. Noting that the Chairman of the Governance Sub-committee of the Exchange Fund Advisory Committee had been invited to attend the special meeting in relation to item (b) above, Ms Emily LAU opined that the Financial Secretary (FS) should also be invited, as the recommendation of the Governance Sub-committee regarding the remuneration of HKMA staff had to be approved by FS. The Chairman advised that the Administration would provide an attendance list before the meeting. The Clerk supplemented that an invitation had been extended to the FS's Office for provision of information and attendance of the special meeting, and a reply was still awaited.

5. Mr Abraham SHEK remarked that to facilitate members' discussion on the remuneration of HKMA's senior executives, the Administration/HKMA should be requested to provide information regarding the pay levels and pay adjustment system for senior executives of the banking/financial services sectors. Mrs Regina IP said that the pay levels of the heads of central banks in other jurisdictions should also be made available for reference, as HKMA performed the role of a central bank. The Clerk said that the Administration/HKMA would be requested to provide information on pay adjustments for senior executives of the banking/financial services sectors which had been used as reference in HKMA's annual pay review in 2008.

Regular meeting in June 2009

6. The Chairman advised that the Administration had proposed four items for discussion at the regular meeting in June 2009. The Chairman suggested that as the Panel had recently received a briefing on the "Progress on the rewrite of the Companies Ordinance" in February 2009, the subject could be arranged for discussion at the regular meeting in July, so as to allow more time for the Panel to deal with the other three items proposed by the Administration. Members agreed with the above suggestion and noted that the following items would be discussed at the next regular meeting scheduled for 1 June 2009:

- (a) Enhancing deposit protection under the Deposit Protection Scheme;
- (b) Impact of banks' branch closure and fee-charging on the public; and
- (c) Proposed expansion of outsourcing scheme on summary bankruptcy cases.

(Post-meeting note: The Administration subsequently requested to brief members on the legislative proposals to facilitate electronic

incorporation of companies through the Companies (Amendment) Bill 2009, which would be introduced into LegCo in the fourth quarter of 2009 ahead of the rewrite exercise. With the concurrence of the Chairman, a special meeting was scheduled for 11 June 2009 to discuss the legislative proposals.)

Market misconduct activities

7. In response to Mr Jeffrey LAM's enquiry, the Chairman said that the Administration/Securities and Futures Commission (SFC) had provided a written response to Mr LAM's letter regarding market misconduct activities, and both would be circulated to members. Members who wished to discuss the subject at a meeting of the Panel might contact the Secretariat.

(Post-meeting note: Mr Jeffrey LAM's letter and the Administration/SFC's response were circulated to members vide LC Paper No. CB(1)1460/08-09 on 4 May 2009.)

IV Extending the network of agreements for avoidance of double taxation

(LC Paper No. CB(1)1408/08-09(03) — Administration's paper on exchange of information under agreements for avoidance of double taxation)

Briefing by the Administration

8. The Acting Secretary for Financial Services and the Treasury (Atg SFST) briefed the meeting on the proposed legislative amendments to the Inland Revenue Ordinance (IRO) (Cap. 112) to enable Hong Kong to adopt the latest international standard for exchange of information (EoI) in the comprehensive avoidance of double taxation agreements (CDTAs), by highlighting the salient points in the Administration's paper. She advised that the Administration aimed at introducing the relevant amendment bill into LegCo later in 2009.

Discussion

9. The Deputy Chairman expressed concern as to how the Inland Revenue Department (IRD) could guard against abuse of the information provided to another jurisdiction under a CDTA, and protect the confidentiality of the information exchanged and the privacy of the local taxpayer concerned. While pointing out that there was a difference between tax avoidance and tax evasion, the Deputy Chairman remarked that in many previous legal cases in

Hong Kong, the court had turned down requests from other jurisdictions for information of local taxpayers. He asked whether IRD had put in place a mechanism for handling requests for information so that only legitimate and justifiable requests would be entertained. Mr Jeffrey LAM expressed similar concern about the impact of the proposed amendments to privacy protection.

10. In response, Atg SFST said that EoI article of a CDTA would specify that the contracting parties could only request for information which was necessary and relevant for clarifying their taxing rights for the avoidance of double taxation and for enforcing their tax laws. Information received by a contracting party should be treated as confidential and should not be disclosed to a third party. The Commissioner of Inland Revenue (CIR) supplemented that in adopting the 2004 version of the Organization for Economic Cooperation and Development (OECD) Model Tax Convention of EoI article in the CDTAs, Hong Kong would deploy the most prudent safeguards available under the version to protect the confidentiality of the information exchanged. CIR pointed out that information exchange would be restricted to specified types of tax and conducted on a case-specific basis in response to legitimate requests. The relevant authority of the contracting party should satisfy IRD that the information it requested was necessary or relevant for the carrying out of CDTA or the administration or enforcement of its local tax laws. It should treat the information provided as secret information and only use the information provided for purposes specified in the CDTA.

11. Mr Jeffrey LAM enquired about the measures taken to address the concern expressed by some G20 Leaders at the London Summit held on 2 April 2009 that Hong Kong was a tax avoidance haven.

12. Atg SFST said that the proposed legislative amendments to IRO to enable Hong Kong to adopt the OECD 2004 version of the EoI article would help address the concerns of some developed economies about the transparency of Hong Kong's tax regime. The Government had also explained to relevant overseas authorities that Hong Kong maintained a simple and highly transparent tax regime and Hong Kong's relatively low tax rate was a result of a prudent fiscal policy.

13. Mr CHAN Kin-por was concerned about the impact of the legislative proposal, including the impact on the protection of personal privacy and on business enterprises' interests in making investments in Hong Kong.

14. Atg SFST stressed that the exchange of information under CDTAs would be conducted in a prudent manner to safeguard personal privacy of the taxpayers concerned. Atg SFST believed that the business sector would welcome signing of more CDTAs between Hong Kong and other places as this could clarify uncertainties in the tax liability of their investments in Hong Kong and the places concerned. CIR supplemented that the impact of the proposed

amendments of IRO would be limited as the proposal sought to expand IRD's power to gather information outside that required for domestic tax purposes to facilitate enforcement actions against tax evasion by the contracting parties. From the experience of jurisdictions which had adopted the OECD 2004 version of the EoI article, normally the annual requests for information received by a jurisdiction were below 100.

15. Mr CHAN Kin-por further asked whether the taxpayer concerned would be informed of the request for information on his case. In reply, CIR advised in the negative and said that the same practice was adopted by places like Australia and Canada. She pointed out that where the information was requested for investigation of alleged criminal offences, informing the taxpayer concerned might hamper the investigation process. Moreover, as the relevant information had to be provided to the other contracting party within 90 days of the request in accordance with OECD's requirement, it would not be practicable for IRD to notify the taxpayer concerned and allow time for him to make representation in this respect.

16. Referring to previous discussions during the scrutiny of legislative proposal on mutual legal assistance, Mr James TO recalled that Members belonging to different political parties had called on the Administration to limit such mutual agreements to the cases involving criminal offences. Mr TO cautioned that the proposed extension of IRD's power to gather information from taxpayers and provide the information to contracting parties should be examined in a prudent manner, taking into consideration the uniqueness of Hong Kong's small and open financial market and the possible number of requests for information from the contracting parties. Mr TO opined that EoI under CDTA should be limited to the information on a specific taxpayer in a case, but not those on his business counterparts and associates.

17. Atg SFST appreciated Mr TO's concern and assured that the Government had been taking forward the legislative proposal in a prudent manner, through ongoing assessments of the suitable timing and approach for adopting the OECD 2004 version of EoI article and having regard to the global trend that most developed economies had adopted the OECD 2004 version of the EoI article in the past years. Adequate safeguards would be put in place to protect the confidentiality of the information exchange and the privacy of the taxpayers concerned.

18. Ms Emily LAU noted that after the G20 Summit, OECD had published three lists identifying tax jurisdictions which had substantially implemented the OECD standard, those which had committed to the OECD standard but had not yet substantially implemented it, and those which had not committed to the standard. Ms LAU questioned why Hong Kong had not been put on the second list, given that it had drawn up proposal to adopt the OECD 2004

version of EoI article. Ms LAU enquired what consequence would ensue if Hong Kong failed to adopt the prevailing OECD standard.

19. Atg SFST pointed out that OECD had not put Hong Kong on any of the three lists of tax jurisdictions published after the G20 Summit, but pointed out Hong Kong's commitment to implement the OECD standard in a footnote to the lists, mainly because Hong Kong was not a sovereign country. As the G20 Leaders had agreed to review the implementation of the OECD standard in different countries at the next G20 Finance Ministers and Central Bank Governors Meeting to be held in November 2009, and the US Congress had moved a Bill to impose sanctions on places identified as tax havens, Hong Kong might face the risk of being labeled as a tax haven and sanctioned, if it did not adopt the prevailing OECD standard for EoI.

20. Noting that there were divergent views among the business and professional sectors during the consultation in 2005 on the liberalization of EoI under CDTAs, Ms Emily LAU enquired about the reasons for the change in view in the 2008 consultation exercise when most of the stakeholders indicated support for the liberalization.

21. CIR advised that during the consultation exercise in 2005, the OECD 2004 version of the EoI article had been introduced shortly and adopted by a few jurisdictions only. The stakeholders were then of the view that implementation of the new OECD standard should be observed for some time before they could take a view on the pros and cons of its implementation in Hong Kong. In light of the operational experience of other jurisdictions in the past few years and the safeguards for privacy protection, the majority of the stakeholders supported the adoption of the OECD 2004 version of the EoI article in Hong Kong in the 2008 consultation, although 15 organizations expressed concern about the confidentiality and sharing of information exchanged. CIR advised that in taking forward the liberalization of EoI through legislative amendments, IRD would take heed of the concerns of these organizations as well as LegCo Members on protection of personal privacy. Responding to Ms Emily LAU's further enquiry, CIR said that the Government had planned to adopt the OECD 2004 version of EoI article before the G20 Summit in April 2009. In this connection, she pointed out that the initiative had been highlighted in the Financial Secretary's Budget Speech delivered on 25 February 2009.

22. Mr Paul CHAN said that the accountancy sector supported in principle the legislative proposal. Referring to a US draft bill to impose sanctions on tax havens with a list of 34 places identified as tax havens including Hong Kong, Mr CHAN pointed out that Hong Kong might face the risk of sanctions if it did not adopt the latest international standard for EoI. Moreover, incentive of US corporations to invest or set up subsidiaries in Hong Kong would reduce if the bill was passed. Given that Hong Kong had concluded

CDTAs with only five economies, companies might be discouraged from investing in Hong Kong as they would have to pay high withholding tax if their Hong Kong subsidiaries traded with other countries. Noting that information exchange would be conducted on a case-specific basis in response to legitimate requests, Mr CHAN enquired whether additional resources would be required for IRD to collect the requested information after the adoption of the OECD 2004 version of EoI article.

23. CIR advised that IRD would collect information upon receipt of a legitimate request from a contracting party. Since the information exchange would be conducted on a case-specific basis, and the exchange would be confined to certain types of tax under the CDTAs, the information to be collected and provided to the contracting parties would be limited. In the past years, IRD had only received 18 requests (2 from Thailand and 16 from the Mainland) for information from its CDTAs contracting parties. CIR pointed out that the proposed legislative amendments only sought to expand the power of IRD to collect taxpayers' information outside those for domestic tax purposes for adoption of the OECD 2004 version of EoI article. IRD did not envisage a significant increase in requests as a result of such adoption and hence did not think that additional resources would be required to deal with the requests.

24. Noting that the Government was negotiating CDTAs with 11 economies, Mr Jeffrey LAM enquired whether these included Taiwan. Mr LAM was of the view that signing of CDTA with Taiwan might facilitate economic activities and the flow of talents between Hong Kong and Taiwan.

25. CIR advised that there was no current plan for starting the negotiations on CDTA with Taiwan. According to the Government's policy, it would be willing to negotiate with any places with close economic ties with Hong Kong on exchange of information under CDTA. She pointed out that noting the commitment of Hong Kong to adopt the OECD 2004 version of the EoI article, countries like the United Kingdom and France had indicated the wish to negotiate with Hong Kong for CDTAs. the Deputy Secretary for Financial Services and the Treasury (Treasury)2, (DS/Tsy) added that negotiation with Taiwan would involve practical issues yet to be sorted out, such as the constitutional issue relating to the formal communication with the Taiwan authorities.

26. Responding to the Chairman's enquiry about the timeframe for introducing the Bill into LegCo, DS/Tsy said that the Administration was working in full gear on the drafting with a view to introducing the amendment bill into LegCo as soon as possible, probably before or right after the summer recess. Mr James TO suggested the Government consider providing the draft in the form of a White Bill for public consultation so that details of the technical amendments could be examined at an early stage.

V Government Bond Programme

- (G6/123/5C — The Legislative Council Brief issued by the Financial Services and the Treasury Bureau
- LC Paper No. CB(1)1469/08-09(01) — Administration's paper on Government Bond Programme
- LC Paper No. CB(1)1491/08-09(01) — Powerpoint presentation material provided by the Administration (tabled at the meeting and soft copy issued on 4 May 2009))

Briefing by the Administration

27. At the invitation of the Chairman, Atg SFST gave a powerpoint presentation on the proposed Government Bond Programme (GBP), which aimed at increasing the breadth and depth of the local bond market with a view to promoting its further and sustainable development. To implement GBP, the Government tentatively planned to seek the Legislative Council (LegCo)'s approval on 20 May 2009 for a resolution each under section 29 of the Public Finance Ordinance (PFO) (Cap. 2) and section 3 of the Loans Ordinance (Cap. 61). Subject to LegCo's approval, the first batch of government bonds under GBP was expected to be ready for issuance in the third quarter of 2009, the earliest.

Discussion

28. Mr Jeffrey LAM supported the issuance of government bonds and opined that there was room for further development of the public debt market. He also considered the proposed borrowing ceiling of HK\$100 billion appropriate. Noting that the programme would comprise bond issues for institutional and retail investors, Mr LAM enquired about the details of these two target groups, such as whether both local and overseas institutional investors would be attracted to invest in the government bonds and the possible proportion between the two.

29. Atg SFST advised that the retail tranche of government bonds under GBP would be distributed through an extensive network of placing institutions including placing banks. As far as the institutional tranche was concerned, the

Government expected that it would attract both local and overseas institutions, including insurance companies and pension funds with long-term Hong Kong (HK) Dollar liabilities, which were looking for stable and high-quality fixed income HK Dollar assets like government bonds to match their liabilities. International institutions without HK Dollar liabilities might also be interested in including government bonds in their investment portfolio in view of the high quality of the bonds. Responding to Mr Jeffrey LAM's concern about the mechanism for determination of yields for the government bonds, Atg SFST advised that the yields of the bonds to be issued under GBP, like any other bonds, would have to be determined having regard to prevailing market conditions, including the interest rate environment.

30. Mr Vincent FANG supported the issuance of government bonds to promote further and sustainable development of the bond market. He opined that the government bonds, with relatively lower risks, would offer better investment choices for investors, in particular the small investors. Mr FANG was concerned whether the offering arrangements for the government bonds would be determined having regard to the demand and interests of retail investors, such as through allowing higher proportion of retail issues, providing more attractive yields and setting an appropriate minimum subscription amount.

31. Atg SFST responded that under the proposed implementation arrangements of GBP, the institutional tranche would be offered by way of a competitive tender open to Primary Dealers (PDs), while the retail tranche would be distributed through an extensive network of placing institutions. The Government would adjust the issuance size of both tranches and decide the applicable yield regarding each issuance having regard to the relevant factors.

32. Mr Vincent FANG further enquired whether the issuance of government bonds under GBP would have any adverse impact on currency stability, in particular if HK Dollar would unpeg with US Dollar in the future. In reply, Atg SFST advised that the proposed borrowing ceiling of HK\$100 billion would only constitute a small portion of the size of the capital market and would unlikely affect HK Dollar stability. She also pointed out that the Government had no plan to change the Linked Exchange Rate System which had been operating effectively.

33. Mr James TO noted that the objective of GBP was to promote the further and sustainable development of the local bond market and the sums raised would be managed separately from the general revenue. He was concerned whether the Administration would consider issuing asset-back securities under GBP as in the securitization exercise in 2004 under which the future revenue from tolls on specified bridges and tunnels were securitized. He also enquired about the power of the Financial Secretary (FS) to use the

sums raised under GBP and asked whether the sums raised could be transferred to the general revenue to meet government expenses in case of urgent needs.

34. Atg SFST advised that the proceeds raised under GBP would be credited to the Bond Fund, which would be used to repay principal, meet the financial obligations and liabilities associated with GBP and make investments. In case of a positive balance in the Bond Fund after all financial obligations and liabilities associated with GBP were met, the surplus might be transferred to the general revenue subject to the approval of LegCo. Ds/Tsy referred members to paragraph (g) of the proposed resolution under section 29 of PFO which specified FS's power to transfer sums from the Bond Fund to the general revenue under the aforesaid circumstance.

35. Mrs Regina IP expressed support to GBP in principle but was dissatisfied with the tight legislative timetable proposed by the Administration, given the short interim between the consultation with the Panel and the proposed moving of the two relevant resolutions in LegCo on 20 May 2009. She was of the view that a subcommittee should be formed under the House Committee for detailed discussion of the proposed resolutions and the implementation of GBP. Given the prevailing low interest rate in the market and the low risk nature of the government bonds, Mrs IP doubted whether there was room for the Administration to offer attractive yields to retail investors under GBP.

36. Atg SFST noted Members' views on the time required to discuss the proposed parameters for implementation of GBP. She advised that as the yields of government bonds to be issued under GBP would have to be determined having regard to prevailing market conditions, no projection of the applicable yields could be provided at the present stage.

37. Mrs Regina IP sought information on the criteria for appointment of recognized dealers and PDs for the institutional issues. She was concerned whether objective selection criteria would be used to safeguard the interest of the investing public. In reply, Executive Director (Monetary Management) Hong Kong Monetary Authority (ED(MM)/HKMA) advised that taking into account the initial views from market participants on the offering arrangements of GBP, HKMA had worked out a set of fair, reasonable and quantifiable criteria for the appointment of PDs. In assessing the suitability of financial institutions for appointment as PDs, reference would be made to their performance and participation in the tender of the Exchange Fund Bills and Notes (EFBN). The relevant criteria would be further refined after further consultation with market participants.

38. Mr KAM Nai-wai opined that the investing public had limited knowledge about the bond market, and could hardly understand the risks involved in different products offered in the market. Noting the numerous

benefits to be brought about by the issuance of government bonds highlighted in the Administration's paper, Mr KAM questioned why the Administration had not implemented GBP years ago, say, during the financial difficulties back in 2003. Mr KAM was concerned that as the Administration had not provided details of GBP, in particular the estimated yields of government bonds and the minimum subscription amount for retail issues, it was difficult for the LegCo to give approval to the two relevant resolutions for the implementation of GBP.

39. Atg SFST said that the Government would continue its efforts to enhance investors' understanding of the bond market through investor education. As far as GBP was concerned, investors would need to understand and assess the risks involved in the Government's ability to repay the principal and pay the interests. Atg SFST pointed out that while the Government had issued bonds previously, those issuances were done on a one-off basis and therefore had limited effect on promoting the sustainable and further development of the local bond market. In view of the growing demand from institutional investors such as pension funds and insurance companies for investment opportunity to match their long-term HK Dollar liabilities, the offer of government bonds under GBP would be timely and beneficial to the market. On the estimated yields of the government bonds, Atg SFST reiterated that the proposed borrowing ceiling of \$100 billion was a target to be achieved in five to ten years' time. Since the yield applicable to each issuance had to be determined at the time of issuance having regard to prevailing market conditions, no projection of the applicable yields could be provided at this stage.

40. Mr CHAN Kin-por said that the insurance industry was supportive to GBP. He was of the view that the borrowing ceiling of HK\$100 billion might not be sufficient to meet the demand of investors and asked whether the Administration would consider uplifting the ceiling and expediting the implementation of the programme in the event of strong demand from institutional and retail investors. Pointing out that there were demands for insurance policies denominated in Renminbi (RMB), Mr CHAN asked whether the Administration would consider issuing RMB-denominated bonds under GBP as well.

41. In response, Atg SFST advised that in working out the proposed borrowing ceiling, the Government had taken into account the need to facilitate growth of the local bond market into a critical mass. The proposed borrowing ceiling represented a long-term target over a period of five to ten years. Given the on-going nature of GBP, the proposed borrowing ceiling would allow flexibility for the Government to decide the issuance size and tenor of individual tranches having regard to prevailing market conditions. She advised that the Government would not rule out the possibility of seeking approval from LegCo for increasing the borrowing ceiling in future when the ceiling of HK\$100 billion was found to be insufficient, having regard to such

factors as investors' demand. As to the suggestion of issuing RMB-denominated bonds, Atg SFST advised that given that the primary objective of GBP was to promote the development of the local bond market, it was proposed that the bonds to be issued under GBP would be denominated mainly in HK Dollar. She also pointed out that the suggestion of issuing RMB-denominated government bonds could not be considered in isolation with the relevant policies of the Mainland.

42. Mr Albert CHAN expressed grave concern about the merits of GBP. He questioned the rationale behind the Administration's putting forward such a bond issuance programme at this time and doubted how retail investors could benefit from GBP given the prevailing low interest rate environment. Mr CHAN was concerned that only financial institutions would benefit from GBP in the end and requested the Administration to provide further details of the programme. He also requested to put on record his strong dissatisfaction with the limited discussion time for the subject at the Panel meeting.

43. The Deputy Chairman supported GBP in principle but queried the rationale behind the Administration's pushing through the proposal in a hasty manner. He stressed that the programme should only be implemented after the concerns and questions raised by LegCo Members had been addressed. The Deputy Chairman questioned whether the Government had conducted in-depth study before putting forward the proposal, such as by engaging consultancy for GBP. He requested for further information on the considerations and analysis for the launch of GBP and the details of the proposed mechanism in executing GBP. Moreover, the Deputy Chairman expressed concern about the investment strategy for the Bond Fund, and the appropriateness of placing the proceeds raised under GBP with the Exchange Fund (EF) for investment.

44. In response, Permanent Secretary for Financial Services and the Treasury (Financial Services) (PS(FS)) advised that the Government considered it appropriate to place the proceeds raised under GBP with EF for investment purpose, in view that EF's investment strategy, which was long-term and conservative in nature, suited the investment objectives of the Bond Fund, which were to preserve capital and generate reasonable investment returns to cover the financial obligations and liabilities associated with GBP.

45. ED(MM)/HKMA supplemented that placing the proceeds of GBP with EF would allow the Bond Fund to benefit from the economy of scale of assets managed under EF. The substantial size of EF could also provide sufficient investment diversification for the achievement of a stable investment return and effective management of risk. Besides, he advised that it would be important to grow the size of the local debt market in order to attract more investors into the market and hence improve secondary market liquidity. An effective way to achieve this would be to launch a regular government bond programme as a

useful supplement to the existing EFBN Programme. The adoption of the previous approach of one-off issuances on an ad-hoc basis by the Government could unlikely achieve this objective.

46. Mr Abraham SHEK was of the view that there was insufficient information to evaluate the pros and cons of GBP. He asked for detailed assessment of the expected investment returns for the Bond Fund, the additional manpower required and administrative cost incurred for implementing GBP. In addition, he would like to know the impact of GBP on the banking sector, in particular the small and medium-sized banks and the possibility of the worst case scenario for the shortfall of the Bond Fund in meeting the financial obligations of bond issues. He also requested the Administration to provide information on the track record of EF investment returns/losses in the past years. In addition, Mr SHEK suggested that the Research and Library Services Division of the Secretariat could do some research and provide information on the Programme.

Secretariat

47. Ms Emily LAU shared Mr Abraham SHEK's concern about the insufficient information provided by the Administration about the Programme. In particular, she would like to know the minimum subscription amount of the bonds, the rationale behind the current approach, the consideration of the timing of the launch of the Programme and the assessment of the investment loss for the Bond Fund. All these were fundamental issues of concern which should be taken seriously. It would thus be necessary to convene a further meeting of the Panel to consider the relevant issues. Mr Paul CHAN echoed these views and added that despite the admirable objectives of the Programme, LegCo should be given adequate time and information to vigorously consider all relevant issues so that the bond programme could achieve its intended objective with full support from the community.

48. Mr WONG Ting-kwong asked whether the Administration would consider the possibility of issuing bonds to finance public infrastructures as in the securitization of future toll revenue from the "Five Tunnels and One Bridge" in 2004. In reply, Atg SFST said that the Government would not rule out the possibility of issuing asset-backed securities in future. Nonetheless, during the initial implementation stage of GBP, the intention of the Government was to issue basic types of fixed rate bonds.

49. Miss Tanya CHAN enquired about measures to improve the risk disclosure of the bond issues and plans to enhance the secondary market liquidity. In particular, she was concerned about the risks involved in the event of changes in the interest and exchange rates and in connection with it, whether the Government would consider issuing floating rate bonds.

50. In response to the question about potential loss in bond issuance, Atg SFST advised that the Government would carefully assess the prevailing

market conditions to minimize the risks and costs involved in the issuance of bonds. As for the secondary market, Atg SFST said that it took time to build up the liquidity in the local bond market. Investors would tend to hold the bonds until maturity. It was believed that the on-going and more systematic issuance of government bonds under GBP would help increase the breadth and depth of the local bond market, improving the secondary market liquidity in the longer run.

51. On the question of issuing floating rate bonds, ED(MM)/HKMA advised that the current intention was to issue conventional fixed rate bonds at this stage, though possibility of issuing bonds with floating rates could not be ruled out in future if that was justified from the market development point of view. Besides, as the bonds to be issued under GBP would mainly be denominated in HK Dollar, ED(MM)/HKMA said that local investors with long-term local currency liabilities should be less concerned about the risk of currency mismatch.

52. The Chairman asked why the bonds had to be listed, given that the anticipated yield of bonds would be comparatively lower than that of equities, and whether that would actually affect the secondary market liquidity of bond trading. The Chairman also asked whether it was possible to defer the timetable of moving the two resolutions on 20 May as currently proposed by the Administration.

53. Atg SFST advised that the proposed arrangement for seeking listing status for the bonds to be issued under GBP was intended to satisfy investors' demand for financial disclosure in compliance with the prevailing industry standard. The proposed listing arrangement would also help increase investors' awareness about the bonds. Regarding the legislative timetable, PS(FS) said that the proposed date of moving the resolutions was not a rigid deadline. It could be adjusted having regard to Members' views and the progress of discussion at the Subcommittee to be formed.

54. To address members' concerns raised at the meeting, the Chairman asked the Administration to provide supplementary information covering the background and merits of GBP, its proposed execution mechanism and price setting mechanism. This would facilitate as to whether a Subcommittee to examine the resolutions should be formed, or a special meeting should be convened for further discussion of GBP.

(Post-meeting note: Supplementary information provided by the Administration in response to members' requests was circulated to members vide LC Paper No. CB(1)1507/08-09(02) on 7 May 2009 and the subject was further discussed at a special Panel meeting on 11 May 2009.)

VI Computer equipment and services for the 2011 Population Census

(LC Paper No. CB(1)1184/08-09(01) — Administration's information paper on computer equipment and services for the 2011 Population Census

LC Paper No. CB(1)1407/08-09 — Background Brief on computer equipment and services for the 2011 Population Census prepared by the Legislative Council Secretariat

LC Paper No. CB(1)1491/08-09(02) — Powerpoint presentation material provided by the Administration (tabled at the meeting and soft copy issued on 4 May 2009)

55. At the invitation of the Chairman, the Deputy Commissioner for Census and Statistics (DC for C&S) briefed members on the Administration's proposal to create a new commitment of \$85.273 million for acquiring the computer equipment and services required for the 2011 Population Census (11C). The Administration planned to submit the relevant financial proposal to the Finance Committee (FC) on 5 June 2009. The data collection period for 11C would last for 45 days from 19 June to 2 August in 2011. Dissemination of the Summary Results and other Census Results would be completed by February 2012 and March 2013 respectively.

56. Ms Emily LAU expressed concern that the paper provided by the Administration had not addressed all the concerns raised by members at the Panel meeting on 5 January 2009 on the implementation of 11C, such as sampling scheme; mode of data collection; and means to collect information from Hong Kong residents residing mostly in places outside Hong Kong as well as on sensitive topics.

57. DC for C&S advised that according to the experience of conducting the 2006 Population By-census, a sampling fraction of one-tenth of the population for the detailed enumeration (the long form) could provide the required precision for supporting relevant statistical inference and analysis. The one-tenth sampling fraction for the long form was also adopted in other places such as Korea. On the mode of data collection, DC for C&S advised that given the number and complexity of the questions in the long form, it was not appropriate to collect the information through telephone interviews.

Moreover, based on past experience, respondents would be more reluctant to provide information in telephone interviews and the reliability of the information collected for lengthy and complicated questions would be lower. The longer data collection period together with the multi-modal data collection approach adopted for 11C (collecting information through electronic means, postal returns and conventional face-to-face interviews) would facilitate data collection and achieve cost-effectiveness.

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58. DC for C&S added that the proposed data topics for 11C were drawn up after consultation with users including relevant government departments/bureaux and other organizations. Apart from the population census, the Census & Statistics Department (C&SD) would conduct surveys on special topics to collect information on specific population sub-groups. For topics like disabilities and sexual orientations, there were practical reasons for not including them in population censuses, given the sensitivity of the topics and hence the demand on interviewing skills. At the request of Ms Emily LAU, DC for C&S undertook to incorporate the relevant information which sought to address concerns raised by Panel members at the meeting on 5 January 2009 in the submission to FC.

59. Referring to the recent rectification of the wage statistics of the transport services sector by C&SD and the consequential revision to the bus fare adjustment formula outcomes by Government, Ms Emily LAU expressed concern about measures taken to ensure accuracy in the compilation of information collected during 11C. In reply, DC for C&S advised that the proposed computer equipment and services would help enhance the efficiency of C&SD's computer system in analyzing the data collected for 11C, so that immediate follow-up actions could be taken to verify the data with the respondents concerned, where necessary, within the statutory data collection period of 11C.

VII Any other business

60. There being no other business, the meeting ended at 1:00 pm.

Council Business Division 1
Legislative Council Secretariat
 2 July 2009