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Panel on Financial Affairs

Meeting on 6 January 2014

**Background brief on the establishment of the
Financial Services Development Council**

Purpose

This paper provides background information on the establishment of the Financial Services Development Council ("FSDC") and summarizes the major views and concerns expressed by Members on related matters.

Background

Establishment and terms of reference of Financial Services Development Council

2. The financial services industry is an important pillar of Hong Kong's economy which contributes 16% to the Gross Domestic Product ("GDP") and employs about 6% of the total workforce. It is also a major client of professional services and drives growth in other consumer industries. Given the rapid developments in the global financial markets and the need to tap advice from market experts, the Chief Executive ("CE") set up a preparatory task force ("PTF") on 27 June 2012 for the establishment of FSDC to identify areas for further development of the financial services industry in Hong Kong, and to offer views and suggestions to the Government on related areas.

3. In December 2012, PTF submitted its report to the Government with recommendations on the mission, objectives, terms of reference, governance structure and modus operandi of FSDC. In making the recommendations, PTF has researched into selected developed and emerging economies that have formed financial services development bodies, like TheCityUK in the United Kingdom. PTF recommended that

FSDC should adopt a corporate structure and be constituted as a company limited by guarantee so that it could have its own identity and an independent image, and enhance flexibility in business planning and resources management¹. The Administration announced the establishment of FSDC in January 2013 as a high-level, cross-sector government advisory body to engage the financial services industry and formulate proposals to map out the strategic direction for the development of Hong Kong as an international financial centre.

4. The objectives of FSDC are to –
- (a) advise the Government on strategies and measures to expand the scope of the financial markets and enhance the competitiveness of Hong Kong as an international financial centre;
 - (b) provide a channel for stakeholders to express views and champion the interests of the financial services industry;
 - (c) support the financial services industry in developing the core competence and knowledge of its practitioners; and
 - (d) promote the local financial services industry and Hong Kong as an international financial centre on the Mainland and overseas.
5. The terms of reference of FSDC are set out in **Appendix I**.

Governance structure of and funding arrangements for Financial Services Development Council

6. On 17 January 2013, CE appointed the chairman² and 21 members with different expertise and professional experience to the council of FSDC for a two-year term, and the Secretary for Financial Services and the Treasury as an ex-official member. On 5 April 2013, CE further appointed 34 non-official members and two ex-official members to serve the five committees established under FSDC on specific areas namely, the Financial Development Research Committee, Mainland Opportunities Committee, New Business Committee, Market Development Committee, and Human Capital Committee. The Secretariat of FSDC, being the executive arm, comprises staff deployed from the Financial Services Branch ("FSB") of the Financial Services and the Treasury Bureau ("FSTB") and seconded

¹ The report of the PTF is hyperlinked in **Appendix II**.

² The incumbent chairman is The Hon Mrs Laura CHA, Non-Executive Deputy Chairman of The Hong Kong & Shanghai Banking Corporation Limited.

from the Hong Kong Monetary Authority ("HKMA"), Hong Kong Trade Development Council ("HKTDC") and Securities and Futures Commission ("SFC")³.

7. The operating cost for FSDC mainly arises from the provision of secretariat service, office accommodation for staff, research activities, and promotion of the financial services industry in the Mainland and overseas⁴. According to the Administration, the operating cost of FSDC is absorbed through deployment of existing resources from within the Government whereas the cost for the seconded staff is borne by the organizations they come from. This arrangement will be maintained for the initial three years subject to review later. If additional funding is required, the Administration will seek funding from the Legislative Council ("LegCo") according to the established procedures.

Major views and concerns expressed by Members

8. The major views and concerns relating to the establishment of FSDC expressed by Members at meetings of the Panel on Financial Affairs ("FA Panel") on 28 January and 4 February 2013, and at the special meeting of the Finance Committee on 8 April 2013 for the examination of the Estimates of Expenditure 2013-2014 are summarized in the ensuing paragraphs.

Role of Financial Services Development Council

9. In view of the confusion arising from different messages in the media's reports about the role and status of FSDC after announcement of its establishment in January 2013, Members expressed concern whether FSDC would be a statutory body, a civil organization or a company limited by guarantee. Some Members considered that the Chinese name of FSDC - 金融發展局, could not reflect its advisory role and suggested changing the rendition "局" ("Council") to "諮詢委員會" ("Advisory Committee"). The Administration clarified that FSDC was essentially an advisory body and would not take on any policy execution, or statutory/regulatory functions. The Administration had taken into account the names of other Government advisory bodies in deciding the name of FSDC. As there was no standardized or established practice in the naming of advisory bodies, FSDC considered it appropriate to continue using the rendition "局" in its Chinese name.

³ One Chief Executive Officer, two Senior Executive Officers and one Assistant Clerical Officer are deployed from FSB, and a professional staff each seconded from HKMA, HKTDC and SFC.

⁴ Including activities such as seminars, workshops, visits and roundtables.

10. At the meeting on 4 February 2013, the FA Panel passed a motion urging the Administration to set up FSDC as an advisory body and study the feasibility for developing it into a statutory body in the future. Some members considered that the role and work plan of FSDC could be reviewed and fine-tuned when appropriate and necessary.

The recommendation to set up FSDC as a company limited by guarantee

11. Members noted that with reference to similar overseas experiences, such as TheCityUK, PTF had recommended setting up FSDC as a company limited by guarantee. However, some Members considered that as FSDC was only an advisory body with a small establishment, there would be limited benefits for it to be set up as a company limited by guarantee for better corporate governance and greater flexibility in operation. There was suspicion that the proposal was meant to bypass LegCo's monitoring over the operation of FSDC. As TheCityUK was an industry trade union that collected fees from the industry in supporting its operation, some Members opined that it might not be suitable for FSDC to adopt a corporate structure similar to TheCityUK, and FSDC should defer the proposal so as to allay public concern.

12. The Administration and FSDC explained that adopting a corporate structure with its own budget would provide FSDC with enhanced flexibility in business planning and resources management and greater efficiency in carrying out its functions. A similar model was also adopted by the Financial Dispute Resolution Centre (a non-statutory body set up as a company limited by guarantee) and the Investor Education Council (set up as a company solely owned by SFC). Nevertheless, in view of the wide public concern and the priority to commence studies on the development of the financial services industry, FSDC indicated that it would not pursue the proposal to set up a company limited by guarantee at the initial stage of its operation, and there was no timetable for taking forward the proposal in the near future.

13. As regards some Members' concerns about the Government's intention to develop FSDC as a government-owned investment company or a sovereign fund for the purpose of holding government assets and making investments, FSDC stressed that there would be high transparency in its operation, and assured Members that it would not be tasked with any hidden objectives, including the setting up of a sovereign fund, nor would it seek and accept private donations at the current stage.

Division of work between Financial Services Development Council and other government agencies

14. Some members were concerned whether there would be overlaps in the work undertaken by FSDC and other government agencies. FSDC explained that, although FSDC, FSTB, HKMA and HKTDC were undertaking initiatives to promote the financial services industry, they had different emphasis in their work. As officers were deployed/seconded from FSTB, HKMA and HKTDC to the FSDC Secretariat, FSDC could identify and avoid overlap in the promotional initiatives. As regards whether the industry would need to provide views to the Government through FSDC, FSDC advised that it was not the sole channel for market participants and the trade organizations to express their views to the Government, nor was it compulsory for the views to be conveyed through FSDC in order to be heard and considered by the Government.

Membership, manpower and funding arrangements

15. Some Members considered that the membership size of FSDC should be increased to include more stakeholders on a broader basis, including representatives from small and medium-sized financial/banking institutions. There was also concern that the membership did not include members from the financial regulators. FSDC advised that its members had broad representation from the financial services industry. While only 22 members were appointed to FSDC at the set-up stage, the Administration would identify more representatives as appropriate, including those from small and medium-sized financial/banking institutions. FSDC would also maintain close liaison with the regulators through ongoing communications with them.

16. Although the staff cost and other expenditure of FSDC were met by the Government and secondment of staff from the relevant organizations, Members expressed concern that FSDC's expenditure might grow along with its development, and the present funding arrangement was intended to bypass monitoring by LegCo. To enhance transparency and accountability, some members suggested that the budget of FSDC should form part of FSTB's budget and be incorporated into the Estimates requiring LegCo's approval.

17. The Administration emphasized that the operation of FSDC was highly transparent and open to public monitoring. The arrangement of seconding staff from the relevant organizations was meant to provide ready manpower and expertise so that FSDC would commence its work early. The expenditure of FSDC would be reflected in the Estimates commencing from the financial year 2013-2014. The Administration also indicated that

there was no plan to increase staff establishment of FSDC in 2014-2015 and 2015-2016, and the Administration would review FSDC's institutional set-up and funding arrangements in the longer term in the light of its operational experience in the first three years.

Work plan and target deliverables of Financial Services Development Council

18. Members considered that FSDC should set clear targets and deliverables for its work (e.g. growth in the share of GDP accounted by financial services in Hong Kong) and suggested FSDC draw up a development/work plan and an outline of the subject matter it planned to study or deliberate so that interested members of the public could provide their views and suggestions timely. Members also exchanged views with FSDC on the possible measures to promote the financial services of Hong Kong, such as the development of headquarters economy, promoting offshore Renminbi business and creating a level-playing field for operation by small and medium-sized enterprises.

19. FSDC advised that, while it might not be practicable to set quantifiable targets to assess the effectiveness of FSDC's work, FSDC would endeavour to coordinate the views of the industry and advise the Government on suitable strategies and measures. FSDC would prepare a work plan after collating the views from its five committees.

Council questions

20. Questions relating to the establishment of FSDC were raised at the Council meetings of 31 October 2012 and 8 May 2013. Issues covered in the questions include the specific targets of FSDC on the development of the banking industry, the measures to avoid duplication of efforts and fragmentation of responsibilities in FSDC and the financial regulatory authorities, FSDC's consultation work with the professional bodies (e.g. the accounting, legal and information technology sectors) relating to the financial services industry, as well as the arrangements for declaration of interests by members of FSDC. The details of the questions and the Administration's responses are hyperlinked in **Appendix II**.

Recent developments

21. On 18 November 2013, FSDC released its first batch of six research reports⁵ and submitted them to the Government for consideration. The details of the research reports are hyperlinked in **Appendix II**.

22. The Administration and FSDC will brief the FA Panel on the work of FSDC at the Panel meeting on 6 January 2014.

Relevant papers

23. A list of relevant papers is in **Appendix II**.

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Legislative Council Secretariat
2 January 2014

⁵ The six reports are: (a) Strengthening Hong Kong as a Leading Global International Financial Centre, (b) Proposals to Advance the Development of Hong Kong as an Offshore Renminbi, (c) Development and Reform of Mainland China's Financial Sector and the Strengthening and Enhancement of Hong Kong's Pivotal Role as a Financial Centre, (d) Developing Hong Kong as a Capital Formation Centre for Real Estate Investment Trusts, (e) Proposals on Legal and Regulatory Framework for Open-ended Investment Companies in Hong Kong and (f) Synopsis Paper Proposing Tax Exemptions and Anti-avoidance Measures on Private Equity Funds in the 2013-2014 Budget.

Financial Services Development Council

Terms of Reference

1. To conduct policy research and industry surveys for the formulation of proposals to the Government and regulators;
2. To work with regulatory and trade bodies to identify new opportunities for, and any constraints on, the sustainable growth and diversity of the financial services industry;
3. To maintain a dialogue with the relevant bodies on the Mainland and overseas to support Hong Kong's financial services industry in accessing new markets and growth areas;
4. To facilitate the upgrading of skills and expertise through collaboration with education and training institutions, trade bodies and practitioners; and
5. To promote, on the Mainland and overseas, our financial services industry and Hong Kong as an international financial centre through seminars, road shows, publications, and through active participation in international events.

[Source: Website of the Financial Services Development Council]

List of relevant papers

| Date | Event | Paper/Minutes of meeting |
|-----------------|--|---|
| 31 October 2012 | Oral question on "Development of Banking Industry" raised by Hon NG Leung-sing | Hansard (pages 65-74) |
| December 2012 | - | Preparatory Task Force's Report on the Setting Up of a Financial Services Development Council ("FSDC") |
| 16 January 2013 | 2013 Policy Address | 2013 Policy Address (paragraph 16 on FSDC) |
| 17 January 2013 | Appointments to FSDC | Press release |
| 28 January 2013 | Special meeting of the Panel on Financial Affairs ("FA Panel") | Administration's paper (paragraphs 6-9) (LC Paper No. CB(1)422/12-13(01)) Minutes (paragraphs 2-14) (LC Paper No. CB(1)1403/12-13) |
| 4 February 2013 | Meeting of the FA Panel | FSDC's paper (LC Paper No. CB(1)484/12-13(04)) Fact sheet on FSDC (Chinese version only) (LC Paper No. FS21/12-13) Minutes (paragraphs 24-55) (LC Paper No. CB(1)930/12-13) |
| 5 April 2013 | Appointments to committees of FSDC | Press release |

| Date | Event | Paper/Minutes of meeting |
|------------------|--|--|
| April 2013 | Special meeting of Finance Committee for examination of Estimates of Expenditure 2013-2014 | Written questions raised by members in relation to FSDC (Reply serial numbers: FSTB(FS)012, 016, 033, 044, 063, 071, 082, 089, 118, 126, 129, 145 and S-FSTB(FS)02) Minutes (paragraphs 3.8-3.9) |
| 8 May 2013 | Written question raised by Hon Emily LAU on "Arrangements for declaration of interests by members of the Financial Services Development Council" | Hansard (pages 105-107) |
| 18 November 2013 | FSDC released its first batch of six research reports | Press release The six reports |