

For discussion
On 7 December 2015

Legislative Council Panel on Financial Affairs

**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**

PURPOSE

This paper seeks Members' views on the proposal to create one permanent post of Administrative Officer Staff Grade C (AOSGC) (D2), to be designated as Principal Assistant Secretary for Financial Services and the Treasury (Financial Services) (International and Mainland Affairs) (PAS(FS)IMA), in the Financial Services Branch (FSB) of the Financial Services and the Treasury Bureau (FSTB) with effect from 13 April 2016, or with immediate effect upon approval of the Finance Committee, whichever is the later, to –

- (a) continue to promote offshore Renminbi (RMB) business in order to reinforce Hong Kong's role as a global offshore RMB hub;
- (b) advance financial co-operation with the Mainland by pursuing initiatives under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) and other co-operation platforms; and
- (c) oversee policy matters and legislation concerning the implementation of Hong Kong's commitment to meet international standards including the establishment of an effective resolution regime for financial institutions.

BACKGROUND

2. The supernumerary AOSGC post, designated as PAS(FS)IMA in the International and Mainland Affairs Division (IMA Division) of FSB, will lapse on 13 April 2016. We need to provide continued support in the IMA Division to take forward the work as set out in paragraph 1 above.

3. The PAS(FS)IMA post was first created on a supernumerary basis for two years in April 2012 to provide dedicated directorate steer and support to enhance financial cooperation with the Mainland; to coordinate the implementation of Central Government's measures; and to promote the development of offshore RMB business in Hong Kong. By end 2013, Hong Kong had become the world's largest offshore RMB hub, with the world's largest offshore pool of RMB funds. Financial cooperation with the Mainland at the national and regional levels had been strengthened with the implementation of measures under CEPA and through other cooperation platforms. To consolidate the efforts and explore new opportunities arising from the internationalization of RMB and liberalization of Mainland's capital markets, the supernumerary post was extended in April 2014 for two years.

4. At the same time, there have been significant developments internationally in strengthening financial regulation. The portfolio of PAS(FS)IMA had been enlarged as part of the extension to cover the oversight of policy matters and legislation necessary for Hong Kong as an international financial centre to respond to international commitments agreed at G20 and Financial Stability Board, including the development of a resolution regime for financial institutions in Hong Kong. Over the past two years, two rounds of public consultation on the proposed resolution regime were conducted in 2014 and 2015 respectively. The consultation response was published on 9 October 2015.

5. FSB has examined critically the long-term need to retain the IMA Division and the PAS(FS)IMA post. In view of the rapidly growing work arising from financial cooperation with the Mainland and development of offshore RMB business centre in Hong Kong, as well as the complexity of the draft Financial Institutions (Resolution) Bill (FI(R)B) and the ambitious timetable, and the continued need for addressing international developments in financial services, it is essential to retain the IMA Division and for the supernumerary PAS(FS)IMA post be made permanent to ensure dedicated directorate steer and policy input for the satisfactory delivery of the on-going tasks above. PAS(FS)IMA is underpinned by one Senior Administrative Officer (SAO), one Executive Officer I (EO I), one Personal Secretary I (PS I) and one Assistant Clerical Officer (ACO), among which the SAO, EO I and PS I

posts are created on a time-limited basis under delegated authority, and will lapse on 1 April 2016.

JUSTIFICATION

Development of Hong Kong as a global hub for offshore RMB business

6. With the wider use of RMB in cross-border trade and support from the relevant Mainland authorities, the offshore RMB business in Hong Kong has been growing rapidly in recent years. Hong Kong has developed from a centre offering traditional RMB banking services into the world's largest offshore RMB business hub. Over the past few years, there have been more channels for cross-border circulation and use of RMB funds, including the launch and expansion of portfolio investment schemes like the RMB Qualified Foreign Institutional Investor Scheme, Shanghai-Hong Kong Stock Connect as well as the recent mutual recognition of funds arrangement. All these have further reinforced Hong Kong's position as a premier offshore RMB business hub.

7. Also, it has been confirmed in the "Proposal on Formulating the Thirteenth Five-year Plan" promulgated recently in November 2015 that Hong Kong will continue to play a significant role in the internationalization of RMB in the next Five-year Plan (from 2016 to 2020). In addition, as the Mainland's financial reforms progress, there would be wider circulation of RMB funds between the onshore and offshore markets, providing more opportunities for Hong Kong. Therefore, we need to continue our existing efforts in promoting Hong Kong's offshore RMB business and strengthening our competitive edge as a global hub.

8. The "Belt and Road" initiative, a key national strategy, would also create tremendous opportunities for the offshore RMB business of Hong Kong. As a global offshore RMB hub, Hong Kong is best positioned to cater for the RMB trade settlement, financing and fund management needs in the region. More efforts have to be made to promote our RMB platform and services to the economies along the Belt and the Road. FSTB needs to participate intensively in Hong Kong's contributory efforts to the ground-breaking initiative.

9. At the same time, as internationalization of RMB continues, we have seen more and more international financial centres (such as London and Singapore) making remarkable progress in the development of offshore RMB business in recent years. In order to reinforce our position as the global hub for offshore RMB business, it is essential for us to further promote our RMB infrastructure and financing platforms as well as enrich the provision of RMB

services and investment products available for investors from all over the world.

10. In this regard, we will continue to –

- (i) engage the Mainland authorities on the policy front to tap first-mover advantages, thereby facilitating the cross-border use and circulation of RMB funds and enriching our RMB platform with more diversified and innovative RMB business activities and products;
- (ii) strengthen our market infrastructure and financial platforms in order to enhance their market friendliness to existing and potential users; and
- (iii) promote our RMB financing platform and services to overseas financial institutions, corporates and individuals. As a global hub for RMB liquidity and financing, Hong Kong is well placed to channel customer and wholesale RMB deposits towards corporations and financial institutions in other parts of the world.

Financial co-operation with the Mainland under CEPA and through other co-operation platforms

11. As the Mainland authorities continue to liberalize their capital markets, our financial co-operation with the Mainland has become closer in terms of both breadth and depth. Considerable progress has been made for Hong Kong's financial services industry to enter the Mainland market through CEPA as well as regional co-operation platforms covering co-operation with Shanghai, Guangdong, Shenzhen (including Qianhai) and Fujian.

12. The Mainland authorities are committed to opening up the financial markets and continue to carry out economic and financial reforms. One of the Mainland's policy initiatives in this regard is to achieve basic liberalization of trade in services between the Mainland and Hong Kong by end 2015. The IMA Division needs to oversee, participate in and coordinate inputs from financial regulators and industry stakeholders on matters relating to implementation of liberalization measures under CEPA in order to facilitate further access of our financial services sectors into the Mainland market.

13. As regards our financial cooperation with the Mainland at the provincial and city levels, we will continue to build on the existing cooperation platforms to advance cooperation in areas of common interest for mutual benefits. In this regard, the IMA Division will need to continue to arrange annual meetings with counterparts in Guangdong and Shanghai, and orchestrate

matters relating to implementation of initiatives for furthering financial cooperation. These include, but not limited to, organizing forums for industries of both sides to exchange views and explore opportunities for future cooperation. For example, an industry dialogue has been established since 2013 to facilitate exchanges between the securities sectors of Hong Kong and Guangdong, which has been very well received by the industry of both sides. On Hong Kong-Shanghai financial cooperation, we will continue to, among other things, organize the Cross-border Study Tour for Post-secondary Financial Talents, which was launched in 2012 and has been very successful in providing participating students with opportunities to have a better understanding of the financial regulatory regimes, operation of the financial markets and the working environment in financial institutions in the two places. As for financial cooperation with other places including Shenzhen, Fujian and Taiwan, the IMA Division will need to continue to provide policy input relating to further advancement of financial cooperation with these places.

14. The establishment of free trade zones, first in Shanghai in September 2013, followed by those in Guangdong, Fujian and Tianjin in April 2015 have provided more business opportunities for the financial services industry in Hong Kong. We will also need to watch closely the developments of these free trade zones and continue to maintain close communication with relevant Mainland authorities, with a view to seizing the opportunities arising from the latest development.

Development of an effective cross-sector resolution regime for financial institutions in times of financial crises

15. Following the financial crisis in 2007-08, international financial centres have pledged to pursue a series of regulatory reform initiatives under the G20 agenda to enhance the resilience and stability of the global financial system. One of such initiatives is the development of an effective resolution regime for systemically important financial institutions in times of financial crises.

16. The Financial Stability Board published the Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes) in November 2011 (re-issued in October 2014), which were then adopted by the Financial Stability Board Plenary and endorsed by G20 Leaders as the new international standards for an effective resolution regime. As an international financial centre, it is incumbent on Hong Kong to meet the requirements so that in the unlikely event that it becomes necessary, the financial regulators will be better placed to carry out orderly resolution of a failing financial institution without severe systemic disruption whilst protecting taxpayers in Hong Kong.

17. The policy development and legislative work concerning the establishment of a resolution regime progressed remarkably under an ambitious timetable. Following the two rounds of public consultation conducted in 2014 and 2015 respectively, the response of the second round public consultation was published on 9 October 2015. Views and responses collected were broadly supportive of the proposal to develop a single cross-sectoral resolution regime for financial institutions in Hong Kong, with a view to mitigating the risks posed by their non-viability to the stability and effective working of the financial system. We will introduce the FI(R)B into the Legislative Council (LegCo) in early December 2015, with a view to having the Bill passed by the end of the current legislative term.

18. Our work, however, does not end with enactment of the FI(R)B. As work is still continuing at the international level to provide guidance on the implementation of certain aspects of the new standards, there is a need to provide details and technicalities of the regime in subsidiary legislation following the passage of the FI(R)B. These include, for instance, how cross-border cooperation is to be effected and recognized for effective resolution of cross-border groups and requirements on financial institutions for fulfilling loss absorbing capacity. We also need to set out in codes of practices certain arrangements so that the industries and parties concerned will be well informed of how the regime works. Given that this is a new regime, there is also a need to conduct publicity activities and maintain communication with the industry to ensure that the relevant stakeholders are fully aware of their obligations and protection under the ordinance when enacted.

Overview of other relevant international developments in financial services

19. Hong Kong has also been following closely G20's discussion on enhancement of financial oversight and supervision, and taking steps to apply individual proposals to Hong Kong where appropriate. In light of the international development on financial regulation, we envisage that more work will need to be done to carry forward initiatives arising from further deliberations of G20 and other international regulatory bodies. We also expect more cross-border cooperation issues as jurisdictions embark on localizing these international requirements. In the process, we shall pay particular attention to the need to engage the market and take into account the local circumstances. The IMA Division will need to continue to oversee and handle these matters.

Creation of the post of PAS(FS)IMA

20. In view of the long-term commitment of the above initiatives, it is essential to retain the IMA Division and for the supernumerary PAS(FS)IMA

post be made permanent to ensure dedicated directorate steer and policy input for the satisfactory delivery of the initiatives and tasks mentioned above. In view of the importance in promoting Hong Kong's offshore RMB business and financial cooperation with the Mainland, the Panel on Financial Affairs of LegCo also saw justifiable grounds to make the post of PAS(FS)IMA permanent when it discussed the proposal to retain the post in November 2013. Members of the Establishment Subcommittee of LegCo also suggested the Government to consider the need to have a permanent dedicated team to handle financial cooperation with the Mainland when the proposal for extending the PAS(FS)(IMA) post was discussed in December 2013. The proposed job description of PAS(FS)IMA is at **Annex A**.

Non-directorate Support

21. The proposed permanent post of PAS(FS)IMA will continue to be supported by a team of four non-directorate officers, namely, one SAO, one EO I, one PS I and one ACO. Except the ACO post, the three posts of SAO, EO I and PS I are time-limited and will lapse on 1 April 2016. Permanent posts will be created under delegated authority along with the creation of the post of PAS(FS)IMA.

ALTERNATIVES CONSIDERED

22. We have considered whether the duties of PAS(FS)IMA can be absorbed by other colleagues in FSB upon its lapse. At present, there are eight Principal Assistant Secretaries (PAS) in FSB overseeing different policy portfolios, including securities and futures, banking, insurance, Mandatory Provident Fund (MPF), anti-money laundering, accountancy, insolvency, and other companies-related matters. Three of these posts, including the incumbent post of PAS(FS)IMA, are currently created on a time-limited basis.

23. We conclude that all of them are fully committed to their designated policy initiatives and legislative exercises which are significant to the development of the financial services sector in Hong Kong and hence cannot take up the additional duties of PAS(FS)IMA. The existing and proposed organization chart of FSB is at **Annex B** and the existing portfolios of all other PAS in FSB are at **Annex C**.

FINANCIAL IMPLICATIONS

24. The proposed creation of the permanent AOSGC post will bring about

an additional notional annual salary cost at mid-point of \$1,973,400. The additional full annual average staff cost, including salaries and staff on-cost is \$2,780,000.

25. As for the four non-directorate civil service posts supporting PAS(FS)IMA referred to in paragraph 21 above, the notional annual salary cost at mid-point is \$2,624,700 and the full annual average staff cost, including salaries and staff on-cost, is \$3,786,000.

26. We will include sufficient provision in the draft Estimates for 2016-17 to meet the cost of the proposal.

ADVICE SOUGHT

27. Members are invited to comment on the proposal. Subject to Members' views, we will submit the proposal to the Establishment Subcommittee for endorsement and Finance Committee for approval in the 2015-16 LegCo session.

**Financial Services Branch
Financial Services and the Treasury Bureau
November 2015**

Proposed Job Description
Principal Assistant Secretary for Financial Services and the Treasury
(Financial Services) (International and Mainland Affairs)

Rank : Administrative Officer Staff Grade C (D2)

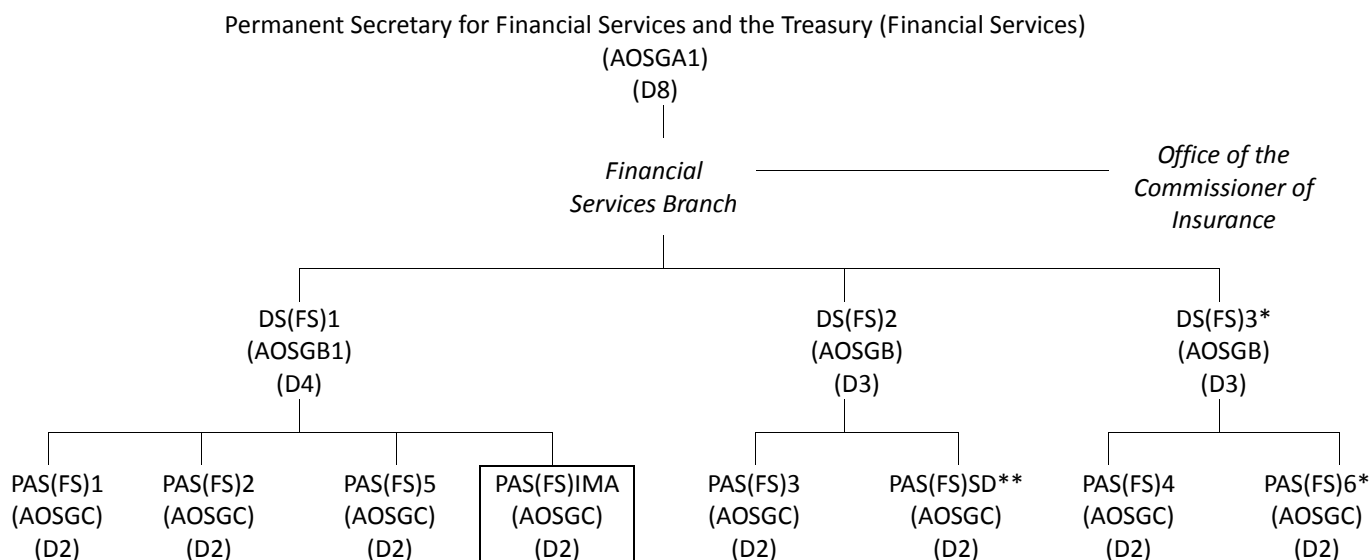
Responsible to : Deputy Secretary for Financial Services and the Treasury
(Financial Services) 1

Main Duties and Responsibilities –

1. To formulate policy initiatives and co-ordinate matters on reinforcing and enhancing Hong Kong's role as a global offshore RMB hub;
2. To formulate policy initiatives and co-ordinate matters on advancing Hong Kong's financial cooperation with the Mainland;
3. To arrange high level visits and meetings with the relevant Mainland authorities, and organize seminars and roadshows, etc;
4. To oversee policy matters and legislation concerning the implementation of Hong Kong's commitment to meet international standards including the establishment of an effective resolution regime for financial institutions;
5. To handle other relevant international affairs relating to financial services; and
6. To undertake any other tasks as assigned by senior officers.

Annex B

Organization Chart of the Financial Services and the Treasury Bureau (Financial Services Branch)



Legend



- Permanent directorate post proposed to be created
- AOSGA1 – Administrative Officer Staff Grade A1
- AOSGB1 – Administrative Officer Staff Grade B1
- AOSGB – Administrative Officer Staff Grade B
- AOSGC – Administrative Officer Staff Grade C
- DS(FS) – Deputy Secretary for Financial Services and the Treasury (Financial Services)
- PAS(FS) – Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)
- * – Time-limited post to lapse on 31 December 2016
- ** – Time-limited post to lapse on 31 December 2017

**Portfolios of other Principal Assistant Secretaries (Financial Services) (PAS(FS))
in the Financial Services Branch**

PAS(FS)1

Responsible for policy and legislation relating to the regulation of the securities and futures markets, asset management, investor protection and education, oversight of the Securities and Futures Commission (SFC), coordination of matters relating to the Market Misconduct Tribunal and the Securities and Futures Appeals Tribunal, and support for the SFC Process Review Panel.

PAS(FS)2

Responsible for policy and legislation relating to the stock and futures exchanges and their clearing houses, related market development initiatives including mutual market access and fund distribution platform, and the implementation of the Over-the-counter Derivative market regulation.

PAS(FS)3

Responsible for policy and legislation relating to Mandatory Provident Fund Schemes and other retirement schemes. Also handles housekeeping matters of the Census and Statistics Department.

PAS(FS)4

Responsible for policy and legislation relating to the accountancy sector and the corporate insolvency regime, and liaison with the Financial Reporting Council and the Hong Kong Institute of Certified Public Accountants.

PAS(FS)5

Responsible for policy and legislation relating to banking, bond market development, Islamic finance, anti-money laundering, and corporate treasury centres. Also oversees policy matters relating to the Deposit Protection Scheme, stored value facilities and payment systems.

PAS(FS)6

Deals with policy and legislation relating to companies, trust, money lenders and individual bankruptcy, and handles housekeeping matters of the Companies Registry and the Official Receiver's Office. Also responsible for providing support to other initiatives including promotion of financial technologies, the development of aircraft leasing business, and Hong Kong's participation in the Asian Infrastructure Investment Bank.

PAS(SD)

Responsible for policy and legislation relating to the insurance sector, including oversight of the legislative exercises and administrative procedures for the establishment of an independent Insurance Authority, a Policyholders' Protection Fund and the introduction of a risk-based capital framework for the prudential regulation of insurers.