

Special Meetings of the Finance Committee of the Legislative Council to Examine the Estimates of Expenditure 2015-16

(9:00 am - 10:10 am on 30 March 2015)

Speaking Note of the Secretary for Financial Services and the Treasury

Chairman and Honourable Members,

I will briefly introduce the estimates of expenditure for financial services and our key areas of work in the coming year.

Estimates of Expenditure

2. For 2015-16, I have allocated about \$980 million from my operating expenditure envelope to the Financial Services Branch and departments under its purview. The amount represents a decrease of \$20 million over last year.

Key Areas of Work

3. We will focus our work in the coming year on reinforcing Hong Kong's status as an international financial centre and managing market systemic risks for investor protection.

(I) Developing Offshore Renminbi Business in Hong Kong and Enhancing Financial Co-operation with the Mainland

4. The Shanghai-Hong Kong Stock Connect has been operating smoothly since its launch in November last year. We are discussing with the relevant authorities of the Central Government the launch of the Shenzhen-Hong Kong Stock Connect and enhancement of the Shanghai-Hong Kong Stock Connect.

5. We will continue to enhance financial exchanges and co-operation between Hong Kong and the Mainland through the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA") and other regional platforms for mutual benefits.

(II) Promoting Market Development

6. On promoting market development, I would like to give a brief account of our priorities.

(i) Fund and Asset Management Business

7. We are developing Hong Kong into a full-fledged fund service centre proactively. In particular, we are formulating detailed legislative proposals to introduce a new open-ended fund company structure to attract more funds to domicile in Hong Kong.

8. We introduced a Bill into the Legislative Council (“LegCo”) on 25 March to extend the profits tax exemption for offshore funds to private equity funds, with a view to attracting more private equity funds to expand their business in Hong Kong.

9. To attract multinational enterprises to establish corporate treasury centres in Hong Kong, we will introduce a Bill to amend the Inland Revenue Ordinance in the next legislative session to allow interest deductions under profits tax for corporate treasury centres and reducing profits tax for specified treasury activities by 50%.

(ii) Bond Market

10. We plan to launch a further issuance of inflation-linked retail bonds (“iBond”) worth not more than \$10 billion with a maturity of three years.

11. We will consider actively a further sukuk issuance in the light of prevailing market conditions and needs.

(iii) Manpower Training

12. There is broad industry consensus that manpower shortage is particularly acute in the middle and back offices of the insurance and asset and wealth management sectors. In this regard, we propose to allocate \$100 million to launch a three-year pilot scheme to enhance the manpower training of the two sectors.

13. We are discussing with the sectors and stakeholders the details of the scheme. We will consult the Financial Affairs Panel before seeking funding approval from members of the Finance Committee for launching the pilot scheme.

(iv) Development of Financial Technologies

14. We will soon set up a steering group on financial technologies, comprising representatives from industries, research and development institutions and regulatory authorities to study how to develop Hong Kong into a financial technology hub.

(v) *Asian Infrastructure Investment Bank*

15. The Asian Infrastructure Investment Bank (“AIIB”) will play an important role in the development of infrastructure in the countries along the “One Belt and One Road”. To support the establishment of AIIB and its operation, we will leverage our strength in financing and asset management. We will also actively explore the possibility for Hong Kong to join the AIIB in order to capitalise on the opportunities brought by the establishment of the AIIB.

(vi) *Improving Corporate Insolvency Law*

16. Based on the positive responses and public comments received in last year’s public consultation, we are drafting the legislative provisions and plan to introduce an amendment bill into LegCo within this year. The legislation exercise will improve the efficiency of the winding-up process, increase protection of creditors and enhance the integrity of the winding-up process.

(III) Investor Protection

17. The third key area of work is to enhance investor protection. I would like to highlight some major initiatives.

(i) *Enhancing the Mandatory Provident Fund System*

18. On the Mandatory Provident Fund (“MPF”), we will introduce an amendment bill into LegCo this year for the implementation of the proposed “Core Fund” in 2016.

19. A public consultation on the automatic mechanism for adjustment of the minimum and maximum levels of relevant income for MPF mandatory contributions has been completed. We will consider the way forward upon receipt of recommendations from the Mandatory Provident Fund Schemes Authority.

(ii) *Establishing an Independent Insurance Authority*

20. The bill which provides for the establishment of an independent Insurance Authority is under scrutiny by LegCo. We target to have the Ordinance enacted in mid 2015. Preparation for the establishment of the Provisional Insurance Authority will then follow.

(iii) Regulating Stored Value Facilities and Retail Payment Systems

21. We will assist LegCo in scrutinising the Clearing and Settlement Systems (Amendment) Bill 2015 which empowers the Hong Kong Monetary Authority to regulate stored value facilities and retail payment systems for enhancing financial stability and user protection.

(IV) International Regulatory Requirements

22. To take forward international regulatory requirements, we will have a number of priorities in the coming year.

(i) Basel III

23. On the regulation of banks, we will introduce relevant subsidiary legislation into LegCo to amend the Banking (Capital) Rules to set out the technical details for the implementation of the second phase of Basel III.

(ii) Establishing an Effective Cross-sectoral Resolution Regime for Financial Institutions

24. The Government, in conjunction with the financial regulators, launched in January this year the second stage of public consultation on establishing an effective resolution regime for financial institutions. As certain issues, for example the establishment of a regime which would be effective in cross-border resolution, are still being discussed at the international level, there may be a need to carry out a third, shorter consultation later this year. Subject to the outcome of these public consultations, we will seek to introduce the relevant legislative proposals into LegCo by the end of this year.

(iii) Auditor Regulatory Reform

25. The Government has completed a three-month public consultation on the proposals to reform the regulatory regime for listed entity auditors. There is majority support from respondents to the objectives and direction of the reform, which are to enhance the independence of the regulatory regime for auditors from the profession itself. We are consolidating and studying the submissions received and plan to publish the consultation conclusions in the middle of this year.

(iv) Regulatory Regime for the Over-the-Counter Derivative Market

26. The regulatory regime for the over-the-counter derivative market will be implemented in phases. We will soon table the first batch of subsidiary legislation for

the implementation of the mandatory reporting and related record keeping obligations before LegCo for scrutiny.

27. To conclude, we will keep a close watch on market developments and the trend of regulation in the international community. We will work closely with the regulators and the industry to implement our working plans. Chairman, my colleagues and I will be happy to answer any questions from Members.