

立法會
Legislative Council

LC Paper No. CB(1)485/15-16

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by the Administration)

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Panel on Financial Affairs

Minutes of meeting

**held on Monday, 4 January 2016 at 10:45 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 CHAN Kam-lam, 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 James TIEN Pei-chun, GBS, JP
Hon Kenneth LEUNG
Hon Dennis KWOK
Hon SIN Chung-kai, SBS, JP

Member attending: Dr Hon LAM Tai-fai, SBS, JP

Members absent : Hon LEE Cheuk-yan
Hon James TO Kun-sun
Hon Abraham SHEK Lai-him, GBS, JP
Hon Vincent FANG Kang, SBS, JP
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Hon LEUNG Kwok-hung
Hon Charles Peter MOK, JP

Public officers attending : Agenda item IV

Mrs Laura CHA
Chairman
Financial Services Development Council

Mr James LAU
Under Secretary for Financial Services and the Treasury

Mr Andrew WU
Head of Secretariat
Financial Services Development Council

Agenda item V

Mr Frankie LUI
Principal Assistant Secretary for Financial Services and the Treasury (Treasury) (E)

Miss Helen TANG
Deputy Director
Government Logistics Department

Mr YIP Man-chung
Controller (Supplies Management)
Government Logistics Department

Miss CHEUNG Yin-ling, Annie
Controller (Procurement)
Government Logistics Department

Mr CHOI Sum-yat
Chief Supplies Officer (Systems)
Government Logistics Department

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 Confirmation of minutes of meeting and matters arising

(LC Paper No. CB(1)277/15-16 — Minutes of the meeting on
2 November 2015)

The minutes of the meeting held on 2 November 2015 were confirmed.

II Information papers issued since the last meeting

(LC Paper No. CB(1)263/15-16 — Quarterly Report of the
Securities and Futures
Commission (July to
September 2015)

LC Paper No. CB(1)316/15-16(01) — Press release on
accrual-based consolidated
financial statements of the
Government for the year
ended 31 March 2015

LC Paper No. CB(1)337/15-16(01) — Administration's paper on
Investment of Fiscal
Reserves – "Future Fund"

LC Paper No. CB(1)342/15-16(01) — Hong Kong Exchanges and
Clearing Limited's paper
on update on Extension of
Trading Hours in the
Securities Market)

2. Members noted the four information papers issued since the last regular meeting held on 7 December 2015.

III Date of next meeting and items for discussion

(LC Paper No. CB(1)358/15-16(01) — List of outstanding items for discussion

LC Paper No. CB(1)358/15-16(02) — List of follow-up actions)

3. Members agreed to discuss the following items proposed by the Administration at the next regular meeting scheduled for 1 February 2016:

- (a) Briefing by the Secretary for Financial Services and the Treasury on relevant policy initiatives in the Chief Executive's 2016 Policy Address;
- (b) Briefing on the work of Hong Kong Monetary Authority;
- (c) Budget of the Securities and Futures Commission for the financial year 2016-2017; and
- (d) Proposed expansion of the scope of the short position reporting regime in Hong Kong.

4. Members further agreed that the regular meeting on 1 February 2016 would start at 9:00 am and end around 1:00 pm to allow sufficient time for discussion of the above four items.

IV Briefing on the work of the Financial Services Development Council

(LC Paper No. CB(1)358/15-16(03) — Paper provided by the Financial Services Development Council

LC Paper No. CB(1)358/15-16(04) — Updated background brief on Financial Services Development Council prepared by the Legislative Council Secretariat)

Briefing by the Financial Services Development Council

5. With the aid of a powerpoint presentation (LC Paper No. CB(1)358/15-16(03)), the Chairman, Financial Services Development Council ("C/FSDC") briefed members on the work progress of FSDC, including the seven reports released in 2015, promotional and engagement activities in 2015, and work plan for 2016.

Discussion

6. Mr CHAN Kam-lam, Mr CHAN Kin-por and Mr Christopher CHEUNG commended FSDC's efforts and contributions in conducting research and making concrete recommendations to the Government in reports with a view to enhancing the future development of the Hong Kong financial markets and financial services industry.

Development of the Hong Kong financial markets and investor protection

7. In view of increasing integration of the Hong Kong financial markets with those of the Mainland, differences in the regulatory regimes of Hong Kong and the Mainland, and incidents of market manipulation and volatilities in the Mainland securities market, Mr CHAN Kam-lam enquired whether FSDC would consider conducting research on market regulation and related issues to help the Government and the regulators to formulate relevant strategies with a view to maintaining the integrity of the Hong Kong financial markets and strengthening investor protection.

8. C/FSDC said that FSDC currently had no plan to undertake studies relating to market regulation and investor protection, which were areas under the purview of relevant regulatory bodies. In addition, the Investor Education Centre was responsible for investor education in Hong Kong. FSDC would continue to explore opportunities brought by integration of the Hong Kong and Mainland markets.

9. Mr Jeffrey LAM sought FSDC's views on the slow progress in developing financial innovation in Hong Kong vis-à-vis the rapid development in the Mainland.

10. C/FSDC pointed out that the Hong Kong financial services industry was relatively small and mature vis-à-vis the Mainland, and hence had limited the room for development of financial innovation. As regards the development of internet financial technology and crowdfunding, she said that the relatively slow progress might be attributed to the existing rigid regulatory regimes, which were less able to cope with rapid changes in the market. She stressed the need for the regulatory bodies to strike a proper balance between promoting the development of internet financial technology and crowdfunding and protecting

the interest of investors. She added that FSDC was conducting a research on crowdfunding and would release the relevant report in the coming few months.

11. In response to Mr CHAN Kin-por's enquiry about the progress of the Government and the regulators in taking forward FSDC's various recommendations, C/FSDC remarked that the Government had put great emphasis on FSDC's recommendations. FSDC would closely monitor the progress in taking forward the various recommendations and inform the public the latest development through FSDC's annual reports. She added that FSDC would usually arrange media briefings when releasing a research report to enhance public understanding on the issues involved and arouse public interest and discussion on the subject matter. Under Secretary for Financial Services and the Treasury ("USFST") supplemented that given the implications of FSDC's recommendations on the existing regulatory regimes, it took time for the Government to consider the recommendations, work out the implementation proposals, and consult relevant stakeholders. Moreover, some of FSDC's proposals would require amendments to legislation and it would take time to formulate the relevant legislative proposals.

12. Mr Kenneth LEUNG enquired about the progress in taking forward the recommendations in FSDC's report on "Tax Issues on Open-ended Fund Companies and Profits Tax Exemption for Offshore Private Equity Funds" released in 2015. He asked if the two bills to amend the Inland Revenue Ordinance (Cap. 112) introduced/to be introduced into the Legislative Council were aimed to provide further tax relief for offshore funds and private equity funds. He also urged FSDC to speed up the study on green finance, including exploring the feasibility of developing Hong Kong as a regional carbon trading platform. He was of the view that providing tax incentives to venture capital enterprises engaged in green finance business would facilitate the development of green finance in Hong Kong.

13. C/FSDC agreed that there were potentials in developing green finance in Hong Kong. She pointed out that the Central Government also put great emphasis on the subject, and had established a working group on green finance under the People's Bank of China. Central Government had also played a significant role in getting consensus among a number of countries leading up to the Conference of Parties 21 (the United Nations Climate Change Conference 2015) in Paris. As green finance was a new area and there were limited information and experts in the relevant field in Hong Kong, it had taken more time for FSDC to study the issues involved. FSDC currently planned to release a report on the subject in April/May 2016.

14. As regards FSDC's recommendations relating to profits tax exemption for offshore private equity funds, USFST said that the Government would study the recommendations further, in particular the need to relax the criteria

for determining whether a private equity fund was "bona fide widely held" in providing profits tax exemption.

15. Mr Christopher CHEUNG welcomed FSDC's recommendations in its report on "Strengthening Hong Kong as a Retail Fund Distribution Centre". He said that while the securities industry supported FSDC's view that the fund distribution channels in Hong Kong should be diversified through innovative measures (e.g. through the development of an on-line trading platform), there were concerns about the lack of guidelines from the regulators in addressing the know your client ("KYC") and suitability issues. He also expressed support for FSDC's recommendation to create a centralized database on investors' information for use by securities firms so as to reduce the burden on firms in complying with the account-opening documentation requirements and provide convenience to clients. He asked if FSDC had discussed the details with the Securities and Futures Commission ("SFC") for implementing the recommendation.

16. C/FSDC said that FSDC had contacted SFC on the matter before finalizing the relevant report and SFC had taken note of the recommendations put forward by FSDC. FSDC considered that a centralized system could facilitate investors in completing the KYC procedure as investors would be required to complete the due diligence process for account opening once and all market intermediaries could access the information in the database. Details for implementing the proposal, such as the means to establish the proposed centralized system should be worked out by the Government and SFC.

17. Mr Albert HO expressed concern that FSDC's recommendation in its report on "Chinese Enterprises "Going Global": Opportunities and Hong Kong's Policy Responses" that the Central Government should streamline its approval procedures for Chinese enterprises might compromise the integrity of the regulatory regime, and hence undermine investor protection.

18. C/FSDC clarified that the recommendations were for the Central Government to consider streamlining the approval procedures so as to expedite the process of applications and reduce the administrative approval burden on the Mainland enterprises with a view to facilitating them "going global". The recommendations were not to reduce the contents of the requirement. She agreed with Mr HO's views that it was important to maintain the stringent approval requirements and regulatory regime to ensure sound and proper operations of the Mainland enterprises.

Institutional and funding arrangements of FSDC

19. Mr Kenneth LEUNG noted that the budget of FSDC for 2015-2016 was \$4.7 million which was much higher as compared to the expenditure of around

\$1.8 million for 2014-2015. He enquired about the reasons for the increase in the budget. C/FSDC explained that the additional resources were mainly to cover the remuneration of a contract staff engaged with the return of a civil service staff deployed from the Financial Services Branch of the Financial Services and the Treasury Bureau in 2015, and the office rental with the relocation of the FSDC Secretariat from the old Central Government offices to a premises in Wan Chai.

20. The Chairman recognized the need to employ professional staff to support the research work of FSDC. He enquired about the proportion of professional staff engaged by FSDC, and the Government's plans in reviewing the institutional and funding arrangements of FSDC to facilitate its future work, in particular in conducting research and promotional activities to reinforce Hong Kong's position as an international financial centre and formulating strategies to meet the challenges brought by the rapid development in the Mainland financial markets.

21. The Chairman and Mr CHAN Kin-por asked whether the Government would consider providing FSDC with executive power to implement its recommendations so as to bring timely benefits to the local financial services industry.

22. C/FSDC advised that currently there were four professional staff working for FSDC, among them, one was employed on non-civil service contract terms and the rest were each seconded from the Hong Kong Monetary Authority, SFC and the Hong Kong Trade Development Council. She said that the financial and manpower arrangements for FSDC would be reviewed after the first three years of its operation and the Government was of the view that the current secondment arrangement for staff should be maintained. USFST added that FSDC was a high-level, cross-sector government advisory body to engage the financial services industry, and formulate proposals to promote the further development of the Hong Kong financial services industry and map out the strategic direction for development. Hence, it might not be appropriate to provide FSDC with policy execution power. That said, the Government would strengthen manpower resources of FSDC in conducting research. The budget for FSDC was expected to increase to \$6.5 million in 2016-2017. He remarked that the seconded staff possessed knowledge and expertise in various subject areas who could help providing valuable inputs to facilitate the work and future development of FSDC.

FSDC's work plan for 2016

23. Mr Jeffrey LAM enquired about FSDC's work plan for 2016, and the progress in taking forward initiatives relating to nourishing human capital for

the Hong Kong financial services industry, including the development of a website on financial services careers to provide information on career options in the industry and the qualification and experience requirements concerned.

24. C/FSDC said that the work of FSDC in 2016 would include exploring proposals to reinforce Hong Kong's competitiveness, such as development of crowdfunding, green finance, and a centralized information platform for Hong Kong's financial services industry. More details would be available after FSDC's first meeting to be held on 12 January 2016.

V Replacement of the Procurement and Contract Management System and the Unallocated-Store Program of the Government Logistics Department

(LC Paper No. CB(1)358/15-16(05) — Administration's paper on "Replacement of the Procurement and Contract Management System and the Unallocated-Store Program of the Government Logistics Department")

Briefing by the Administration

25. At the invitation of the Chairman, the Principal Assistant Secretary for Financial Services and the Treasury (Treasury) (E) briefed members on the Administration's proposal to replace the existing Procurement and Contract Management System ("PCMS") and the Unallocated-Store ("U-Store") Program of the Government Logistics Department ("GLD"). It was estimated that the implementation of the proposal would require a total capital expenditure of 72.659 million over a period of five years from 2016-2017 to 2020-2021. The non-recurrent staff cost for managing the project and the recurrent expenditure for the project would be absorbed by GLD. Subject to members' views, the Administration planned to seek funding approval from the Finance Committee ("FC") in the first half of 2016.

Discussion

Implementation of the project

26. Mr CHAN Kam-lam expressed support for the proposal. Noting that the project had a long implementation time of around four years, given the rapid development in information technology, he was concerned that the proposed systems might become obsolete when they were rolled out. He enquired whether the Administration had explored ways to expedite delivery of the project, and whether the Innovation and Technology Bureau ("ITB") would assist GLD in implementing the project.

27. Deputy Director, Government Logistics Department ("DD/GLD") responded that GLD had made reference to the experience in the development of the existing PCMS and U-Store Program in formulating the implementation plan of the project. She explained that the relatively long implementation time was due to the complexity of the project which required more time for tender preparation and award of contracts. During the tender preparation stage of the project, GLD would formulate the tender requirements carefully to ensure that the proposed systems would adopt the latest information technology. DD/GLD added that GLD would seek the advice of the Office of the Government Chief Information Officer, which was under ITB, in developing the proposed systems.

28. In response to Mr SIN Chung-kai's enquiry about whether the proposed systems would be cloud-based, DD/GLD remarked that no suitable cloud-based services could be identified in the market in GLD's feasibility study. GLD would keep in view the market situation and consider adopting cloud-based services for the proposed systems as and when appropriate.

29. Mr Kenneth LEUNG expressed support for the proposal in principle. He asked whether there would be additional capital expenditure for the project after financial year 2020-2021.

30. The Chairman enquired about the serviceable life of the proposed systems, and whether the estimated expenditure of the project had taken into account inflation.

31. DD/GLD responded that Annex B to the Administration's paper had set out the estimated expenditure of the proposed systems from 2020-2021 onwards. She added that the proposed systems had a serviceable period of around 10 years and the contractors concerned would be responsible for maintaining the systems during the life span. DD/GLD further remarked that the proposal had included some \$6.6 million as contingency fees, which could cater for other costs, including adjustment due to inflation.

Benefits of the proposed replacement systems

32. In response to Mr Kenneth LEUNG's enquiry, DD/GLD advised that the proposed systems had the following benefits:

- (a) enhanced flexibility to cater for new business needs by replacing the existing workflow engine which adopted hard-code programs;
- (b) more effective exchange of data with the relevant systems of other bureaux/departments ("B/Ds");
- (c) introduction of a new Collaborative Workspace to centralize the repository of tender documents;
- (d) supporting the use of Internet Protocol Version 6; and
- (e) automation of certain manual work procedures.

33. Noting that the proposed systems would enhance the exchange of data with the relevant systems of other B/Ds, the Chairman enquired if there would be benefits resulting from synergy of the systems. DD/GLD responded that while GLD had not assessed possible savings in this regard, it was estimated that the project could achieve an efficiency gain at an estimated notional staff cost of \$552,000 per annum.

Conclusion

34. The Chairman said that members had no objection to the Administration's submitting the proposal to FC in the first half of 2016.

VI Any other business

35. The Chairman said that a number of members would be attending meetings of The National People's Congress and The Chinese People's Political Consultative Conference to be held in the Mainland in early to mid March 2016. In order to avoid clash with the regular meeting of the Panel to be held on 7 March 2016, he suggested re-scheduling the Panel meeting. Members did not raise objection. The Chairman said that he would work out the revised meeting time in consultation with the Administration and notify members of the relevant arrangement in due course.

(Post-meeting note: The regular meeting was re-scheduled to Tuesday, 22 March 2016, from 8:30 am to 10:45 am. Members were informed of the arrangement vide LC Paper No. CB(1)426/15-16 issued on 12 January 2016.)

36. The meeting ended at 11:52 am.

Council Business Division 1
Legislative Council Secretariat
25 January 2016