

立法會
Legislative Council

LC Paper No. CB(1)364/16-17
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by the Administration)

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Panel on Financial Affairs

Minutes of meeting
held on Tuesday, 15 November 2016 at 9:00 am
in Conference Room 1 of the Legislative Council Complex

Members present : Hon Christopher CHEUNG Wah-fung, SBS, JP
(Chairman)
Hon Kenneth LEUNG (Deputy Chairman)
Hon James TO Kun-sun
Hon Abraham SHEK Lai-him, GBS, JP
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon WONG Ting-kwong, SBS, JP
Hon Starry LEE Wai-king, SBS, JP
Hon CHAN Hak-kan, BBS, JP
Hon CHAN Kin-por, BBS, JP
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Hon Paul TSE Wai-chun, JP
Hon LEUNG Kwok-hung
Hon Steven HO Chun-yin, BBS
Hon Frankie YICK Chi-ming, JP
Hon WU Chi-wai, MH
Hon YIU Si-wing, BBS
Hon Charles Peter MOK, JP
Hon CHAN Chi-chuen
Hon CHAN Han-pan, JP
Hon Alice MAK Mei-kuen, BBS, JP
Dr Hon KWOK Ka-ki
Hon KWOK Wai-keung
Hon Dennis KWOK Wing-hang
Dr Hon Fernando CHEUNG Chiu-hung
Hon Martin LIAO Cheung-kong, SBS, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon Alvin YEUNG

Hon Andrew WAN Siu-kin
Hon Jimmy NG Wing-ka, JP
Dr Hon Junius HO Kwan-yiu, JP
Hon HO Kai-ming
Hon LAM Cheuk-ting
Hon Holden CHOW Ho-ding
Hon SHIU Ka-fai
Hon YUNG Hoi-yan
Hon CHAN Chun-ying
Hon Tanya CHAN
Hon CHEUNG Kwok-kwan, JP
Hon LUK Chung-hung
Hon Kenneth LAU Ip-keung, MH, JP
Hon Jeremy TAM Man-ho
Dr Hon YIU Chung-yim

Members absent : Hon LEUNG Yiu-chung
Hon WONG Kwok-kin, SBS, JP
Dr Hon Helena WONG Pik-wan
Hon CHU Hoi-dick
Hon SHIU Ka-chun
Hon HUI Chi-fung
Hon LAU Kwok-fan, MH
Hon KWONG Chun-yu
Hon Nathan LAW Kwun-chung
Dr Hon LAU Siu-lai

Public officers attending : Agenda Item IV

Mr AU Ka Shing, Billy
Principal Assistant Secretary for Financial Services
and the Treasury (Financial Services)⁴

Ms WONG Wing Ting, Tracy
Director, Admission
Hong Kong Institute of Certified Public
Accountants

Mr NG Wai Ho, Kenneth
Legal Counsel
Hong Kong Institute of Certified Public
Accountants

Agenda Item V

Mr Norman CHAN, GBS, JP
Chief Executive
Hong Kong Monetary Authority

Mr Eddie YUE, JP
Deputy Chief Executive (Monetary)
Hong Kong Monetary Authority

Mr Arthur YUEN, JP
Deputy Chief Executive (Banking)
Hong Kong Monetary Authority

Mr Howard LEE, JP
Senior Executive Director (Development)
Hong Kong Monetary Authority

Agenda Item VI

Mr James LAU
Under Secretary for Financial Services and the
Treasury

Mr Esmond LEE
Senior Advisor
Financial Services Development Council

Mr Andrew WU
Head of Secretariat
Financial Services Development Council

Agenda Item VII

Ms Carmen CHU, JP
Executive Director (Banking Conduct)
Hong Kong Monetary Authority

Ms Meena DATWANI, JP
Executive Director (Enforcement and AML)
Hong Kong Monetary Authority

Ms May TAN
Chairperson
The Hong Kong Association of Banks

Mr Colin POU
Senior Vice President
The Hong Kong Mortgage Corporation Limited

Agenda Item VIII

Mr Eddie CHEUNG
Deputy Secretary for Financial Services and the
Treasury (Financial Services) 2

Ms Joan HUNG
Principal Assistant Secretary for Financial Services
and the Treasury (Financial Services) Special
Duties

Mr Jimmy LEUNG
Senior Manager (Preparatory Team) for Financial
Services and the Treasury Bureau

Mr Tony CHAN
Acting Assistant Commissioner of Insurance
(Policy and Development)
Office of the Commissioner of Insurance

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)67/16-17

— Minutes of the meeting on
18 October 2016)

Action

The minutes of the meeting held on 18 October 2016 were confirmed.

II Information papers issued since the meeting on 6 June 2016

(LC Paper No. CB(1)1118/15-16(01) — Letter dated 27 June 2016
and (02) from Hon Dennis KWOK
on issues relating to
referendum results of the
United Kingdom to leave
the European Union
(English version only), and
an information note
entitled "Responses to
repercussions arising from
the referendum result of
the United Kingdom's
membership of the
European Union" prepared
by the Government

LC Paper No. CB(1)1121/15-16(01) — Second quarterly report of
2016 on "Employees
Compensation Insurance
— Reinsurance Coverage
for Terrorism"

LC Paper No. CB(1)1124/15-16(01) — Information note on
"Follow-up work in the
area of financial services
under the National 13th
Five-Year Plan –
Dedicated Chapter on
Hong Kong and Macao"

LC Paper No. CB(1)1161/15-16(01) — Second Quarter Economic
Report 2016 and the press
release

Action

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| LC Paper No. CB(1)47/16-17(01) | — Third quarterly report of 2016 on "Employees Compensation Insurance — Reinsurance Coverage for Terrorism" |
| LC Paper No. CB(1)61/16-17(02) | — Letter dated 20 October 2016 from Hon Alice MAK (Chinese version only) on issues relating to "regulatory arrangements adopted by the Government to tackle malpractices by financial intermediaries for money lending" |
| LC Paper No. CB(1)61/16-17(03) and LC Paper No. CB(1)86/16-17(01) and (02) | — Written submission from the public received on 13 October 2016 on issues relating to "regulatory arrangements adopted by the Government to tackle malpractices by financial intermediaries for money lending" (Chinese version only), and the written replies dated 4 November 2016 from the Financial Services and the Treasury Bureau and the Money Lenders Unit of the Companies Registry to it (both in Chinese version only) |

Action

- LC Paper No. CB(1)61/16-17(04) — Letter dated 18 October 2016 from Hon Dennis KWOK (English version only) on issues relating to "consultation on the proposed enhancements to the Stock Exchange of Hong Kong Limited's decision-making and governance structure for listing regulation"
- LC Paper No. CB(1)61/16-17(05) — Letter dated 28 October 2016 from Hon Charles Peter MOK (Chinese version only) on issues relating to "development of financial technologies in Hong Kong")

2. Members noted the information papers issued since the regular meeting held on 6 June 2016.

III Date of next meeting and items for discussion

- (LC Paper No. CB(1)78/16-17(01) — List of outstanding items for discussion)

3. Members agreed to discuss the following items proposed by the Administration at the next regular meeting scheduled for 5 December 2016:

- (a) Briefing by the Financial Secretary on Hong Kong's latest overall economic situation;
- (b) 2017-18 Budget Consultation;
- (c) Consultation on measures to counter Base Erosion and Profit Shifting; and
- (d) Legislative proposals to enhance the position limit regime.

Action

4. Mr CHAN Chun-ying said that he would brief the Panel at the meeting in December 2016 on his proposed Member's Bill - Bank of Communications (Hong Kong) Limited (Merger) Bill.

5. Members further agreed that the meeting on 5 December 2016 would be held from 9:00 am to around 1:00 pm to allow sufficient time for discussion of the above five items.

IV Briefing on the proposed Member's Bill to amend the Professional Accountants Ordinance

(LC Paper No. CB(1)78/16-17(02) — Background brief and the draft bill provided by Hon Kenneth LEUNG (English version only)

LC Paper No. CB(1)78/16-17(03) — Extract of minutes of meeting of Panel on Financial Affairs held on 6 June 2016)

Briefing on the Bill

6. At the invitation of the Chairman, Mr Kenneth LEUNG briefed members on the draft Professional Accountants (Amendment) Bill 2016 which he intended to introduce as a Member's Bill into the Legislative Council ("LegCo") to amend the Professional Accountants Ordinance (Cap. 50) ("PAO") with a view to tightening up usage of the term "Certified Public Accountant". He pointed out that he had presented the draft bill at the Panel meeting on 6 June 2016. A new amendment had been included in the draft bill to increase the fines for the offences under section 42(1) of PAO from level 4 to level 5, i.e. from \$10,001 - \$25,000 to \$25,001 - \$50,000. The proposed increase in pecuniary penalty was to reinforce the deterrent effect against the offences of using prohibited or misleading words or descriptions in a company name.

Discussion

7. Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)⁴ said that section 42 of the PAO has already prohibited, amongst other things, a company not being a corporate practice to use in its name certain written words or descriptions etc. which might reasonably cause

Action

any person to believe that it was a practice unit registered under PAO. LegCo passed a Member's Bill (i.e. the Professional Accountants (Amendment) Bill 2013) in 2013 to tighten the usage of words or descriptions in the company name. The purpose of the current proposed Member's Bill was similar to that of the 2013 Amendment Bill. The Administration would study the proposed Member's Bill when available.

8. Director, Admission of Hong Kong Institute of Certified Public Accountants ("D/HKICPA") said that the Hong Kong Institute of Certified Public Accountants ("HKICPA") supported the spirit of the proposed Member's Bill, but considered that there was room for improvement in the content of the proposed draft bill. HKICPA was in discussion with members of its relevant committee to see how the draft bill could be enhanced, and upon approval by its Council, would relay its views on the draft bill to Mr Kenneth LEUNG for his consideration.

9. Mr Paul TSE enquired about the handling of cases by HKICPA and the Administration on non-registered firms using prohibited or misleading names in operating their business.

10. D/HKICPA responded that section 42 of PAO was enforced by the Police and complaints received by HKICPA were referred to the Police for handling. There were 16 successfully prosecuted cases relating to offences under section 42 of PAO from 2010 to 2015. The majority of these cases involved unlicensed practices holding themselves out in their company websites as eligible for providing audit services. Only one or two cases were related to the use of prohibited descriptions in the company name. As indicated by the Police, the difficulty in gathering evidence had adversely affected the instigation of prosecution against the alleged offenders. HKICPA believed that the proposed bill could facilitate enforcement by the Police.

11. Mr Paul TSE and Dr Junius HO were concerned that after passage of the proposed bill, small firms providing bookkeeping services might not continue their businesses. It was because most of them were not practice units registered with HKICPA but had been using words such as "專業會計" in their company names.

12. Mr Kenneth LEUNG stressed that there was no intention to prohibit small firms from providing accounting or bookkeeping services. He clarified that his Member's Bill aimed to tighten the usage of the term "Certified Public Accountant" such that unqualified companies/persons could not use names like "專業會計" in business names with an attempt to mislead the public to believe that they were persons or practice units qualified to provide professional

Action

accounting or auditing service under PAO. He added that he would seek the views of the Competition Commission on his bill.

V Briefing on the work of Hong Kong Monetary Authority

(LC Paper No. CB(1)78/16-17(04) — Paper provided by the Hong Kong Monetary Authority ("HKMA")

LC Paper No. CB(1)37/16-17(01) — Letter dated 18 October 2016 from Dr Hon Fernando CHEUNG on issues relating to the lack of sufficient bank branches for the socially disadvantaged in the community (Chinese version only))

Briefing by the Hong Kong Monetary Authority

13. At the invitation of the Chairman, the Chief Executive, Hong Kong Monetary Authority ("CE/HKMA"), the Deputy Chief Executive (Banking)/HKMA ("DCE(B)/HKMA"), the Deputy Chief Executive (Monetary)/HKMA ("DCE(M)/HKMA") and the Senior Executive Director (Development)/HKMA ("SED(D)/HKMA") updated members on the work of the Hong Kong Monetary Authority ("HKMA") through a powerpoint presentation. Topics included assessment of risks to Hong Kong's financial stability, banking supervision, financial infrastructure, development of the financial market, and investment performance of the Exchange Fund ("EF").

(Post-meeting note: The powerpoint presentation materials (LC Paper No. CB(1)141/16-17(01)) were issued to Members vide Lotus Notes e-mail on 15 November 2016.)

Discussion

Financial technologies initiatives

14. Mr Charles Peter MOK enquired whether HKMA had plans to review the criteria for granting licences for the provision of store value facilities ("SVF") having regard to latest developments in the market. SED(D)/HKMA said that the operation modes of different SVF issuers varied.

Action

While the relevant legislation had set out the broad regulatory framework, HKMA would examine the specific business plans and other details of individual SVF issuers in the course of supervision. In the future, HKMA would review the regulatory regime for SVF as necessary in the light of implementation experience and industry developments.

15. Mr Charles Peter MOK welcomed the establishment of an industry expert panel by HKMA for taking forward the Cybersecurity Fortification Initiative ("CFI"), and stressed the need for HKMA to strengthen its liaison with the information technology industry on the launch of new financial technologies ("fintech") initiatives. Mr CHAN Kin-por enquired about HKMA's communication with the Office of the Commissioner of Insurance ("OCI") (i.e. the regulator of the insurance industry) before rolling out various new fintech initiatives, which, in his view, might affect operation of the insurance industry.

16. SED(D)/HKMA remarked that HKMA would continue to liaise with the information technology industry and other stakeholders in promoting the fintech development in Hong Kong. As regards HKMA's interface with other regulators, CE/HKMA said that in Hong Kong, different financial services sectors were subject to the supervision of different regulators. While HKMA supervised banks, some of the activities and products of banks were supervised by the Securities and Futures Commission ("SFC") or OCI. Therefore, HKMA had been exchanging views with other financial regulators on a regular basis on issues of common concern. HKMA would also share its experience in launching various new fintech initiatives like the Fintech Supervisory Sandbox ("FSS") with other regulators as appropriate.

17. In respect of the initiative on FSS, Mr Charles Peter MOK relayed the concern of some banks about whether they should submit applications on new fintech products to HKMA direct or put forward the initiative through FSS first. He called on HKMA to issue clear guidelines on the matter.

18. DCE(B)/HKMA responded that in general, if a fintech product involved technology risk management issues, the bank concerned had to satisfy the relevant supervisory requirements before HKMA could grant the requisite regulatory approval. Within FSS, banks could try out their new fintech products involving a limited number of participating customers without the need to achieve full compliance with HKMA's usual supervisory requirements. This would enable banks to gather real-life data and user feedback on their fintech products more easily, and make suitable refinements to their products before their formal launch. DCE(B)/HKMA added that FSS

Action

had been used by some banks and HKMA would be happy to discuss with banks if they had any questions about FSS.

Development of the financial market

19. Mr Kenneth LEUNG questioned the need for HKMA to set up the Infrastructure Financing Facilitation Office ("IFFO") and enquired about the tasks to be taken up by the Office.

20. DCE(M)/HKMA responded that IFFO was established to provide a platform for pooling the efforts of key stakeholders, including multilateral development banks, investors, project developers, etc. Infrastructure investment in the region was faced with a significant funding gap. According to the estimates of the Asian Development Bank, Asia's overall infrastructure investment needs would be about US\$800 billion per year in the next five years or so. Currently many investors were looking for investment opportunities in Asia. At the same time, many developers were looking for investors or partners to invest in their infrastructure projects. IFFO could therefore serve as a platform for like-minded investors to look for and capture investment opportunities together and better understand and address the risks involved, thereby facilitating infrastructure investment and financing along the Belt and Road routes (especially Asia).

21. With the inclusion of Renminbi ("RMB") in the International Monetary Fund's Special Drawing Rights currency basket in October 2016, Ir Dr LO Wai-kwok sought HKMA's views on the development of offshore RMB business in Hong Kong, in particular whether Hong Kong would face increased competition from other jurisdictions in the business when the internationalization of RMB accelerated. He enquired about measures HKMA would take to strengthen Hong Kong's role as a premier offshore RMB business hub.

22. CE/HKMA responded that the development of offshore RMB business would depend on the pace of internationalization of RMB. Although the growth of the global offshore RMB liquidity pool had moderated recently due to a more cautious outlook for RMB exchange rate by some investors, the offshore RMB market continued to function orderly. Continuous internationalization of RMB would help strengthen Hong Kong's role as a premier offshore RMB business hub given that Hong Kong had the largest offshore RMB liquidity pool and highly efficient RMB Real Time Gross Settlement system, with the majority of offshore RMB-related activities being conducted in Hong Kong. He added that 'the implementation of the Belt and Road Initiative and the Shanghai-Hong Kong Stock Connect, and the

Action

impending launch of the Shenzhen-Hong Kong Stock Connect would give further impetus to the development of offshore RMB business in Hong Kong.

23. Mr Holden CHOW enquired about the performance of Hong Kong vis-à-vis that of Singapore as the asset management centre in Asia, including their respective positions in the management of private equity funds, the number of private banks opened, and the total capital under management in private equity funds. CE/HKMA undertook to provide the information as requested by Mr CHOW. He said that HKMA had been working closely with the industry to strengthen Hong Kong's competitiveness as a premier asset management centre in Asia.

(Post-meeting note: HKMA's supplementary information was issued to members vide LC Paper No. CB(1)355/16-17(02) on 21 December 2016.)

Banking supervision

24. Mr CHAN Kin-por pointed out that some of HKMA's regulatory requirements on banks were over-stringent. With Mr Donald TRUMP elected as the next President of the United States ("US") who had been advocating relaxation of financial regulations, he enquired if HKMA would consider relaxing its regulatory requirements. He stressed the need for HKMA to review the regulatory regime on a regular basis to refrain from over-regulation, and gauge the views of the industry during the process. Mr Kenneth LEUNG enquired whether the potential relaxation in the US's regulatory regime would have any material impacts on that of Hong Kong.

25. CE/HKMA responded that while there were uncertainties in some of the US policies after the election of the new President, it was envisaged that there would not be a complete overthrow of the existing US financial policies. The US and Hong Kong had adopted different regulatory regimes for their financial services industries. He pointed out that Hong Kong's banking regulatory requirements followed the international standards. As the international regulatory requirements had become increasingly stringent in recent years, Hong Kong, being an international financial centre, had to follow suit. HKMA had been maintaining close liaison with the industry in this regard.

Provision of banking services

26. Dr Fernando CHEUNG expressed concern about the lack of sufficient bank branches for the socially disadvantaged and less privileged

Action

groups. He enquired if HKMA had conducted review on the user-friendliness of mobile branches and voice navigation automated teller machines ("ATMs") for the physically disabled persons.

27. Mr CHAN Han-pan pointed out that the increase in the number of branches by some 50 (i.e. from 1 122 to 1 174) in the period from 2005 to 2015 was not in line with the development in Hong Kong. He enquired whether HKMA had set any target number of bank branches in Hong Kong. Mr Holden CHOW echoed the concern and remarked that relatively remote districts such as Tung Chung did not have sufficient bank branches to meet the needs of local residents.

28. Mr KWOK Wai-keung said that he had received complaints from residents of many public housing estates about the problem of insufficient banking services. He urged HKMA to tackle the issue, and pointed out that the problem could not be solved by merely increasing the number of ATMs as elderly people might have difficulties in using ATMs. Mr KWOK further called on banks to increase resources to teach the elderly how to use ATMs.

29. Mr CHAN Chun-ying remarked that banks had been introducing more self-services and providing services through electronic means due to rising operating costs, and increasing number of financial transactions were not required to be conducted at physical bank branches. He considered that it would be more effective to introduce measures such as provision of ATMs to help the needy in remote areas and public housing estates in accessing banking services. In this connection, he enquired whether HKMA would explore the feasibility of allowing cash withdrawal when consumers were not purchasing goods using EPS EasyCash and other SVFs.

30. CE/HKMA explained that with the growing popularity of new channels of banking services like ATMs and internet, it was natural that the demand for physical bank branches would decrease. HKMA had reminded banks to promote financial inclusion while operating on commercial principles. Banks should take into account the needs and suggestions of the community in their plans for branch networks. HKMA had been in discussion with banks on possible ways to improve the coverage of physical bank branches in some remote areas. If physical branches could not be provided in some areas, HKMA had encouraged banks to utilize new technologies and operation modes (like mobile branches and video teller machines) to supplement the existing branch network in order to provide basic banking services to the public in those areas.

Action

31. Responding to some members' concern about the provision of banking services in Tin Shiu Wai ("TSW") North, DCE(B)/HKMA explained that there were previously two branches in TSW North. However, one of the branches was relocated to TSW South earlier this year owing to refurbishment of a shopping mall in TSW North. He added that mobile branches were currently available in TSW. HKMA would encourage banks to deploy more mobile branches there as necessary.

32. As regards the number of banks branches in Hong Kong, DCE(B)/HKMA said that the number had remained stable in recent years but there had been a substantial increase in the number of ATMs. While HKMA had not set any target number of bank branches in Hong Kong, it had been encouraging banks to strengthen their services in a more targeted manner (e.g. in some remote areas and public housing estates).

33. On Dr Fernando CHEUNG's enquiry about the public housing estates in Hong Kong without branch services within walking distance as mentioned in HKMA's paper (page 59 of LC Paper No. CB(1)78/16-17(04)), DCE(B)/HKMA advised that some of those public housing estates were located in TSW, Yuen Long and Tuen Mun. HKMA had been discussing with banks on possible ways to improve their service networks in those areas.

34. In response to Dr Fernando CHEUNG, DCE(B)/HKMA said that banks were aware of the need of the physically disabled people and some ATMs were installed at lower height to cater for the needs of wheelchair users. Where appropriate, HKMA would explore further with banks on how to enhance the provision of banking services for the socially disadvantaged and less privileged groups. HKMA would also provide supplementary information on the matter.

(Post-meeting note: HKMA's supplementary information was issued to members vide LC Paper No. CB(1)355/16-17(02) on 21 December 2016.)

35. Mr CHAN Han-pan enquired about the handling of dormant accounts and accounts of the deceased by banks. He also expressed concern that some banks had required clients to deposit a large amount of money in order to open bank accounts.

36. DCE(B)/HKMA advised that under the current legislative framework, unclaimed deposits in the accounts of the deceased would be held in suspense accounts pending instruction by the Home Affairs Department. He remarked that all retail banks in Hong Kong had signed up to the Treat

Action

Customers Fairly Charter in 2013. These banks would not charge dormant account fee, and would exempt all vulnerable group customers from low-balance fee. As regards deposit requirements in opening bank accounts, DCE(B)/HKMA remarked that different banks had different practices and requirements. The public could choose banks that met their needs.

The property market

37. Mr WU Chi-wai noted that some money lenders had been offering loans in the primary and secondary mortgage market. As such money lenders were not under the regulation of HKMA, he sought HKMA's assessment on the potential risk of such activities to Hong Kong's financial stability. He enquired if HKMA had relevant information (such as the amount of loans offered by the money lenders and the risk exposure of banks to such money lenders).

38. CE/HKMA responded that HKMA had repeatedly reminded potential property buyers of the importance to exercise prudence and consider their affordability before purchasing flats, especially given the possibility that the existing low interest rate environment could change in the future. To manage the risk of property mortgage loans to the banking sector, banks needed to conduct stress tests on mortgage borrowers' repayment ability and would only provide loans to those meeting the relevant requirements. As regards the risks generated from the activities of money lenders in the property mortgage market, DCE(B)/HKMA said that the total amount of loans provided by banks in Hong Kong to finance companies only accounted for a very small portion of the total loans in the banking sector. HKMA had required banks to terminate their credit relationship with the relevant finance companies if the latter offered mortgages that were not in compliance with HKMA's requirements. He agreed to provide supplementary information as requested by Mr WU Chi-wai.

(Post-meeting note: HKMA's supplementary information was issued to members vide LC Paper No. CB(1)355/16-17(02) on 21 December 2016.)

39. Ms Starry LEE was concerned that the Government's new round of demand-side management measures to address the overheated residential property market (which increased a new flat rate of 15% for the ad valorem stamp duty on residential property transactions) introduced on 4 November 2016 might reduce the supply of flats. She sought HKMA's assessment on the effectiveness of the new measure as she noted that some property developers had used measures, such as offering rebates to flat buyers, in order to

Action

counteract the new measure. She also sought HKMA's views on the impacts of recent devaluation of RMB on the local property market.

40. CE/HKMA remarked that the new demand-side management measure was aimed to cool down the overheated property market which had been fueled by the ultra-low interest rate environment in recent years. The new measure would help promote a more healthy development of the property market. With a view to maintaining banking stability and enhancing the resilience of the banking system against possible correction in the property market, HKMA had introduced several rounds of countercyclical macroprudential measures on property mortgage loans. As regards the impact of the recent devaluation of RMB on the Hong Kong property market, CE/HKMA said that there was no clear correlation between changes in RMB exchange rate and property prices in Hong Kong, as Mainland buyers' demand for Hong Kong properties was seen in periods of RMB appreciation and RMB devaluation for different reasons.

The Exchange Fund

41. Noting that EF enjoyed relatively good investment performance in the first three quarters of 2016, Dr KWOK Ka-ki asked whether HKMA would explore measures, including providing investment products to be managed by HKMA, so that the public, particularly the retired and holders of the Mandatory Provident Fund Schemes accounts, could enjoy the investment return of EF. Dr KWOK further enquired if EF had invested in bonds issued by the Central Government and Mainland corporations, and measures to manage risks arising from recent volatilities in the currency market on EF's investment in foreign currencies.

42. Dr Junius HO enquired about the annual return rate of EF for the period from 2001 to 2016, the objective criteria for assessing the investment performance of EF, whether HKMA had made reference to the investment strategies of other sovereign funds including the fund managed by Temasek Holdings Private Limited, and details of EF's investment, if any, in precious metal.

43. CE/HKMA said that the statutory purposes of EF, as defined clearly in the Exchange Fund Ordinance (Cap. 66), were to affect the exchange value of the Hong Kong dollar ("HKD") and maintain the stability and integrity of Hong Kong's monetary and financial systems. Whether public finance measures should be devised to alleviate the hardship of the public was under the purview of the Government Secretariat. CE/HKMA added that in addition to the Government's fiscal reserves, a number of public funds established by

Action

the Government and statutory bodies (such as the Community Care Fund, the Research Endowment Fund and the endowment fund for the West Kowloon Cultural District Authority) were also placed with EF and managed by HKMA. The interests received by them were calculated by the same formula applicable to fiscal reserves, and no management fee was charged on them.

44. On the investment strategies of EF, CE/HKMA advised that since the investment objectives and risk appetite of EF were different from those of major sovereign funds, it would not be appropriate to make a simple comparison between the investment performance of EF and that of other funds. One of the investment objectives of EF was to preserve the long-term purchasing power of EF, which could be assessed by comparing the investment return of EF with the local inflation rate over a long-term horizon.

45. At the request of Dr KWOK Ka-ki and Dr Junius HO, HKMA was required to provide information on: (a) EF's annual return rate for the period from 2001 to 2016; (b) details of EF's investment, if any, in (i) bonds issued by the Central Government and Mainland corporations and (ii) precious metal; and (c) its measures to manage risks arising from recent volatilities in the currency market on EF's investment in foreign currencies.

(Post-meeting note: HKMA's supplementary information was issued to members vide LC Paper No. CB(1)355/16-17(02) on 21 December 2016.)

The linked exchange rate system

46. Dr Junius HO enquired whether HKMA would consider pegging HKD to RMB. CE/HKMA responded that, in his view, it was too early to consider this issue, as several pre-conditions still did not exist. Such pre-conditions included RMB became freely convertible; the capital account of the Mainland was fully liberalized; RMB-denominated financial markets had sufficient depth, breadth and liquidity; and the economic cycles were closely synchronised between Hong Kong and the Mainland.

Schemes administered by the Hong Kong Mortgage Corporation Limited

47. Mr CHAN Chun-ying enquired if the Hong Kong Mortgage Corporation Limited ("HKMC") would consider extending the SME Financing Guarantee Scheme before expiry of the Scheme in February 2017. He further noted that the total loan amount approved by the Microfinance Scheme was small and the success rate of applications was also on the low side. CE/HKMA responded that whether the special concessionary measures under the SME

Action

Financing Guarantee Scheme would be extended was to be determined by the Financial Secretary.

(At 11:00 am, the Chairman ordered that the meeting be suspended for five minutes. The meeting resumed at 11:05 am.)

VI Proposed creation of a non-civil service Executive Director position in the Financial Services Development Council Secretariat of the Financial Services Branch of the Financial Services and the Treasury Bureau

(LC Paper No. CB(1)78/16-17(05) — Administration's paper on "Creation of a non-civil service Executive Director position in the Financial Services Development Council Secretariat of the Financial Services Branch of the Financial Services and the Treasury Bureau"

LC Paper No. CB(1)78/16-17(06) — Background brief on Financial Services Development Council prepared by the Legislative Council Secretariat)

Briefing by the Administration

48. At the invitation of the Chairman, the Under Secretary for Financial Services and the Treasury ("USFST") briefed members on the Government's proposal to create a non-civil service Executive Director position, in the Financial Services Development Council ("FSDC") in the Financial Services Branch ("FSB") of the Financial Services and the Treasury Bureau for a period of three years to lead the FSDC Secretariat.

Discussion

Justifications for creating the proposed post

49. Mr Abraham SHEK and Ir Dr LO Wai-kwok expressed support for the staffing proposal. Mr SHEK considered that the proposed post which was

Action

responsible for overseeing the work of the FSDC Secretariat should be created three years before when FSDC was established and asked why the Administration had not done so. Ir Dr LO enquired about the work progress of FSDC and its future work plan and opined that FSDC should be invited to brief the Panel on the subject.

50. Mr WU Chi-wai said that he did not support the staffing proposal. He considered the current arrangement to second staff from the three regulators to work in the FSDC Secretariat appropriate. He queried if the present staffing proposal entailed possible changes in the institutional arrangement of FSDC, its work and positioning, including whether there was any plan to develop FSDC as a regulator, and for it to take on new duties (e.g. assisting HKMA in implementing the FSS). Mr LEUNG Kwok-hung shared the concern. He cast doubt on the need to establish FSDC and create the proposed post. He queried how the Administration would monitor the work of FSDC.

51. USFST responded that FSDC was established in 2013 as a high level advisory body to support the sustained development of the financial services industry in Hong Kong. Since the establishment of FSDC, its work, the research work in particular, was supported by the FSDC Secretariat which was the executive arm of FSDC providing secretariat and logistical support to its council and committees in implementing various tasks and initiatives. At present, the FSDC Secretariat was overseen by USFST. The FSDC Secretariat currently comprised staff members including three professional staff seconded respectively from HKMA, SFC and Hong Kong Trade Development Council. In view of the fast changing international economic landscape, such as the internationalization of Renminbi, the rapid development of financial technology ("Fintech") and green finance, a dedicated officer at a senior level was required to lead the FSDC Secretariat in supporting its work programme. In addition to assisting the FSDC Chairman and leading the FSDC Secretariat, the post holder would also be involved in policy research and industry surveys in formulating proposals to the Government and regulators as well as to maintain close liaison with the Government, regulatory and trade bodies. In the meantime, a non-civil service Senior Advisor had been engaged for one year from August 2016 mainly to spearhead major research projects.

52. With regard to the work progress and work plan of FSDC, USFST said that a briefing by the Chairman of FSDC on its work had already been arranged at the Panel meeting to be held in January 2017. On the development of Fintech in Hong Kong, USFST said that FSB, SFC and HKMA had already each set up a platform or contact office to facilitate the development of Fintech in Hong Kong, including implementing the initiatives of developing the FSS

Action

and Blockchain technology. FSDC would continue to strengthen cross-sectoral collaboration and engage the financial services industry in formulating relevant strategies and measures. USFST added that the sector-based regulatory regime in Hong Kong had been working well and it was unnecessary to introduce a super-regulator model.

53. In reply to Mr Kenneth LEUNG's enquiry on the recruitment of the proposed post, USFST advised that the post holder would be employed by FSB, instead of FSDC, under a non-civil service contract as FSDC was not a legal person.

Manpower and funding arrangements

54. While indicating support for the staffing proposal, Ms Starry LEE expressed concern about the present staff secondment arrangement of FSDC and asked if the Administration had any plan to review FSDC's manpower arrangement having regard to the long-term development of FSDC.

55. USFST said that the Government and FSDC conducted on-going review on FSDC's manpower. It was noted that FSDC had encountered difficulties in employing professional staff from the market given the limited promotion opportunities due to the relatively small size of its staff establishment. He pointed out that the current secondment arrangement could facilitate the work and future development of FSDC as the seconded staff possessed the relevant knowledge and expertise in various subjects. Given that officers were seconded from HKMA and SFC to the FSDC Secretariat, they were familiar with the operation of the regulators, and hence could facilitate FSDC's communication and co-ordination with them, especially in carrying out policy review and undertaking initiatives to promote Hong Kong's financial services industry. USFST further said that the funding arrangement of FSDC, i.e. the operating cost of FSDC to be met from the resources of FSB, would also be maintained.

56. Mr CHAN Chun-ying supported the staffing proposal. Noting that the Administration planned to fill the proposed post in the third quarter of 2017 but the contract of the non-civil service Senior Advisor would complete in August 2017, Mr CHAN asked if the Administration could expedite the recruitment process to enable a longer handover period between the post holders.

57. USFST explained that it would take time to complete the recruitment process. He said that after consulting the Panel, the Administration would submit the proposal to the Establishment Subcommittee for endorsement and

Action

then the Finance Committee for approval. Thereafter, an open recruitment exercise would be conducted to trawl the most suitable candidate with the right calibre and experience. Subject to the availability of a suitable candidate to fill the post and the period required by the candidate to serve notice for resigning from the present job, it would be practical to expect that the proposed post would be filled in the third quarter of 2017.

Implementation of proposals put forth by the Financial Services Development Council

58. Mr CHAN Kin-por indicated support for the staffing proposal. He noted that FSDC had published 23 reports since its establishment, advising the Government and regulators on strategies and measures to promote the further development of Hong Kong's financial services industry. He urged the Administration to speed up its work in taking forward FSDC's recommendations and enquired how FSDC would facilitate the work in this regard.

59. Mr Kenneth LEUNG enquired about the progress in taking forward the recommendations of FSDC regarding the development of green finance in Hong Kong. He sought details on the initiative of issuing green bonds in Hong Kong and asked whether the Administration would consider providing tax incentives to encourage corporates to issue such bonds.

60. USFST said that the Administration valued the recommendations made by FSDC. He explained that it would take time to examine the feasibility of the recommendations and consult a wider catchment of stakeholders on FSDC's proposals, some of which require amendments to legislation, such as proposals relating to the existing taxation and regulatory regimes in Hong Kong.

61. As regards FSDC's recommendation for the Government to issue green bonds to promote the development of green finance in Hong Kong, USFST said that the Government considered that it would be more practicable to invite public sector bodies like the Airport Authority ("AA") and the Mass Transit Railway Corporation ("MTRC") to consider issuance of green bonds. The Government had discussed with AA and MTRC on the matter and received positive feedback. USFST remarked that green finance was a new area in the financial service industry and only a few jurisdictions were studying the provision of tax incentives to corporates in this regard. He supplemented that second party opinion or third party verification was required for the issuance of green bonds. Issuers in Hong Kong would need to obtain the said certification from other jurisdictions (mainly in Europe) given that Hong Kong

Action

did not have the relevant framework for such certification work. The Government would study measures to facilitate the issuance of green bonds in Hong Kong, focusing initially on the certification process.

62. The Chairman pointed out that the small and medium-sized enterprises ("SMEs"), including the small and medium-sized securities firms, were among those parties supporting the establishment of FSDC. However, he expressed disappointment that FSDC had not put forward measures to assist SMEs so far. The Chairman said that he would only support the staffing proposal under the condition that FSDC would undertake to conduct in-depth study and propose measures to facilitate the development of small and medium-sized securities firms in Hong Kong and enhance their competitiveness.

63. USFST said that FSDC fully recognized the needs of SMEs and noted their concerns. He added that the FSDC Council and some committees of FSDC also included representatives from SMEs/securities firms.

Proposed enhancements to The Stock Exchange of Hong Kong Limited's decision-making and governance structure for listing regulation

64. The Chairman and Mr Abraham SHEK sought information on FSDC's views on the joint consultation paper issued by SFC and the Stock Exchange of Hong Kong ("SEHK") in June 2016 on proposed enhancements to SEHK's decision-making and governance structure for listing regulation ("the Joint Consultation"). The Chairman also requested the Administration to provide a copy of FSDC's written response to the Joint Consultation for members' reference.

65. USFST advised that FSDC welcomed the efforts of SFC and SEHK in improving the listing regulatory regime in Hong Kong. With regard to the proposal of creating a new Listing Policy Committee ("LPC") and new Listing Regulatory Committee ("LRC"), FSDC was of the view that LPC might facilitate better coordination and substantive discussion between SFC and SEHK at an early stage of listing policy development. However, FSDC had reservation on the creation of LRC as this would in fact add layers to the listing process. USFST undertook to provide a copy of FSDC's written response for members' information.

(Post-meeting note: FSDC's supplementary information was issued to members vide LC Paper No. CB(1)326/16-17(02) on 16 December 2016.)

Action

Conclusion

66. The Chairman invited the Administration to take into account members' views in taking forward the staffing proposal for creating a non-civil service Executive Director position to lead the FSDC Secretariat.

VII Difficulties encountered by certain enterprises in opening bank accounts

(LC Paper No. CB(1)78/16-17(07) — HKMA's paper on "Difficulties encountered by certain enterprises in opening bank accounts"

LC Paper No. FS01/16-17 — Fact sheet on challenges in opening bank accounts by certain enterprises prepared by the Research Office of Legislative Council Secretariat)

Briefing by the Hong Kong Monetary Authority

67. At the invitation of the Chairman, the Executive Director (Banking Conduct), HKMA ("ED(BC)/HKMA") and the Executive Director (Enforcement and AML), HKMA ("ED(EAML)/HKMA") briefed members on the latest development in relation to the difficulties encountered by certain enterprises in opening bank accounts. They highlighted the following points:

- (a) HKMA attached great importance to the matters related to opening of bank accounts for businesses and noted with concern comments made through different sources that corporate customers, more notably SMEs and start-up companies from overseas, had encountered difficulties in opening and maintaining bank accounts in Hong Kong. Such problem did not appear to be an industry wide issue but was pertinent amongst one or two banks which were usually the first port of call for many companies seeking to open a bank account. This might partly explain why the unpleasant account opening experiences appear to be widespread;
- (b) HKMA had been taking steps in dealing with the matter, including engaging various stakeholders in gathering specific incidents of

Action

difficulties in opening and maintaining bank accounts and following up with the management of banks. A number of sharing sessions had been hosted by HKMA to facilitate direct exchange of views and foster cooperative relationships among the business community and banks. The information collected had provided useful insights for HKMA's assessment of the matter, and had also been incorporated in its guidance to banks;

- (c) HKMA had also followed up with the management of banks, which had been taking steps to improve the account opening process and provided training to staff to ensure effective communication with customers and prospective customers. Some examples of the measures that had been rolled out include shortening the turnaround time of account opening process, providing interim updates about the progress of applications, and establishing review mechanisms for unsuccessful applications. Meanwhile, some local and international banks had actively expanded their SME businesses in Hong Kong. HKAB was also exploring opportunities for the banking industry to further cooperate with and leverage on the government platform to reach out to the SME community and provide SMEs with up-to-date information about banking services.;
- (d) In September 2016, HKMA issued a circular ("the Circular") to all banks clarifying its expectation that banks should refrain from de-risking that could result in financial exclusion. Instead, banks should adopt a risk-based approach ("RBA") by carrying out customer due diligence ("CDD") measures in a balanced manner. The Circular emphasized that RBA was not a "zero failure" regime i.e. banks were not expected to implement overly stringent CDD process with a view to eliminating, ex-ante, all risks. Properly applied the approach should help ensure that legitimate businesses and ordinary citizens would have reasonable access to banking services in Hong Kong;
- (e) The circular highlighted that HKMA was working with industry association and international standard setting bodies to reduce burden associated with CDD through innovation and technology including use of Know-Your-Customer ("KYC") Utilities; and
- (f) Since issuing the Circular, HKMA had followed up with banks and engaged with some banks' head offices and overseas authorities to ensure consistent application of RBA. A set of Frequently Asked Questions was issued to clarify regulatory requirements. Training

Action

for banks' senior management and directors as well as AML compliance staff were conducted.

Discussion

Improvement measures taken by banks

68. Mr Kenneth LEUNG noted that not only SMEs but also clients of accountant firms faced difficulties in opening bank accounts, and pointed out that the problem did not pertain amongst only one or two banks. He was concerned that the problem would undermine Hong Kong's status as an international financial centre. He enquired about the improvement since HKMA issued the Circular in September 2016.

69. ED(BC)/HKMA reiterated that, based on the information collected by HKMA, the problem did not appear to be an industry wide issue but was pertinent amongst one or two banks. She pointed out that the tightening of international standards in combating money laundering in the past few years had resulted in banks tightening their CDD process. Furthermore, some international banks operating in Hong Kong need to comply with requirements or standards mandated by their head offices or overseas authorities. This might lead to de-risking in some instances. HKMA had been taking steps in dealing with the matter, including engaging various stakeholders in gathering specific cases in order to follow up with the banks concerned more effectively. Banks had also rolled out measures to improve the account opening process as mentioned above. Some local and international banks had also actively expanded their SME businesses in Hong Kong. Chairperson, The Hong Kong Association of Banks ("C/HKAB") added that HKAB had advised banks to improve their RBA and review its internal policies and procedures regarding opening and maintaining accounts. Banks should also increase the transparency about banks' requirements for opening accounts on the websites. She reassured members that banks would endeavour to do more for SMEs.

70. Ir Dr LO Wai-kyok referred to his unpleasant experience in opening bank accounts, which included being requested to provide large amount of documents for proof of wealth and source of income. He asked how banks could conduct CDD measures in a balanced manner without causing frustration and great inconvenience to customers.

71. ED(EAML)/HKMA stated that HKMA required banks to adopt a RBA by carrying out CDD in a holistic manner, ensuring that the control measures applied to customers were proportionate to the risk level they presented so as not to undermine access by legitimate businesses and ordinary citizens to basic

Action

banking services. Regarding the concern that some customers were required to provide large amount of documents for opening bank accounts, HKMA noted that since the issue of the Circular, some banks had already reviewed their requirement in this respect and some had plans to streamline the relevant procedures in December 2016.

72. Ms Starry LEE considered that the de-risking measures adopted by banks had undermined the access of some individuals and companies, including politically exposed persons and their family members, owners' corporations and ethnic minorities, to normal banking services. She requested HKMA to provide its guidelines for banks in processing applications for opening accounts by, and providing banking services to the above mentioned customers. She also requested HKMA to provide information on follow-up actions taken by HKMA and the banking industry on complaints received about difficulties in opening and maintaining accounts.

(Post-meeting note: The information provided by HKMA was issued to members vide LC Paper No. CB(1)326/16-17(03) on 16 December 2016.)

73. ED(BC)/HKMA responded that HKMA's aim was to maintain a robust anti-money laundering and counter-terrorist financial ("AML") regime in Hong Kong while at the same time implement financial inclusion so that legitimate businesses and the general public were able to have access to basic banking services. Regarding the difficulties faced by ethnic minorities in accessing banking services, she said that HKMA had held a sharing session for ethnic minority organizations and representatives of the banking industry to share perspectives and exchange views. For the eight complaints related to this issue received by HKMA in 2015, there was no evidence that the policies of the banks concerned were discriminatory against ethnic minorities. Nevertheless, HKMA had urged banks to take improvement measures, which included enhancing transparency of the requirements for account opening applications, and providing training to frontline staff on communication with ethnic minority customers which were held in 2015 and 2016. HKMA had not received any complaint from such customers since 2016.

74. Mr Abraham SHEK pointed out that the number of complaints received by HKMA might not have reflected the current situation of the problem in opening bank accounts as most SMEs and ethnic minorities groups which had encountered difficulties did not bother to lodge complaints. He requested HKMA to provide half-yearly report on the situation of the problem and the progress of HKMA and the banking industry in taking improvement measures to tackle the problem. ED(BC)/HKMA reassured members that

Action

HKMA would continue to work with the banking industry to address the issue, regardless of the number of complaints received.

(Post-meeting note: The information provided by HKMA was issued to members vide LC Paper No. CB(1)326/16-17(03) on 16 December 2016.)

Supporting measures to SMEs

75. Mr CHAN Chun-ying remarked that enhanced cooperation and communication between the banking industry and enterprise customers would certainly improve the situation. He called on HKMA to make good use of various business facilitating platforms, such as InvestHK, to reach out to the SME community to gauge their views and address their concerns. He also suggested that HKMA should also explore ways to facilitate a greater use of KYC Utilities in the banking sector for handling SMEs' account opening applications.

76. ED(BC)/HKMA responded that HKMA had adopted a multi-pronged approach to address the matter. For instance, HKMA in collaboration with HKAB had been exploring the use of innovation and technology to help simplify the collection and submission of information/documents for account opening applications and the work would continue. HKAB was also exploring opportunities for the banking industry to further cooperate with and leverage on the government platform, Support and Consultation Centre for Small and Medium Enterprises, to reach out to the SME community and provide SMEs with up-to-date information about banking services. HKMA had also been working with InvestHK and provided it with a list of banks which were interested in reaching out to overseas companies. The list could be shared with interested foreign SMEs who wished to seek assistance in opening bank accounts in Hong Kong.

77. Mrs Regina IP said that as she understood from some foreign enterprises, banks in Singapore were less stringent in processing account opening applications from enterprises. She opined that the local banking industry should make reference to the approach adopted by banks in Singapore as Hong Kong needed to maintain its competitiveness in attracting overseas enterprises for investment.

78. ED(BC)/HKMA responded that due to differences in market conditions and structures as well as banks' risk appetite, it would be inappropriate to make a direct comparison between the practices of banks in Hong Kong and those of Singapore. She reiterated that the AML-related

Action

regulatory requirements in Hong Kong were in line with the international standards. C/HKAB added that global banks adopted the same international standards in AML controls in different markets. ED(EAML)/HKMA said that different banks had different risk appetites but there were many banks in Hong Kong which welcomed business from overseas enterprises.

VIII Collection of levy on insurance premiums and various fees by the independent Insurance Authority

(LC Paper No. CB(1)78/16-17(08) — Administration's paper on "Collection of levy on insurance premiums and various fees by the independent Insurance Authority"

LC Paper No. CB(1)78/16-17(09) — Updated background brief on the establishment of and financial arrangements for the independent Insurance Authority prepared by the Legislative Council Secretariat)

Briefing by the Administration

79. At the invitation of the Chairman, Deputy Secretary for Financial Services and the Treasury (Financial Services) 2 ("DSFS") briefed members on the legislative proposals for the independent Insurance Authority ("IIA") to collect levy on insurance premiums from policy holders, authorization fees from insurance companies, and other fees on specific services provided by IIA. The Administration's target was to table the relevant subsidiary legislation before LegCo for negative vetting in the beginning of 2017.

Discussion

Collection of levy on insurance premiums and preparatory work of the independent Insurance Authority

80. Mr CHAN Kin-por considered that the proposed levy on insurance premiums would have little impact on policy holders as the amount involved was relatively small and should be affordable by policy holders. He suggested

Action

that the Administration should step up its efforts in publicity and public education on the proposed levy to enhance policy holders' understanding of the details. On the preparation for implementation of the new regulatory regime for the insurance industry, Mr CHAN said that while he welcomed the Administration's efforts in liaising with the industry, he urged the Administration and IIA to expedite their work in developing various guidelines, including those on levy collection.

81. DSFS responded that the Government had been liaising with IIA and the insurance industry in formulating guidelines on various matters for implementing the new regulatory regime. The Government and IIA would also arrange publicity campaigns on collection of levy on insurance premiums, including the provision of hotline services to answer enquiries from the public. He added that apart from the legislative proposals on the levy and fees under discussion, the Government was preparing other subsidiary legislation relating to the operation of IIA. As IIA was still recruiting its staff, the Financial Services and the Treasury Bureau was actively involved in the relevant preparatory work.

Conclusion

82. Panel members had no objection to the Administration's proposal to table the subsidiary legislation on the collection of levy and fees by IIA before LegCo for negative vetting in the beginning of 2017.

IX Any other business

83. There being no other business, the meeting ended at 12:44 pm.