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Panel on Financial Affairs

Meeting on 4 January 2016

**Updated background brief on
Financial Services Development Council**

Purpose

This paper provides background information on the Financial Services Development Council ("FSDC") and summarizes the major views and concerns expressed by Members on related matters during discussions at meetings of the Legislative Council ("LegCo") and its committees since the legislative session 2012-2013.

Background

Establishment and terms of reference of Financial Services Development Council

2. The financial services industry is an important pillar of Hong Kong's economy which contributes to 16.5% of the Gross Domestic Product ("GDP") and provides 238,000 jobs accounting for about 6.3% of the working population. It is also a major client of professional services and drives growth in other consumer industries. Given the rapid development in the global financial markets and the need to tap advices from market practitioners and experts, the Chief Executive ("CE") set up a preparatory task force ("PTF") on 27 June 2012 to study the establishment of FSDC to identify areas for further development of the financial services industry in Hong Kong, and to offer views and suggestions to the Government on related areas.

3. In December 2012, PTF submitted its report to the Government with recommendations on the mission, objectives, terms of reference, governance structure and modus operandi of FSDC. The Government announced in

January 2013 the establishment of FSDC as a high-level, cross-sector government advisory body to engage the financial services industry and formulate proposals to map out the strategic direction for the development of Hong Kong as an international financial centre.

4. According to the Government, the objectives of FSDC are to –
 - (a) advise the Government on strategies and measures to expand the scope of the financial markets and enhance the competitiveness of Hong Kong as an international financial centre;
 - (b) provide a channel for stakeholders to express views and champion the interests of the financial services industry;
 - (c) support the financial services industry in developing the core competence and knowledge of its practitioners; and
 - (d) promote the local financial services industry and Hong Kong as an international financial centre on the Mainland and overseas.
5. The terms of reference of FSDC are set out in **Appendix I**.

Governance structure of and funding arrangements for Financial Services Development Council

6. On 17 January 2013, CE appointed the chairman and 21 members with different expertise and professional experience to the council of FSDC for a two-year term, and the Secretary for Financial Services and the Treasury as an ex-official member. On 16 January 2015, CE re-appointed the incumbent Chairman and 14 members, and appointed seven new members to the council for a term of two years from 17 January 2015.

7. FSDC's work is underpinned by five committees established on specific areas: Policy Research, Mainland Opportunities, New Business, Market Development, and Human Capital. On 5 April 2013, CE appointed 34 non-official members and two ex-official members to serve the five committees. On 2 April 2015, CE re-appointed 21 members and appointed 13 new members to serve the five committees from 5 April 2015 to 16 January 2017. The membership list of FSDC and its committees are hyperlinked in **Appendix III**.

8. The Secretariat of FSDC, being the executive arm, comprises staff deployed from the Financial Services Branch ("FSB") of the Financial Services and the Treasury Bureau ("FSTB"), and seconded from the Hong

Kong Monetary Authority ("HKMA"), Hong Kong Trade Development Council ("HKTDC") and Securities and Futures Commission ("SFC")¹.

9. The operating cost of FSDC is absorbed through deployment of existing resources of FSB² whereas the cost for the seconded staff is borne by the seconding organizations. This arrangement will be maintained for the initial three years of FSDC's operation.

Reports published by the Financial Services Development Council

10. FSDC has published 19 reports since its establishment in 2013. The reports provided a collection of proposals on subjects including offshore RMB business, Mainland-related opportunities, the fund raising and securities investment platform, developing Hong Kong's asset management business, promoting Hong Kong's position as an international financial centre, enhancing Hong Kong's role as a booking centre for regional and global financial institutions, and developing human capital in the financial services industry. The list of the reports and their hyperlinks are in **Appendix II**.

Major views and concerns expressed by Members

11. Members raised concerns about the establishment of FSDC at the meeting of the Panel on Financial Affairs ("FA Panel") on 28 January 2013. FA Panel received briefings on the work of FSDC at the meetings on 4 February 2013, 6 January 2014 and 13 April 2015. Issues relating to FSDC were also discussed during the special meetings of the Finance Committee on 8 April 2013, 31 March 2014 and 30 March 2015 for the examination of the Estimates of Expenditure 2013-2014, 2014-2015 and 2015-2016. The major views and concerns expressed by Members at the above meetings are summarized in the ensuing paragraphs.

¹ In 2014-2015, one Senior Economist, one Chief Executive Officer, two Senior Executive Officers and one Assistant Clerical Officer are deployed from FSB, and one professional staff is seconded from each of HKMA, HKTDC and SFC to work for FSDC.

² Expenditure of FSDC is mainly for enhancing the promotion of Hong Kong's financial services industry and conducting research work. According to the Administration, the expenditure for FSDC was around \$1.8 million in 2014-2015, and is budgeted at \$4.7 million in 2015-2016. The expenditure for the staff deployed from FSB will be absorbed from within the existing resources of FSB and, for the seconded staff, the seconding organizations.

Institutional and funding arrangements for the Financial Services Development Council

Financial Services Development Council as a Government advisory body

12. Members expressed concern about the status of FSDC. To better reflect its role as an "Advisory Committee", some Members suggested that the Government should change the Chinese name of FSDC from "金融發展局" to "金融發展諮詢委員會" or "金融發展委員會"³. Some other members however considered that the role of FSDC as an advisory body of the Government was very clear and they noted that many advisory bodies and non-governmental bodies also used the rendition "局" in their Chinese names. The Government clarified that FSDC was essentially an advisory body and would not take on any policy execution, or statutory/regulatory functions. As there was no standardized or established practice in the naming of advisory bodies and the suggested change might cause confusion to the public, FSDC considered it appropriate to continue using the rendition "局" in its Chinese name.

13. At the meeting on 4 February 2013, FA Panel passed a motion urging the Government to set up FSDC as an advisory body and study the feasibility for developing it into a statutory body in the future. Some members considered that the role and work plan of FSDC could be reviewed and fine-tuned when appropriate and necessary.

14. At the FA Panel meeting on 13 April 2015, noting that the Government would review the mode of operation of FSDC in light of its operational experience in 2016, some members asked if consideration would be given to turn FSDC into a statutory body. The Government responded that it was not expected that there would be significant changes after the review. The Chairman of FSDC added that there was no plan to develop FSDC into a statutory body as it was not envisaged that the roles and functions of FSDC would change even if it took on a new status.

The recommendation to set up Financial Services Development Council as a company limited by guarantee

15. At the FA Panel meetings on 28 January and 4 February 2013, members noted that with reference to similar overseas experiences, such as TheCityUK, PTF had recommended setting up FSDC as a company limited by guarantee. However, as FSDC was only an advisory body with a small

³ Some members proposed motions at the FA meetings held on 4 February 2013, 6 January 2014 and 13 April 2015 urging the Government to change the Chinese name of FSDC to "金融發展諮詢委員會" or "金融發展委員會". These motions were negated.

establishment, some Members considered that such proposal would have limited benefits in enhancing FSDC's corporate governance and providing greater flexibility to its operation. Some members further expressed concern that the proposal would bypass LegCo's monitoring over FSDC. Given that TheCityUK was an industry trade union which collected fees from the industry to support its operation, some members opined that it might not be suitable for FSDC to adopt a corporate structure similar to TheCityUK, and FSDC should defer the proposal so as to allay public concern.

16. The Government and FSDC explained that adopting a corporate structure with its own budget would provide FSDC with enhanced flexibility in business planning and resources management and greater efficiency in carrying out its functions. A similar model was also adopted by the Financial Dispute Resolution Centre (a non-statutory body set up as a company limited by guarantee) and the Investor Education Council (set up as a company solely owned by SFC). Nevertheless, in view of the wide public concern and the priority to commence studies on the development of the financial services industry, FSDC indicated that it would not pursue the proposal to set up a company limited by guarantee at the initial stage of its operation, and there was no timetable for taking forward the proposal in the near future.

Membership, manpower and funding arrangements

17. At the FA meeting on 4 February 2013, some members considered that the membership size of FSDC should be increased to include more stakeholders on a broader basis, including representatives from small and medium-sized financial/banking institutions. There was also concern that the membership did not include members from the financial regulators. FSDC advised that its members had broad representation from the financial services industry and the Government would identify more representatives as appropriate. FSDC would also maintain close liaison with the regulators through ongoing communications with them.

18. While some Members expressed concern about the adequacy of resources for FSDC, some other Members queried whether the present funding arrangement with the expenditure of FSDC met by the Government was intended to bypass monitoring by LegCo. To enhance transparency and accountability, some Members suggested that the budget of FSDC should form part of FSTB's budget and be incorporated into the Estimates requiring LegCo's approval.

19. The Government emphasized that the operation of FSDC was highly transparent and open to public monitoring. The expenditure of FSDC

would be reflected in the Estimates commencing from the financial year 2013-2014. The Government would conduct a review on FSDC's institutional set-up and future resources arrangement in the longer term in the light of its operational experience in the first three years.

Work of the Financial Services Development Council

20. At the FA meeting on 4 February 2013, some members expressed concern whether the work of FSDC would overlap with that of other government agencies. FSDC explained that, although FSDC, FSTB, HKMA and HKTDC were undertaking initiatives to promote the financial services industry, they had different emphasis in their work. Given that officers were deployed/seconded from FSTB, HKMA and HKTDC to the FSDC Secretariat, FSDC could identify and avoid overlap in the promotional initiatives. As regards whether the industry would need to provide views to the Government through FSDC, FSDC advised that it was not the sole channel for market participants and trade organizations to express their views to the Government, nor was it compulsory for the views to be conveyed through FSDC in order to be heard and considered by the Government.

21. Members considered that FSDC should set clear targets and deliverables in its work (e.g. growth in the share of GDP accounted by financial services in Hong Kong and creation of jobs in the financial services sector). It was also necessary for FSDC to draw up a development/work plan and an outline of the subject matter it planned to study or deliberate so as to facilitate members of the public and interested parties to provide their views and suggestions in a timely manner. Some Members highlighted the need for FSDC to study measures to improve the business environment for the small and medium-sized enterprises ("SMEs") in the financial services industry enabling them to operate under a level-playing field with large enterprises, and to help them access the Mainland market.

22. FSDC advised that while it might not be practicable to set quantifiable targets to assess the effectiveness of its work, FSDC would endeavour to coordinate the views of the industry and advise the Government on suitable strategies and measures. FSDC would prepare work plans after collating the views from its five committees. As regards suggestions to enhance the market competitiveness of SMEs in the financial services industry, the Government and FSDC stressed that the role of FSDC was to advise on measures to enhance Hong Kong's business-friendly environment and capture new market opportunities for further development of the entire financial services sector taking a macro perspective rather than focusing on promoting the interests of particular groups of industry players. FSDC had

been engaging the industry through a bottom-up approach and taking into account the suggestions of various stakeholders. FSDC would gauge the industry's views on ways to enhance human capital for future development of Hong Kong's financial services sector. It was expected that enhancement in human capital and manpower training would benefit SME firms which might encounter resources constraints in this area. FSDC would also continue to monitor various financial/economic developments and reforms in the Mainland.

23. While noting that the main objective of FSDC was to promote the development of Hong Kong's financial services industry, some Members were of the view that it was equally important to ensure proper regulation of its financial activities and strengthen investor protection, especially with increasing integration of the Hong Kong securities market with those of the Mainland.

24. FSDC advised that Hong Kong's regulatory regime was sound and all listed entities in Hong Kong were required to comply with the Listing Rules and other relevant regulatory framework. As regards investor protection, while the Investor Education Centre was responsible for investor education in Hong Kong, FSDC recognized the need in delivering a clear message to Hong Kong investors in investing overseas (including the Mainland) that they should be aware of the risks involved and seek to understand the relevant regulatory regimes, including the regulations concerned and the investor protection measures available.

Timeframe for implementation of proposals put forth by the Financial Services Development Council

25. Members expressed concern about the timeframe for taking forward the recommendations of FSDC. Some Members stressed the importance to implement FSDC's proposals timely as circumstances in the global and local financial markets were subject to rapid changes, and suggested that the Government should work out the plans in this regard.

26. The Government advised that it would study FSDC's recommendations and consult the industry on the way forward. It would take time to consider FSDC's proposals as they had implications on the existing taxation and regulatory regimes in Hong Kong. Moreover, while some of FSDC's proposals could be pursued when the necessary legislative amendments were in place, others would hinge on the relevant Mainland policies and its pace of financial market liberalization. Hence, it was necessary for the Government to observe the developments in related issues in considering the plans and timing for implementing these proposals. Upon request of members at the FA Panel meeting on 6 January 2014, the

Government issued a letter on the its initial response to FSDC's recommendations put forward in six reports released in November 2013. The letter is hyperlinked in **Appendix III**.

Council questions

27. Questions relating to the establishment of FSDC were raised at the LegCo meetings of 31 October 2012, 8 May 2013, 15 October 2014 and 25 March 2015. Issues covered in the questions include the specific targets of FSDC on the development of the banking industry, the measures to avoid duplication of efforts and fragmentation of responsibilities in FSDC and the financial regulatory authorities, FSDC's consultation work with the professional bodies relating to the financial services industry, arrangements for declaration of interests by members of FSDC, policy development proposals of FSDC on the Mainland/Hong Kong Closer Economic Partnership Arrangement, and FSDC's recommendations to address the manpower demand of the financial services industry. The questions and the Administration's responses are hyperlinked in **Appendix III**.

Latest position

28. The Government and FSDC will update the FA Panel on the work of FSDC during the past year at the Panel meeting on 4 January 2016.

Relevant papers

29. A list of relevant papers is contained in **Appendix III**.

Financial Services Development Council

Terms of Reference

1. To conduct policy research and industry surveys for the formulation of proposals to the Government and regulators;
2. To work with regulatory and trade bodies to identify new opportunities for, and any constraints on, the sustainable growth and diversity of the financial services industry;
3. To maintain a dialogue with the relevant bodies on the Mainland and overseas to support Hong Kong's financial services industry in accessing new markets and growth areas;
4. To facilitate the upgrading of skills and expertise through collaboration with education and training institutions, trade bodies and practitioners; and
5. To promote, on the Mainland and overseas, our financial services industry and Hong Kong as an international financial centre through seminars, road shows, publications, and through active participation in international events.

[Source: Website of the Financial Services Development Council]

Appendix II

List of reports published by the Financial Services Development Council

(as at 10 December 2015)

Date	Subject
November 2013	<u>Strengthening Hong Kong as a Leading Global International Financial Centre</u>
November 2013	<u>Proposals to Advance the Development of Hong Kong as an Offshore Renminbi Centre</u>
November 2013	<u>Development and Reform of Mainland China's Financial Sector and the Strengthening and Enhancement of Hong Kong's Pivotal Role as a Financial Centre</u>
November 2013	<u>Developing Hong Kong as a Capital Formation Centre for Real Estate Investment Trusts</u>
November 2013	<u>Proposals on Legal and Regulatory Framework for Open-ended Investment Companies in Hong Kong</u>
November 2013	<u>Synopsis Paper Proposing Tax Exemptions and Anti-avoidance Measures on Private Equity Funds in the 2013-2014 Budget</u>
April 2014	<u>Pilot Scheme for Training Courses</u>
April 2014	<u>Promotional Activities by the Financial Services Development Council</u>
June 2014	<u>Positioning Hong Kong as an International IPO Centre of Choice</u>
September 2014	<u>Policy Development Proposals on the "Mainland and Hong Kong Closer Economic Partnership Arrangement</u>
December 2014	<u>Disclosure of Interests Regime in Hong Kong</u>
December 2014	<u>Developing Hong Kong as an Offshore RMB-denominated Reinsurance Centre</u>

Date	Subject
January 2015	<u>Developing Hong Kong's Human Capital in Financial Services</u>
April 2015	<u>Chinese Enterprises "Going Global" : Opportunities and Hong Kong's Policy Responses</u>
September 2015	<u>Enhancing Hong Kong's Role as a Centre for Regional and International Financial Institution Operations: Booking</u>
October 2015	<u>Strengthening Hong Kong as a Capital Formation Centre for Exchange Traded Funds</u>
December 2015	<u>A Paper on Limited Partnership for Private Equity Funds</u>
December 2015	<u>A Paper on the Tax Issues on Open-ended Fund Companies and Profits Tax Exemption for Offshore Private Equity Funds</u>
December 2015	<u>Strengthening Hong Kong as a Retail Fund Distribution Centre</u>

[Source: Website of the Financial Services Development Council]

Appendix III

List of relevant papers

Date	Event	Paper/Minutes of meeting
31 October 2012	Oral question on "Development of Banking Industry" raised by Hon NG Leung-sing	Hansard (pages 65-74)
December 2012	-	Preparatory Task Force's Report on the Setting Up of a Financial Services Development Council ("FSDC")
16 January 2013	2013 Policy Address	2013 Policy Address (paragraph 16 on FSDC)
17 January 2013	Appointments to FSDC	Press release
28 January 2013	Special meeting of the Panel on Financial Affairs ("FA Panel")	Administration's paper (paragraphs 6-9) (LC Paper No. CB(1)422/12-13(01)) Minutes (paragraphs 2-14) (LC Paper No. CB(1)1403/12-13)
4 February 2013	Meeting of the FA Panel	FSDC's paper (LC Paper No. CB(1)484/12-13(04)) Fact sheet on FSDC (Chinese version only) (LC Paper No. FS21/12-13) Minutes (paragraphs 24-55) (LC Paper No. CB(1)930/12-13)
5 April 2013	Appointments to committees of FSDC	Press release

Date	Event	Paper/Minutes of meeting
April 2013	Special meeting of Finance Committee for examination of Estimates of Expenditure 2013-2014	<p>Written questions raised by members in relation to FSDC (Reply serial numbers: FSTB(FS)012, 016, 033, 044, 063, 071, 082, 089, 118, 126, 129, 145 and S-FSTB(FS)02)</p> <p>Minutes (paragraphs 3.8-3.9)</p>
8 May 2013	Written question raised by Hon Emily LAU on "Arrangements for declaration of interests by members of the Financial Services Development Council"	<p>Hansard (pages 105-107)</p>
6 January 2014	Meeting of the FA Panel	<p>FSDC's paper (LC Paper No. CB(1)625/13-14(03))</p> <p>Background brief (LC Paper No. CB(1)625/13-14(05))</p> <p>Minutes (paragraphs 8-31) (LC Paper No. CB(1)1310/13-14)</p>
31 March 2014	Special meeting of Finance Committee for examination of Estimates of Expenditure 2014-2015	<p>Written questions raised by members in relation to FSDC (Reply serial numbers: FSTB(FS)010, 015, 037, 095, 102 and 103)</p> <p>Minutes (paragraphs 4.9-4.11)</p>
14 July 2014	FSDC released its Annual Report 2013/14	<p>Annual Report</p>

Date	Event	Paper/Minutes of meeting
6 October 2014	Administration's letter to the FA Panel on the Government's initial response to the recommendations put forward in FSDC's six reports released in November 2013	Administration's letter
15 October 2014	Written question raised by Hon NG Leung-sing on "Implementation of the Mainland and Hong Kong Closer Economic Partnership Arrangement in financial services"	Hansard (pages 201 - 202)
16 January 2015	The Government announced re-appointment of Chairman and 14 incumbent members of FSDC, and appointment of seven new members for a term of two years	Press release (including membership list of FSDC with effect from 17 January 2015)
25 March 2015	Written question raised by Hon Kenneth LEUNG on "Manpower planning for various professions in Hong Kong"	Hansard (pages 110-112)

Date	Event	Paper/Minutes of meeting
March/April 2015	Special meeting of Finance Committee for examination of Estimates of Expenditure 2015-2016	<p><u>Written questions raised by members in relation to FSDC</u> (Reply serial numbers: FSTB(FS)024, 036, 075, 095 and 097)</p> <p><u>Supplementary question raised by a member in relation to FSDC</u> (Reply serial numbers: S-FSTB(FS)04)</p> <p><u>Minutes</u> (paragraphs 5.9-5.10)</p>
2 April 2015	The Government announced re-appointment of 21 incumbent members and appointment of 13 new members to FSDC committees	<u>Press release</u> (including membership list of FSDC committees with effect from 5 April 2015)
13 April 2015	Meeting of the FA Panel	<p><u>FSDC's paper</u> (LC Paper No. CB(1)696/14-15(03))</p> <p><u>Updated background brief</u> (LC Paper No. CB(1)696/14-15(04))</p> <p><u>Minutes</u> (paragraphs 27-56) (LC Paper No. CB(1)962/14-15)</p>
May 2015	FSDC released its Annual Report 2014/15	<u>Annual Report</u>