

立法會
Legislative Council

LC Paper No. CB(1)2267/11-12

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Panel on Financial Affairs

Minutes of meeting

**held on Monday, 21 May 2012 at 10:48 am
in Conference Room 1 of the Legislative Council Complex**

Members present : Hon CHAN Kam-lam, SBS, JP (Chairman)
Hon CHAN Kin-por, JP (Deputy Chairman)
Hon James TO Kun-sun
Dr Hon Philip WONG Yu-hong, GBS
Hon Abraham SHEK Lai-him, SBS, JP
Hon LEE Wing-tat
Hon Andrew LEUNG Kwan-yuen, GBS, JP
Hon WONG Ting-kwong, BBS, JP
Hon CHIM Pui-chung
Hon KAM Nai-wai, MH
Hon Starry LEE Wai-king, JP
Hon Paul CHAN Mo-po, MH, JP

Member attending : Hon WONG Kwok-hing, MH

Members absent : Hon Albert HO Chun-yan
Ir Dr Hon Raymond HO Chung-tai, SBS, S.B..St.J., JP
Dr Hon David LI Kwok-po, GBM, GBS, JP
Hon Emily LAU Wai-hing, JP
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon Ronny TONG Ka-wah, SC
Hon Mrs Regina IP LAU Suk-ye, GBS, JP

Public officers attending : Agenda Items IV

Mr Norman CHAN, SBS, JP
Chief Executive
Hong Kong Monetary Authority

Mr Peter PANG, JP
Deputy Chief Executive (Development)
Hong Kong Monetary Authority

Mr Eddie YUE, JP
Deputy Chief Executive (Monetary)
Hong Kong Monetary Authority

Mr Arthur YUEN, JP
Deputy Chief Executive (Banking)
Hong Kong Monetary Authority

Mr Howard LEE, JP
Executive Director (Corporate Services)
Hong Kong Monetary Authority

Agenda Item V

Ms Esther LEUNG, JP
Deputy Secretary for Financial Services and the
Treasury (Treasury) 1

Ms Shirley LAU, JP
Principal Assistant Secretary for Financial Services
and the Treasury (Treasury)(H)

Clerk in attendance: Ms Anita SIT
Chief Council Secretary (1)5

Staff in attendance : Mr Noel SUNG
Senior Council Secretary (1)5

Ms Haley CHEUNG
Legislative Assistant (1)5

I Confirmation of minutes of meetings and matters arising

(LC Paper No. CB(1)1871/11-12 — Minutes of the meeting on 2 March 2012)

The minutes of the meeting held on 2 March 2012 were confirmed.

II Information paper issued since the last meeting

(LC Paper No. CB(1)1585/11-12(01) — Administration's written response regarding appointment of independent non-executive directors to listed companies

LC Paper No. CB(1)1682/11-12(01) — Administration's paper on first quarterly report of 2012 on Employees Compensation Insurance — Reinsurance Coverage for Terrorism

LC Paper No. CB(1)1703/11-12(01) — Administration's information note regarding Securities and Futures Ordinance (Amendment of Schedule 1) Notice 2012

LC Paper No. CB(1)1719/11-12(01) — Administration's paper regarding claims for compensation from investors of Lehman Brothers – related investment products

LC Paper No. CB(1)1725/11-12(01) — Referral from the Complaints Division of the Legislative Council Secretariat on "Protection of creditors' benefits under the Bankruptcy Ordinance (Cap. 6)" (restricted to members only)

LC Paper No. CB(1)1734/11-12(01) — Hong Kong Monetary Authority Annual Report 2011

- LC Paper No. CB(1)1769/11-12(01) — Hong Kong Monetary Authority's information paper regarding Hong Kong's participation in the Chiang Mai Initiative Multilateralisation Arrangement
- LC Paper No. CB(1)1791/11-12(01) — Administration's response to the submission from a member of the public regarding the change of the structure of the shares of China Netcom Technology Holdings Limited
- LC Paper No. CB(1)1849/11-12(01) — First Quarter Economic Report 2012 and the press release
- LC Paper No. CB(1)1870/11-12(01) — Administration's written response to Hon Mrs Regina IP's letter regarding Hong Kong Mortgage Corporation Limited

2. Members noted the information papers issued since the last regular meeting held on 2 April 2012.

III Date of next meeting and items for discussion

- (LC Paper No. CB(1)1881/11-12(01) — List of outstanding items for discussion
- LC Paper No. CB(1)1881/11-12(02) — List of follow-up actions

Meeting in June 2012

3. Members agreed to discuss the following items proposed by the Administration at the next regular meeting scheduled for 4 June 2012:

- (a) Briefing by the Financial Secretary on Hong Kong's latest overall economic situation; and

- (b) Briefing on development in implementing the regulatory requirements in Hong Kong under the Basel framework.

Roles and operation of the Hong Kong Mortgage Corporation

4. The Chairman said that Mrs Regina IP had sent in a letter and requested the Panel to discuss the roles and operation of the Hong Kong Mortgage Corporation (HKMC). The Administration had given a written response to Mrs IP's letter (LC Paper No. CB(1)1870/11-12 dated 15 May 2012). The Chairman suggested and members agreed that since Mrs IP was in the mean time chairing another meeting, the Panel would consider whether and/or how the issue should be taken forward in the presence of Mrs IP.

IV Briefing on the work of Hong Kong Monetary Authority

(LC Paper No. CB(1)1881/11-12(03) — Paper provided by the Hong Kong Monetary Authority)

Presentation

5. At the invitation of the Chairman, the Chief Executive, Hong Kong Monetary Authority (CE/HKMA), the Deputy Chief Executive (Development)/HKMA (DCE(D)/HKMA), the Deputy Chief Executive (Monetary)/HKMA (DCE(M)/HKMA) and the Deputy Chief Executive (Banking)/HKMA (DCE(B)/HKMA) gave a Powerpoint presentation on the work of HKMA, covering the assessment of risk to Hong Kong's financial stability, banking supervision, Hong Kong as an offshore Renminbi centre, performance of the Exchange Fund, financial infrastructure and HKMC.

(Post-meeting note: The notes of the Powerpoint presentation (LC Paper No. CB(1)2080/11-12(01)) were issued to members vide Lotus Notes e-mail on 1 June 2012.)

Discussion

Eurozone sovereign debt

6. Given that the eurozone sovereign debt problem was described by CE/HKMA as "very severe", and the economic situation in Greece was "critical", Mr WONG Kwok-hing enquired what measures HKMA would take to ensure the stability of the banking sector in order to meet the challenges of a possible financial crisis.

7. CE/HKMA remarked that the external economic situation was beyond the control of the Hong Kong Special Administrative Region Government and the HKMA. The HKMA had been taking forward-looking macro-prudential measures in face of the challenges brought by a possible financial crisis. For instance, the HKMA introduced the first round of countercyclical measures in October 2009, followed by several rounds of further measures to ensure banks would have suitable safeguard against a possible market downturn. Based on experience in recent years, the government in Ireland had to bail out certain banks which faced a serious bad debt problem arising from the burst of a property market bubble in Ireland. Banks in Spain also faced similar problems in the property market. CE/HKMA pointed out that the ability to combat financial instability depended heavily on the availability of liquidity in the banking system among other things.

8. DCE(B)/HKMA supplemented that in the past 18 to 24 months, HKMA had paid particular attention to the Authorized Institutions' (AIs) management of their credit, liquidity and operation risks. The banking system remained robust and resilient as the AIs maintained a liquidity ratio of over 40% and the capital adequacy ratio of locally incorporated AIs remained high at around 16%. HKMA would continue to closely monitor the resilience of AIs to ensure that the banking system in Hong Kong was well prepared to withstand financial shocks.

9. Dr Philip WONG enquired what impacts the recent G8 summit's deliberations on the global economic situation would bring to Hong Kong's economy.

10. CE/HKMA responded that some members of the G8 summit had expressed the view that implementation of austerity policies and measures alone would not lead to economic recovery. Many economists, European government officials and the International Monetary Fund (IMF) were of the view that adjustments to the austerity measures could be made. Examples of adjustments included implementation of measures which would stimulate job creation and revisions to measures which would not help enhance productivity. The new French government also proposed to increase expenditure to stimulate employment and the economy, and defer the target year of a balanced budget by one year to 2017. CE/HKMA said that it was also crucial how the market would perceive any such adjustments. For instance, whether the market would consider such changes to be conducive to economic growth and support them, or interpret that the eurozone governments were not keeping their promises to exercise due control in public expenditure. He pointed out that while the austerity measures in countries like Spain and Italy had achieved certain effects in stabilising their economy, people in countries like Greece and France had

dissented to the austerity measures. CE/HKMA remarked that development of the situation in the eurozone in the coming months would be critical.

Property market

11. Mr KAM Nai-wai was concerned that property prices had surpassed the 1997 level and the transaction volume of properties had risen again. Given that the Government and HKMA had undertaken to implement countercyclical measures as and when necessary, Mr KAM enquired what indicators were adopted by the Government in determining the need to implement countercyclical measures. Mr KAM pointed out that the US authority had indicated that the current low interest rate would probably be maintained until end of 2014, and this might exacerbate the heated property market.

12. CE/HKMA responded that the Government and HKMA would take into consideration a host of factors in determining whether countercyclical measures should be implemented in respect of the mortgage market. These included the level of property prices, transaction volume and the credit assessment standards adopted by AIs, etc. CE/HKMA pointed out that the income level of buyers should also be taken into account in comparing property price level with that of 1997. The Government and HKMA had introduced four rounds of countercyclical measures on mortgage loans since 2009. Since the introduction of the latest round of countercyclical measures in June 2011, there had been a significant reduction in the transaction volume of properties, together with a moderate drop in property prices in the ensuing seven-month period. CE/HKMA remarked that the interest rates in Hong Kong would not necessarily follow the US. For instance, the interest rate for mortgage loans in Hong Kong had risen from about 1% to 1.5% early last year to about 3% in end 2011, and had dropped slightly since February 2012 due to moderation of the liquidity pressure, while the interest rate in the US were little changed during the same period. DCE(B)/HKMA added that as the loan-to-deposit ratio was on a relatively high side by historical standards, the liquidity of banks had become tight which could result in higher volatility in interest rates both for loans and deposits.

13. Mr LEE Wing-tat expressed grave concern that some property owners were over-confident about the property market, and would purchase an additional unit(s) for investment purpose. Many people were also eager to buy a flat in view of the low interest rate and the fact that the monthly mortgage payment might be even lower the rent payable for the flat. Once there was a significant correction of property prices, and an increase in interest rate, these buyers might face the negative equity problem and encounter financial difficulties. Mr LEE enquired whether the positive mortgage loan data sharing

system could provide the banks with all the mortgage loan information relating to individual buyers.

14. CE/HKMA responded that given that a mortgage loan would normally straddle over a long period of time, say 20 years, potential buyers should consider their financial ability over a long term rather than the short-term low interest rate situation. He added that a mortgage loan applicant was required to declare whether he had any outstanding mortgage loans and the potential lender would verify such information with the mortgage database. DCE(B)/HKMA added that since the introduction of positive mortgage data sharing in April 2011, banks had been requested to reduce loan-to-value ratio for loan applicants already having one or more mortgage loans, and banks had the discretion to determine reduction level.

15. Mr James TO opined that the existing countercyclical measures for granting of mortgage loans should be able to effectively curb speculation activities in the property market, although genuine buyers might face difficulty in acquiring their properties for personal use. Mr TO remarked that based on the information from real estate agents, nearly 30% to 40% of the buyers of new flats were people from the Mainland. Mr TO enquired about the risk assessments on the banks if there was a sharp fall in property prices.

16. CE/HKMA responded that in introducing the countercyclical measures for the property market, the HKMA had attempted to minimise the effects on first-time homebuyers who had a genuine need to acquire residential property for self occupation. The maximum loan-to-value ratio for residential units valued at \$6 million or below was 70%, and eligible buyers might obtain a 90% loan through the mortgage insurance scheme operated by the HKMC. CE/HKMA pointed out that buyers with income derived from outside Hong Kong mainly invested in new flats and the maximum loan-to-value ratio for such buyers was 10 percentage points lower than the loan-to-value ratio for local residents. DCE(B)/HKMA supplemented that in view of the higher risk involved in granting mortgage loans to persons who earned their incomes outside Hong Kong and whose assets and liabilities were difficult to ascertain, AIs were required, since June 2011, to grant mortgage loans to such persons at a rate of 10% lower than that for Hong Kong residents. DCE(B)/HKMA remarked that based on statistics provided by the AIs, only about 3% to 4% of the newly granted mortgage loans in the primary and secondary markets taken together were related to persons who earned their income outside Hong Kong.

Exchange Fund

17. Mr James TO requested that in order to enhance the transparency of the diversification arrangement for the investment of the Exchange Fund, HKMA should consider disclosing on an annual basis details of the investment in different asset classes, e.g. private equity funds, of the diversification arrangement.

18. CE/HKMA responded that HKMA had recently published an article on the details of the diversification arrangement, including the amounts of investment in different asset classes, and the returns from these investments. CE/HKMA stressed that the investment returns from the diversification arrangement should be assessed on a medium and/or long term basis. CE/HKMA remarked that HKMA would disclose on an annual basis details of the investments under the diversification arrangement.

Renminbi business

19. The Deputy Chairman enquired whether HKMA would review the existing restriction on the maximum daily exchange of RMB20,000 for personal bank account holders in order to promote Renminbi business in Hong Kong.

20. DCE(M)/HKMA responded that the maximum daily exchange amount of RMB20,000 was set based on the renminbi clearing agreement with the Mainland authorities. The Hong Kong Association of Banks (HKAB) had internally discussed the arrangement and there were divergent views among the banks. While some banks agreed that the restrictive amount could be relaxed by squaring all positions in the offshore market, other banks were of the view that the existing arrangement allowing them to square their positions with the on-shore market should continue. HKMA would liaise with the HKAB and the People's Bank of China on the issue.

Regulation of banks

21. The Deputy Chairman was concerned that while prudent risk management was essential to ensure the stability of the banking system, over-regulation might hamper the competitiveness of the banking sector compared with their counterparts in the neighbouring economies such as Singapore.

22. DCE(B)/HKMA responded that in regulating AIs, the HKMA aimed to ensure a level-playing field for market participants. Views from the industry would be taken into account in the policy formulation process as appropriate.

As regards the implementation of Basel III, the HKMA had conducted the first round of consultation with the banking sector recently, and would carry out another round of consultation before the banking sector was to be formally consulted again on the relevant legislative proposals. DCE(B)/HKMA pointed out that the Basel Committee on Banking Supervision (Basel Committee) was well aware of the fairness issue, and a subcommittee under the Basel Committee had been conducting reviews on implementation of the Basel III requirements in relevant jurisdictions starting from the European Union, the US and Japan with a view to ensuring that the standards set by the Basel Committee would be implemented consistently. Against this background, he considered unlikely that AIs in Hong Kong would lose competitiveness in the international arena due to implementation of Basel III.

23. In response to the Deputy Chairman's enquiry about the channels through which the banking sector could convey their views on the regulatory measures introduced by HKMA, DCE(B)/HKMA remarked that usually the banking sector would be consulted before introduction of new regulatory measures. Views were exchanged between the AIs and the HKMA through various formal and informal channels. CE/HKMA added that the HKMA maintained close liaison with HKAB, and had responded expeditiously to proposals from it.

V Electricity charge subsidy

(LC Paper No. CB(1)1881/11-12(04) — Administration's paper on "Electricity charges subsidy"

LC Paper No. CB(1)1880/11-12 — Background brief on electricity charge subsidy prepared by the Legislative Council Secretariat)

Briefing by the Administration

24. The Deputy Secretary for Financial Services and the Treasury (Treasury)1 (DS(Tsy)1) highlighted the salient points in the paper on the proposal to provide a maximum additional subsidy of \$1,800 to each residential electricity account.

Discussion

25. Mr WONG Ting-kwong said that the Democratic Alliance for the Betterment and Progress of Hong Kong supported the proposal, and expressed

concern about the assertion recently made by CLP Power Hong Kong Limited that local electricity charges would increase substantially in the coming four years. Mr WONG opined that the Administration should break the monopolization of Hong Kong's electricity market by CLP Power Hong Kong Limited and the Hongkong Electric Company Limited ("the two power companies"), and suggested that the Administration should take the following measures –

- (a) immediately trigger off the interim review of the Scheme of Control Agreement with the two power companies;
- (b) examine the feasibility of subsidizing the development of new form of energy; and
- (c) examine the feasibility of procuring electricity power from the Mainland.

Mr WONG also enquired whether the proposal of electricity charge subsidy would become a recurrent measure and, if not, what measures the Administration would adopt to help the public cope with the potential increase in electricity charges.

26. The Chairman remarked that the issue of opening up Hong Kong's electricity market was outside the scope of the agenda item. At Mr WONG Ting-kwong's request, DS(Tsy)1 agreed to relay Mr WONG's comments to the relevant policy bureau. DS(Tsy)1 advised that the current proposal of electricity charge subsidy was a one-off measure to help ease the pressure of the economic downturn on Hong Kong.

27. The Deputy Chairman referred to paragraph 7 of the Administration's paper and suggested the Administration include measures to encourage households to reduce electricity consumption under the proposed electricity charge subsidy scheme, so that the public would not consider that the scheme had adverse impacts on the environment.

28. DS(Tsy)1 responded that the Government had considered suggestions of linking the proposed subsidy to electricity consumption, and concluded that it was not feasible, mainly because electricity consumption varied with a host of factors, many of which were unrelated to whether a household was environmentally conscious. Nevertheless, the Administration would take note of Mr CHAN's point.

29. The Chairman concluded that members had no objection in principle to the proposed subsidy, and requested the Administration to submit the proposal to the Finance Committee for approval as soon as possible.

VI Any other business

30. There being no other business, the meeting ended at 12:21 pm.

Council Business Division 1
Legislative Council Secretariat
27 June 2012