立法會
Legislative Council

LC Paper No. CB(1)536/17-18
(These minutes have been seen by the Administration)

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Panel on Financial Affairs

Minutes of meeting held on
Monday, 6 November 2017, at 9:30 am
in Conference Room 1 of the Legislative Council Complex

Members present :
Hon Christopher CHEUNG Wah-fung, SBS, JP (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, GBS, JP
Hon Starry LEE Wai-king, SBS, JP
Hon CHAN Kin-por, GBS, JP
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Hon Paul TSE Wai-chun, JP
Hon WU Chi-wai, MH
Hon Charles Peter MOK, JP
Hon Dennis KWOK Wing-hang
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon CHU Hoi-dick
Dr Hon Junius HO Kwan-yiu, JP
Hon Holden CHOW Ho-ding
Hon SHIU Ka-fai
Hon CHAN Chun-ying
Hon CHEUNG Kwok-kwan, JP
Hon LUK Chung-hung

Members attending :
Dr Hon CHIANG Lai-wan, JP
Hon HO Kai-ming

Member absent	**:**	Hon Kenneth LEUNG (Chairman)
Public officers attending	**:**	<u>Agenda Item IV</u> Mr Norman T. L. CHAN, GBS, JP Chief Executive Hong Kong Monetary Authority Mr Eddie YUE, JP Deputy Chief Executive Hong Kong Monetary Authority Mr Arthur YUEN, JP Deputy Chief Executive Hong Kong Monetary Authority Mr Howard LEE, JP Senior Executive Director Hong Kong Monetary Authority <u>Agenda Item V</u> Mr Andrew LAI Deputy Secretary for Financial Services and the Treasury (Treasury)2 Mr WONG Kuen-fai Commissioner of Inland Revenue Ms Monica LAM Acting Project Director 1 Architectural Services Department Ms Athena FUNG Senior Projector Manager 122 Architectural Services Department <u>Agenda Item VI</u> Mrs Laura CHA, GBM, GBS, JP Chairman Financial Services Development Council

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

Ms Anissa WONG
Head of Secretariat
Financial Services Development Council

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 Confirmation of minutes of meeting and matters arising

(LC Paper No. CB(1)129/17-18 — Minutes of the meeting on 12 October 2017)

The minutes of the meeting held on 12 October 2017 were confirmed.

II Information papers issued since the regular meeting on 5 June 2017

(LC Paper No. CB(1)1203/16-17(01) — Letter dated 7 June 2017 from Hon LUK Chung-hung expressing concerns over the policy on outsourcing government service and the rights and benefits of workers engaged by government service contractors (Chinese version only)

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LC Paper No. CB(1)1374/16-17(01)	—	Second Quarter Economic Report 2017 and the press release
LC Paper No. CB(1)1398/16-17(01)	—	The Quarterly Report of the Securities and Futures Commission (April to June 2017)
LC Paper No. CB(1)1421/16-17(01)	—	Second quarterly report of 2017 on "Employees Compensation Insurance — Reinsurance Coverage for Terrorism"
LC Paper No. CB(1)109/17-18(01)	—	Referral from the Public Complaints Office on issues relating to outsourcing of government services (Chinese version only)
LC Paper No. CB(1)113/17-18(02)	—	Letter dated 12 October 2017 from Hon Christopher CHEUNG Wah-fung on issues relating to the development of financial technologies (Chinese version only)
LC Paper No. CB(1)113/17-18(03)	—	Letter dated 13 October 2017 from Hon Mrs Regina IP LAU Suk-yee on issues relating to the establishment of a sovereign wealth fund in Hong Kong, opportunities for the financial services sector in the development of Guangdong-Hong Kong-Macao Bay Area and consultation on the proposed New Board and a review of the Growth Enterprise Market (Chinese version only)

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LC Paper No. CB(1)113/17-18(04) — Letter dated 17 October 2017 from Hon CHEUNG Kwok-kwan on issues relating to regulation of money lending-related malpractices (Chinese version only)

LC Paper No. CB(1)113/17-18(05) — Letter dated 18 October 2017 from Hon CHAN Chun-ying on issues relating to the development of financial technologies and enhancements to the Stock Exchange of Hong Kong Limited's decision-making and governance structure for listing regulation (Chinese version only))

2. Members noted the information papers issued since the regular meeting held on 5 June 2017.

III Date of next meeting and items for discussion

(LC Paper No. CB(1)136/17-18(01) — List of outstanding items for discussion)

3. The Deputy Chairman said that members were informed earlier that the regular meeting for December 2017 would be re-scheduled to Monday, 18 December 2017. Members agreed to discuss the following items proposed by the Administration at the meeting:

(a) Briefing by the Financial Secretary on Hong Kong's latest overall economic situation;

(b) 2018-2019 Budget consultation;

(c) Application of Multilateral Convention on Mutual Administrative Assistance in Tax Matters in Hong Kong;

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(d) Proposed creation of one post of Chief Assessor in the Inland Revenue Department ("IRD");

(e) Risk-based capital regime for the insurance industry of Hong Kong; and

(f) Creation of a permanent directorate post in the Companies Registry.

4. Members further agreed that the meeting on 18 December 2017 would be held from 2:30 pm to 6:30 pm to allow sufficient time for discussion of the above six items.

IV Briefing on the work of Hong Kong Monetary Authority

(LC Paper No. CB(1)136/17-18(02) — Paper provided by the Hong Kong Monetary Authority)

Briefing by the Hong Kong Monetary Authority

5. At the invitation of the Deputy Chairman, the Chief Executive, Hong Kong Monetary Authority ("CE/HKMA"), the Deputy Chief Executive (Banking), Hong Kong Monetary Authority, the Deputy Chief Executive (Monetary), Hong Kong Monetary Authority ("DCE(M)/HKMA") and the Senior Executive Director (Development), Hong Kong Monetary Authority 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, smart banking, 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)186/17-18(01)) were issued to Members vide Lotus Notes e-mail on 6 November 2017.)

Discussion

Macroeconomic environment and the impacts of interest rate normalization

6. Mr Jeffrey LAM expressed concern about possible delay in the enactment of the Banking (Amendment) Bill 2017, which sought to amend the Banking Ordinance (Cap. 155) ("BO") to implement the latest international standards on banking regulation issued by the Financial Stability Board and the Basel

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Committee on Banking Supervision, caused by filibuster in the Legislative Council ("LegCo"). He was worried that filibuster in LegCo might lead to negative perception on Hong Kong by the international community, thereby affecting Hong Kong's credit ratings and status as an international financial centre. Mr LAM further expressed concern about the impacts of the interest rate normalization of the United States ("US") and Hong Kong on the local industries as well as the import and export sector.

7. The Deputy Chairman sought HKMA's views on the impact of the recent nomination of Mr Jerome Powell to be the next Federal Reserve ("Fed") Chairman on the pace of US interest rate normalization, and thus the impact on Hong Kong's interest rates and property market. Mrs Regina IP was concerned about the possible occurrence of black swan events in light of heightened geographical risks.

8. On the global economic outlook, CE/HKMA remarked that the recent buoyant sentiment in the asset market might partly reflect that the market had under-priced the intensifying geopolitical risks. As for international perception on Hong Kong, he said that many international financial institutions were optimistic about the prospects of Hong Kong, as Hong Kong was a highly competitive international financial centre in Asia. Hong Kong's unique position, with the Mainland as its hinterland and extensive links to the international markets, was a major advantage. Hong Kong's role as a premier offshore renminbi ("RMB") business hub was also well recognized.

9. As regards interest rates movement, CE/HKMA said that while a low interest rate environment could lower the cost of borrowing, it would at the same time reduce the income of those relying on interest as income and hence their consumption. Interest rate normalization was considered necessary and would be conducive to a more balanced development of the economy. He added that the nomination of a new Fed Chairman did not necessarily imply that there would be significant change in the existing US monetary policy. He expected that the Fed would continue to adjust the federal funds rate having regard to the inflation trend and economic outlook of the US. Should the pace of inflation pick-up accelerate, the pace of interest rate hikes in the US might be faster than market expected. CE/HKMA further remarked that HKMA's mandate was to maintain monetary and financial stability. While the purchase of property was a matter for individuals to decide for themselves, he would urge members of the public to carefully assess their affordability given that most mortgage loans involved high leverage and long-term financial commitment.

10. Mr CHAN Chun-ying noted that the differential between the one-month Hong Kong interbank offered rate ("HIBOR") and the one-month London

interbank offered rate had narrowed recently. The one-month HIBOR had also increased by some 70% from end June 2017 to end October 2017. He sought HKMA's assessment of the trend of banks' prime rates movement in Hong Kong.

11. CE/HKMA responded that the one-month HIBOR remained at a relatively low level despite the recent increase. The rise in one-month HIBOR was partly attributable to an increase in demand for funds arising from initial public offering activities. CE/HKMA advised that the mortgage rates depended on the sources and costs of capital of individual banks. HIBOR would only be one of the factors for the retail banks to determine their prime rates. In light of the US interest rate normalization, it was anticipated that the local prime rates would rise eventually.

The property market

12. The Deputy Chairman noted from recent media reports that the Mandatory Provident Fund ("MPF") Schemes Authority ("MPFA") was studying the feasibility of allowing MPF scheme members to withdraw part of their accrued benefits for use as down-payments in purchasing residential flats ("MPFA's study"), and that more and more parents were re-financing their residential properties in order to help their children to purchase flats. He sought HKMA's assessment of the impacts of imminent interest rate hikes on the parties concerned.

13. Mr Abraham SHEK opined that while the Administration and HKMA should remind the public of the risks of the residential property market, they should refrain from over-intervening the market.

14. Ir Dr LO Wai-kwok considered that the Government's demand-side management measures had failed to curb the rising property prices, and asked if HKMA had assessed the effectiveness of the measures.

15. CE/HKMA said that he was not in a position to comment on MPFA's study. He remarked that for parents who had retired with no stable income or pension, they should assess their affordability carefully when helping their children to purchase flats, especially if they obtained funding by refinancing their existing properties. They should take into account factors including potential interest rate increases and change of economic environment. CE/HKMA added that banks would conduct stress tests on mortgage loan applicants' repayment ability by assuming a mortgage rate increase of 300 basis points.

16. On the Government's demand-side management measures, CE/HKMA advised that a number of studies (including the one conducted by the International

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Monetary Fund) had pointed out that it was unlikely that local property prices would have increased at a slower pace should the Government have not implemented the measures concerned. Over the years, the income and purchasing power of the general public could not catch up with the increase in property prices. That said, some people were still able to buy properties due to various reasons, e.g. using their own savings or having benefitted from the wealth effect amid the rising property market. He pointed out that currently around 60% of the private residential properties were mortgage-free.

17. In response to Mrs Regina IP's enquiry about the regulation over property developers providing flat buyers with mortgages of high loan-to-value ratio through finance companies, CE/HKMA said that HKMA was aware of the issue. While property developers were not under the supervision of HKMA, HKMA noted the risks faced by banks for providing credit to property developers offering high loan-to-value mortgages, and therefore introduced measures in May 2017 to strengthen the risk management of banks on lending to property developers.

Development of financial technologies

18. Mr CHAN Kin-por remarked that it was difficult for Hong Kong people to open accounts in the two major retail payment systems in the Mainland (i.e. Alipay and WeChat Pay), thus causing inconvenience in making retail payments in the Mainland. Mr CHAN enquired about HKMA's measures to facilitate cross-border payment between Hong Kong and the Mainland. Mr Jeffrey LAM enquired whether operators of new retail payment systems in Hong Kong were subject to the regulation of BO.

19. CE/HKMA responded that a variety of means were available in Hong Kong for residents and visitors to make retail payments. In contrast, it might be relatively difficult for visitors to make retail payments to some merchants in the Mainland if they did not have accounts in the two major payment systems. CE/HKMA said that HKMA had issued 16 stored value facility ("SVF") licences. These SVF licensees were enhancing retailer adoption. The two major retail payment operators in the Mainland were among these SVF licensees. Given the vast number of Hong Kong people making purchases in the Mainland, HKMA had been encouraging these two major retail payment operators to develop cross-border payment functions, providing more convenience for local e-wallet users to make payment in the Mainland and overseas. The feedback from these two SVF operators was positive but they needed time for system development. It was envisaged that the cross-border payment function with the Mainland might be launched in 2018, subject to the progress of SVF operators in their system development.

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20. Mr CHAN Chun-ying noted that HKMA was discussing with the relevant authorities in Singapore on linking the digital trade finance platforms being developed separately in Hong Kong and Singapore, and enquired if the collaboration would be extended to cover Hong Kong's major trading partners including the Mainland, the US and the European Union. CE/HKMA replied that while initially the cross-border linkage would be between Hong Kong and Singapore, the platform would be designed with an open architecture. This would allow Hong Kong's other trading partners to plug into it easily in future if the platform proved to be a success.

Development of financial market

21. Mr Jeffrey LAM pointed out that the development of Guangdong-Hong Kong-Macao Bay Area ("Bay Area") and the Belt and Road Initiative ("BRI"), and the impending implementation of the free trade agreement between Hong Kong and the Association of Southeast Asian Nations were expected to generate huge demand for RMB. He asked if Hong Kong's existing offshore RMB liquidity pool could cope with such development.

22. CE/HKMA advised that while the global offshore RMB liquidity pool had dwindled in recent years, the average daily turnover of RMB real time gross settlement system stayed at high levels of about RMB900 billion in 2017. This had demonstrated that RMB financial activities remained vibrant and the majority of them took place in Hong Kong. It was envisaged that Hong Kong would act as an important financing hub in the development of BRI.

23. Mr Dennis KWOK appreciated HKMA's effort in promoting Hong Kong's private equity ("PE") fund business, including the plan to develop an onshore PE fund platform. He sought details of the development in this area in recent years including the number of PE funds established in Hong Kong and the background of such PE funds. Mr KWOK also enquired about how HKMA would attract more PE funds to set up in Hong Kong, and whether HKMA would liaise with the industry on the matter.

24. CE/HKMA undertook to provide information as requested by Mr Dennis KWOK. He pointed out that PE fund activities were vibrant in Hong Kong. However, the vast majority of these funds were offshore in nature. It was because Hong Kong currently lacked a viable legal framework for setting up onshore PE funds. The tax treatment for onshore PE funds was not favourable either. DCE(M)/HKMA advised that HKMA had been liaising with the industry and engaged consultant to study how the Limited Partnership Ordinance (Cap. 37) and Inland Revenue Ordinance (Cap. 112) should be amended with a view to

attracting more onshore PE funds to set up in Hong Kong. The relevant legislative proposals would be introduced into LegCo in due course.

(*Post-meeting note:* HKMA's supplementary information was circulated to members vide LC Paper No. CB(1)303/17-18(02) on 1 December 2017.)

The Exchange Fund

25. Mrs Regina IP enquired about the annualized and the five-year average rate of investment return of EF for the period from 2007 to 2017. She also asked whether HKMA would make reference to the experience of other jurisdictions to consider establishing a sovereign wealth fund in Hong Kong, and explore the feasibility with the Government to set up an investment fund for the Bay Area.

26. CE/HKMA said that HKMA would provide information on EF's investment performance as requested by Mrs Regina IP. He advised that since 2009, EF had been making investments in alternative assets (including PE and real estate) under the Long-Term Growth Portfolio ("LTGP") with a view to enhancing EF's long-term return. The total market value of LTGP investments (including funds committed pending drawdown) exceeded HK$300 billion at end-2016, and the since-inception annualized internal rate of return of LTGP since 2009 was around 12%. The investment strategy of LTGP was, to a certain extent, similar to those of sovereign wealth funds. He added that the suggestion of establishing an investment fund for the Bay Area would be under the purview of the Financial Secretary.

(*Post-meeting note:* HKMA's supplementary information was circulated to members vide LC Paper No. CB(1)303/17-18(02) on 1 December 2017.)

27. Mr CHAN Chun-ying enquired whether EF's fee payment to the fiscal reserves would be increased given EF's extremely good investment performance in 2017. CE/HKMA advised that under the current arrangement with the Government, the return on the fiscal reserves placed with EF was calculated based on the average annual investment return of EF's Investment Portfolio over the past six years. This arrangement was designed to enhance the stability of investment return for the fiscal reserves.

Schemes launched by the Hong Kong Mortgage Corporation

28. Mr Holden CHOW enquired about the reasons for the few applications for the Premium Loan Insurance Scheme ("PLIS") administered by the Hong Kong

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Mortgage Corporation's ("HKMC") despite that there were a large number of enquiries on the Scheme. Noting that the approved applications of HKMC's SME Financing Guarantee Scheme ("SFGS") were confined to certain industry types, Mr CHOW enquired whether HKMC would consider extending the scope of the Scheme (e.g. covering more non-manufacturing sectors) in future so that SFGS could benefit more enterprises.

29. CE/HKMA explained that PLIS was launched to provide subsidized housing owners with an additional financing option to settle land premium payment. After settling the land premium payment, borrowers would have greater flexibility in letting or selling their properties in the open market. The popularity of PLIS might be affected by the property market cycle (e.g. higher land premium would have to be paid by the borrowers when property prices were higher). CE/HKMA also clarified that there was no restriction on the business sectors eligible for SFGS, and applications from the services industry were certainly welcomed. For example, trading, regarded as a services industry, accounted for more than 40% of SFGS applications. He added that there was still ample room to provide loan guarantee and loans under SFGS.

Life Annuity Scheme of the Hong Kong Mortgage Corporation

30. Mr CHAN Kin-por enquired whether HKMA would consider increasing the proposed issuance amount and the cap of premium amount (which stood at HK$ 10 billion and HK$ one million respectively) for the Life Annuity Scheme ("LAS") to be launched by HKMC .

31. CE/HKMA responded that the proposed issuance amount of HK$10 billion and the premium cap of HK$ one million per applicant for the first batch of LAS were based on risk management considerations. In view of the positive market feedback on LAS, the Board of HKMC would study the feasibility of increasing the proposed issuance amount and the cap of premium amount for LAS taking into account the relevant risk management factors.

32. The Deputy Chairman suggested that HKMA should consider taking up the role of trustees for MPF funds in order to enhance the investment performance of the funds. CE/HKMA responded that EF and MPF funds were different in nature. Following the launch of LAS in around mid-2018, HKMC would delegate the management and investment of the annuity premiums collected under LAS to EF. Retired MPF scheme members might consider using their savings and/or MPF accrued benefits to participate in LAS.

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V Construction of Inland Revenue Tower in Kai Tak Development Area

(LC Paper No. CB(1)136/17-18(03) — Administration's paper on "Construction of Inland Revenue Tower in Kai Tak Development Area")

Briefing by the Administration

33. At the invitation of the Deputy Chairman, Deputy Secretary for Financial Services and the Treasury (Treasury)2 ("DS(Tsy)2") briefed members on the proposed construction of Inland Revenue Tower ("new IR Tower") in Kai Tak Development Area ("KTD Area") at an estimated cost of HK$3,586.2 million in money-of-the-day prices for relocation of IRD currently accommodated in the Revenue Tower in Wan Chai. He said that the Government planned to submit the funding application to the Public Works Subcommittee ("PWSC") and the Finance Committee ("FC") in December 2017 and January 2018 respectively. Subject to FC's approval, the target was to commence the construction works in the first quarter of 2018 for completion in the first quarter of 2022.

Discussion

Facilities in the new Inland Revenue Tower

34. Ir Dr LO Wai-kwok expressed support for the Administration's proposal to relocate the Revenue Tower to KTD Area, which would release the site of Wan Chai Government Offices Compound ("WCGOC") for commercial use. He noted that only 40 car parking spaces would be provided in the new IR Tower for departmental and staff vehicles and asked whether there would be parking spaces for visitors as he understood that it was a usual practice for government buildings to provide car parking spaces to facilitate visitors, such as members of government advisory bodies in attending meetings in the buildings.

35. Mr WONG Ting-kwong and Dr CHIANG Lai-wan advised that the Democratic Alliance for the Betterment and Progress of Hong Kong supported the Administration's proposal. They urged the Administration to consider increasing the number of car park spaces in the new IR Tower to cater for the need of visitors and growth in IRD's staff in future.

36. DS(Tsy)2 said that there were currently 33 car parking spaces in the Revenue Tower designated for use by IRD, which was comparable to the proposed provision of 40 parking spaces in the new IR Tower. Having considered

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the parking needs of IRD and the construction cost of additional parking spaces, the Government had not proposed to provide a large number of parking spaces in the new IR Tower. DS(Tsy)2 added that there were several commercially operated car parks in the vicinity of the new IR Tower, providing approximately 700 public car parking spaces in total. Moreover, the new IR Tower would be easily accessible by public transport including the future Shatin-to-Central Link.

37. Ir Dr LO Wai-kwok urged the Administration to consider providing more parking spaces in the new IR Tower. He cautioned that the construction cost for additional car parks would be even higher after completion of the project.

38. DS(Tsy)2 replied that the Financial Services and the Treasury Bureau would explore the feasibility of increasing the number of car parking spaces in the new IR Tower with the Architectural Services Department.

39. Mr CHAN Chun-ying, Mr WONG Ting-kwong and Dr CHIANG Lai-wan asked whether the permitted development plot ratio of the site of the new IR Tower had been fully utilized. Noting that the estimated cost per square foot of the new IR Tower would amount to $7,300 (in MOD Prices), to allow members to evaluate the cost effectiveness of the project, Mr CHAN suggested that the Administration should provide a breakdown on building costs and fitting-out expenses of the new IR Tower when submitting the funding proposal to PWSC and FC.

40. Acting Project Director 1 of Architectural Services Department ("PD/ArchSD") responded that under the relevant Outline Zoning Plan, there was no restriction on development plot ratio for the proposed site. However, the Planning Department had provided a reference plot ratio of 7.6 for the site, and the gross floor area for the project would be planned to meet the limit of the reference plot ratio. DS(Tsy)2 added that the permitted building height of the site was 60 metres. In order to better utilize the site for the project, ArchSD had obtained approval from the Town Planning Board to relax the height restriction of the site from 60 metres to 80 metres. DS(Tsy)2 also added that the new IR Tower would have a total gross floor area of about 73 000 square metres, and a net operational floor area ("NOFA") of about 45 000 square metres to accommodate all IRD offices. This would represent an increase of 3 000 square metres in NOFA compared to the current Revenue Tower in Wan Chai. Area for frontline services of IRD, such as the Stamp Office and the Business Registration Office, would be considerably increased in the new IR Tower. The Government would provide the breakdown on the cost of construction works and other associated costs for the project when submitting the proposal to PWSC and FC.

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41. In response to Mrs Regina IP's enquiry about facilities for staff members to be provided in the new IR Tower, DS(Tsy)2 said that the facilities would include conference rooms and training rooms, while staff lactation rooms would be a new element. The Government had no plan to provide a staff canteen in the new IR Tower given that dining facilities were available in the vicinity.

Accessibility of the new Inland Revenue Tower

42. Noting that currently there was only one footbridge across Prince Edward Road East connecting KTD Area and San Po Kong District, Mr CHAN Chun-ying and Mr WONG Ting-kwong expressed concern about the accessibility of the new IR Tower to the public. Dr CHIANG Lai-wan urged the Administration to provide covered passage connecting the new IR Tower and the future Kai Tak Station of the Shatin-to-Central Link.

43. PD/ArchSD responded that apart from the existing footbridge from Mikiki Shopping Centre across Prince Edward Road East, there was also an existing subway linking Kowloon City District across Prince Edward Road East to the site. Besides, visitors could reach the new IR Tower via a new pedestrian subway under construction across Prince Edward Road East from San Po Kong District. Visitors could also walk along at ground level for about five to ten minutes from the future Kai Tak Station to the new IR Tower. ArchSD would convey Dr CHIANG's suggestion of providing covered passage between the new IR Tower and the Kai Tak Station to relevant departments for consideration.

44. Pointing out that around 3 000 existing staff working in the Revenue Tower in Wan Chai would need to travel to the new IR Tower and it was expected that the new Tower would receive some 2 000 visitors per day, Dr CHIANG Lai-wan stressed the importance for the new IR Tower to have a convenient location. She enquired about the reason for selecting KTD Area for the reprovision of the Revenue Tower in Wan Chai as she considered KTD Area far away from traditional business districts such as Wan Chai and Central where the offices of common users of IRD's services (e.g. business enterprises and professionals like lawyers and accountants) usually located. She also enquired about the Administration's plan in relocating other departments in WCGOC.

45. DS(Tsy)2 said that the Government had been taking forward the initiative with a view to transforming Kowloon East, which comprised of KTD Area, Kwun Tong Business Area and Kowloon Bay Business Area, into a new core business district ("CBD2"). The project also included making improvements to transportation linkages and other supporting facilities. The relocation of the Revenue Tower to KTD Area could help boost the development of CBD2, and bring convenience to people working in the area. As regards the relocation of

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other departments in WCGOC, DS(Tsy)2 said that besides IRD, there were some 20 to 30 departments currently accommodated in WCGOC. Individual departments had their own plans in relocation to other premises.

VI Briefing on the work of the Financial Services Development Council ("FSDC") and proposal on incorporation of the FSDC

(LC Paper No. CB(1)136/17-18(04) — Administration's paper on "Work of FSDC"

LC Paper No. CB(1)136/17-18(05) — Administration's paper on "Proposed Incorporation of FSDC"

LC Paper No. CB(1)136/17-18(06) — Updated background brief on Financial Services Development Council prepared by the Legislative Council Secretariat)

Briefing by the Administration

46. At the invitation of the Deputy Chairman, Chairman of Financial Services Development Council ("C/FSDC") briefed members on the work accomplished by the Financial Services Development Council ("FSDC") in 2017 (from January to October), which included the publication of nine research reports and papers, participating in a wide range of promotional events, continued engagement with the financial services industry, and initiatives to nurture human capital. She also set out FSDC's work plan for 2018 and the plan to incorporate FSDC as a company limited by guarantee.

47. Under Secretary for Financial Services and the Treasury ("USFST") briefed members on the proposed incorporation of FSDC as a company limited by guarantee. He highlighted that the budget and funding arrangement of the incorporated FSDC would include an estimated annual operating expenditure of HK$32 million during the initial years and a one-off cost of HK$11 million for setting up the new FSDC office.

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Discussion

Work of the Financial Services Development Council

48. Mrs Regina Ip acknowledged FSDC's contribution in supporting the development of the financial services industry. She pointed out that pursuant to FSDC's recommendations, the Securities and Futures Commission ("SFC") had revised the "Code on Real Estate Investment Trusts" ("the Code") in 2014 to provide greater flexibility to trust managers in the investment of properties and engagement in property development activities. The Code had allowed the Link Asset Management Limited to sell its facilities in public rental housing ("PRH") estates, and as a result aroused severe opposition from PRH estates tenants. She expressed concern as how FSDC could protect the interests of the public when conducting policy research including whether FSDC would take into account the views of the public. She also enquired about the development of real estate investment trusts ("REITs") market in Hong Kong since revision of the Code in 2014.

49. C/FSDC responded that in view of the slow growth of REITs market in Hong Kong, FSDC suggested in its 2013 report to relax the regulations of listed REITs with a view to strengthening Hong Kong's role as an international asset management centre. SFC had subsequently taken on board FSDC's recommendations and revised the Code in 2014. She assured members that FSDC would take into account the views of the public and the possible social impact of its research recommendations. She also agreed to provide supplementary information on the development of REITs market as requested by Mrs IP.

(*Post-meeting note*: FSDC's supplementary information was issued to members vide LC Paper No. CB(1)311/17-18(02) on 4 December 2017.)

50. Mr CHAN Kin-por expressed support for the Administration's proposal to incorporate FSDC as a company limited by guarantee. On FSDC's recommendation for the Administration to negotiate with the China Insurance Regulatory Commission ("CIRC") for a "Special Administrative Region" status for Hong Kong ("HKSAR status") under the China Risk Oriented Solvency System ("C-ROSS"), he enquired about the progress in taking forward the initiative and the follow-up work. In fostering the development of insurance industry in Hong Kong, Mr CHAN suggested that besides conducting research on the development of life insurance business, FSDC should consider carrying out research on the development of general insurance business in Hong Kong.

51. USFST responded that the Government was discussing with CIRC to put in place a mechanism on mutual recognition for the insurance solvency regulatory

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systems of the Mainland and Hong Kong, with the ultimate objective for reinsurance companies established in Hong Kong to gain a status equivalent to onshore reinsurance companies. Besides, the Government was actively discussing with the relevant officials in the Mainland to enhance market access of Hong Kong's insurance companies in the Guangdong Province, pursuing the long-term goal of achieving mutual market access between Hong Kong and the Mainland. C/FSDC remarked that FSDC would consider Mr CHAN's suggestion of conducting research on the development of general insurance business in Hong Kong.

52. Mr Holden CHOW sought FSDC's views on further measures to attract establishment of companies for reinsurance maritime business in Hong Kong. He was concerned that although Hong Kong had the fourth largest shipping registry in the world, the total maritime premium purchased in Hong Kong only represented 0.6% of the global total.

53. C/FSDC said FSDC had recommended the Government to enhance the development of the maritime insurance industry, including negotiation with CIRC for a preferential HKSAR status to Hong Kong registered insurers under C-ROSS for writing risks in the Mainland. USFST added that the Government was exploring the feasibility of providing tax exemption to insurance companies engaging in maritime insurance business and would continue to work with the Insurance Authority on the development of the maritime insurance business in Hong Kong.

54. Dr CHIANG Lai-wan suggested that FSDC should undertake more research on the development of offshore RMB business in Hong Kong with a view to formulating recommendations to further enhance Hong Kong's role as a premier offshore RMB business centre including identifying new investment products to attract RMB investment from overseas.

55. USFST assured members that the Government would continue to develop Hong Kong's role as a premier global offshore RMB business hub, expand the variety and increase the liquidity for different financial product arrays across stocks, bonds, funds, insurance, commodities, etc. He added that Hong Kong currently had the largest offshore RMB deposit pool in the world. C/FSDC said that further enhancements in the stock and bond connect schemes between the Mainland and Hong Kong would be another important area of development. She supplemented that FSDC had all along been exploring new strategies and measures to expand Hong Kong's financial market and attract overseas investment. Besides, FSDC had put forward recommendations to the Government regarding new opportunities for the financial services sector of Hong Kong, such as developing Hong Kong into an aircraft leasing and maritime

leasing hub. Looking forward, FSDC would continue to work closely with the Hong Kong Trade Development Council on promoting Hong Kong's financial services sector overseas.

56. Pointing out that the development of the Bay Area would offer ample opportunities for the financial services sector of Hong Kong, the Deputy Chairman enquired about the Government's measures in enhancing the access of local securities firms to the Mainland.

57. USFST responded that the Government had been maintaining close liaison with the relevant Mainland authorities in identifying new business opportunities for local securities firms in the Mainland. There were several proposed new measures under discussion, including allowing local securities firms to operate wholly-owned business in the Mainland to provide securities related services, and allowing Hong Kong-funded securities firms to set up more than one full-licensed joint venture securities company in the Guangdong Province.

58. Mrs Regina IP pointed out that members of the FSDC council and its committees came from the financial services industry. Given that the recommendations of FSDC were influential and could affect the implementation of Government policies, she asked if FSDC had put in place a mechanism for declaration of interests by FSDC members to avoid possible conflict of interests and to maintain credibility of FSDC.

59. As the incorporated FSDC could accept sponsorship when organizing commercial events, Mr CHAN Chun-ying enquired how FSDC would ensure there would be no conflict of interests for FSDC in accepting the sponsorship.

60. C/FSDC responded that FSDC members were appointed from different sectors of the financial services industry having regard to their background, experience and expertise. Working groups were formed comprising members and subject experts from different backgrounds based on the topics under study, and the recommendations would undergo thorough deliberation at the committee and council levels before the reports were put forward to the Government. Members were required to declare if they had potential conflict of interest on the research topics, and such declarations would be recorded in the meeting notes. She considered that the mechanism already in place would ensure impartiality of FSDC's recommendations. USFST supplemented that, as a public organization, FSDC was covered under the Prevention of Bribery Ordinance (Cap. 201), and this would remain unchanged for the incorporated FSDC.

Proposed incorporation of the Financial Services Development Council

61. Mr CHAN Chun-ying supported the proposal to incorporate FSDC as a company limited by guarantee. As the incorporated FSDC would need to compete with the market in recruiting talents, the proposed staff cost of $16.6 million might not be sufficient. Mr CHAN said that FSDC should raise the matter with the Administration should it find that the proposed funding was inadequate.

62. Mr James TO and Mr WU Chi-wai said that while they recognized the contributions of FSDC in developing the financial services sector in Hong Kong, they had reservation on the Administration's proposal of incorporating FSDC. Mr TO remarked that there might be public concern about the incorporated FSDC would be asked to undertake hidden tasks, and even to operate as a sovereign fund. He called on the Administration to provide details of the institutional arrangements of the incorporated FSDC including its accountability, transparency and financial control measures; and to confirm whether such measures would be stated in the Article of Association of the incorporated FSDC. Mr WU opined that the current institutional arrangement of FSDC with contribution from its members and support underpinned by professional secretariat staff from the Financial Services and Treasury Bureau ("FSTB"), HKMA and SFC, had indeed provided more flexibility in the operation and enabled FSDC to perform its functions effectively. He did not consider the proposed incorporation of FSDC could bring benefits to its operations. He further echoed the concern about adequacy of financial resources of the incorporated FSDC in competing with the market in the recruitment of staff.

63. Mr CHU Hoi-dick expressed concern about the proposed incorporation of FSDC might enable FSDC to circumvent the monitoring of LegCo and the public. He urged that the operation of the incorporated FSDC should be transparent. He also enquired about details of the proposed funding arrangement for the incorporated FSDC.

64. C/FSDC said the incorporated FSDC would have a headcount of around 13, including a remunerable position of an Executive Director. The incorporated FSDC could review its staffing arrangement in light of its operational experience after the incorporation, and consider applying for additional funding from the Government should resources deem insufficient. On the financial arrangement, USFST said that the one-off set-up funding and the annual subvention for the incorporated FSDC would be included in the Government's Budget for 2018-2019 and subsequent years; and the funding, under the estimate of expenditure of the Financial Services Branch of FSTB, was subject to the approval of LegCo.

65. Regarding corporate governance and control measures, C/FSDC responded that, in line with current arrangements, representatives from the incorporated FSDC would continue to attend annual briefings on its work at meetings of the Panel on Financial Affairs. Besides, annual reports which provided information on the work and financial status of the incorporated FSDC would be published and available to the public. She assured members that operation of the incorporated FSDC would be transparent, and the Article of Association would clearly state its duties and missions. She agreed to provide supplementary information on Mr TO's enquiries. USFST added that the incorporated FSDC would be required to submit its annual work plan and financial statements for scrutiny by the Government. The accountability and transparency measures would follow prevailing guidelines on the management and control of Government funding for subvented organizations.

(*Post-meeting note*: FSDC's supplementary information was issued to members vide LC Paper No. CB(1)311/17-18(02) on 4 December 2017.)

66. Mr WU Chi-wai, Mr James TO and Mr CHU Hoi-dick enquired about the rationale and considerations of transforming FSDC into an independent organization with its own legal identity instead of a statutory body. Mr WU further enquired about the reasons for maintaining the current name of FSDC after its incorporation.

67. C/FSDC responded that as opposed to the existing model of operation under which secretariat support was provided by rotating seconded staff, the incorporated FSDC could recruit its own staff to form a stable executive team with solid experience in the financial services industry. This would be instrumental in the delivery of FSDC's objectives, especially on its research work. Similar to the current operating structure, members of the incorporated FSDC would continue to take a leading role in undertaking policy research, but the efficiency of research work was expected to improve with the enhanced support of full-time secretariat staff. She agreed to provide supplementary information as requested by Mr WU and Mr TO. As regards the name of the incorporated FSDC, C/FSDC explained that as FSDC had already built up its profile both locally and overseas, it was appropriate for the incorporated FSDC to retain its name. She added that when FSDC was established in 2013, there were suggestions for it to change the rendition "局" in its Chinese name so as to reflect its status as an advisory body of the Government. The Government had then clarified that there was no standardized practice in the naming of advisory bodies. FSDC considered it appropriate to continue using the rendition "局" in its Chinese name.

Action

(*Post-meeting note*: FSDC's supplementary information was issued to members vide LC Paper No. CB(1)311/17-18(02) on 4 December 2017.)

68. Deputy Chairman supported the Administration's proposal to incorporate FSDC as a company limited by guarantee. He suggested that the Administration should consider allowing the various segments in the financial services industry to nominate representatives for appointment to the FSDC council and its committees.

69. USFST responded that under the current arrangement, members of the FSDC council and its committees were appointed by the Chief Executive. This arrangement would remain unchanged for the incorporated FSDC. He assured members that the Government would continue to appoint practitioners across different sectors from the financial services industry with experience and expertise to the FSDC council and its committees.

VII Any other business

70. There being no other business, the meeting ended at 12:43 pm.

Council Business Division 1
Legislative Council Secretariat
30 January 2018