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Panel on Financial Affairs

Meeting on 7 December 2015

**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**

Purpose

This paper provides background information on the establishment proposal of converting a supernumerary post of Administrative Officer Staff Grade C ("AOSGC") (D2) in the International and Mainland Affairs Division of the Financial Services Branch ("FSB") of the Financial Services and the Treasury Bureau ("FSTB") into a permanent post. It also summarizes the major views and concerns expressed by Members during discussions on the proposals to create and retain the said post at meetings of the Panel on Financial Affairs ("FA Panel") and Establishment Subcommittee ("ESC") from 2011-2012 to 2013-2014.

Background

Creation of the supernumerary post in 2012

2. According to the Administration, financial cooperation between Hong Kong and the Mainland has become increasingly close at the central and regional levels, especially after the promulgation of the National 12th Five-Year Plan in March 2011 and announcement of a series of measures by the Central Government in August 2011 to support the economic and social development in Hong Kong. Having regard to the increasing workload in these areas, the Government submitted in late 2011 a staffing proposal to create a supernumerary AOSGC post in FSB of FSTB for a period of two years to enhance financial cooperation with the Mainland, coordinate the implementation of the Central Government's measures, and promote the development of offshore Renminbi ("RMB") business in Hong Kong. The

proposal was approved by the Finance Committee ("FC") on 13 April 2012. The post was designated as Principal Assistant Secretary for Financial Services and the Treasury (Financial Services) Mainland Affairs.

Retention of the supernumerary post in 2014

3. There has been international consensus to strengthen financial regulation and maintain financial system stability in the wake of the global financial crisis in 2008. Relevant initiatives include the implementation of Basel III requirements to strengthen banking robustness, reform of the over-the-counter derivatives market for better management of market risks, and development of a cross-sector resolution regime for financial institutions in times of financial crises. The Administration considers that Hong Kong as an international financial centre needs to respond to the commitments agreed at the international arena, including the Group of Twenty and Financial Stability Board. The portfolio of the supernumerary AOSGC post was enlarged in May 2013 to cover implementation of the relevant international commitments.

4. In late 2013, the Administration submitted the proposal to extend the duration of the supernumerary AOSGC post for two years up to 12 April 2016 and re-title the post as Principal Assistant Secretary (Financial Services) International and Mainland Affairs ("PAS(FS)IMA") to reflect the expansion of the responsibilities. The proposal was approved by FC at the meeting on 10 January 2014.

5. The main responsibilities of PAS(FS)IMA included —

- (a) formulating policy initiatives and coordinating matters on reinforcing and enhancing Hong Kong's role as an offshore RMB business centre;
- (b) formulating policy initiatives and coordinating matters on advancing Hong Kong's financial cooperation with the Mainland under the Closer Economic Partnership Arrangement ("CEPA") and other cooperation platforms;
- (c) arranging high level visits and meetings with the relevant Mainland authorities, and organizing seminars and roadshows, etc;
- (d) providing policy input on the formulation and coordinating public engagement of the legislative proposal on the development of an effective cross-sector resolution regime for financial institutions; and

- (e) handling other relevant international affairs relating to financial services.

Major views and concerns expressed by Members

6. The Administration consulted FA Panel on the proposals to create and retain the supernumerary AOSGC post at the meetings on 15 December 2011 and 4 November 2013 respectively. The proposals was discussed and endorsed by ESC at the meetings on 18 January 2012 and 4 December 2013 respectively. The ensuing paragraphs summarize the major views and concerns expressed by Members on the proposals and related matters at these meetings.

Duties of the supernumerary post

7. At the FA Panel meeting on 15 December 2011, members enquired about whether the supernumerary AOSGC post would take up responsibilities, directly and/or indirectly, relating to investor protection.

8. The Administration stressed that investor protection was one of the main responsibilities of FSTB. As far as the Central Government's new measures were concerned, FSTB and the relevant financial regulators would ensure that the interests of investors would be protected in implementing the measures, which included the development of RMB business in Hong Kong and introduction of any new financial products. An AOSGC officer in FSB had also been designated to specifically handle matters relating to the establishment of an Investor Education Council¹.

9. At the FA Panel meeting on 4 November 2013 and the ESC meeting on 4 December 2013, Members sought details on the work progress of the supernumerary AOSGC post and its major tasks ahead, including the initiatives on: (a) enhancing cooperation between Hong Kong and the Mainland in respect of the development in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone ("Qianhai development"); (b) strengthening financial regulation over Mainland enterprises listed in Hong Kong; and (c) implementing international commitments on financial regulation.

10. On the work progress of the post, the Administration responded that since announcement of the Central Government's measures to support the economic and social development of Hong Kong in August 2011, significant progress had been achieved on various fronts. For instance, a number of

¹ Establishment of the Investor Education Council which formed part of the Securities and Futures (Amendment) Bill 2011 was introduced into the Legislative Council on 29 June 2011 and passed on 25 April 2012.

measures had been implemented to promote the development of Hong Kong's offshore RMB business, including issuance of RMB bonds of various maturities in Hong Kong by the Ministry of Finance on a regular basis, diversification of offshore RMB products, and establishment of a mechanism for the repatriation of RMB from Hong Kong to the Mainland. Moreover, a number of measures were included in CEPA to facilitate financial cooperation between Hong Kong and the Mainland.

11. In relation to enhancing financial cooperation with the Mainland, the Administration advised that the major tasks would include: (a) formulating policy initiatives and coordinating matters in respect of enhancing Hong Kong's role as an offshore RMB centre (e.g. promoting innovation in offshore RMB products to cater for the needs of different investors with relaxation in the investment rules governing the RMB Qualified Foreign Institutional Investor scheme); (b) reinforcing the existing regional cooperation platforms covering Hong Kong–Guangdong, Hong Kong–Shanghai and Hong Kong–Shenzhen (including Qianhai); and (c) formulating policy initiatives and coordinating matters under CEPA. For instance, the arrangement for mutual recognition of funds between Hong Kong and the Mainland had been included in Supplement X to CEPA. The Securities and Futures Commission ("SFC") would liaise with the China Securities Regulatory Commission on the matter and the Administration would provide relevant policy support.

12. On the Qianhai development, the Administration pointed out that there had been continuous high-level discussions among senior officials of Hong Kong and Shenzhen on the subject, and considerable progress had been made in the cooperation work. PAS(FS)IMA would continue the relevant liaison work, with a view to facilitating dialogue and deepening exchanges among the authorities and financial services industries of the two sides in pursuing the various initiatives (e.g. implementation of the "Provisional Administrative Measures for Hong Kong Certified Tax Agents to Provide Service in Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone", and assisting further access of the Hong Kong financial services sectors into the Mainland market). Regarding the development of Shanghai Pilot Free Trade Zone, PAS(FS)IMA would formulate related policy initiatives and coordinate financial matters involved, as well as keep in view relevant developments and maintain communications with the Mainland authorities on issues relating to the establishment of free trade zones.

13. As regards the regulation of Mainland enterprises listed in Hong Kong, the Administration stressed that all listed entities in Hong Kong, regardless of their places of incorporation, would be subject to the same set of stringent regulatory requirements, covering, among other things, financial resources and information disclosure. New disclosure requirements on the financial positions of entities listed in Hong Kong had been introduced since October 2013 which

had enhanced the provision of information to investors in facilitating their monitoring on the quality and performance of listed companies.

14. As for the work on implementing international commitments on financial regulation, the Administration responded that PAS(FS)IMA would be responsible for developing an effective cross-sector resolution regime for financial institutions in times of financial crises².

15. At the ESC meeting on 4 December 2013, Members enquired how the Administration would follow up the recommendations put forth in the reports published by the Financial Services Development Council ("FSDC") on enhancing the competitiveness of the Hong Kong financial services industry, and whether PAS(FS)IMA's work would cover this area. The Administration responded that it would study FSDC's reports in detail and discuss the way forward in respect of the recommendations with relevant regulators including the Hong Kong Monetary Authority and SFC.

Need for a permanent directorate post

16. During discussions at the FA Panel meeting on 4 November 2013 and the ESC meeting on 4 December 2013, there were views from Members that the Administration should consider converting the supernumerary AOSGC post into a permanent post, having regard to the ongoing nature and importance of the tasks to be pursued. Members called on the Administration to conduct a holistic review of the duties of all Principal Assistant Secretaries in FSB of FSTB to ensure effective manpower planning.

17. The Administration responded that it had been adopting a prudent approach in the creation and extension of permanent and supernumerary directorate posts and exercising vigilance in containing the overall size of the civil service. It undertook to review the need for turning the supernumerary post permanent before the lapse of the post in April 2016 taking into account the work progress of the post, the workload of other directorate officers in FSB, and development in the financial markets in a holistic manner.

Support measures for securities companies in Hong Kong in accessing the Mainland market

18. At the FA Panel meeting on 4 November 2013, some members expressed concern that the lack of details on measures under Supplement X to CEPA for enhancing cooperation between securities companies of Hong Kong and the Mainland, and stringent requirements (including the capital requirement)

² The Financial Institutions (Resolution) Bill was published in the Gazette on 20 November 2015, and received its First Reading at the Council meeting of 2 December 2015.

for the establishment of full-licensed joint venture securities companies in the Mainland under CEPA had created obstacles for Hong Kong's small and medium-sized securities companies in accessing the Mainland market. These members called on the Administration to tackle the issues.

19. The Administration advised that there were two important measures catering for the Hong Kong securities industry under Supplement X to CEPA, namely to allow Hong Kong-funded financial institutions which met the requirements for establishing foreign-invested securities companies to set up one full-licensed joint venture securities company each in Shanghai, Guangdong Province and Shenzhen; and to raise the maximum percentage of aggregate shareholding of the Hong Kong-funded institutions from 49% to 51%. It was envisaged that these measures would facilitate further access of Hong Kong's financial services industry into the Mainland market. The Administration would endeavour to relay members' views to the relevant Mainland authorities for consideration in drawing up the implementation details.

Latest development

20. The PAS(FS)IMA post will lapse in April 2016. The Administration will brief FA Panel at the meeting on 7 December 2015 on the proposal to convert the post into a permanent post.

Relevant papers

21. A list of relevant papers is in the **Appendix**.

List of relevant papers

Date	Event	Paper/minutes of meeting
31 August 2011	The Panel on Financial Affairs ("FA Panel") was briefed by the Administration on the Measures of the Central Government to support the financial development in Hong Kong	Administration's paper (LC Paper No. CB(1)2949/10-11(01)) Minutes (LC Paper No. CB(1)757/11-12) Follow-up paper (LC Paper No. CB(1)3024/10-11(02))
15 December 2011	FA Panel was briefed on the staffing proposal to create the supernumerary post of Administrative Officer Staff Grade C ("AOSGC") in the Mainland Affairs Division of the Financial Services Branch of the Financial Services and the Treasury Bureau	Administration's paper (LC Paper No. CB(1)588/11-12(04)) Minutes (LC Paper No. CB(1)1227/11-12)
18 January 2012	The Establishment Subcommittee ("ESC") deliberated on the staffing proposal	Administration's paper (EC(2011-12)17) Minutes (LC Paper No. ESC34/11-12)
13 April 2012	The Finance Committee ("FC") approved the staffing proposal	Minutes (LC Paper No. FC175/11-12)
4 November 2013	FA Panel was briefed on the proposal to retain the supernumerary AOSGC post for two years	Administration's paper (LC Paper No. CB(1)155/13-14(04)) Minutes (LC Paper No. CB(1)626/13-14)

Date	Event	Paper/minutes of meeting
4 December 2013	ESC deliberated on the staffing proposal	Administration's paper (EC(2013-14)7) Minutes (LC Paper No. ESC24/13-14)
10 January 2014	FC approved the staffing proposal	Minutes (LC Paper No. FC59/13-14)