

**LEGISLATIVE COUNCIL PANEL  
ON FINANCIAL AFFAIRS**

**Information Note on Policy Initiatives of  
the Financial Services and the Treasury Bureau**

**INTRODUCTION**

This information note outlines the key ongoing policy initiatives relating to the Financial Services and the Treasury Bureau (“FSTB”) under the 2010-11 Policy Agenda issued on 13 October 2010.

**FINANCIAL SERVICES**

**Overview**

2. Since the start of the financial tsunami, we have been closely monitoring the development in the global financial markets in collaboration with our financial regulators, and have taken swift action to stabilise the financial market and strengthen public confidence. With our robust regulatory regime and concerted efforts, the local financial system has emerged from this global financial crisis without any systemic problems.

3. While Hong Kong has weathered the financial crisis, we need to review our strategic positioning for the sustainable development of our financial industry in the post-tsunami era, especially in view of the economic development in the Mainland, increasing regional competition and evolving international regulatory landscape.

4. The Mainland has maintained steady economic development in the face of the financial turmoil. In this connection, we are committed to serving the changing needs of our country, by leveraging our advantages under “One Country, Two Systems” and complementing the preparation of the National 12th Five-Year Plan.

5. A key feature in the post-tsunami global financial order is the shift of economic gravity more to the East, not only due to the regulatory uncertainty in the West, but also the growth prospects in the Region. Together they have presented more market development opportunities to the Region, against a backdrop of increasing competition amongst financial centres.

6. The financial tsunami has highlighted the need for financial regulatory arrangements to evolve with the markets. The G-20 and international regulatory bodies have proposed a series of measures to enhance the regulation of financial institutions and markets. At the same time, we have rolled out measures to better regulate the sale conduct of intermediaries and the offer of investment products in light of market circumstances and investors' aspirations. We shall continue to review and improve our regulatory regime, taking into account global financial developments and local market needs.

7. To strengthen our status as an international financial centre ("IFC"), we have reviewed our ongoing initiatives. Some of these were initiated well before the onset of the financial crisis; whereas some others were triggered or expedited by the financial crises. We have consolidated our efforts and policy commitments to better align with the overarching policy directives to develop Hong Kong as a global capital formation centre, asset management centre and offshore renminbi ("RMB") business centre to serve the development needs of our country in its economic transformation.

## **2010-11 Policy Agenda**

8. At a time when the international financial order is being reshuffled and in view of the local and regional development, we have mapped out a multi-pronged strategy to improve our market quality, promote investor protection, facilitate market development, and enhance our regulatory system. This strategy would help reinforce Hong Kong's status as China's global financial centre to carry out not only China-related activities on the global financial platform, but also global operations in the Greater China market. The ensuing paragraphs seek to highlight some key initiatives in implementing this strategy.

### **I. Improving Market Quality and Investor Protection**

#### *Enhancing disclosure*

(a) Statutory codification of certain requirements to disclose price sensitive information by listed corporations

9. In the period from March to June 2010, we conducted a public consultation on the proposed statutory codification of certain requirements to disclose price sensitive information by listed corporations. We received 112 written submissions, about half of which were from listed corporations, while

the others were mainly from trade bodies of the financial services, accounting and legal sectors as well as investor/consumer groups. The respondents generally agree to our objective of cultivating a continuous disclosure culture among listed corporations.

10. We believe that a statutory regime to require listed corporations to disclose price sensitive information in a timely manner is necessary to enhance market transparency and quality, to bring our regulatory regime for listed corporations more in line with those of overseas jurisdictions, and to sustain Hong Kong's position as a leading IFC and a premier capital formation centre in the Region. We are considering the respondents' comments on the details of the proposed statutory regime. Our plan is to introduce a bill to the Legislative Council ("LegCo") to codify the disclosure requirements in the Securities and Futures Ordinance ("SFO") in this legislative session.

(b) *Developing a scripless securities market*

11. The Working Group on Scripless Securities Market<sup>1</sup> published last month its consultation conclusions on the proposed operational model for a scripless securities market. This represents a renewed effort of concerned market participants in pressing ahead with an important initiative to enhance shareholder transparency and promote corporate governance.

12. The Government will continue to lend support to this important exercise. As a first step, we had already enacted amendments to the Companies Ordinance ("CO") in July this year to remove, or provide exceptions to, provisions in the CO that compel the use of paper documents of title and paper instruments of transfer in relation to shares and debentures. The Government is working closely with the Securities and Futures Commission ("SFC") on further legislative amendments to facilitate the implementation of a scripless regime in Hong Kong.

***Providing better safety nets***

(c) *Enhancement of the Deposit Protection Scheme ("DPS")*

13. Following the enactment of the DPS (Amendment) Ordinance 2010 by LegCo on 9 July 2010, we have been working with the Hong Kong

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<sup>1</sup> The Working Group is a tripartite forum, led by the Securities and Futures Commission and drawing members from the Hong Kong Exchanges and Clearing Ltd ("HKEx") and the Federation of Share Registrars.

Deposit Protection Board (“HKDPB”) to prepare for the implementation of the relevant enhancement measures, including the increase of the DPS protection limit to \$500,000. A large-scale publicity campaign has been launched in this regard. The enhancement measures will take effect at the start of 2011, so that the public will benefit from an enhanced DPS upon the expiry of the full deposit guarantee scheduled for the end of this year. In addition, to improve the DPS representation requirements as concluded in the DPS review, the HKDPB has prepared the DPS (Representation on Scheme Membership and Protection of Financial Products Under Scheme) (Amendment) Rules 2010 (“the Amendment Rules”) for effecting the enhanced requirements. We will table the Amendment Rules at the LegCo meeting on 20 October 2010 for negative vetting with a view to implementing the relevant enhancements to the DPS representation regime at the start of 2011.

(d) *Proposed establishment of a Policyholders’ Protection Fund (“PPF”)*

14. The establishment of a PPF will help improve insurance market stability and safeguard the interest of policyholders in the event of insolvency of an insurer. We have commissioned an actuarial consultancy study, which is looking into the scope of coverage, levy rates, target fund size, and other detailed arrangements for the PPF.

***Modernising regulatory regimes***

(e) *Rationalising the offering regime for structured products*

15. On 14 July 2010, we introduced the Securities and Futures and Companies Legislation (Structured Products Amendment) Bill 2010 into LegCo. The Bill aims to rationalise the legislative framework by putting the regulation of public offers of all structured products under the offers of investments regime of the SFO. Under the proposed legislative framework, the SFC would authorise the issue of advertisements, invitations or documents relating to structured products and be empowered to authorise structured products under the SFO.

(f) *Proposed establishment of an independent Insurance Authority*

16. To align with international insurance supervisory principles that require regulators be given financial and operational autonomy, we propose to establish an independent Insurance Authority. The proposal will be conducive to better protection of policyholders and more effective regulation on a par with

international standards. It will help contribute to the long-term stability of the insurance industry and enhance consumer confidence in the industry. We have completed a three-month public consultation exercise on the proposal on 11 October 2010 and are now examining the views received. We plan to prepare the detailed legislative proposals for introduction into LegCo in 2011 and will continue to engage the stakeholders in the process.

### ***Strengthening investor protection***

(g) *Proposed establishment of an investor education council and a financial dispute resolution scheme*

17. Preventive measures are as important as remedial measures in protecting investors. Our regulators, together with the Consumer Council, have stepped up efforts in educating investors. In addition, we are working with the regulators to establish a cross-sectoral investor education council to enhance the financial literacy of our investing public in Hong Kong and a financial dispute resolution scheme. The three-month consultation exercise was concluded in May 2010. We aim to issue the consultation conclusions by the end of this year.

(h) *Proposed legislative framework to enhance the regulation of Mandatory Provident Fund (“MPF”) intermediaries*

18. In preparation for the implementation of the “Employee Choice Arrangement”, which will put employees as the direct targets of marketing and sale activities by MPF intermediaries in future, we will take forward the Mandatory Provident Fund Schemes Authority’s (“MPFA”) proposal to put in place a statutory framework for the regulation of MPF intermediaries to replace the existing administrative regulatory arrangements, with a view to better protecting the interest of MPF scheme members. We are working closely with the MPFA and other relevant regulators with a view to formulating legislative proposals for consultation with the industry and the public in early 2011, with a view to introducing a bill into LegCo in 2011.

### ***Catering for evolving international financial requirements***

(i) **Enhancing the anti-money laundering (“AML”) regulatory regime for the financial sectors**

19. We have conducted two rounds of public consultation on the legislative proposals to enhance the AML regulatory regime for financial institutions in line with the international standards. Taking into account the views and comments received, we are finalising a bill for introduction into LegCo shortly.

(j) **International financial reforms**

20. Hong Kong has been participating in relevant international fora, including the Financial Stability Board, in their deliberations on financial reforms. We have also joined, as part of the Chinese delegation, the G20 Summits. We will continue with our participation in these international fora and consider how best to refine our regulatory regime in light of developments in other IFCs.

21. For instance, against the backdrop of global agreement on regulating credit rating agencies (“CRAs”), we are working together with the SFC to amend the SFO to include the provision of credit rating services as a new regulated activity. Both corporate CRAs and their rating analysts will need to be licensed under the SFO. We aim to submit the legislative amendments for negative vetting by LegCo by the end of this year.

## **II. Facilitating Market Development**

### ***Advancing financial cooperation with the Mainland***

22. Strengthening financial co-operation between the Mainland and Hong Kong is crucial to the further development of the financial services in the two places. Our strategy should be to increase our participation in and contribution to the modernisation of the Mainland’s financial system. Efforts are being made on various fronts, in particular the Closer Economic Partnership Arrangement (“CEPA”), and the financial co-operation with Guangdong and Shanghai. We shall continue to strive to be the testing ground for schemes to regionalise and internationalise RMB activities as the Mainland’s capital account becomes more open in a gradual and orderly manner.

(a) CEPA

23. The implementation of CEPA continues to strengthen the financial co-operation between the Mainland and Hong Kong. Supplement VII to CEPA (“CEPA VII”), which was signed on 27 May 2010, has launched further liberalisation measures with respect to the financial industry -

- (i) on banking services: A Hong Kong bank that has maintained a representative office in the Mainland for more than one year can apply to set up a wholly foreign-funded bank or a foreign bank branch. A Hong Kong bank’s operating institution in the Mainland can apply to conduct RMB business, if it has been operating for more than two years and profitable for one year prior to the application. Foreign banking institutions established in the Mainland by Hong Kong banks can establish specialised institutions to provide financial services to small enterprises; and
- (ii) on securities services: Hong Kong and the Mainland will deepen co-operation on financial services and product development. CEPA VII has also specified measures on the introduction of Exchange-Traded Funds (“ETFs”) on Hong Kong stocks in the Mainland at an appropriate time. The above measures will help expand the presence of our financial institutions in the Mainland and provide a wider variety of products and services for investors.

We will continue to press ahead the implementation of these measures.

(b) Hong Kong-Guangdong financial co-operation

24. The Framework Agreement on Hong Kong/Guangdong Co-operation signed on 7 April 2010 further enhances the financial co-operation between Hong Kong and Guangdong. The governments and financial regulators of both sides will, under the “early and pilot implementation” policy, continue to strengthen Hong Kong-Guangdong financial services co-operative relationships, and take forward specific initiatives through different platforms, including the Hong Kong/Guangdong Co-operation Joint Conference.

(c) Hong Kong-Shanghai financial co-operation

25. Further to the signing of a Memorandum of Understanding Concerning Advancing Hong Kong-Shanghai Financial Co-operation in January 2010, the governments and financial regulators of both sides met in July 2010 in Shanghai and exchanged views on ways to strengthen co-operation in the banking, securities and insurance sectors. To this end, FSTB, InvestHK and HKEx jointly organised a high-level Finance Forum in Shanghai on 21 July 2010 with around 400 participants from Hong Kong and Shanghai. We will continue to work closely with relevant authorities to advance financial collaboration between the two places.

***Developing offshore RMB business in Hong Kong***

26. With the expansion of the RMB trade settlement scheme in June 2010 and the amendment of the Settlement Agreement on the Clearing of RMB Business in July 2010, Hong Kong is now even better positioned to introduce more RMB financial products and to serve a greater scope of RMB financial intermediation activities. We will work further with the relevant Mainland authorities, our financial regulators and the market with a view to attracting more RMB liquidity and developing more diversified RMB products and services in Hong Kong. We will also continue with our efforts in further developing the local RMB bond market and settlement platform.

***Broadening the source of listed companies***

27. The Listing Committee of the Stock Exchange of Hong Kong (“SEHK”) has been expanding the list of approved jurisdictions of incorporation for overseas companies seeking a listing on the SEHK. In June 2010, the SEHK updated its Listing Rules on mineral and exploration companies, to align its regulatory framework with respect to these companies with internationally recognised industry standards and facilitate their listing in Hong Kong. The SEHK will continue its marketing efforts in attracting Mainland and overseas companies, especially those from the emerging markets, to list in Hong Kong.

***Promoting asset management business***

28. Hong Kong has established itself as a major asset management centre in Asia and our fund management businesses have been taken to new

heights in recent years<sup>2</sup>. In order to attract and anchor international liquidity, products and talents to Hong Kong, the Financial Secretary announced in the 2010-11 Budget a number of fiscal measures to help develop our asset management business, such as extending the stamp duty concession in respect of the trading of ETFs, extending concessionary profits tax rate for some debt instruments (see paragraph 31 below), and clarifying the residency requirement of directors of offshore funds.

### ***Developing the local bond market***

29. We continue to implement the Government Bond Programme (“GBP”) to promote the further and sustainable development of the local bond market. To date, we have issued \$21.5 billion of bonds, with tenors of two, five and ten years, for institutional investors under the GBP. All these bond issues were well-received by investors.

30. Apart from the ongoing implementation of the GBP, we are preparing legislative amendments for implementing the enhancement measures for the Qualifying Debt Instrument (“QDI”) Scheme as announced in the 2010-11 Budget, including the extension of the profits tax concession to cover QDIs with a maturity period of less than three years and the clarification of the “issued to the public” criterion in the Inland Revenue Ordinance.

### ***Optimising legislative frameworks***

#### ***(a) Rewrite of the Companies Ordinance***

31. We have completed two phases of public consultations on the draft Companies Bill in March and August 2010 respectively. The Bill is taking a final shape, with provisions affecting the operation of more than 840,000 live companies in Hong Kong. We aim to introduce the Companies Bill into LegCo in early 2011.

#### ***(b) Review of the Trustee Ordinance***

32. We are modernising the Trustee Ordinance (“TO”) and related matters with a view to strengthening the competitiveness of our trust services industry and facilitating financial market development in Hong Kong. We

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<sup>2</sup> The combined fund management business of Hong Kong rebounded strongly last year, with a year-on-year increase of 45.4% to HK\$8,507 billion as at end 2009. About 64% of the funds managed in Hong Kong were sourced from non-Hong Kong investors.

have completed a public consultation and issued the consultation conclusions in February 2010. We are preparing relevant amendments to the TO and aim to introduce an amendment bill into LegCo in 2011.

(c) *Introducing a statutory corporate rescue procedure*

33. We have consulted the public on legislative proposals to introduce a corporate rescue procedure for companies with long-term viability but facing short-term financial difficulty. The procedure aims to allow such companies to restructure their business or debts, or seek capital injection to turn themselves around. We have issued the consultation conclusions in July 2010 and are now preparing the draft legislation. We shall continue to engage the stakeholders in the process in light of the mixed views received on some key issues.

(d) *Reviewing and strengthening the supervisory framework for authorised institutions*

34. In the light of the revised proposals announced by the Basel Committee on Banking Supervision (“BCBS”) in June 2010 for enhancing the Basel II framework, the Hong Kong Monetary Authority (“HKMA”) will consult the local banking industry on the draft legislative proposals for effecting the relevant enhancement measures with a view to putting these proposals in place in a timely manner. These would require amendments to the Banking (Capital) Rules and the Banking (Disclosure) Rules under the Banking Ordinance. In addition, the BCBS is revising the reform package on capital and liquidity standards, taking into account the consultation feedback from the banks and results of the global quantitative impact study. The HKMA will continue to participate in the deliberation of the BCBS.

**Financial Services and the Treasury Bureau  
14 October 2010**