

立法會
Legislative Council

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Panel on Financial Affairs

**Minutes of policy briefing held on
Friday, 20 October 2017 at 9:00 am
in Conference Room 1 of the Legislative Council Complex**

Members present : Hon Kenneth LEUNG (Chairman)
Hon Christopher CHEUNG Wah-fung, SBS, JP
(Deputy Chairman)
Hon James TO Kun-sun
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon WONG Ting-kwong, GBS, JP
Hon Starry LEE Wai-king, SBS, JP
Hon CHAN Hak-kan, BBS, JP
Hon CHAN Kin-por, GBS, JP
Hon Mrs Regina IP LAU Suk-ye, GBS, JP
Hon Paul TSE Wai-chun, JP
Hon WU Chi-wai, MH
Hon MA Fung-kwok, SBS, JP
Hon Charles Peter MOK, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon CHU Hoi-dick
Hon Holden CHOW Ho-ding
Hon SHIU Ka-fai
Hon YUNG Hoi-yan
Hon CHAN Chun-ying
Hon CHEUNG Kwok-kwan, JP
Hon LUK Chung-hung

Members absent : Hon Abraham SHEK Lai-him, GBS, JP
Hon Dennis KWOK Wing-hang
Hon Martin LIAO Cheung-kong, SBS, JP
Hon Jimmy NG Wing-ka, JP
Dr Hon Junius HO Kwan-yiu, JP
Hon Kenneth LAU Ip-keung, BBS, MH, JP

**Public officers
Attending** : Mr James LAU, JP
Secretary for Financial Services and the Treasury

Mr Andrew WONG, JP
Permanent Secretary for Financial Services and the
Treasury (Financial Services)

Ms Alice LAU, JP
Permanent Secretary for Financial Services and the
Treasury (Treasury)

Mr Joseph CHAN, JP
Under Secretary for Financial Services and the Treasury

Mr Chris SUN, JP
Deputy Secretary for Financial Services and the
Treasury (Financial Services)¹

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

Ms Winnie NG, JP
Deputy Secretary for Financial Services and the
Treasury (Financial Services)³

Mr Andrew LAI, JP
Deputy Secretary for Financial Services and the
Treasury (Treasury)²

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

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I Briefing by the Secretary for Financial Services and the Treasury on the Chief Executive's 2017 Policy Address

- (LC Paper No. CB(1)47/17-18(01) — Administration's paper on 2017 Policy Address - Policy Initiatives of the Financial Services and the Treasury Bureau
- Address by the Chief Executive at the Legislative Council meeting on 11 October 2017)

Briefing by the Administration

The Secretary for Financial Services and the Treasury ("SFST") briefed Members on the policy initiatives of the Financial Services and the Treasury Bureau ("FSTB") featured in the Chief Executive's 2017 Policy Address. He highlighted the following areas of work set out in the Administration's paper (LC Paper No. CB(1)47/17-18(01)):

- (a) establishing the Financial Leaders Forum to provide a platform to deliberate on strategic and forward-looking proposals that were conducive to strengthening Hong Kong's position as an international financial centre;
- (b) capitalizing on the opportunities arising from the development of Guangdong-Hong Kong-Macau Bay Area ("Bay Area") and the Belt and Road Initiative ("BRI") through various measures including strengthening the connectivity of financial services, developing additional cross-border financing services to tie in with the growth of enterprises, and relaxing the restrictions of

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Hong Kong financial institutions entering other cities in the Bay Area;

- (c) strengthening Hong Kong's role as a premier global offshore renminbi ("RMB") business hub;
- (d) consolidating Hong Kong's position as a major asset management centre by continuing the work in introducing a legal framework for the open-ended fund company ("OFC"), and extending profits tax exemption to onshore privately-offered OFCs;
- (e) promoting the development of financial technologies ("Fintech") in Hong Kong;
- (f) amending the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Cap. 615) and the Companies Ordinance (Cap. 622) to implement the relevant international regulatory standards on anti-money laundering and counter-terrorist financing ("AML/CTF");
- (g) enhancing the Mandatory Provident Fund ("MPF") System through various measures including rolling out the fee-controlled Default Investment Strategy ("DIS") in April 2017, and commencing work on the development of eMPF;
- (h) implementing the two-tiered profits tax rates regime outlined in the Chief Executive's Manifesto; and
- (i) taking forward initiatives regarding Hong Kong's cooperation with the international community on tax matters including extension of the application of Multilateral Convention on Mutual Administrative Assistance in Tax Matters to Hong Kong, implementation of the package to tackle base erosion and profit shifting of enterprises, and continuing to expand Hong Kong's network of Comprehensive Avoidance of Double Taxation Agreements ("CDTAs").

(Post-meeting note: The press release containing the speaking note of SFST (Chinese version only) was issued vide LC Paper No. CB(1)87/17-18(01) on 23 October 2017.)

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Discussion

Development in financial technologies

2. Mr CHAN Chun-ying enquired about the Administration's plan to promote the development of Fintech including the development of "Know-your-customer Utility" ("KYCU") in the banking industry which could enhance the efficiency of account opening process. In view of the public concern about personal privacy, he asked if the Administration would promote the development of personal KYCU upon implementation of the initiative to provide electronic identities ("eIDs") for all Hong Kong residents.

3. Mr Christopher CHEUNG enquired about measures the Administration would take to facilitate the account opening process of the securities industry. He called on the Administration to tackle issues relating to the use of online client identity verification in opening securities accounts, which could help the local securities industry tap the opportunities arising from the development of Bay Area and BRI. He further urged the Securities and Futures Commission ("SFC") to modernise and streamline the know-your-customer requirements for online account opening. Mr CHEUNG also sought details of the use of eID arrangements in other jurisdictions.

4. On the development of KYCU, SFST advised that the Government was examining the matter with the Hong Kong Monetary Authority ("HKMA"). HKMA was collaborating with the Hong Kong Association of Banks ("HKAB") on exploring a potential KYCU solution for corporates. HKMA was also examining the feasibility of a KYCU for individuals, which could make use of eIDs being developed by the Innovation and Technology Bureau. It was envisaged that KYCU for individuals would involve a customer database and eIDs would be used for authentication to access the database. The banking industry, as well as the securities industry, were expected to benefit from such KYCUs to streamline customer on-boarding. KYCU for individuals might also be extended to cover individuals from the Mainland and overseas in future. In addition, SFST advised that SFC had issued guidelines to the securities industry on the account opening procedures for non-local clients with a view to facilitating local securities firms in soliciting business from such clients. As regards client suitability assessment, he remarked that the procedures to be applicable would depend on the types of investment products involved.

5. Ir Dr LO Wai-kwok expressed concern about the slow progress in Fintech development in Hong Kong, and pointed out that the development in some areas, such as electronic payment systems, had lagged behind other jurisdictions including the Mainland. The Chairman enquired about the Administration's

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position on the development of new payment systems, and measures to promote such systems to the market.

6. SFST responded that a variety of payment systems was available in Hong Kong at present and HKMA had issued 13 licences on stored value facilities so far. The Government and HKMA had been promoting the adoption of new payment methods and would continue efforts in the area. For instance, HKMA would launch a "Faster Payment System" ("FPS") in 2018 which aimed to facilitate peer-to-peer payment. The Government would promote the use of new payment channels (e.g. smartphone e-wallet) for various Government fees and charges with a view to facilitating the application of new payment technologies. SFST added that the Government would adopt a neutral approach and maintain an open attitude to various payment technologies.

7. Ms YUNG Hoi-yan sought details of the existing regulation on digital tokens and Initial Coin Offerings ("ICOs"), and asked whether HKMA would allow ICOs to be conducted in its regulatory sandbox. She and Ir Dr LO Wai-kwok stressed the need for the Administration to formulate prudent regulations on ICOs in order to protect investors. The Chairman asked if there was a definition of "ICO" and how digital tokens used in ICOs were classified.

8. SFSF said that the Government was mindful of the need to handle ICOs prudently and examine whether there were potential regulatory gaps. It was noted that different jurisdictions had adopted rather different regulatory approaches for ICOs and cryptocurrency exchanges and there was no consensus at the moment. The Government would discuss issues relating to ICOs with HKMA and SFC. On digital tokens, SFST pointed out that they were generally regarded as virtual commodities. SFC issued a statement in September 2017 to clarify when digital tokens would be subject to the securities laws of Hong Kong. According to SFC, depending on terms and features, certain digital tokens might be regarded as "securities" under the Securities and Futures Ordinance (Cap. 571) ("SFO"). For example, if the digital tokens : (a) represented equity or ownership interests in a corporation; (b) were used to create debts owed by the issuers; or (c) represented an interest in a "collective investment scheme", they might be regarded as "securities" under SFO. Yet, if the digital tokens did not fall within the definition of "securities" under SFO, the securities law might not be applicable.

9. Mr Charles MOK said that the occurrence of a number of large scale cyber attacks recently had demonstrated the importance for the Administration to accord priority in addressing issues relating to cybersecurity in developing Fintech. He enquired about the measures taken by the Administration and HKMA to enhance cybersecurity of infrastructures of financial institutions, in

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particular traditional mainframe computer systems, and new infrastructures like eID and FPS.

10. SFST said that the Government attached importance to strengthen cybersecurity in developing Fintech. HKMA had carried out a number of initiatives and studies including a joint study with the Hong Kong Applied Science and Research Institute on blockchain that covered security. Besides, high encryption standard technique would be used in applications like eID and KYCU to prevent data leakage. Regulators including HKMA and SFC had also been closely monitoring the security threats and vulnerabilities of information technology systems used by the financial services industry, including traditional computer systems. It was assessed that the traditional computer systems used by the industry were relatively safe.

Difficulties in opening bank accounts

11. Ir Dr LO Wai-kwok expressed concern about difficulties encountered by certain entities (particularly small and medium enterprises) in opening bank accounts. He urged the Administration to address the problem and the concern about overly stringent customer due diligence ("CDD") measures adopted by some banks in fulfilling AML/CTF requirements.

12. SFSF advised that HKMA had issued various guidelines on the matter, including a guideline reminding banks to adopt a risk-based approach in conducting CDD. Besides, HKMA was discussing with HKAB on measures to address the matter through the use of KYCU.

Development of offshore RMB business

13. Mr CHAN Chun-ying and Mr WONG Ting-kwong sought details of measures the Administration would implement to enhance Hong Kong's role as a premier offshore RMB business hub.

14. SFST responded that the Government would launch a number of measures to strengthen Hong Kong's role as a premier offshore RMB business hub such as exploring the possibility of including in the two-way mutual access mechanism a wider range of investment products (e.g. exchange-traded funds), and extending the Mainland-Hong Kong Bond Connect to cover Southbound Trading. Besides, regulatory authorities of Hong Kong and the Mainland were discussing the establishment of an investor identification system for the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect. Hong Kong would also discuss with the Guangdong Province on measures (including tax concessions) that could help the local financial services

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industry and professionals to tap opportunities arising from the development of Bay Area. Furthermore, the Government would encourage the Asian Infrastructure Investment Bank ("AIIB") to leverage Hong Kong's status as an international financial centre and its capital markets to support AIIB's operation. Hong Kong's offshore RMB business would be strengthened if AIIB decided to issue bonds in Hong Kong.

15. SFST further advised that around 70% of the world's offshore RMB payment transactions were processed via Hong Kong in the first half of 2017. When planning for the further development of Hong Kong's RMB business, the differences between the RMB in onshore and offshore markets should be taken into account. It was envisaged that Hong Kong's RMB payment and settlement services would be strengthened further with progress in the internationalization of RMB.

16. While expressing support for the Administration to speed up efforts in the development of Bay Area, Mrs Regina IP enquired about the Administration's plan to expedite the free flow of RMB within the Bay Area. She suggested that the Administration and the Mainland authorities should consider launching pilot schemes for this initiative at selected cities of the Bay Area.

17. SFST advised that measures that promote the two-way cross-border flows of RMB within the region would be considered and suitably included in the development plan for the Bay Area. These measures could first be launched in certain pilot areas and gradually extended to cover the whole Bay Area.

The Mandatory Provident Fund System

18. Mr LUK Chung-hung sought details of the Administration's plan to implement, upon the proposed abolition of the arrangement for offsetting severance payments and long service payments with MPF accrued benefits ("the offsetting arrangement"), a full portability arrangement for MPF Scheme, which in his view could help further reduce the management fees of MPF funds. He also enquired about the timetable for implementing eMPF. Noting that some MPF trustees had been providing MPF funds with various rates of guaranteed return, Mr LUK enquired if the Administration would consider imposing statutory requirement on all MPF trustees to provide funds with guaranteed return and setting a statutory minimum rate of return for such funds.

19. Permanent Secretary for Financial Services and the Treasury (Financial Services) ("PS(FS)") responded that abolition of the offsetting arrangement would be conducive to implementing a full portability arrangement for MPF Scheme. On the implementation of eMPF, PS(FS) advised that the Government

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had set up a working group comprising all operating trustees to steer the development of eMPF. It was the Government's target to finalize a set of technical specifications for the centralized electronic administrative platform by mid-2018 for the purpose of seeking funding approval from the Finance Committee subsequently. He also remarked that it would take time for trustees to migrate the data of scheme members to the centralized platform. Separately, it was envisaged that the implementation of fee-controlled DIS with effect from 1 April 2017 could promote competition among MPF service providers on fees and fund performance. The Government currently had no plan to introduce requirement for all MPF trustees to provide MPF funds with guaranteed returns or impose a minimum return rate for such funds.

The Financial Services Development Council

20. On the Administration's proposal to incorporate FSDC as an independent organization, Mr Christopher CHEUNG enquired about FSDC's funding and accountability arrangements and whether it would be a public or private entity after incorporation. He also expressed concern about the recommendations of FSDC which had seldom covered measures supporting the development of the local securities industry, and asked if the incorporated FSDC would include representatives of small and medium securities firms. He further urged FSDC to conduct more studies relating to the local securities industry including the feasibility of allowing brokerage firms to act as intermediaries of bond issuance, and the use of online client identity verification in opening securities accounts.

21. Mr WONG Ting-kwong asked how FSDC's work would be enhanced upon its incorporation. The Chairman sought details of the organization of the incorporated FSDC.

22. SEST explained that the proposal to incorporate FSDC would allow FSDC greater flexibility in its operation including recruitment of full-time staff and enhancement in its ability in conducting research, formulating recommendations, promoting market development and nurturing talents for the financial services industry. Under the current proposal, FSDC would be incorporated as a company limited by guarantee with the Government as its guarantor. The incorporated FSDC would be funded by the Government, and the subvention for FSDC would be covered in the expenditure of FSTB and subject to the scrutiny of the Legislative Council under the annual draft estimates of expenditure exercise. As for the composition of the incorporated FSDC, while this was yet to finalize, it was envisaged that the composition would be widely representative same as the existing composition which included representatives from the securities industry.

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23. As regards reports released by FSDC, SFST remarked that while they mainly focused on measures to enhance Hong Kong's role as an international financial centre, the Government would encourage FSDC to carry out research relating to the local securities industry, particularly the small and medium securities firms.

Hong Kong's participation in the Belt and Road Initiative

24. Mr CHAN Chun-ying enquired about the Administration's measures to help local enterprises to participate in the financing of infrastructure projects under the BRI. He asked if the Administration would expedite negotiations of CDTAs with countries along the Belt and Road route (particularly member countries of the Association of Southeast Asian Nations), and assist local companies in establishing contacts with the official authorities concerned through Government's overseas offices (e.g. Hong Kong Economic and Trade Offices).

25. SFST responded that the Government would formulate measures to enhance market access for Hong Kong companies in countries along the Belt and Road route. Hong Kong had already signed CDTAs with a number of jurisdictions along the Belt and Road route and the Government would continue its work in expanding the CDTA network. Nonetheless, given the international trend of jurisdictions to implement the automatic exchange of financial account information on a multilateral basis, there had been fewer incentives for jurisdictions to conclude CDTAs with Hong Kong. He added that the Government had organized a number of visits to markets along the Belt and Road route to promote the strengths of Hong Kong, and welcomed Members' suggestions on other promotional measures to be taken.

Development of green finance

26. Mr CHAN Chun-ying supported the Administration's initiative to develop green finance through the issuance of Government green bonds, and invited the Administration to consider the recommendations in the recent report of Our Hong Kong Foundation on the subject. He asked whether the subscription of Government green bonds would be opened to retail investors; and if so, how the Administration would enhance the attractiveness of the bonds given the lower yields of such bonds compared to bonds issued by private organizations. The Chairman suggested that the Administration should promote Hong Kong as a major green certification centre in the Asia-Pacific region, which would be conducive to developing green finance.

27. SFST responded that the Government was aware of Our Hong Kong Foundation's report. The Government had already put in place a number of

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facilitation measures in relation to the development of green finance. For instance, eligible green bonds would be exempt from profits tax under the existing legislation. As regards the development of a retail market for green bonds, it would be necessary to enhance public understanding of the higher compliance costs associated with green bonds, and there was currently no plan to develop a retail market for Government green bonds. SFST added that the Government would promote the establishment of green certification schemes which would be conducive to developing green finance in Hong Kong.

Management of public finance

28. Mr WU Chi-wai noted that the Government had set aside a number of provisions/reserves in its fiscal reserves in preparation for implementation of various planned policies. As some of the planned policies would take a long time to materialize, he was concerned how the Administration would preserve the purchasing power of such provisions/reserves against inflation.

29. SFST advised that currently only the Housing Reserve (which was used to support the Government's 10-year public housing supply target) had a separate financial account. Permanent Secretary for Financial Services and the Treasury (Treasury) supplemented that the Government would set aside provisions/reserves in a number of ways. Some provisions/reserves would be set up in the form of seed funds, which would earn interests through making investments. In other circumstances, the provisions/reserves were still components of the fiscal reserves and invested together with other assets of the fiscal reserves enjoying the same investment return as that of the fiscal reserves. The Government would also increase the amount of provisions/reserves concerned having regard to the prevailing circumstance.

30. Mrs Regina IP enquired whether the Administration would make reference to the experience of other jurisdictions in the establishment of sovereign wealth funds in examining the feasibility of using part of the fiscal reserves to set up an investment fund for the Bay Area.

31. SFST advised that the Government had no plan to set up an investment fund for the Bay Area at the moment. The Government would act as a facilitator to enhance market access of Hong Kong enterprises in the region. He added that the Exchange Fund made investments under the Long-Term Growth Portfolio to enhance its long-term return, and would make investments in the Bay Area should appropriate opportunities arise.

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II Any other business

32. There being no other business, the meeting ended at 10:27 am.

Council Business Division 1
Legislative Council Secretariat
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