

**Special Meeting of the Finance Committee of the Legislative Council
to Examine the Estimates of Expenditure 2011-12**
(from 10:55 am to 11:55 am on 21 March 2011)
Speaking Notes of the Secretary for Financial Services and the Treasury

Chairman,

I will briefly introduce the estimates of expenditure for financial services and our key initiatives in 2011-12.

Estimates of Expenditure

2. For 2011-12, I have allocated about \$1.07 billion from my operating expenditure envelope to the Financial Services Branch and the departments under its purview. The amount represents an increase of more than \$200 million over last year.

Key Areas of Work in the Coming Year

3. The National 12th Five-Year Plan unveiled recently has reaffirmed its continued support to Hong Kong in developing its financial services, consolidating and enhancing Hong Kong's status as an international financial centre of greater significance in the world, and in particular backing the city's development into an offshore Renminbi (RMB) centre and international asset management centre.

4. In response to the 12th Five-Year Plan and with a view to catering for the development needs of the State and Hong Kong, we will focus our work in respect of financial services in the coming year on two key areas, namely promoting market development and improving market quality.

(I) Promoting Market Development

5. On promoting market development, we will put emphasis on four areas, namely further developing offshore RMB business, improving our listing platform to attract more enterprises from different places to list in Hong Kong, fostering the growth of our asset management industry and promoting the development of the bond market.

(a) Offshore RMB Business

6. With the support of the Central Government, we will continue to take forward the development of Hong Kong into an offshore RMB centre. Our next steps are to attract more foreign enterprises to use Hong Kong's RMB settlement services, encourage more Hong Kong, foreign and Mainland enterprises to issue RMB bonds in Hong Kong, and seek channels for enterprises to remit RMB funds raised in Hong Kong for use, say, as foreign direct investment.

(b) Capital Formation Platform

7. Hong Kong was the most active market for initial public offerings (IPOs) globally last year, raising a total of \$449.5 billion, more than any bourse in the world. Enterprises from Russia, France and Brazil came last year to list in Hong Kong for the first time. We will continue to work with the Stock Exchange of Hong Kong to promote Hong Kong's advantages as the premier capital formation centre.

(c) Asset Management Industry

8. We have been taking multi-prong measures to further enhance the competitiveness of our asset management industry. For example, we are seeking to enter into agreements on the avoidance of double taxation with more trading and investment partners. We will continue to develop an Islamic financial platform in Hong Kong. We will also step up efforts in the Mainland and overseas markets to promote the strategic position of our asset management industry. In addition, we will strengthen the role of InvestHK in promoting our financial services industry.

(d) Bond Market

9. The local bond market can provide another efficient platform for capital-raising, investment and financial intermediation. We will issue inflation-linked retail bonds, or “iBond”, to initiate the retail bond issuance under the Government Bond Programme and promote the development of the retail bond market in Hong Kong. The issuance of iBond will provide retail investors with one more investment option for maintaining their purchasing power in a low-interest rate environment with an inflationary trend.

(2) Improving Market Quality

10. Our second focus is to improve market quality by optimizing the regulatory regime. I would like to highlight a few key areas of work.

(a) Rewrite of the Companies Ordinance

11. We introduced the Companies Bill into the Legislative Council (LegCo) for deliberation in January this year with a view to enhancing Hong Kong’s status as a major international business and financial centre. In view of the multitude of provisions and the fairly tight schedule for deliberation, we will work closely with the Bills Committee for the passage of the Bill by July next year.

(b) Statutory Requirements on Disclosure of Price Sensitive Information by Listed Companies

12. Regarding the securities industry, the cultivation of a continuous disclosure culture among listed companies is vital to Hong Kong as a capital formation platform. In February this year, we published the consultation conclusions on the proposed statutory requirements for the timely disclosure of price sensitive information (PSI) by listed companies. The proposed regime revised after the consultation will encourage market compliance without stifling market development. We aim to introduce the revised bill into the LegCo within this legislative session.

(c) Establishment of an Independent Insurance Authority

13. The public consultation on the proposed establishment of an Independent Insurance Authority (IIA) was completed in October 2010. Our target is to publish the consultation conclusions in the first half of this year. The public generally support the proposed establishment of the IIA. Having regard to the views received, we will consult the industry and other stakeholders in developing the detailed proposals to ensure that they meet public expectations and market development needs.

(d) Establishment of a Policyholders' Protection Fund

14. We are taking forward the proposal to establish a Policyholders' Protection Fund at full swing. We will soon brief the LegCo Panel on Financial Affairs on various aspects of the proposal, including the coverage, level of compensation, funding mechanism and governance arrangements. We will conduct a consultation exercise to receive views and comments from the industry and members of the public.

(e) Enhancement of the Mandatory Provident Fund System

15. On the Mandatory Provident Fund (MPF) System, we are working at full speed in conjunction with the Mandatory Provident Fund Schemes Authority (MPFA) in preparing the legislative proposals on MPF intermediaries regulation. We will brief the LegCo Panel on Financial Affairs on the proposals in April. We aim to introduce the bill into LegCo within this year with a view to implementing the Employee Choice Arrangement as soon as possible next year.

16. On the other hand, we are also following up on the review of MPF minimum and maximum relevant income levels. I understand that the Panel on Financial Affairs is considering a public hearing on this subject. We will facilitate the process with a view to identifying a mainstream proposal and commence the legislative amendment process as soon as possible.

17. I understand that the community has high expectations of MPF. Yet, the MPF System has only been implemented for 10 years and would need continuous improvement to better meet public needs. A number of major aspects of the MPF system are already under review, including the minimum and maximum relevant income levels for MPF contribution, and the restrictions for withdrawal of accrued benefits, etc. We are following up closely on these reviews in conjunction with MPFA.

18. Overall speaking, the MPF System has accumulated assets of over \$365.4 billion for more than 2.52 million employees and self-employed persons. It is thus a fact that the MPF System has helped accumulate retirement savings for employees during the past decade. There are also promising developments on the question of MPF fees. Through measures such as enhancement of market transparency and competition, the Government and the MPFA have been facilitating adjustments of MPF fee levels by means of market forces. We continue to notice trustees proactively reducing the fees of individual schemes or introducing schemes of low fees, e.g. some MPF trustees introduced new schemes with fees below 1%. The Government and the MPFA will continue to work closely in this regard.

19. To conclude, we will continue to work closely with the regulators and the industry to implement the above-mentioned work plan, and seize the opportunity presented by the National 12th Five-Year Plan to foster the sustained development of our financial services. Chairman, my colleagues and I are happy to answer any inquiries from Members.