

NOTE FOR FINANCE COMMITTEE

Financial Dispute Resolution Centre

PURPOSE

This note updates Members on the latest plan of the Government to use the outstanding balance of the non-recurrent commitment approved under FCR(2011-12)23 to continue funding the operation of the Financial Dispute Resolution Centre (FDRC) until around 2019.

LATEST DEVELOPMENTS

2. We informed Members in December 2014 vide FCRI(2014-15)13 that the three funding parties of the FDRC, i.e. the Government, the Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC), agreed to make use of the accumulated surplus (estimated at about \$114 million by end December 2014) to sustain the operation of the FDRC until around 2017. This aimed to allow more time for the FDRC to build up a richer case database to support an in-depth study on the future funding arrangement of the FDRC, including a mechanism for the collection of contributions from the financial services industry. The plan then was to launch an industry consultation on the proposed funding arrangement around mid-2015 and finalise the future funding arrangement in the first half of 2016.

3. Currently, the financial dispute resolution scheme (FDRS) administered by the FDRC covers financial institutions authorised by the HKMA and/or licensed by the SFC, except those providing credit rating services only. In the course of conducting the study on the future funding arrangement, the FDRC has also reviewed the coverage of the FDRS, including the possibility of covering the insurance sector, in order to promote wider usage of the FDRS. The FDRC has already soft-consulted the banking, securities and insurance sectors on the funding formula, and received a range of comments. More time than originally estimated is therefore needed to review the coverage of the FDRS, examine the technical issues involved, consider the industry views received during the soft consultation and formally consult the financial industry before finalising the funding arrangement.

/Indeed

Indeed, in the consultation conclusions on the proposed establishment of the FDRC published in December 2010, it was stated that while the insurance sector was carved out from the FDRS at the beginning on grounds that the sector had at the same time taken a self-regulatory initiative in dispute resolution and that the landscape of the sector was evolving with the establishment of an independent Insurance Authority, the ultimate scope of the FDRC should be as comprehensive as possible and the coverage of the FDRS would be reviewed over time.

Encl.

4. Taking into account the total funding commitment of \$184 million from the Government (i.e. funding share of \$92 million under the approved non-recurrent commitment approved in June 2011 vide FCR(2011-12)23), the HKMA and the SFC, there is an estimated accumulated surplus of about \$98 million as at 31 December 2015 (details are set out at Enclosure). Since the FDRC has been implementing various cost-saving measures¹, which have reduced its annual expenditure from around \$24 million in 2014 to around \$18 million in 2015, the latest assessment is that the surplus could be sufficient to sustain the operation of the FDRC until around 2019. To allow more time to complete the study on the FDRC's future funding arrangement as explained in paragraph 3 above, the three funding parties have agreed to use the accumulated surplus to sustain the FDRC's operation until around 2019².

FINANCIAL IMPLICATIONS

5. The FDRC's estimated accumulated surplus is about \$98 million at 31 December 2015, which is sufficient for funding the operation of the FDRC at least up to 2019. No additional funding is required.

BACKGROUND

6. The FDRC was incorporated on 18 November 2011 as a non-profit company limited by guarantee and came into operation on 19 June 2012. It administers in an independent and impartial manner the FDRS which provides an effective and cost-efficient channel for financial institutions and their customers to resolve their disputes by way of "mediation first, arbitration next". The maximum claimable amount per case is \$0.5 million. At present, there are more than 2 000 financial institution members of the FDRS.

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¹ The cost-saving measures include minimising staff number to lower staff cost, relocating to smaller premises to reduce rent and utilities expenses, and implementing more cost-efficient and focused advertising strategies to lower publicity, promotional and publication expenses.

² Assuming that the annual expenditure of the FDRC remains at a level comparable to that for the year ended 31 December 2015 (i.e. about \$18 million).

7. As the establishment of the FDRC would contribute to an important public policy function of investor protection, the Government had agreed with the HKMA and the SFC to share on a 50:25:25 basis the set-up cost and the operating costs for the first three years (i.e. from 1 January 2012 to 31 December 2014). The Finance Committee of the Legislative Council approved in June 2011 a non-recurrent commitment of \$92 million to meet the Government's funding share. The original plan was for financial institutions to shoulder all the operating costs of the FDRC from 1 January 2015. We informed Members in December 2014 that the three funding parties of the FDRC agreed to make use of the accumulated surplus to sustain the operation of the FDRC until around 2017, pending the completion of an in-depth study on the future funding arrangement of the FDRC.

8. Members are invited to note the content of this paper.

Financial Services and the Treasury Bureau
July 2016

**Income, Expenditure and Surplus of
Financial Dispute Resolution Centre**

	Year ended 31 December 2015 (\$ million)
Income	18.22
- <i>Contributions from the funding parties</i>	<i>17.50</i>
- <i>Other income</i>	<i>0.72</i>
Expenditure	18.01
- <i>Staff costs</i>	<i>7.77</i>
- <i>Depreciation and amortisation</i>	<i>1.59</i>
- <i>Other administrative and operating expenses</i>	<i>8.65</i>
Surplus for the period/year	0.21
Accumulated surplus as at the end of 2015	73.62
Committed contributions to be paid after 2015	24.50
Overall estimated accumulated surplus	98.12
