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Legislative Council

LC Paper No. CB(1)1371/17-18
(These minutes have been seen by the Administration)

Ref : CB1/PL/FA/1

Panel on Financial Affairs

Minutes of meeting held on
Monday, 4 June 2018, at 10:00 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 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 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 Alvin YEUNG
Hon Holden CHOW Ho-ding
Hon SHIU Ka-fai
Hon CHAN Chun-ying
Hon LUK Chung-hung

Member attending : Hon HO Kai-ming

Members absent : Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Hon CHU Hoi-dick
Dr Hon Junius HO Kwan-yiu, JP
Hon CHEUNG Kwok-kwan, JP

Public officers attending	**:**	<u>Agenda Item III</u> Mr Paul MP CHAN, GBM, GBS, MH, JP Financial Secretary Mr Willy TSOI Administrative Assistant to Financial Secretary Mr AU Sik Hung, Andrew, JP Government Economist Mr James LAU, JP Secretary for Financial Services and the Treasury <u>Agenda Item IV</u> Mr Eddie CHEUNG Kwok-choi, JP Deputy Secretary for Financial Services and the Treasury (Financial Services)2 Ms Joan HUNG Sze-man Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)3 <u>Agenda Item V</u> Mr George TSOI Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)2
Attendance by Invitation	**:**	<u>Agenda Item IV</u> Ms Gabriella YEE Executive Director (Policy) Mandatory Provident Fund Schemes Authority Ms Maria CHEUNG Senior Manager (Policy Development) Mandatory Provident Fund Schemes Authority

Agenda Item V

Ms Julia LEUNG
Deputy Chief Executive Officer and Executive Director (Intermediaries)
Securities and Futures Commission

Mr Keith CHOY
Senior Director (Intermediaries Supervision, Intermediaries)
Securities and Futures Commission

Mr Leo LAM
Director (Intermediaries Supervision, Intermediaries)
Securities and Futures Commission

Ms Priscilla NGAN
Senior Manager (Intermediaries Supervision, Intermediaries)
Securities and Futures Commission

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 Information papers issued since the regular meeting on 15 May 2018

(LC Paper Nos. CB(1)964/17-18(01) and (02) — Letter dated 19 April 2018 from Hon Dennis KWOK on issues regarding anti-money laundering measures related to human trafficking activities (English version only) and the Administration's response)

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Members noted the information papers issued since the regular meeting held on 15 May 2018.

II Date of next meeting and items for discussion

(LC Paper No. CB(1)1027/17-18(01) — List of outstanding items for discussion

LC Paper No. CB(1)1027/17-18(02) — List of follow-up actions)

2. Members agreed to discuss the following items proposed by the Administration at the regular meeting scheduled for 3 July 2018, from 10:45 am to 12:45 pm:

(a) Proposed amendments to the Inland Revenue Ordinance; and

(b) Latest developments on the application of the Convention on Mutual Administrative Assistance in Tax Matters in Hong Kong.

III Briefing by the Financial Secretary on Hong Kong's latest overall economic situation

(LC Paper No. CB(1)943/17-18(01) — First Quarter Economic Report 2018 and the press release

LC Paper No. CB(1)1027/17-18(03) — Administration's paper on "Hong Kong's recent economic situation and near-term outlook")

Briefing by the Administration

3. At the invitation of the Chairman, the Financial Secretary ("FS") briefed members on Hong Kong's latest overall economic situation.

(*Post-meeting note*: The press release containing the speaking note of FS (Chinese version only) was issued to members vide LC Paper No. CB(1)1072/17-18(01) on 5 June 2018.)

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4. The Government Economist gave a powerpoint presentation on the recent situation of the Hong Kong economy and the near-term economic outlook.

(*Post-meeting note*: The notes of the powerpoint presentation (LC Paper No. CB(1)1067/17-18(01)) were issued to members vide Lotus Notes e-mail on 4 June 2018.)

Discussion

Macroeconomic conditions and trade tensions between China and the United States

5. Mr CHAN Chun-ying, Mr Charles Peter MOK, Mr Alvin YEUNG, Mr Dennis KWOK and Mr LUK Chung-hung expressed concern about the impacts on Hong Kong arising from trade tensions between the United States ("US") and other economies, and a possible trade war between China and the US. They sought FS's assessment of the impacts on Hong Kong, and enquired about the Administration's measures to prepare Hong Kong for the possible shocks. Mr YEUNG, Mr KWOK and Mr LUK further called on senior Government officials (including the Chief Executive ("CE") and FS) to visit the US in order to lobby the US Government for exempting Hong Kong from the trade restrictive measures imposed against China.

6. FS said that given that Hong Kong was a small and open economy, and that the Mainland and the US were major trading partners of Hong Kong; the recent China-US trade conflict would inevitably affect Hong Kong. However, it would be difficult to assess the actual impact on Hong Kong's economy at the moment as negotiations between the Mainland and the US were still underway and surrounded by uncertainties. The Administration's initial assessment was that the recent trade conflict (including the US's restrictive measures on aluminium and steel imports) would have limited direct impact on Hong Kong's economy. Based on the tariff list covering 1 300 items of products announced by the US in April 2018, it was estimated that some $52 billion of Hong Kong's re-exports of Mainland origin to the US (which accounted for 1.3% of Hong Kong's total exports of goods in 2017) would be affected. Nevertheless, if the trade relations between the Mainland and the US deteriorated, the global and local investment sentiment might be affected and Hong Kong might suffer as a result. The Administration would closely monitor the latest development and take swift measures to alleviate possible negative impacts of the trade conflict on Hong Kong.

7. FS said that both himself and the Secretary for Commerce and Economic Development ("SCED") had highlighted to the Consul General of the US in

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Hong Kong on the unique status of Hong Kong as a separate customs territory under the "One Country, Two Systems" arrangement. SCED would conduct a duty visit to the US in September 2018 and raise the issue with US Government officials directly as necessary. FS added he was also prepared to do so if he visited the US in future.

8. Mr Christopher CHEUNG asked if the recent China-US trade tensions had caused delay in the promulgation of the Development Plan for the Guangdong-Hong Kong-Macao Bay Area ("the Development Plan of the Bay Area"), and whether the delay would have impact on Hong Kong.

9. FS advised that the Development Plan of the Bay Area would be promulgated when ready. It was believed that the recent China-US trade tensions should have no relationship with the timing of the promulgation.

10. Mr CHAN Chun-ying opined that the interest rates of Hong Kong dollar would gradually rise owing to capital outflow arising from the US interest rate hikes. He sought the Administration's assessment on the impacts of a possible correction in the local property market on Hong Kong's economy and local consumption.

11. FS responded that the Hong Kong dollar interbank offered rates were on the rise against the backdrop of the US interest rate hikes. While the current situation differed from that in 1998, the Administration had been closely monitoring the risks and impacts of higher local interest rates on the local property market at a time when the overall housing supply was also increasing.

The property market

12. Ms Starry LEE expressed grave concern about the continual surge in the local property prices, which had far exceeded the affordability of the general public. She enquired about the Administration's measures to tackle the problem including whether the Administration would consider introducing restrictions on purchase of local property by non-local buyers, which were present in jurisdictions like the Mainland, Canada and Australia. She considered that the Administration should explore the feasibility of her suggestion and provide its response in future briefings to the Panel.

13. FS said that the Administration was mindful of the fact that current property prices were at levels beyond the affordability of the general public, and attached importance in formulating measures to alleviate the difficulties encountered by the public in purchasing flats. The Task Force on Land Supply launched a five-month public engagement exercise in April 2018 to invite all

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sectors of the community to give views on the 18 land supply options and other land supply-related issues. While the Administration had studied various possible measures for tackling rising property prices, FS cautioned that it might not be appropriate for him to make any comment on a specific measure including the one proposed by Ms Starry LEE lest it might give rise to unnecessary speculations affecting the property market. The Administration would continue to closely monitor developments in the property market and introduce necessary measures as and when necessary.

14. Mr Alvin YEUNG, Mr Dennis KWOK and Mr LUK Chung-hung urged the Administration to consider introducing vacancy tax on completed but unsold first-hand residential properties, and enquired about the Administration's work in this regard. Mr YEUNG further enquired about the existing number of completed but unsold first-hand private flats in Hong Kong. Mr KWOK also urged the Administration to impose restrictive measures (like capital gain tax) on non-local flat buyers. Mr LUK enquired whether the Administration would consider introducing vacancy tax on second-hand residential properties.

15. FS advised that as at end March 2018, there were around 9 000 unsold private flats in completed projects. The figure, equivalent to about half of the private housing land supply target of 2018, was relatively high. He pointed out that the Transport and Housing Bureau had been exploring ways to address the situation and would soon complete a study on this subject. The Administration would then consider the way forward and make relevant announcement as soon as possible. FS added that the Administration had no plan to introduce vacancy tax on second-hand residential properties or capital gain tax at the moment.

16. Mr WU Chi-wai queried whether the policy portfolio of land supply (including policy of public-private split for the new housing supply) had been taken up directly by CE as FS and the bureaux under his supervision had not proposed any concrete measures to address the housing problem since the commencement of the current-term Government. He also enquired whether the Administration would consider increasing the supply of subsidized housing units (i.e. public rental housing flats and home ownership scheme flats) substantially by changing the existing public-private split in new housing production from 60:40 to 70:30, and there was a shortfall of around 50 000 public housing units in meeting the Government's ten-year housing supply target for the period from 2018-2019 to 2027-2028.

17. FS said that the issue of land supply was under the policy portfolio of Development Bureau which was under his purview, while housing policy was under the purview of the Chief Secretary for Administration ("CS"). Given land supply and housing were key livelihood issues, CE, CS and himself as FS were all

involved in the relevant policy formulation and decisions on allocation of land were collectively made. FS reiterated that the Administration would step up its efforts in increasing land supply. He added that the Administration was also exploring ways to address the affordability issue of subsidised sale flats.

18. Mr LUK Chung-hung requested the Administration to provide a breakdown on the estimated number of private residential flats by flat size (including the number of ultra-small flats commonly known as "nano flats") to be available in the coming five years. He expressed concern that nano flats would be more susceptible to corrections in the property market, and asked whether the Administration would strengthen the regulation on such flats.

19. FS pointed out that the projected supply in the primary private residential property market in the coming three to four years would be about 96 000 flats. Of these 96 000 flats, it was estimated that around 78% were small and medium flats. He agreed to provide the information as requested by Mr LUK Chung-hung after the meeting.

(*Post-meeting note:* The Administration's supplementary information was circulated to members vide LC Paper No. CB(1)1181/17-18(02) on 25 June 2018.)

Measures to enhance Hong Kong's economic development

20. Noting the robust economic growth in jurisdictions like the US driven by rapid development in the innovation and technology ("I&T") sector and increased investment in I&T and technological restructuring (like greater reliance on the use of data centres and cloud services), Mr Charles Peter MOK urged the Administration to study local companies' expenditure on I&T, and formulate measures (such as introducing tax incentive schemes and nurturing talents) to encourage companies providing technological restructuring services to establish offices in Hong Kong; and assist local companies in undergoing technological restructuring.

21. FS advised that the Census and Statistics Department was responsible for collecting data related to companies' expenditure on I&T. He added that the Administration had recently examined how the data collection methodology for the research and development expenditure of companies in Hong Kong could be improved to provide a better basis for policymaking. He stressed that the Administration was aware that I&T would be an important driving force of Hong Kong's economic development. The Administration would continue to strengthen efforts in formulating measures to promote the development of I&T in Hong Kong. For instance, the Administration had set aside land for development

of data centres. Tax incentives for encouraging research and development as well as measures for subsidizing small and medium enterprises in using technological services and solutions to improve productivity had also been introduced. In addition, the Postdoctoral Hub Programme to be launched could help Hong Kong build its own talent pool. The Administration welcomed further suggestions from Legislative Council ("LegCo") Members on the matter.

22. The Chairman enquired about the economic cooperation measures concluded between Hong Kong and Ireland during FS's recent duty visit there. While welcoming the enactment of the Inland Revenue (Amendment) (No. 3) Ordinance 2017 seeking to provide a concessionary tax regime for the aircraft leasing industry, he relayed the industry's view that Hong Kong could strengthen the development of aircraft leasing industry by concluding more Comprehensive Avoidance of Double Taxation Agreements ("CDTAs") with other jurisdictions. The Chairman asked whether the Administration would consider introducing a similar concessionary tax regime for the maritime leasing industry in order to promote its development in Hong Kong. He added that a research released by the Financial Services Development Council in May 2018 also advocated developing significant maritime financing and leasing industry in Hong Kong.

23. FS advised that during his recent duty visit to Ireland, in addition to meeting with local government officials, he had seen the latest developments in financial technologies ("Fintech"), aircraft leasing and fund management there. The industry associations for Fintech of Hong Kong and Ireland had signed a memorandum of understanding on Fintech to promote Fintech development in the two places. FS concurred that concluding more CDTAs would be conducive to the development of aircraft leasing industry in Hong Kong, and the Inland Revenue Department had been allocated with more resources for enhancing its work on CDTA negotiations. It was the Administration's target to increase the number of CDTAs entered between Hong Kong and other jurisdictions to 50 in the next few years. However, as Hong Kong's tax regime was simple and tax rates were relatively low, some jurisdictions might have less incentive to negotiate CDTAs with Hong Kong. FS further remarked that the Administration would formulate measures to develop Hong Kong into an international shipping centre. In this connection, the Tax Policy Unit would study appropriate tax concessionary measures for the maritime leasing industry. FS added that the Administration would promote the development of fund management business in Hong Kong by enhancing the tax regime and relevant legislative framework.

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Introduction of a new listing regime in Hong Kong

24. Mr Christopher CHEUNG noticed that while the Stock Exchange of Hong Kong ("SEHK") introduced the new listing regime (which, among others, permitted listings of biotech issuers that did not meet any of the Main Board financial eligibility tests and companies with weighted voting right ("WVR") structures) in late April 2018, response in the market was lukewarm and there was only one application so far. He asked whether this was caused by the introduction of Chinese depositary receipt ("CDR") in the Shenzhen Stock Exchange and the Shanghai Stock Exchange, overly stringent requirements of the new listing regime, or insufficient publicity on the new listing regime.

25. FS advised that the new listing regime aimed to attract more new economy companies to list in Hong Kong and to enhance the competitiveness of Hong Kong's listing platform. As understood, there was positive feedback from local and overseas business sector towards the new listing regime. The new listing regime featured a number of requirements aiming to enhance investor protection and to ensure that only sizable new economy companies would be eligible for listing. It was envisaged that the number of listing applications under the new listing regime would gradually increase. FS added that SEHK would, having regard to the views of various stakeholders, launch a separate consultation on corporate WVR.

IV Proposed Amendments to the Occupational Retirement Schemes Ordinance (Cap. 426)

(LC Paper No. CB(1)1027/17-18(04) — Administration's paper on "Proposed amendments to the Occupational Retirement Schemes Ordinance (Cap. 426)")

Briefing by the Administration

26. At the invitation of the Chairman, Deputy Secretary for Financial Services and the Treasury (Financial Services)2 ("DS(FS)2") briefed members on the Administration's proposals to update the Occupational Retirement Schemes Ordinance (Cap. 426) ("ORSO") to ensure that only bona fide occupational retirement schemes ("ORSO schemes") were registered or exempted under ORSO and that the registered or exempted ORSO schemes would not be misused for non-retirement purpose. The Government planned to introduce the relevant amendment bill into LegCo in the 2018-2019 legislative session.

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(*Post-meeting note*: The notes of the powerpoint presentation (LC Paper No. CB(1)1067/17-18(02)) were issued to members vide Lotus Notes email on 4 June 2018.)

Discussion

27. Mr CHAN Kin-por expressed support for the proposed amendments. Noting that the Mandatory Provident Fund Schemes Authority ("MPFA"), acting as the Registrar of Occupational Retirement Schemes ("the Registrar"), had consulted administrators and relevant industry bodies on the proposed amendments, Mr CHAN asked whether respondents from the insurance industry had made comments or suggestions which the Administration had not taken into account in finalizing the proposed amendments.

28. DS(FS)2 said that relevant employers, administrators, industry bodies and professional bodies including the Hong Kong Federation of Insurers, had been consulted on the major proposed amendments and their views had been incorporated in refining the amendments.

29. Mr CHAN Chun-ying declared that he was an ORSO scheme member. He sought information on the number of employees and the proportion of the work force covered by the 4 322 ORSO schemes at present, and the Administration's view on the future development of the pension system in Hong Kong. He also enquired about the purpose of empowering the Registrar to enter non-domestic premises for inspection and whether MPFA had exercised the said power in regulating MPF schemes.

30. Executive Director (Policy), Mandatory Provident Fund Schemes Authority ("ED(P)/MPFA") advised that as at 31 March 2018, there were about 370 000 members participating in 3 712 ORSO registered schemes, covering about 13% of the entire working population. Regarding the pension system in Hong Kong, DS(FS)2 said that with the launch of the Mandatory Provident Fund ("MPF") System on 1 December 2000, in general, all employers were required to enroll their employees in MPF schemes. ORSO schemes could be provided by employers for their employees as top-up schemes in addition to MPF schemes, or retained by employers for keeping the benefits of their employees accrued before the launch of the MPF System for continued investment. He added that the purpose of the proposed amendments was to enable the Registrar to conduct investigation or inspection in employment establishments or business premises for ascertaining compliance with the statutory requirements under ORSO. Similar powers were available to MPFA for regulating MPF schemes under the Mandatory Provident Fund Schemes Ordinance (Cap. 485).

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31. Mr LUK Chung-hung enquired about details of the misuses of ORSO registered or exempted schemes for non-retirement purpose including the estimated number of scheme members involved and the estimated amount of tax revenue foregone. He also sought clarification on whether scheme members who were not employees of a relevant employer would need to withdraw their accrued benefits from an ORSO scheme after the proposed amendments came into effect and whether an employee, after termination of employment, could retain his/her accrued benefits in an ORSO scheme.

32. ED(P)/MPFA responded that less than 10 ORSO schemes were suspected for involving in non-retirement purpose covering around 700 scheme members (likely including both employees of the relevant employers of the schemes and non-employees). She explained that in general employers operating ORSO schemes could claim tax deductions for the contributions made for their employees to the extent that they did not exceed 15% of the employees' total emoluments, and no tax concession was offered to contributions made by non-employee scheme members to their ORSO schemes and hence there should be no Hong Kong tax revenue foregone. As regards the preservation of accrued benefits, ED(P)/MPFA advised that in general an employee who joined an ORSO scheme with MPF exemption after the launch of the MPF System would need to preserve the minimum MPF benefits upon cessation of employment by transferring the minimum MPF benefits from an ORSO scheme to an MPF scheme of his/her own choice. She further said that after the proposed amendments came into effect, employers who wished to continue operating the ORSO schemes would need to terminate the membership of those scheme members who were not their employees. Employers might also decide to terminate the ORSO schemes concerned and enrol the relevant employees into MPF schemes.

33. Mr HO Kai-ming referred to a recent liquidation case where the liquidator concerned had not provided the necessary documents to the ORSO administrator certifying that the employment of the employees concerned had been terminated. Without a formal notice of termination of employment filed with the ORSO administrator, the employees were unable to withdraw their accrued benefits from the ORSO scheme. Mr HO enquired about the procedure and documents required for certifying the employee's cessation of employment, in particular if an employee could submit a notice of termination of employment to the ORSO administrator when the employer became insolvent, and if the proposed amendments would help address the problem.

34. DS(FS)2 advised that the primary objective of the proposed amendments was to ensure that ORSO schemes were employment-based. Specifically, apart

from employees (whether past or present) of the relevant employer of an ORSO scheme, it was proposed that the membership of an ORSO scheme might also include individuals who were transferred from one ORSO scheme to another ORSO scheme upon bona fide business transactions between the relevant employers of two ORSO schemes, and the beneficiaries of deceased members. MPFA was separately following up on the case mentioned by Mr HO with the employees concerned. MPFA had been assisting the relevant employees in resolving the matter by meeting with them and following up on the case with the ORSO administrator and trustee, thereby facilitating early payment of accrued benefits to them. Upon termination of employment of employees, it would normally be the employer who provided relevant information to the ORSO administrator and trustee to certify the termination of employment. In some special cases, the liquidator might be required to provide relevant documents certifying that the employment relationship between the employer and the employees concerned had been terminated.

V Legislative proposals to update the financial resources requirements for licensed corporations

(LC Paper No. CB(1)1027/17-18(05) — Administration's paper on "Legislative proposals to update the financial resources requirements for licensed corporations")

Briefing by the Administration

35. At the invitation of the Chairman, Deputy Chief Executive Officer and Executive Director (Intermediaries), Securities and Futures Commission ("DCEO&ED/SFC") and Director (Intermediaries Supervision, Intermediaries), Securities and Futures Commission ("D/SFC") briefed members on the proposed amendments to the Securities and Futures (Financial Resources) Rules (Cap. 571N) ("FRR") to cope with market development and streamline some of the existing financial resources requirements for corporations licensed by the Securities and Futures Commission ("SFC") (i.e. licensed corporation ("LC")). The key proposed changes included relaxing and clarifying the treatment for foreign currencies, updating the list of specified exchanges, introducing and updating haircut percentages for certain securities and investments, refining treatments for amounts receivable in respect of dealings in securities, and introducing new treatment for liabilities arising from tenancy agreements for business premises and several technical changes.

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(*Post-meeting note*: The notes of the powerpoint presentation (LC Paper No. CB(1)1067/17-18(03)) were issued to members vide Lotus Notes email on 4 June 2018.

Discussion

36. Mr CHAN Chun-ying sought information on the criteria adopted by SFC in selecting the proposed eight futures exchanges and six stock exchanges to be added to the list of specified exchanges in Schedule 3 to FRR. He also enquired about the reasons for proposing the same haircut percentage of 30% for both listed and unlisted real estate investment trusts ("REITs") and setting 40% as the haircut percentage for high risk financial products like structured funds and funds that invest in financial derivative instruments.

37. D/SFC advised that no changes had been introduced to Schedule 3 to FRR since 2003, and the eight futures exchanges and six stock exchanges proposed to be included as specified exchanges in Schedule 3 to FRR were subject to comparable regulatory and prudential requirements as those already included in the Schedule. Adding the proposed exchanges to the list could facilitate LCs' participation in the Mainland and other emerging markets. With the launch of the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, Hong Kong had already established trading and clearing links between the Shanghai Stock Exchange and Shenzhen Stock Exchange and it was also noted that the Mainland's measures to stabilize and regulate its securities markets, such as the "circuit breaker" mechanism, could serve to contain risks of price fluctuation in the securities markets. As regards the other four stock exchanges, D/SFC said that the depth and breadth of the securities markets of Brazil, India and Taiwan were similar to that of other specified exchanges. As regards haircut treatment for REITs, he said that except blue chip stocks, other listed stocks in Hong Kong were generally subject to a 30% haircut requirement. REITs would be subject to a haircut percentage of 30%, regardless of whether they were listed or unlisted, but only REITs that were authorized by SFC or by other recognized jurisdictions and complied with the Code on Real Estate Investment Trusts published by SFC could be considered as liquid assets for the purposes of FRR. The proposed haircut percentage of 40% for structured funds and funds that invested in financial derivative instruments was in line with the existing haircut percentage for funds with similar nature. The proposed amendment only aimed at aligning the product names with that used in the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products.

38. Mr Dennis KWOK expressed support for the proposed amendments. He sought information on how the introduction of CDRs in the Mainland would

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affect the capital market in Hong Kong and Hong Kong's status as an international finance centre. He also enquired about the progress of expanding the listing regime to facilitate the listing of enterprises with WVRs structure in Hong Kong.

39. DCEO&ED/SFC said that a large number of Chinese technology companies were listed in overseas exchanges in the past. With the introduction of CDRs, companies in high-tech fields with market capitalizations over RMB 200 billion could be traded on Mainland exchanges while maintaining their overseas listings. CDRs, together with Hong Kong's new listing regime (particularly with the introduction of WVR structures), could bring convenience to more emerging and innovative companies in raising funds through the capital markets of Hong Kong and the Mainland. She further said that SFC was in discussion with the Hong Kong Exchange and Clearing Company Limited ("HKEX") on the proposal to expand the existing listing regime to allow corporate beneficiaries under the WVR regime and HKEX would conduct a second phase consultation in the second half of 2018 in this regard.

40. Mr Christopher CHEUNG welcomed the proposed amendments to FRR. He said that the securities industry was aware that SFC was considering proposals to impose restrictions on margin loans, such as capping the total loan amount according to LC's capital size. Given that FRR had already imposed a risk-based liquid capital requirement on LC ensuring they would have sufficient liquid assets to meet their on-going liabilities, Mr CHEUNG expressed concern that imposing restrictions on margin loans might hinder the future development of small and medium sized securities firms.

41. DCEO&ED/SFC advised that SFC was developing Guidelines on certain risk management measures including setting a benchmark to determine the amount of margin loans LCs could grant by making reference to the size of LC's capital and subordinated loan. SFC had been engaging the securities industry on the proposed risk management measures. Senior Director (Intermediaries Supervision, Intermediaries), Securities and Futures Commission supplemented that the Guidelines would include quantitative benchmarks in relation to six major risk management measures for securities margin financing business. SFC would conduct a public consultation before finalizing the Guidelines. In response to Mr Christopher CHEUNG's further enquiry, DCEO&ED/SFC and D/SFC advised that listed securities of biotech companies and companies with WVR structure would have the same haircut percentage as other listed securities in Hong Kong for the purposes of FRR.

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Conclusion

42. The Chairman concluded that members supported the Administration's plan to table the relevant subsidiary legislation before LegCo for negative vetting in the fourth quarter of 2018.

VI Any other business

43. There being no other business, the meeting ended at 12:13 pm.

Council Business Division 1
Legislative Council Secretariat
5 September 2018