

立法會
Legislative Council

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Panel on Financial Affairs

Meeting on 15 November 2016

**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 some 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-sectoral 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. The objectives¹ 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 our 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 namely, Policy Research Committee, Mainland Opportunities Committee, New Business Committee, Market Development Committee, and Human Capital Committee. These committees study specific areas of the financial services industry and propose relevant development initiatives and pragmatic action points for the Government. 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

¹ Source: Website of the Financial Services Development Council.

to 16 January 2017. The membership list of FSDC and its committees are hyperlinked in **Appendix III**.

8. The Secretariat of FSDC is the executive arm of FSDC. According to the Government, as at April 2016, the Secretariat of FSDC was supported by four executive/clerical staff deployed from the Financial Services Branch ("FSB") of the Financial Services and the Treasury Bureau ("FSTB"), three professional staff seconded respectively from the Hong Kong Monetary Authority ("HKMA"), Hong Kong Trade Development Council ("HKTDC") and Securities and Futures Commission ("SFC") and one professional staff on government contract terms recruited from the market. One additional short-term staff on government contract terms will also be recruited in 2016-2017.

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 was meant to be maintained for the initial three years of FSDC's operation.

Reports published by the Financial Services Development Council

10. FSDC has published 23 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 and exchange-traded derivatives market, promoting Hong Kong's position as an international financial centre, developing human capital in the financial services industry, equity crowdfunding, and green finance. 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 during the briefing on the 2013 Policy Address on initiatives relating to financial services. FA Panel received briefings on the work of FSDC at the meetings on 4 February 2013, 6 January 2014, 13 April 2015 and 4 January 2016. Issues relating to FSDC were also discussed during the special

² The expenditure of FSDC is mainly for enhancing the promotion of Hong Kong's financial services industry and research activities. According to the Government, the expenditure for FSDC was around \$4.1 million in 2015-2016, and is budgeted at \$6.5 million in 2016-2017. The expenditure on government staff is met from the resources of FSB (budgeted at about \$3.4 million in 2016-2017) and, for the seconded staff, the seconding organizations.

meetings of the Finance Committee on 8 April 2013, 31 March 2014, and 30 March 2015 for the examination of the Estimates of Expenditure. The major views and concerns expressed by Members at the above meetings are summarized in the ensuing paragraphs.

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 FSDC's 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 that FSDC be set up as an advisory body and the Government should study the feasibility of developing FSDC into a statutory body in the future. At the FA 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 turning FSDC into a statutory body. The Government responded that it was not expected that there would be significant changes after the review. 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.

14. At the FA meeting on 4 January 2016, some Members enquired whether the Government would consider providing FSDC with executive power to implement its recommendations so as to bring timely benefits to the local financial services industry. The Government advised that it might

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.

not be appropriate to provide FSDC with policy execution power given that FSDC was a high-level, cross-sectoral government advisory body to engage the financial services industry, formulate proposals to promote the further development of the Hong Kong financial services industry, and map out the strategic direction for development.

Membership size and composition

15. 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 maintain close liaison with the regulators through ongoing communications with them.

Manpower and funding arrangements

16. 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.

17. 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 light of its operational experience in the first three years.

18. At the FA meeting on 4 January 2016, Members enquired about the Government's plans in reviewing the institutional and funding arrangements of FSDC to facilitate its future work, in particular in conducting research and promotional activities. FSDC advised that the financial and manpower arrangements for FSDC would be reviewed after the first three years of its operation and the Government was of the view that the current secondment arrangement for staff should be maintained. The Government pointed out that as the seconded staff possessed knowledge and expertise in various subject areas, they could help providing valuable inputs to facilitate the work and future development of FSDC. The Government would

strengthen manpower resources of FSDC in conducting research, and the budget for FSDC was expected to increase to \$6.5 million in 2016-2017.

19. At the FA meeting on 4 January 2016, some Members noted that FSDC's budget for 2015-2016 (i.e. \$4.7 million) was much higher than that of around \$1.8 million for 2014-2015 and enquired about the reasons. FSDC explained that the additional resources were mainly to cover the remuneration of a contract staff engaged with the return of a civil service staff deployed from FSTB in 2015, and the office rental with the relocation of the FSDC Secretariat from the old Central Government offices to premises in Wan Chai.

Work of the Financial Services Development Council

Possible overlap in work with government agencies

20. At the FA meeting on 4 February 2013, some Members raised concern as to 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.

Work targets of Financial Services Development Council

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.

22. FSDC advised that it might not be practicable to set quantifiable targets to assess the effectiveness of its work, and 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.

Research work of Financial Services Development Council

23. 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. Some other Members also urged FSDC to speed up the study on green finance, including exploring the feasibility of developing Hong Kong as a regional carbon trading platform and providing tax incentives to venture capital enterprises engaged in green finance business with a view to facilitating the development of green finance in Hong Kong.

24. 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 (e.g. SMEs). 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.

25. As regards developing green finance in Hong Kong, FSDC pointed out that there were potentials in developing green finance in Hong Kong. Moreover, the Central Government had put great emphasis on the subject, and had established a working group on green finance under the People's Bank of China. The Central Government had also played a significant role in getting consensus among a number of countries leading up to the Conference of Parties 21 (the United Nations Climate Change Conference 2015) in Paris. Given that green finance was a new area and there were limited information and experts in the relevant field in Hong Kong, it had taken more time for FSDC to study the issues involved.⁴

26. While noting that the main objective of FSDC was to promote the development of Hong Kong's financial services industry, some Members opined 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

⁴ FSDC released a report on "Hong Kong as a Regional Green Finance Hub" in May 2016.

Mainland. These Members considered that FSDC should conduct research on market regulation and strengthening investor protection.

27. 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, the Investor Education Centre was responsible for investor education in Hong Kong, while 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. FSDC would continue to explore opportunities brought by integration of the Hong Kong and Mainland markets.

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

28. Members expressed concern about the timeframe for taking forward the recommendations of FSDC and enquired about the progress of the Government and the regulators in taking forward the various recommendations. 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.

29. The Government advised that it would take time to consider FSDC's proposals as they had implications on the existing taxation and regulatory regimes in Hong Kong. Some of the proposals would also require amendments to legislation and it would take time to formulate the relevant legislative proposals. 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. FSDC added that it would closely monitor the progress in taking forward the various recommendations and inform the public of the latest development through FSDC's annual reports.

Council questions

30. Members raised questions relating to the establishment of FSDC 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 Government's responses are hyperlinked in **Appendix III**.

Latest position

31. The Government will brief the FA Panel on its proposal to create a non-civil service Executive Director position in the FSDC Secretariat at the Panel meeting on 15 November 2016.

Relevant papers

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

Council Business Division 1
Legislative Council Secretariat
9 November 2016

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]

**List of reports published by
the Financial Services Development Council**

(as at 28 October 2016)

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>
February 2016	<u>Hong Kong's Position Limits Regime for Exchange-traded Derivatives – the Need for Revision</u>
March 2016	<u>Introducing a Regulatory Framework for Equity Crowdfunding in Hong Kong</u>
April 2016	<u>Recommendations for Capitalising on the Unique Advantages of Hong Kong in the Process of Renminbi Capital Account Convertibility</u>
May 2016	<u>Hong Kong as a Regional Green Finance Hub</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><u>Written questions raised by members in relation to FSDC</u> (Reply serial numbers: FSTB(FS)012, 016, 033, 044, 063, 071, 082, 089, 118, 126, 129, 145 and S-FSTB(FS)02)</p> <p><u>Minutes</u> (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><u>Hansard</u> (pages 105-107)</p>
6 January 2014	Meeting of the FA Panel	<p><u>FSDC's paper</u> (LC Paper No. CB(1)625/13-14(03))</p> <p><u>Background brief</u> (LC Paper No. CB(1)625/13-14(05))</p> <p><u>Minutes</u> (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><u>Written questions raised by members in relation to FSDC</u> (Reply serial numbers: FSTB(FS)010, 015, 037, 095, 102 and 103)</p> <p><u>Minutes</u> (paragraphs 4.9-4.11)</p>
14 July 2014	FSDC released its Annual Report 2013/14	<p><u>Annual Report</u></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>

Date	Event	Paper/Minutes of meeting
4 January 2016	Meeting of the FA Panel	FSDC's paper (LC Paper No. CB(1)358/15-16(03)) Updated background brief (LC Paper No. CB(1)358/15-16(04)) Minutes (paragraphs 5-24) (LC Paper No. CB(1)485/14-15)
April 2016	Special meeting of Finance Committee for examination of Estimates of Expenditure 2016-2017	Written questions raised by members in relation to FSDC (Reply serial numbers: FSTB(FS)036, 049, 105 and 107)
May 2016	FSDC released its Annual Report 2015/16	Annual Report