

For discussion
on 4 November 2013

**Legislative Council
Panel on Financial Affairs**

**Retention of a Supernumerary Directorate Post
in the Financial Services Branch of the
Financial Services and the Treasury Bureau for Implementation of
Initiatives to Advance Financial Co-operation with the Mainland and
International Commitments to Strengthen Financial Regulation and
Maintain Financial System Stability**

PURPOSE

This paper seeks Members' views on the proposed retention of a supernumerary post of Administrative Officer Staff Grade C (AOSGC) (D2) in the Financial Services Branch (FSB) of the Financial Services and the Treasury Bureau (FSTB) for a period of 24 months from 13 April 2014 to 12 April 2016 to provide policy support for the implementation of –

- (a) initiatives to advance financial co-operation with the Mainland; and
- (b) international commitments to strengthen financial regulation and maintain financial system stability.

BACKGROUND

2. Financial co-operation has become increasingly close between Hong Kong and the Mainland both at the central and regional levels, especially after the promulgation of the National 12th Five-Year Plan in March 2011 and announcement of a series of measures by the Central Government (CG) in August 2011 to support the economic and social development of Hong Kong, including the further development of Hong Kong as an offshore Renminbi (RMB) centre. Having regard to the increasing workload arising from the advancement in financial co-operation with the Mainland and our strategic goal to develop Hong Kong as an offshore RMB centre, the Finance Committee (FC) approved on 13 April 2012 the creation of one supernumerary AOSGC post in

FSB (designated as Principal Assistant Secretary for Financial Services and the Treasury (Financial Services) Mainland Affairs) (PAS(FS)MA) for two years to enhance financial co-operation with the Mainland; co-ordinate the implementation of CG's measures; and promote the development of offshore RMB business in Hong Kong.

3. Over the past two years, there have been significant developments in our financial co-operation with the Mainland, particularly in offshore RMB business. Hong Kong is now the world's largest offshore RMB hub, with the world's largest offshore pool of RMB funds. Our financial co-operation with the Mainland at the national and regional levels has also been strengthened with the implementation of measures under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) and other co-operation platforms. In order to reap the full benefits from this favourable backdrop while taking heed of competition from other financial centres in the share of RMB business, we need to consolidate our existing efforts and explore new opportunities arising from the internationalization of RMB and liberalization of Mainland's capital markets.

4. At the same time, recent financial crises have raised the level of international co-operation and cross-border regulation of financial products and activities. Following the global financial crisis in 2008, there has been a large degree of international consensus to strengthen financial regulation and maintain financial system stability. These include the implementation of Basel III requirements to strengthen banking robustness and the Over-the-Counter (OTC) Derivative market reform to better manage market risks. Another key initiative being pursued is the development of a cross-sector resolution regime for financial institutions in times of financial crises. As an international financial centre, Hong Kong needs to respond to international commitments agreed at G20, Financial Stability Board, etc. In view of the rapidly expanding international activities in keeping with our status as an international financial centre, the portfolio of PAS(FS)MA has been enlarged since May 2013 for the implementation of relevant international commitments.

5. The supernumerary post of PAS(FS)MA will lapse on 13 April 2014. The Administration has reviewed the operational needs of the post and considered it necessary to retain the post for two years to provide policy inputs to the work as elaborated in paragraphs 6 to 16 below.

JUSTIFICATIONS

Development of Hong Kong as a global hub for offshore RMB business

6. With the greater use of RMB in cross-border trade and support from the relevant Mainland authorities, the offshore RMB business in Hong Kong has grown rapidly in recent years. Hong Kong has developed from a centre offering traditional RMB banking services into the world's largest offshore RMB business centre.

7. Now, Hong Kong serves as a platform for enterprises and financial institutions all over the world to carry out various financial activities such as RMB payments, financing and investments. At the same time, other international financial centres such as London and Singapore have also started to conduct offshore RMB business. In order to reinforce our position as the global hub for offshore RMB business and best leverage our first mover advantage, it is essential for us to anchor greater liquidity, attract more market participants and facilitate product innovation. Specifically, we will need to –

- (a) continue to strengthen our market infrastructure and financial platforms (such as the RMB Real Time Gross Settlement system and provision of RMB liquidity facilities) to facilitate the healthy circulation of RMB funds between the onshore and offshore markets, and to enhance their market friendliness to existing and potential users;
- (b) facilitate and promote offshore RMB product innovation to cater for the needs of different investors. Since 2010, we have witnessed the launch of various RMB products, ranging from funds investing in offshore bonds, real estate investment trusts, gold and bond index exchange-traded funds, currency futures to company shares and listed warrants. The relaxation of the investment rules governing the RMB Qualified Foreign Institutional Investors (RQFII) scheme in March 2013 has further facilitated the development of more innovative RMB products in Hong Kong;
- (c) strengthen our RMB business links with different parts of the world. Our industry dialogues with London and Australia, which started in May 2012 and April 2013 respectively, have progressed well. Further extending our network with other international financial centres on RMB business is conducive to enhancing our role and function as the global hub for offshore RMB business and as a wholesale platform serving the retail activities of international financial institutions and corporates; and
- (d) promote our offshore RMB business (in particular, the use of Hong

Kong's RMB platform, either directly or indirectly, to settle RMB transactions) through seminars and roadshows overseas.

8. In order to achieve the above initiatives, we will continue our policy research into the development of offshore RMB business centre, engage regularly with the industry to keep abreast of market needs, work together with the regulators in formulating proposals for deliberation with the relevant Mainland authorities, as well as maintain close communication with relevant Mainland authorities, etc.

Financial co-operation with the Mainland under CEPA and other co-operation platforms

9. As the CG continues to liberalize Mainland's capital markets, our financial co-operation with the Mainland has become increasingly close both in breadth and depth. Considerable progress has been made for Hong Kong financial services industry to enter the Mainland market through CEPA as well as regional co-operation platforms covering Hong Kong/Guangdong, Hong Kong/Shanghai and Hong Kong/Shenzhen (including Qianhai) relations, etc.

10. We are pursuing various policy initiatives to strengthen our financial co-operation with different provinces and cities in the Mainland, and seek to facilitate further access of our financial services sectors into the Mainland market. In addition to arranging regular visits to and meetings with the relevant Mainland authorities in pursuing these initiatives, we will also continue to facilitate dialogue between the financial services industries of the Mainland and these in Hong Kong to deepen exchanges. For example, a Forum on Hong Kong-Guangdong Securities Industries Exchange was organized in July 2013 to provide a communication platform for the securities industries of Hong Kong and Guangdong Province to facilitate exchanges between the securities sectors in the two places, promote mutual understanding and explore opportunities for future co-operation. We will continue to maintain close communication with relevant Mainland authorities to seize and capitalize on the opportunities arising from Mainland's economic and financial development.

11. Another key policy initiative which is being actively pursued is the arrangement for mutual recognition of funds between Hong Kong and the Mainland. The arrangement will not only be beneficial to the development of asset management business and financial markets of the Mainland and Hong Kong, but also widen the variety and scope of RMB investment products in Hong Kong, further consolidating Hong Kong's role as an offshore RMB business centre and asset management centre.

Development of an effective cross-sector resolution regime for financial institutions in times of financial crises

12. Following the global financial crisis in 2008, international financial centres have pledged to pursue a series of regulatory reform initiatives under the G20 agenda to enhance the resilience and stability of the global financial system. One of such initiatives is the development of an effective resolution regime for financial institutions in times of financial crises.

13. The Financial Stability Board published the Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes) in November 2011, which were then adopted by the Financial Stability Board Plenary and endorsed by G20 Leaders as the new international standards for an effective resolution regime. The standards set out the responsibilities, instruments and powers that all jurisdictions' resolution regimes should have so as to enable authorities to resolve failing financial institutions in an orderly manner and without exposing taxpayers to the risk of loss from solvency support, while maintaining continuity of their vital economic functions. In order to meet the standards, it will be necessary to vest in the relevant authorities the resolution powers set out in the Key Attributes in resolving financial institutions which are deemed systemically significant or critical if they fail.

14. Currently, the financial regulatory authorities in Hong Kong have some but not all of the powers now considered to be a necessary part of an effective resolution regime for financial institutions with systemic importance. We are therefore working together with the financial regulators, namely the Hong Kong Monetary Authority (HKMA), the Securities and Futures Commission (SFC) and the Office of the Commissioner of Insurance (OCI) to draw up proposals to bridge the gaps which exist in our current resolution regimes for different types of financial institutions relative to the Key Attributes. We aim to consult the public and the financial services sector later this year. Given the complexity and importance of the resolution regime, the public consultation is expected to be lengthy involving complex proposals, and much efforts would be required to analyse the views gathered. Our target is to introduce the relevant bill into the Legislative Council in 2015.

Overview of other relevant international developments in financial services

15. Hong Kong has also been following closely G20's discussions on enhancement of financial oversight and supervision, and taking steps to apply individual proposals to Hong Kong where appropriate. In light of the international development on financial regulation, we envisage that more work will need to be done to carry forward initiatives arising from further

deliberations of G20 and other international regulatory bodies. We also expect more cross-border co-operation issues as jurisdictions embark on localising these international requirements. In the process we shall pay particular attention to the need to engage the market and take into account the local circumstances.

Extension of the post of PAS(FS)MA

16. Enhancing closer financial co-operation with the Mainland as well as reinforcing the development of Hong Kong's offshore RMB business have become one of the core areas for our long-term financial development and are key to consolidating and elevating Hong Kong's position as an international financial centre. As an international financial centre, Hong Kong needs to participate fully and actively in international developments of regulatory improvements and market development initiatives. In view of the scale and complexity of the issues mentioned above, we propose to retain the post of PAS(FS)MA for a period of 24 months, i.e. from 13 April 2014 to 12 April 2016, and re-title it as Principal Assistant Secretary (Financial Services) International and Mainland Affairs (PAS(FS)IMA). The proposed job description of PAS(FS)IMA is at [Annex A](#).

Non-directorate Support

17. The post of PAS(FS)IMA will be supported by a team of four non-directorate officers, comprising one Senior Administrative Officer, one Executive Officer I, one Personal Secretary I and one Assistant Clerical Officer (ACO). All these posts except the ACO post will be time-limited and will last until 31 March 2016.

ALTERNATIVES CONSIDERED

18. We have considered whether the duties of PAS(FS)MA can be absorbed by other colleagues in FSB upon the lapse of the post on 13 April 2014. At present, there are eight Principal Assistant Secretaries (PASes) in FSB overseeing different policy portfolios, including securities and futures, banking, insurance, Mandatory Provident Fund (MPF), anti-money laundering, accountancy, insolvency, and other companies-related matters.

19. We have critically examined whether the other PASes in FSB can absorb the additional work of PAS(FS)IMA. However, all of them are fully committed to other policy initiatives and legislative exercises which are significant to the development of financial services sector in Hong Kong.

Regarding legislative work, FSB introduced the Securities and Futures (Amendment) Bill 2013 into Legislative Council in July 2013 for the regulation of OTC derivative financial products, and is preparing to introduce legislation for implementation of a scripless securities market, reform of the corporate insolvency regime, regulation of stored value facilities and retail payment systems, and the establishment of an independent Insurance Authority, etc. FSB is also seeking to implement measures that aim to enhance the MPF Schemes. It will not be viable to redeploy other PAses to take up the proposed duties of PAS(FS)IMA without prejudicing the delivery of policy initiatives and legislative exercises under their respective portfolios. An organization chart of the FSB is at [Annex B](#) and the existing job descriptions of all other PAses are at [Annex C](#).

FINANCIAL IMPLICATIONS

20. The proposed retention of the supernumerary directorate post will bring about an additional notional annual salary cost at mid-point of \$1,739,400. The additional full annual average staff cost, including salaries and staff on-cost is \$2,503,000.

21. As for the four non-directorate civil service posts supporting PAS(FS)IMA referred to in paragraph 17 above, the notional annual salary cost at mid-point is \$2,354,760 and the full annual average staff cost, including salaries and staff on-cost, is \$3,494,000.

22. We will include sufficient provision in the draft Estimates of 2014-15 and 2015-16 to meet the cost of the proposal.

ADVICE SOUGHT

23. Members are invited to comment on the proposal. Subject to Members' views, we will seek the recommendation of the Establishment Subcommittee on the proposal on 4 December 2013 and approval from the FC on 10 January 2014.

**Financial Services Branch
Financial Services and the Treasury Bureau
October 2013**

Proposed Job Description
Principal Assistant Secretary for Financial Services and the Treasury
(Financial Services) (International and Mainland Affairs)

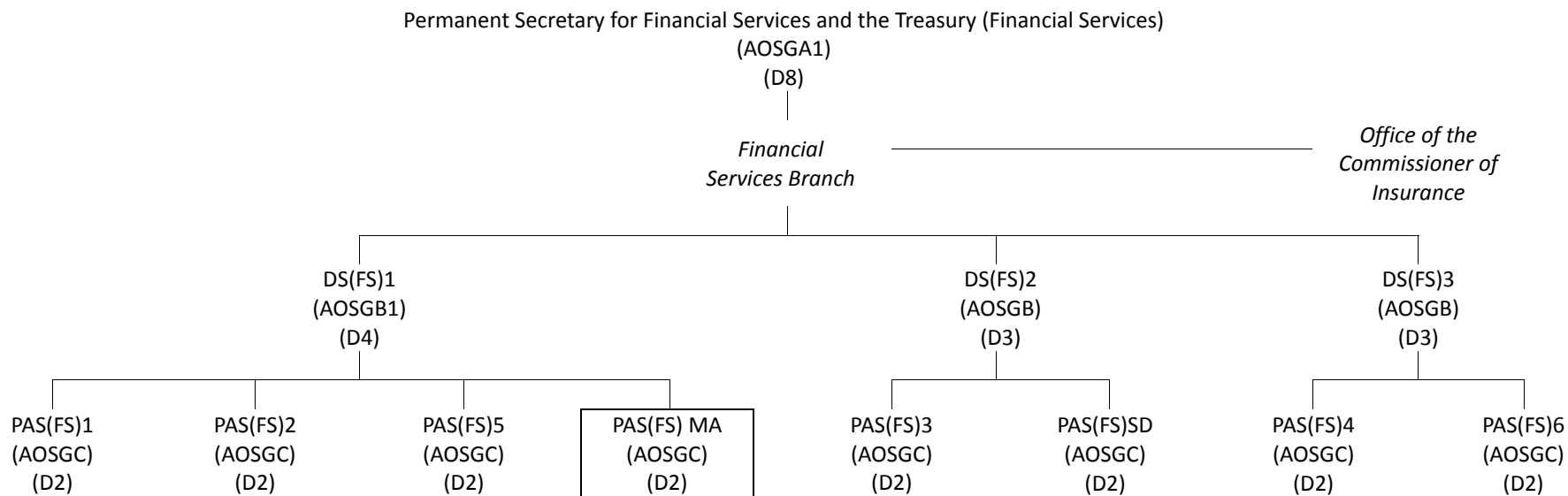
Rank : Administrative Officer Staff Grade C (D2)

Responsible to : Deputy Secretary for Financial Services and the Treasury
(Financial Services) 1

Main Duties and Responsibilities –

1. To formulate policy initiatives and co-ordinate matters on reinforcing and enhancing Hong Kong's role as an offshore Renminbi business centre.
2. To formulate policy initiatives and co-ordinate matters on advancing Hong Kong's financial cooperation with the Mainland under Closer Economic Partnership Arrangement and other co-operation platforms.
3. To arrange high level visits and meetings with the relevant Mainland authorities, and organize seminars and roadshows, etc.
4. To provide policy input on the formulation of a legislative proposal on the development of an effective cross-sector resolution regime for financial institutions in times of financial crises, and coordinate public engagement of the proposal.
5. To handle other relevant international affairs relating to financial services.
6. To undertake any other tasks as assigned by senior officers.

Organisation Chart of the Financial Services and the Treasury Bureau (Financial Services Branch)



Legend

- Supernumerary directorate post proposed to be retained for two years
- AOSGA1 – Administrative Officer Staff Grade A1
- AOSGB1 – Administrative Officer Staff Grade B1
- AOSGB – Administrative Officer Staff Grade B
- AOSGC – Administrative Officer Staff Grade C
- DS(FS) – Deputy Secretary for Financial Services and the Treasury (Financial Services)
- PAS(FS) – Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)

**Major Duties and Responsibilities of the Existing
Principal Assistant Secretaries (Financial Services) (PAS(FS)s)**

PAS(FS)1 is responsible for policy and matters relating to investor protection in the securities and futures markets and the development of the asset management industry. In addition, she provides policy input on supervision of intermediaries and of market operation, and deals with housekeeping matters of the Securities and Futures Commission (SFC). She also coordinates the operation of the Securities and Futures Appeals Tribunal and the Market Misconduct Tribunal, provides secretariat support for the Process Review Panel for SFC, and coordinates financial regulators on risk management matters.

2. PAS(FS)2 is responsible for policy matters relating to listing and the Hong Kong Exchanges and Clearing Limited. She works on the proposed legislation on the regulation of over-the-counter derivative market to implement the G20's commitment and the introduction of an uncertificated securities regime in Hong Kong. She also handles matters relating to the commodities market in Hong Kong.

3. PAS(FS)3 oversees policy and legislative matters over the Mandatory Provident Fund (MPF) Schemes and the Occupational Retirement Schemes. Her portfolio covers all MPF-related matters, including the housekeeping matters of the Mandatory Provident Fund Schemes Authority. She also handles housekeeping matters of the Census and Statistics Department.

4. PAS(FS)4 oversees policy and legislative matters over bankruptcy, corporate insolvency and accountancy matters. He is responsible for an exercise to improve Hong Kong's corporate insolvency law, including engaging stakeholders on a proposal to introduce new statutory corporate rescue procedure. He is also responsible for an exercise to further enhance the independence of the auditor oversight regime for listed companies from the audit profession. He also deals with housekeeping matters of the Official Receiver's Office and the Financial Reporting Council (FRC), and provides secretariat support for the Process Review Panel for FRC.

5. PAS(FS)5 is responsible for the review and maintenance of the Banking Ordinance including implementation of Basel III, and liaison with the Hong Kong Monetary Authority on banking and other related issues. He oversees policy matters and legislation concerning the Deposit Protection Scheme, electronic retail payments, anti-money laundering for financial

institutions, as well as those relating to bond market development and Islamic finance. In addition, he coordinates policy input from financial services perspective in connection with Hong Kong's participation in G20, Financial Stability Board, International Monetary Fund, Asia-Pacific Economic Cooperation, Asian Development Bank, the Financial Action Task Force on Money Laundering, and the Asia-Pacific Group on Money Laundering.

6. PAS(FS)6 deals with policies and legislation relating to companies and trusts, in particular the work relating to the new Companies Ordinance as well as the review of the Trustee Ordinance. He is also responsible for the review of the abscondee regime under the Bankruptcy Ordinance and the housekeeping matters of the Companies Registry.

7. PAS(FS)SD oversees policy and legislative issues concerning the insurance sector. His portfolio covers all insurance-related policies, including the housekeeping matters of the Office of the Commissioner of Insurance. He oversees, among other things, the proposed establishment of an independent Insurance Authority (IIA) and a Policyholders' Protection Fund (PPF), engages the industry and stakeholders in developing detailed proposals, and formulates detailed legislative proposals for the establishment of the IIA and PPF.