

**Special Meetings of the Finance Committee
to Examine the Estimates of Expenditure 2010-11**

Financial Services

(from 11:10 am to 12:25 pm on 22 March 2010)

Speaking Notes by the Secretary for Financial Services and the Treasury

Chairman and Members,

Before answering your questions, let me first introduce briefly the estimates of expenditure for financial services and our key areas of work in 2010-11.

Estimates of Expenditure

2. For 2010-11, I have allocated about \$800 million from my operating expenditure envelope to the Financial Services Branch and departments under its purview. The amount represents an increase of more than \$80 million over 2009-10.

Key Areas of Work in the Coming Year

3. As in the past years, we will implement our measures in the coming year with two main policy objectives in mind: (1) promoting market development; and (2) optimising the regulatory system and protecting the interests of stakeholders, especially investors.

(1) Promoting Market Development

(a) Developing Offshore Renminbi (RMB) Business

4. On promoting market development, I would like to highlight the measures to develop offshore RMB business and to promote the development of asset management business. Developing offshore RMB business in Hong Kong is the best option for promoting the use and circulation of RMB outside the Mainland in an orderly manner. Together with the Mainland authorities, we will continue to pursue further refinements to the RMB trade settlement services and promote the expanded use of RMB outside the Mainland. We

will also further develop the RMB clearing platform in Hong Kong, facilitating Hong Kong's development as a regional RMB settlement centre.

5. We also hope to further promote the development of RMB bond business in Hong Kong. This includes expanding the issuance size of bonds and increasing the types of bond issuers and the classes of qualified investors. Last year, the amount of RMB bonds issued in Hong Kong reached RMB 16 billion, including RMB 6 billion of sovereign bonds launched in Hong Kong for the first time. The issue of RMB bond was warmly received by investors. We hope that RMB sovereign bonds will be issued on a regular basis in Hong Kong and that RMB-denominated investment products will be developed, thereby promoting the further development of RMB business in Hong Kong.

(b) Promoting Asset Management Business

6. To further promote our asset management business, the Financial Secretary proposed in his Budget Speech to introduce three tax measures, which include extending the stamp duty concession in respect of the trading of exchange traded funds (ETFs) and optimising the tax arrangements for qualifying debt instruments and offshore funds under the Inland Revenue Ordinance.

7. Some of these measures took immediate effect on the Budget day. For example:

- ETF issuers are now allowed to submit to the Administration their applications for stamp duty concession under the new arrangement; and
- Concerning offshore funds, the Commissioner of Inland Revenue has further clarified the definition of "central management and control" by revising relevant guidelines under the Inland Revenue Ordinance. The revised guidelines have been uploaded to the Inland Revenue Department's website on 24 February 2010.

Implementing the other measures entails amending the relevant legislation. We will consult the Legislative Council (LegCo) on the details of the proposed measures as soon as possible.

(2) Refining the Regulatory Regime to Protect Stakeholders

(a) Establishment of an “Investor Education Council” (IEC) and a “Financial Dispute Resolution Centre” (FDRC)

8. In the past year, the Government, the Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC) joined hands in implementing a series of initiatives to enhance investor protection under a holistic strategy. Early last month, we released a consultation paper on the proposed establishment of an IEC and an FDRC. The IEC will seek to develop the ability of the investing public to make wise decisions on wealth management so as to prevent problems from occurring. The FDRC will provide a simple, efficient and affordable mechanism for resolving monetary disputes that may occur. In alignment with the “reinforced” measures for sales of products taken by the HKMA and the SFC earlier on, these two recommendations will provide investors with a seamless protection option.

(b) Disclosure of Price Sensitive Information

9. The Administration also supports the cultivation of a continuous disclosure culture among listed companies. One way to achieve this goal is to codify in statute requirements on timely disclosure of price sensitive information by listed companies. We are preparing the legislative proposals for public consultation.

(c) Deposit Protection Scheme (DPS)

10. We have also completed the review on the existing DPS. The bill for amending the DPS Ordinance will be introduced into the LegCo in the second quarter with a view to implementing the enhancement measures to strengthen the protection for depositors upon expiry of the 100% deposit guarantee at the end of this year.

11. To ensure a smooth transition to the enhanced DPS, the Board will engage the banking industry at the earliest possible time to ensure their readiness, and will launch a publicity campaign to highlight the features of the enhanced DPS on enactment of the proposed legislative amendments so that the public can fully grasp the new developments.

(d) Revamp of the Companies Ordinance

12. In addition, the rewrite exercise of the Companies Ordinance (CO) has been progressing at full steam. All the proposals of the CO revamp have been incorporated into the draft Companies Bill and issued for the first phase consultation last December. We will conduct the second phase consultation in April this year. It is expected that the Bill will be introduced into the LegCo by the end of this year. Besides, if the Companies (Amendment) Bill 2010 is passed within this legislative session by the LegCo, the Companies Registry will introduce new services such as electronic incorporation of companies and filing of documents early next year.

(e) Review of the Trustee Ordinance

13. We are reviewing the Trustee Ordinance and related matters. We believe that by updating the legislative provisions, we can increase the competitiveness of our trust services industry and attract more people of high net worth to choose Hong Kong as the place for establishing and administering their trusts. We released the consultation conclusions in February this year, and briefed the Panel on Financial Affairs on the conclusions in early March. We will seek to introduce the Amendment Bill into the LegCo in the 2010-11 legislative year.

(f) Establishment of an Independent Insurance Authority

14. As regards the insurance industry, we have commissioned a consultancy study on the establishment of an independent Insurance Authority. Apart from making recommendations on the organisational structure and financial arrangements, the study will also review the existing regulatory framework for the insurance industry and identify areas for improvement so as to help the industry meet new regulatory needs and challenges. We will formulate a detailed proposal for establishing an independent Insurance Authority and conduct a consultation within the first half of this year.

(g) Establishment of a Policyholders' Protection Fund

15. To ensure the stability of the insurance industry as a whole and to protect policyholder's interests in the event of an insurer's insolvency, we will conduct an actuarial study on the proposals relating to the establishment of a Policyholders' Protection Fund. Besides, we plan to consult the LegCo within this year on the details of the proposals, e.g. the rate of levy, the scope and maximum amount of compensation, and the reserve level of the fund.

(h) Anti-money Laundering

16. In response to the request of the Financial Action Task Force on Money Laundering (FATF) and to align with the relevant international standards by enhancing the anti-money laundering regulatory regime in respect of the financial sectors in Hong Kong, the Financial Services Branch is preparing a bill to codify in statute the customer due diligence and record-keeping requirements for financial institutions, and to set up an anti-money laundering regulatory regime for remittance agents and money changers. In the past year, the Branch conducted two rounds of public consultation on the relevant legislative proposals and held consultation sessions for various sectors. We are now studying in detail the views collected and plan to introduce the bill into the LegCo in the second quarter of this year.

17. Chairman, my colleagues and I are very happy to answer any inquiries from Members.