

Panel on Financial Affairs

**Follow-up actions arising from the meeting on
5 January 2015**

Agenda Item IV – Proposed implementation of the first phase of the over-the-counter derivatives regulatory regime in Hong Kong

1. The Administration is requested to clarify –
 - (a) whether mandatory reporting obligation applies to sovereign states for over-the-counter ("OTC") derivatives transactions conducted directly among themselves in Hong Kong, and if not, provide justifications with reference to international practices;
 - (b) how potential systemic risks arising from transactions in (a) above would be mitigated; and
 - (c) whether mandatory reporting obligation applies to market intermediaries (i.e. authorized institutions, approved money brokers, licensed corporations and central counterparties) engaged by the sovereign states for conducting OTC derivatives transactions in Hong Kong.

Agenda Item VI – Proposed extension of profits tax exemption for offshore funds to private equity funds

2. Regarding the proposed extension of profits tax exemption for offshore funds to private equity funds in respect of eligible overseas portfolio companies, the Administration is requested –
 - (a) to explain the policy considerations for imposing the proposed restrictive qualifying conditions set out in paragraph 11 of the Administration's paper (LC Paper No. CB(1)385/14-15(02)) on a portfolio company;
 - (b) to consider relaxing the conditions in (a) above and/or waiving the conditions for certain types of portfolio company (e.g. high-technology and innovative companies), with a view to attracting these companies to use Hong Kong as a platform for corporate financing and asset management through private equity funds; and

- (c) on the proposed condition that an eligible portfolio company should not carry on any business through or from any permanent establishment in Hong Kong, to consider relaxing the requirement if the portfolio company's income derived from Hong Kong does not exceed a specified threshold (say 5% to 10%) of its total income.

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