

立法會
Legislative Council

LC Paper No. CB(1)540/15-16
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by the Administration)

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Panel on Financial Affairs

Minutes of meeting
held on Monday, 7 December 2015 at 9:45 am
in Conference Room 1 of the Legislative Council Complex

Members present : Hon NG Leung-sing, SBS, JP (Chairman)
Hon Christopher CHEUNG Wah-fung, SBS, JP
(Deputy Chairman)
Hon Albert HO Chun-yan
Hon LEE Cheuk-yan
Hon James TO Kun-sun
Hon CHAN Kam-lam, SBS, JP
Hon Abraham SHEK Lai-him, GBS, JP
Hon Vincent FANG Kang, SBS, JP
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon Andrew LEUNG Kwan-yuen, GBS, JP
Hon WONG Ting-kwong, SBS, JP
Hon Starry LEE Wai-king, JP
Hon CHAN Kin-por, BBS, JP
Hon Mrs Regina IP LAU Suk-ye, GBS, JP
Hon LEUNG Kwok-hung
Hon James TIEN Pei-chun, GBS, JP
Hon Charles Peter MOK, JP
Hon Dennis KWOK
Hon SIN Chung-kai, SBS, JP

Members attending : Hon Emily LAU Wai-hing, JP
Hon WONG Kwok-hing, BBS, MH
Dr Hon LAM Tai-fai, SBS, JP
Hon TANG Ka-piu, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, JP

Member absent : Hon Kenneth LEUNG

Public officers attending : Agenda Items III and IV

Mr John C TSANG, GBM, JP
Financial Secretary

Mr Raymond WU
Administrative Assistant to Financial Secretary

Agenda Item III

Mr Andrew AU, JP
Acting Government Economist

Agenda Item IV

Prof K C CHAN, GBS, JP
Secretary for Financial Services and the Treasury

Ms Esther LEUNG, JP
Deputy Secretary for Financial Services and the Treasury (Treasury)1

Agenda Item V

Mr Eddie Cheung, JP
Deputy Secretary for Financial Services and the Treasury (Financial Services) 2

Mr John Leung, JP
Commissioner of Insurance

Agenda Item VI

Miss YAN Mei Mei, Salina, JP
Deputy Secretary for Financial Services & the Treasury (Financial Services)1

Mr David CHAN

Assistant Secretary for Financial Services and the
Treasury (Financial Services) (International and
Mainland Affairs) Special Duties

Clerk in attendance : Ms Connie SZETO
Chief Council Secretary (1)4

Staff in attendance : Mr Hugo CHIU
Senior Council Secretary (1)4

Ms Sharon CHAN
Legislative Assistant (1)4

Action

I Information papers issued since the last meeting

(LC Paper No. CB(1)226/15-16(01) — Administration's response to issues raised by Hon LEE Cheuk-yan relating to (a) reducing the high management fees of the Mandatory Provident Fund ("MPF") system; and (b) arrangement for offsetting Severance Payment or Long Service Payment under MPF system

LC Paper No. CB(1)245/15-16(01) — Letter dated 27 November 2015 from Hon Charles Peter MOK on issues relating to development of financial technologies in Hong Kong (Chinese version only)

Members noted the information papers issued since the regular meeting held on 2 November 2015.

II Date of next meeting and items for discussion

(LC Paper No. CB(1)209/15-16(01) — List of outstanding items for discussion)

2. Members agreed to discuss the following items proposed by the Administration at the next regular meeting scheduled for 4 January 2016:

- (a) Briefing on the work of the Financial Services Development Council; and
- (b) Replacement of the Procurement and Contract Management System and the Unallocated-Store Programme of the Government Logistics Department.

III Briefing by the Financial Secretary on Hong Kong's latest overall economic situation

(LC Paper No. CB(1)160/15-16(01) — Third Quarter Economic Report 2015 and the press release

LC Paper No. CB(1)209/15-16(02) — Administration's paper on Hong Kong's recent economic situation and near-term outlook)

Briefing by the Administration

3. At the invitation of the Chairman, the Financial Secretary ("FS") briefed members on Hong Kong's latest overall economic situation.

(Post-meeting note: The press release containing the speaking note of FS (Chinese version only) was issued to members vide LC Paper No. CB(1)262/15-16(01) on 8 December 2015.)

4. The Acting Government Economist gave a powerpoint presentation on the latest developments in the Hong Kong economy, latest situation in the residential property market, updated economic forecasts for 2015, and the economic outlook for the local and global economy for 2016.

(Post-meeting note: The notes of the powerpoint presentation were issued to members vide LC Paper No. CB(1)262/15-16(02) on 8 December 2015.)

Discussion

Macroeconomic conditions and measures to stimulate the economy

5. Mr James TIEN remarked that the business community was pessimistic about Hong Kong's economic outlook. He said that under the linked exchange rate system, the Hong Kong Dollar would gradually appreciate upon the onset of the interest rate hikes of the United States ("US"), which would exert pressure on investment from overseas and inbound tourism. The Liberal Party had urged the Administration to formulate measures to counteract the uncertain economic outlook and promote the Hong Kong economy.

6. Mr Jeffrey LAM concurred that Hong Kong's economic outlook was bleak and various economic sectors, especially the retail, catering and tourism, were under difficult operating environment. He enquired about the Administration's measures to support these sectors, in particular the small and medium-sized enterprises ("SMEs"), and whether it would consider the Business and Professionals Alliance for Hong Kong ("BPA")'s suggestion of re-launching the Special Loan Guarantee Scheme and reducing the rates percentage charge to 4%.

7. Noting FS's remarks about the uncertainties ahead, including the imminent US interest rate hike, sluggish growth in the global economy, and the downward pressure faced by the Mainland economy, Mr CHAN Kam-lam, Mr WONG Kwok-hing, Dr LAM Tai-fai and Mr Christopher CHEUNG enquired about the measures the Administration would take to promote the Hong Kong economy particularly to stimulate domestic demand. Mr WONG considered that the Administration should continue to implement one-off relief measures to alleviate the hardship of the grass root people. Sharing Mr WONG's views, Ms Starry LEE enquired whether the Administration would consider the Democratic Alliance for the Betterment and Progress of Hong Kong's suggestions of launching further one-off relief measures and introducing rates concession for self-used residential properties in the 2016-2017 Budget.

8. Against the background of difficult operating environment facing the business sector and the dim economic outlook, Dr LAM Tai-fai considered it inappropriate to introduce changes to the current arrangement of offsetting severance payment or long service payment against the accrued benefits under the Mandatory Provident Fund system. He also enquired about the impacts of cost overrun in a number of infrastructure projects on the Government expenditure in the near future.

9. FS said that the Hong Kong economy grew at a slower pace due to the lacklustre performance in the global economy. Being a small and open

economy, Hong Kong was vulnerable to developments in the external economic environment. The Government would continue to support economic growth and development, enhance Hong Kong's competitiveness, explore new markets, nourish human capital, and keep up investment in education and infrastructure. FS added that the 2015-2016 Budget had proposed a number of support measures for the retail and tourism sectors, and a number of one-off relief measures for various sectors of the community. A number of recurrent measures had also been launched for the low-income households. It was observed that such measures had been generally effective. Indeed the several rounds of one-off relief measures had helped support the economy, and the measures proposed in the 2015-2016 Budget were expected to have a fiscal stimulus effect of boosting GDP by around one percentage point.

10. On whether the Government should continue to implement one-off relief measures in the 2016-2017 Budget, FS said that there were divergent views on the issue. He would continue to monitor the economic and fiscal situations closely in considering whether, and if so, the appropriate one-off relief measures to be included in the 2016-2017 Budget.

11. As regards the latest GDP forecast, FS said that the Government announced the range forecast of 2-3% in real GDP growth for 2015 in the August round. The forecast was revised to 2.4% having regard to the actual year-on-year GDP growth outturn of 2.5% in the first three quarters of 2015. The Government considered that the real growth rate of 2.4% was attainable.

Enhancing Hong Kong's competitiveness

12. Referring to the reports of the Working Group on Long-Term Fiscal Planning and the Chief Secretary for Administration's recent progress update on Hong Kong's population policy, Ir Dr LO Wai-kwok expressed grave concern about Hong Kong's ageing population and the anticipated shrinkage in the local workforce. He stressed the need for the Government to enhance Hong Kong's competitiveness by providing an environment conducive to the development of innovation and technology. He urged the Administration to consider BPA's suggestion of introducing a 300% tax deduction for research and development ("R&D") expenditure incurred by enterprises, and study tax concession measures of other jurisdictions for R&D activities.

13. Mrs Regina IP commented that to promote economic development of Hong Kong, the Administration should focus on the industries which Hong Kong enjoyed competitive advantages, such as the four pillar industries. She enquired about the Administration's measures in supporting the development of financial technologies in Hong Kong.

14. Mr Christopher CHEUNG opined that the Administration should strengthen Hong Kong's financial services industry by leveraging the opportunities offered by the National 13th Five-Year Plan and the "Belt and Road" initiative. He urged the Administration to explore the feasibility of introducing a sales platform for retail mutual funds and enhance the access of local securities firms into the Mainland market. He also enquired about the latest progress of Hong Kong's participation in the Asian Infrastructure Investment Bank ("AIIB").

15. Mr Charles Peter MOK considered that instead of resorting to one-off relief measures which had low effect in promoting economic growth in Hong Kong, the Administration should strengthen support for the local economy, assist the SMEs in various sectors, and step up efforts in promoting the development of innovation and technology.

16. FS agreed that it was necessary for the Government to tackle the ageing population and declining workforce in Hong Kong, and enhance Hong Kong's existing advantages and pillar industries. In this regard, the Government would formulate relevant support measures and explore emerging markets along the "Belt and Road". The Government would also formulate measures to diversify Hong Kong's industries in the long run. On measures to strengthen Hong Kong's position as an international financial centre, FS said that the Government would examine how Hong Kong could complement the National 13th Five-Year Plan, tap the opportunities arising from the "Belt and Road" initiative, strengthen Hong Kong's pillar industries, and co-operate with the Mainland authorities in developing further measures under the Mainland and Hong Kong Closer Economic Partnership Arrangement. As for Hong Kong's participation in AIIB, FS remarked that Hong Kong had been attending the relevant meetings of AIIB as a member of the Chinese delegation. The Government would continue to liaise with relevant parties to strive for the establishment of an office of AIIB in Hong Kong. Regarding measures to promote the development of innovation and technology, FS explained that companies' expenditure on R&D already enjoyed full tax deduction under the Inland Revenue Ordinance (Cap. 112). The Government had also launched the Innovation and Technology Support Programme and the Research and Development Cash Rebate Scheme to provide subsidies and cash rebates on the applied R&D investments by enterprises respectively. It was observed that many companies had benefited from these initiatives.

Labour market

17. With the unemployment rate staying at the low level of 3.3%, Mr Vincent FANG expressed concern that many sectors had encountered difficulties in recruiting employees. He suggested that the Administration should consider

relaxing the restrictions on labour importation so as to maintain Hong Kong's competitiveness.

18. Mr LEE Cheuk-yan disagreed with the views that increase in wages would have adverse impact on economic development. He pointed out that the Administration should tackle the issue of high rental which was the major problem facing a lot of SMEs. As private consumption was the key driver of the Hong Kong economy, he remarked that growth in domestic demand would remain weak without reasonable increase in wages. He also called on the Administration to terminate its "0-1-1" envelope savings programme, and expedite the review of the statutory minimum wage rate.

19. Ms Emily LAU urged the Administration to combat working poverty and the widening gap between the rich and poor in Hong Kong. She was particularly concerned about the low wages received by workers engaged by contractors of Government's outsourced services. She called on the Administration to review the contracting-out arrangements and refrain from using the bid price as the sole criterion in awarding contracts.

20. FS said that the Government was aware of SMEs' concerns about high rental and recruitment difficulty, and would endeavour to maintain the stability in the labour market and the unemployment rate at a low level. He pointed out that there was a manpower mismatch in the labour market. While certain low-skill jobs like dish washing suffered from a labour shortage, many young people were reluctant to take up such jobs. Also the construction sector was facing an acute manpower shortage as the sector was unable to attract new blood and many existing practitioners would retire soon. He remarked that while implementation of the statutory minimum wage had benefited the low-income households, it had also increased the operational costs of many companies. He took note of Ms Emily LAU's views about the need to review the contracting-out arrangements of government services.

21. Mr TANG Ka-piu expressed concern about the high unemployment rate of associate degree graduates, and enquired how the Administration would assist these graduates.

22. FS pointed out that the employment situation varied among associate degree graduates from different disciplines, and there could be a mismatch between certain associate degree programmes and the needs in the labour market. He said that the Government would look into the matter.

Slowdown in inbound tourism

23. Mr TANG Ka-piu sought FS's assessment of the impact of slowdown in inbound tourism, particularly the decline in the number of overnight visitors, on Hong Kong's economy and labour market.

24. FS responded that the slowdown in inbound tourism was attributable to a host of factors, including sluggish global economy, depreciation of the currencies of some southeast Asian countries, and structural changes in visitor arrivals from the Mainland, and was expected to continue for some time. The Government would continue to monitor and assess the impact of the replacement of the "multiple-entry" endorsement by the "one trip per week" endorsement for permanent residents of Shenzhen under the Individual Visit Scheme.

25. In response to Mr Vincent FANG's views that the Administration should review its data collection methods for inbound tourism as the official visitor figures had failed to reflect the current situations in the tourism sector, FS responded that the inbound tourism was undergoing structural changes and the current data collection methods were in line with international practices. The Government would continue to monitor the developments in the inbound tourism sector.

Measures on the property market

26. Pointing out that the local property market was facing downward pressure with the impending US interest rate hike and increase in flat supply, Mr SIN Chung-kai enquired about the factors the Administration would take into account in considering whether to adjust the existing demand-side management measures on the property market.

27. Mr Albert HO remarked that the high rental of commercial premises had undermined Hong Kong's competitiveness. He enquired about the measures taken by the Administration to tackle the issue, and the supply of commercial premises and the trend in rental in the coming three years.

28. FS responded that the Government's objective was to ensure the stable and healthy development of the property market through increasing land supply and flat supply. The Government would continue to monitor the development in the local property market, including a host of factors, such as transaction volumes and prices, the demand and supply situations, affordability of home buyers, the extent of speculative activities, the pace of increase in the US interest rates, and the global economic situation. On the commercial property market, FS remarked that the demand for office space in premier business districts remained strong, thus supporting the high rental in those districts. The supply of office space outside the traditional central business districts had increased.

Further, the Government had been relocating selected government offices from premier commercial districts to increase the supply of office space in those districts. Regarding retail shop space, it was observed that while rentals for some districts had eased, those for some other districts had increased in response to changes in market demand. The Government would continue to monitor the situation.

Performance of the Exchange Fund

29. Ms Starry LEE noted with concern the substantial investment loss of the Exchange Fund ("EF") in the third quarter of 2015, and enquired how the Administration would monitor and improve EF's investment performance.

30. FS said that the investment performance of EF would inevitably be affected by the volatilities in the global and local financial markets in the recent period. It would be more appropriate to assess EF's performance over a medium to long-term horizon. He added that the average annualized return of EF in the period from 1994 to 2014 was up to 5.2%, while the average inflation rate for the same period was 2.2%.

IV 2016-2017 Budget consultation

(LC Paper No. CB(1)209/15-16(03) — Information pack for the Financial Secretary's consultations on the 2016-2017 Budget)

31. FS said that consultation for the Policy Address and Budget was conducted concurrently in order to enhance the coordination between policy formulation, resource allocation and budgetary planning. When drawing up the 2016-2017 Budget, he would make available resources for the policy initiatives announced in the Chief Executive's Policy Address, and give due regard to enhancing the competitiveness of Hong Kong with a view to facilitating sustainable development of the economy. FS added that the Government had continued to allocate resources for the implementation of various initiatives to improve the well-being of the community. In view of the long-term fiscal challenges ahead, in particular the fiscal pressure arising from an ageing population, the Government would continue to adhere to the principles of prudent management of the public finances and taking early action to realign the growth of government expenditure with that of revenue. These would include, among others, the setting up of the Future Fund ("FF") to serve as long-term savings. The Government would carefully consider the views from Members and the public in finalizing the 2016-2017 Budget.

(*Post-meeting note:* The press release containing the speaking note of FS (Chinese version only) was issued to members vide LC Paper No. CB(1)262/15-16(03) on 8 December 2015.)

32. With the aid of a powerpoint presentation, the Deputy Secretary for Financial Services and the Treasury (Treasury)¹ briefed members on the fiscal discipline, estimated government expenditure and revenue for 2015-2016, as well as the fiscal reserves and challenges ahead.

(*Post-meeting note:* The information pack for the 2016-2017 Budget consultation was tabled at the meeting and issued to members vide LC Paper No. CB(1) 209/15-16(03) on 8 December 2015.)

Discussion

Future Fund

33. Referring to the Administration's plan to establish FF with the initial endowment of \$219.7 billion notionally held against the Land Fund plus periodic top-ups from the annual budget surpluses, Mr SIN Chung-kai, Mr CHAN Kam-lam and Mr Albert HO sought details on the purpose of FF, its usage and modus operandi, investment management and strategy, and expected rate of return. Mr HO was concerned whether assets of FF would be invested in high risk investment vehicles, such as venture capital investment. Mr CHAN expressed concern that top-ups for FF from the annual budget surpluses might reduce Government recurrent expenditure for improving the livelihood of the general public.

34. Noting that FF was created to meet the long-term needs of the community, Mr LEUNG Kwok-hung queried why the Administration had not considered setting up a dedicated fund to provide for the retirement protection of the elderly using the budget surpluses.

35. FS advised that FF would remain as an integral part of the fiscal reserves and would be a long-term saving tool of the Government with an investment strategy similar to the Long-Term Growth Portfolio of the Exchange Fund which aimed at higher returns in the medium to long term. The Hong Kong Monetary Authority would be responsible for the investment of FF and the investment strategy of FF would remain prudent. FF would be subject to the same investment management regime and oversight by the Exchange Fund Advisory Committee. Expenditure from FF would require approval of the Legislative

Council. FS assured that government expenditure would not be reduced because of the setting up of FF. In fact, subject to policy initiatives of various government bureaux/departments, the investment income on fiscal reserves placed with the Exchange Fund could be used to fund various expenditure programmes, including those for providing assistance and support to the elderly, as appropriate.

Tax related issues

36. Mr Andrew LEUNG called on the Administration to enhance Hong Kong's competitiveness by promoting the development of innovation and technology. In addition to BPA's proposal of providing 300% tax reduction for R&D expenditure incurred by enterprises, Mr LEUNG urged the Administration to consider providing tax incentives to enterprises engaged in innovation and technology, intellectual property trading and copyright activities with reference to similar measures introduced in other places like Taiwan and Shenzhen in order to attract enterprises to start and develop their businesses in Hong Kong. He opined that such initiatives would help boost the Hong Kong economy and foster a culture of innovation and entrepreneurship.

37. Mr TANG Ka-piu asked whether the Administration would consider introducing "super-rich tax" in Hong Kong by raising the tax rate of the top 5% taxpayers/taxpaying corporations in order to raise government revenue and provide a more stable revenue base for Hong Kong. He suggested that the Administration should examine the feasibility of introducing "super-rich tax" by making reference to the experience of Singapore.

38. FS responded that the current taxation system in Hong Kong was appropriate. He pointed out that in the year of assessment 2013-2014, only 46% of the working population paid salaries tax, with the top 5% taxpayers paying about 60% of the total salaries tax. With regard to profits tax, only 9% of registered corporations paid profits tax and 85% of the total profits tax was contributed by the top 5% taxpaying corporations. He explained that Hong Kong's narrow tax base was attributable mainly to the high tax allowance which aimed at alleviating the tax burden of the working population and SMEs. The Government would continue to explore measures to widen the tax base. He added that increasing the tax rates might not necessarily increase government revenue as the top taxpayers/taxpaying corporations were highly mobile and might choose to leave Hong Kong even with a slight increase in the tax rates.

Assisting the vulnerable and low-income group

39. Mr WONG Kwok-hing enquired if the Administration would continue to implement various one-off relief measures in the 2016-2017 Budget, such as

one-month rent payment for the public housing tenants, extra two-month payment to recipients of Comprehensive Social Security Assistance and Old Age Allowance and Old Age Living Allowance. He further urged the Administration to consider removing the deadline for households to use the subsidies under the previous electricity charges subsidy schemes and providing full fare concession to eligible persons under the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities (i.e. the \$2 fare concession scheme). He was of the view that the above measures could relieve the financial hardship of the grassroots and encourage more people to actively participate in community activities, thus boosting the domestic demand of Hong Kong.

40. FS pointed out that the measures referred to by Mr WONG Kwok-hing were one-off relief measures. When preparing the 2016-2017 Budget, he would seek views from relevant government bureaux/departments on the appropriate relief measures to be adopted having regard to the latest economic and fiscal situations. As regards the electricity charges subsidy scheme, FS said that the scheme had been extended several times. According to the latest arrangement, any unused subsidies under the schemes could be used for paying electricity charges under the same account until 30 June 2016 or the close of the account, whichever was the earlier. The vast majority of the households should have exhausted the unused subsidies by the deadline on 30 June 2016.

41. Mr LEE Cheuk-yan sought information on the provision in the 2016-2017 Budget earmarked for new expenditure items for improving the well-being of the community. Mr LEE queried how the Administration could stimulate domestic demand and improve the well-being of the community on one hand, while continued to implement the "0-1-1" reduction proposal (i.e. all government departments had to reduce their departmental expenditure by a total of 2% over the next financial years) on the other.

42. Ms Emily LAU strongly urged the Administration to address Hong Kong's wealth disparity problem through measures in the 2016-2017 Budget. She expressed grave concern on the financial hardship of the low-income group, in particular workers engaged by contractors of Government outsourced services. She called on the Administration to review the policy in awarding government contracts to tenderers offering the lowest bids.

43. Mr Albert HO suggested that the Government should enhance the provision of child care services, consider providing free kindergarten education and increase the support for sub-degree graduates.

44. FS responded that the recurrent expenditure earmarked for social welfare had increased significantly in recent years and new initiatives had been introduced with a view to relieving the financial burden of the vulnerable and

low-income group, in particular the elderly people. These initiatives had reflected long-term commitment of the Government to improve people's livelihood. Regarding the "0-1-1" envelope savings programme, FS explained that it was an administrative measure requesting government departments to review their expenditure in a prudent manner with a view to reducing their operating expenditure by a total of 2% over 2015-2016 to 2017-2018, and resources saved would be re-allocated for new services.

Measures to assist the middle class

45. In view of likely substantial reduction in government revenue in the coming year arising from reinvestment of the dividend income from MTR Corporation Limited into the Hong Kong section of Guangzhou-Shenzhen-Hong Kong Express Rail Link project and decrease in stamp duties income due to decline in flat prices and lower transaction volume in the securities market, Mr Christopher CHEUNG was concerned whether the Administration would continue to implement measures in the 2016-2017 Budget to assist the middle class.

46. Ms Emily LAU urged the Administration to implement measures in the 2016-2017 Budget to respond to requests from the middle class for improving the education system, providing a quality living environment and a comprehensive medical protection for the public.

47. FS said that it was too early to comment at this stage the situation of revenue income of 2015-2016 as the income from profits tax and salaries tax were yet to be received, and income from items such as stamp duties and land premium were subject to market conditions; though payment to the fiscal reserves placed with the Exchange Fund remained stable. The Government was mindful of the pressure faced by the middle class and their concerns. The Government would provide appropriate assistance to the middle class having regard to the latest economic and fiscal situations.

48. Mr Dennis KWOK highlighted the financial burden of the middle class and opined that the Administration should consider tax concession measures to ease their burden. As the middle class with annual income ranging from \$120,001 to \$1 million only contributed to some 30% of the salaries tax revenue, he was of the view that increasing the tax relief for the middle class would not undermine Government's financial position.

49. FS said that given the progressive nature of the existing taxation regime and the high level of tax allowance provided, only a small proportion of the working population was required to pay salaries tax. The Government would

study ways to relieve the financial burden of the middle class and examine the need to adjust the level of tax allowance as appropriate.

Expenditure on capital works projects

50. Noting that the estimated expenditure on capital works under the Capital Works Reserve Fund for 2015-2016 and those for the next few years would be maintained at a level over \$70 billion, Ir Dr LO Wai-kwok considered that the level, which accounted for about 3% to 4% of Gross Domestic Product ("GDP"), was appropriate having regard to the annual expenditure level in the past and those of the neighborhood countries. He requested the Administration to provide supplementary information showing the actual/ forecasted annual capital works expenditure from 1997-1998 to 2019-2020 with all the annual expenditure adjusted to the same price level. He also considered that the Government should ensure an even distribution of public works projects across the years to avoid great fluctuations, thus causing adverse impact on the construction industry.

51. FS said that the estimated annual capital works expenditure of \$70 billion was relatively high compared to the annual average of \$50 billion in the past years. He said that the Government recognized the need to address issues like insufficient labour supply in the construction industry and cost overrun in some infrastructure projects. The Government would strive to achieve an even distribution of capital works expenditure across the years.

(Post-meeting note: The information provided by the Administration was issued to members vide LC Paper No. CB(1)349/15-16(01) on 23 December 2015.)

V Funding proposal relating to the establishment of an independent Insurance Authority

(LC Paper No. CB(1)209/15-16(04) — Administration's paper on "Proposed lump sum provision for the establishment of an Independent Insurance Authority and exit arrangements for insurance officer grade officers"

LC Paper No. CB(1)209/15-16(05) — Background brief on the funding proposal relating to the establishment of an

independent Insurance
Authority prepared by the
Legislative Council
Secretariat)

Briefing by the Administration

52. At the invitation of the Chairman, the Deputy Secretary for Financial Services and the Treasury (Financial Services) 2 ("DS(FS)2") briefed members on the Administration's proposals regarding: (a) a lump sum provision of \$650 million for funding the establishment of an independent Insurance Authority ("IIA"); and (b) the exit arrangements for Insurance Officers ("IOs") of the Office of the Commissioner of Insurance ("OCI") upon the establishment of IIA. To facilitate IOs seeking redeployment within the civil service to find alternative Government posts, the Administration also proposed allowing the Controlling Officers of Government departments appointing the IOs concerned to have the delegated authority to create supernumerary posts to be held against permanent posts of lower pay scales. Subject to members' views, the Administration would submit the relevant proposal to the Establishment Subcommittee ("ESC") (as appropriate) and the Finance Committee ("FC") for consideration and approval.

Discussion

Funding and staffing arrangements of the independent Insurance Authority

53. Mr CHAN Kin-por enquired whether the Administration would top up the shortfall if the proposed lump sum provision of \$650 million for IIA turned out to be insufficient.

54. DS(FS)2 responded that under such a scenario, the Administration might consider different options including the provision of additional funding to IIA in the form of a loan as suggested by some Members during the scrutiny of the Insurance Companies (Amendment) Bill 2014. There were provisions in the Insurance Companies (Amendment) Ordinance 2015 enabling IIA to borrow money with the approval of FS. Given the healthy and stable development of the insurance industry in the previous years on which basis the income projection of IIA had been worked out, the proposed \$650 million should be sufficient to support the operation of IIA in the initial five to six years.

55. Noting that about 70% of IIA's expenditure would be met by a levy to be imposed on policyholders and the remaining 30% by the insurance company authorization fee, insurance intermediary licence fee and user fees, Mr LEUNG Kwok-hung enquired about the rationale behind the proposed 70:30 split. He

remarked that the expenditure to be recovered from the market should be borne mainly by insurance companies and insurance intermediaries who would benefit from the new regulatory regime.

56. DS(FS)2 responded that the proposed 70:30 split was set out in the consultation paper on the establishment of IIA published in 2010. The proposal aimed to enable IIA to have stable sources of income for achieving financial independence of the industry and Government after several years of operation. To reduce the impact on policyholders, an incremental approach would be adopted in achieving the target level of levy (i.e. 0.1%) on insurance policies in the first five years after the establishment of IIA. He added that under the new regulatory regime, insurance companies were required to pay variable authorization fee in addition to fixed authorization fee.

57. Mr LEE Cheuk-yan sought details on IIA's recruitment policies, including whether IIA staff would be recruited on contract terms and how their continued employment could be protected.

58. DS(FS)2 responded that IIA would formulate its own recruitment policies, including staff salaries and employment terms. While IIA might engage a human resources consultant to give advice on these matters, it was envisaged that similar arrangements as with other statutory regulatory bodies would be adopted, such as the Securities and Futures Commission and the Mandatory Provident Funds Scheme Authority. Although it was common for these regulatory bodies to recruit staff on contract terms, the contracts of the staff concerned would normally be renewed if their performance met the required standard.

Exit arrangements for Insurance Officers of the Office of the Commissioner of Insurance

59. Mr CHAN Kin-por commended the hard work of staff members of OCI, and expressed support for the proposed exit arrangements for staff upon abolition of the Office. Given their valuable experience gained while serving in OCI, hiring them by IIA would benefit the smooth transition to the new regulatory regime. He asked if IIA would accord priority to hiring existing OCI staff for the sake of continuity and knowledge transfer. Mr CHAN also enquired whether the proposed exit arrangements for IOs were in line with the established civil service policies.

60. Noting that some 10 IOs had indicated their intention to seek redeployment within the civil service after abolition of OCI, Mr LEE Cheuk-yan requested the Administration to set out the latest position of the redeployment arrangements in its paper to be submitted to ESC.

61. DS(FS)2 responded that IIA would recruit its staff through open recruitment. The existing staff of OCI, given their relevant working experience, should have an edge over others in competing for jobs in IIA. To follow up Mr LEE Cheuk-yan's request, information on the latest development of the redeployment arrangements would be included in the paper for ESC. He added that while the Government had been assisting the affected IOs in finding alternative civil service posts, they had to accept compulsory retirement on abolition of office terms if the redeployment was unsuccessful when they had exhausted their pre-retirement leave. He further confirmed that the proposed exit arrangements for IOs were in line with the established civil service policies.

Conclusion

62. The Chairman said that members had no objection to the Administration submitting the relevant proposals to ESC and FC.

VI Proposed creation of a permanent directorate post in the International and Mainland Affairs Division of the Financial Services Branch of the Financial Services and the Treasury Bureau

(LC Paper No. CB(1)209/15-16(06) — Administration's paper on "Creation of a Permanent Administrative Officer Staff Grade C 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"

LC Paper No. CB(1)209/15-16(07) — Background brief on the creation of a permanent directorate post in the International and Mainland Affairs Division of the Financial Services Branch

of the Financial Services and the Treasury Bureau prepared by the Legislative Council Secretariat)

Briefing by the Administration

63. At the invitation of the Chairman, the Deputy Secretary for Financial Services and the Treasury (Financial Services)1 ("DS(FS)1") briefed members on the Government's proposal to convert a supernumerary directorate post in the International and Mainland Affairs Division in the Financial Services Branch of the Financial Services and the Treasury Bureau into a permanent post.

64. DS(FS)1 remarked that currently the major duties of the proposed post included: (a) advancing financial cooperation and mutual market access between Hong Kong and the Mainland; (b) promoting the development of offshore Renminbi ("RMB") business in Hong Kong, especially in the context of the Thirteenth Five-year Plan and the "Belt and Road" initiative of the Central Government; and (c) overseeing policy matters and legislation concerning regulatory reforms in meeting international standards, including the establishment of an effective resolution regime for financial institutions. In view of the heavy workload involved, the Government considered it necessary to retain the post on a long-term basis. She supplemented that during discussion of the proposal to retain the supernumerary post by the Panel on Financial Affairs and the Establishment Subcommittee in 2013, some Members suggested making the post permanent.

Discussion

65. Mr CHAN Kam-lam said that the Democratic Alliance for the Betterment and Progress of Hong Kong supported the establishment proposal. He remarked that the recent inclusion of RMB in the basket of currencies that made up the Special Drawing Rights ("SDR") would be conducive to the internationalization of RMB, open further opportunities for the development of RMB business in Hong Kong, and help strengthen Hong Kong's position as an international financial centre. He enquired about the duties of the proposed post in advancing financial cooperation with the Mainland and assisting Hong Kong financial services industry in accessing the markets in developing countries, especially those along the "Belt and Road".

66. Mr LEUNG Kwok-hung enquired about the relationship between the inclusion of RMB in the SDR basket of currencies and the development of Hong Kong's financial services industry. He expressed concern whether the increased circulation of RMB would marginalize the Hong Kong dollar.

67. DS(FS)1 responded that Hong Kong had become the world's largest offshore RMB business centre. Over the past few years, there had been enhanced cross-border circulation and use of RMB for various purposes, including trade settlement and investment (such as the RMB Qualified Foreign Institutional Investor Scheme, Shanghai-Hong Kong Stock Connect, and the mutual recognition of funds arrangement). The continual internationalization of RMB would further strengthen and deepen the development of RMB business and facilitate the development of relevant risk management services in Hong Kong. A case in point was the launch of the CNH Hong Kong Interbank Offered Rate fixing for the management of interest rate risk. DS(FS)1 said that the proposed post would continue to promote the development of offshore RMB business in Hong Kong, coordinate inputs from industry stakeholders, and promote Hong Kong's role as a financing and investment platform under the "Belt and Road" initiative.

68. As regards the inclusion of RMB in the SDR basket of currencies, DS(FS)1 responded that it would encourage central banks and institutional investors to increase their holdings of RMB and RMB-denominated assets respectively. It was envisaged that the wider use and circulation of RMB would benefit Hong Kong by bringing about more offshore RMB business opportunities.

Conclusion

69. The Chairman concluded that Panel members supported the Administration submitting the proposal to the Establishment Subcommittee.

VII Any other business

70. There being no other business, the meeting ended at 12:55 pm.