立法會 Legislative Council

LC Paper No. CB(4)832/17-18 (These minutes have been seen by the Administration)

Ref: CB4/PL/ITB/1

Panel on Information Technology and Broadcasting

Minutes of meeting on Monday, 12 February 2018, at 2:30 pm in Conference Room 3 of the Legislative Council Complex

Members present: Hon Charles Peter MOK, JP (Chairman)

Dr Hon Elizabeth QUAT, BBS, JP (Deputy Chairman)

Hon James TO Kun-sun

Hon WONG Ting-kwong, GBS, JP Hon Starry LEE Wai-king, SBS, JP Hon CHAN Kin-por, GBS, JP

Hon Claudia MO

Hon Michael TIEN Puk-sun, BBS, JP

Hon YIU Si-wing, BBS

Hon MA Fung-kwok, SBS, JP

Hon CHAN Chi-chuen Hon CHAN Han-pan, JP

Hon Christopher CHEUNG Wah-fung, SBS, JP

Ir Dr Hon LO Wai-kwok, SBS, MH, JP

Hon Alvin YEUNG Hon CHU Hoi-dick Hon YUNG Hoi-yan Hon CHAN Chun-ying Hon HUI Chi-fung

Members absent: Hon Mrs Regina IP LAU Suk-yee, GBS, JP

Hon Paul TSE Wai-chun, JP

Hon Martin LIAO Cheung-kong, SBS, JP

Hon CHUNG Kwok-pan

Dr Hon Junius HO Kwan-yiu, JP

Public officers attending

: Agenda item V

Innovation and Technology Bureau

Dr David CHUNG Wai-keung, JP Under Secretary for Innovation and Technology

Ir Allen YEUNG, JP Government Chief Information Officer

Mr Victor LAM Wai-kiu, JP Deputy Government Chief Information Officer (Infrastructure and Operations)

Mr Jason PUN Si-keung Assistant Government Chief Information Officer (Cyber Security and Standards)

Agenda item VI

Commerce and Economic Development Bureau

Miss Eliza LEE, JP
Permanent Secretary for Commerce and Economic
Development (Communications and Creative
Industries)

Mr Danny LAU
Advisor (Telecommunications)

Mr Keith GIANG

Principal Assistant Secretary for Commerce and Economic Development (Communications and Creative Industries)A

Office of the Communications Authority

Miss Agnes WONG, JP Director-General of Communications

Mr Chaucer LEUNG
Deputy Director-General of Communications
(Telecommunications)

Communications Authority

Mr Hubert NG Member

Dr Anthony SEETO

Member

Clerk in attendance: Mr Daniel SIN

Chief Council Secretary (4)3

Staff in attendance: Mr Ambrose LEUNG

Senior Council Secretary (4)3

Ms Peggy CHUNG Council Secretary (4)3

Ms Cynthia TAM

Legislative Assistant (4)3

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I. Confirmation of minutes of meeting

(LC Paper No. CB(4)575/17-18

-- Minutes of meeting held on

13 November 2017

LC Paper No. CB(4)582/17-18

-- Minutes of meeting held on

11 December 2017)

The minutes of the meetings held on 13 November 2017 and 11 December 2017 were confirmed.

II. Information paper(s) issued since the last meeting

2. <u>Members</u> noted that no paper had been issued since the last meeting held on 8 January 2018.

III. Date of next meeting and items for discussion

(LC Paper No. CB(4)577/17-18(01) -- List of outstanding items for discussion

LC Paper No. CB(4)577/17-18(02) -- List of follow-up actions)

Regular meeting on 12 March 2018

- 3. <u>Members</u> noted that the next regular Panel meeting would be held on Monday, 12 March 2018 at 2:30 pm to discuss the following items:
 - (a) Implementation of key infrastructure projects to support smart city development; and
 - (b) Public Consultation relating to the Review of Broadcasting Ordinance (Cap. 562) and Telecommunications Ordinance (Cap. 106).

IV. Proposed joint-Panel duty visit to the Guangdong-Hong Kong-Macao Bay Area

- 4. <u>The Chairman</u> said that the Panel on Economic Development, the Panel on Financial Affairs and the Panel on Commerce and Industry would jointly organize a duty visit to various major cities in the Guangdong-Hong Kong-Macao Bay Area. Some of the areas of interest included innovation and technology companies.
- 5. <u>The Chairman</u> suggested that this Panel should also participate in the joint-Panel visit. <u>Panel members</u> agreed. <u>The Chairman</u> asked the Clerk to follow up with the respective Panels accordingly.
- 6. On Ms Claudia MO's enquiry about Members' applications for Hong Kong and Macao Residents Entry and Exit Permits, the Chairman asked the Clerk to convey Ms MO's concerns to the joint Panels for making detailed arrangements for the visit.

V. Update on information security

(LC Paper No. CB(4)577/17-18(03)

 Administration's paper on the update on information security

LC Paper No. CB(4)577/17-18(04)

-- Paper on information security prepared by the Legislative Council Secretariat (Updated background brief))

Presentation by the Administration

7. At the invitation of the Chairman, <u>Under Secretary for Innovation and Technology</u> ("US for IT") briefed members on the latest development on information security set out in the paper provided by the Administration (LC Paper No. CB(4)577/17-18(03)).

Discussion

Information and cyber security landscape

- 8. <u>Mr CHAN Chun-ying</u> noted that, compared with 2016, the number of computer security incidents handled by the Hong Kong Computer Emergency Response Team Coordination Centre ("HKCERT") had decreased except for incidents related to malicious software attack. He queried the reasons for the decline.
- 9. <u>Deputy Government Chief Information Officer (Infrastructure and Operations)</u> ("DGCIO") replied that the decrease in the number of computer security incidents handled by HKCERT (except malicious software and botnet incidents) was due to an increase in users' awareness and adoption of preventive measures following the enhanced promotion and publicity efforts implemented by the Administration and HKCERT.
- 10. Referring to a recent incident of cyber attack in the tourism sector, Mr YIU Si-wing asked if the Administration had compiled statistics on the sectors that were more vulnerable to cyber attacks. Mr YIU said that the statistics should present a breakdown by different sectors, and the Administration should step up efforts to raise awareness of small and medium enterprises ("SMEs") on system security risks.

- 11. DGCIO said that there was no readily available breakdown by business sectors of computer security incidents. He added that HKCERT was regularly organizing seminars and workshops for SMEs in different sectors to introduce ways to protect data in their information systems.
- 12. <u>Ms Claudia MO</u> mentioned that two computers which had stored personal information of more than three million voters were lost during the last Legislative Council elections in 2016. Investigation was still underway. She asked if the Office of the Government Chief Information Officer ("OGCIO") had received request from the Registration and Electoral Office ("REO") for assistance and whether the Administration was aware of any leakage of personal information as a result of the incident.
- 13. <u>DGCIO</u> said that OGCIO had provided advice and reminded REO on the need to comply with the various information security guidelines. REO had implemented most of the recommendations and was following up on the remaining ones. <u>DGCIO</u> supplemented that, so far, there was no evidence showing that personal information had been leaked following the loss of the two computers during the last Legislative Council elections. In response to Ms Claudia MO's enquiry, <u>DGCIO</u> added that in major exercises such as Policy Address and Budget Speech, OGCIO's role was to ensure proper protection of government systems during the exercises.

Technology Voucher Programme

- 14. As regards subsidies provided under the three-year pilot Technology Voucher Programme ("TVP"), Mr CHAN Chun-ying queried whether the maximum amount of \$200,000 for each eligible SME was sufficient for installing hardware and software solutions to defend their systems against cyber attacks. He also asked how many applications had been approved. Mr YIU Siwing commented that many SMEs were reluctant to invest in computer security measures as many were under the impression that such systems were expensive. He suggested that the Administration should convey the message to the community that setting up effective preventive measures to enhance information security should not be costly.
- 15. <u>DGCIO</u> responded that as at end-January 2018, a total of 324 applications for funding under TVP had been approved, of which 16 applications were related to cyber security improvement. With a 2:1 matching ratio and the funding ceiling of \$200,000 for each eligible SME, successful applicants could spend up to \$300,000, which should normally be sufficient for purchasing technology services and solutions to improve security of their information systems.

- 16. The Chairman commented that improving information security needed not be expensive. Some organizations, such as the Hong Kong Productivity Council offered services which helped SMEs evaluate the risks of their current systems and recommended improvement measures. SMEs could decide what and how much to invest on improving security of their systems using TVP. GCIO agreed that it was useful for SMEs to conduct a system inspection first to evaluate the actual needs for improving system security before making decisions on the specific service or solution to purchase. He also agreed to promote the use of TVP.
- 17. Mr YIU Si-wing said that, apart from TVP, funds were also available from the Hong Kong Tourism Board for improving the computer systems of travel agents. Mr YIU asked if funds from both sources could be used on the same project. GCIO said that funding under TVP could not be applied on a project that had already been funded from another government source for similar purpose.
- 18. <u>Mr YIU Si-wing</u> commented that the number of applications approved under TVP related to information security was on the low side and he queried whether the low success rate reflected the fact that the application process was too cumbersome and he also asked whether the Administration would review the process.
- 19. <u>US for IT</u> responded that so far funding support of more than \$40 million had been approved under TVP. The Administration would step up promotion and encourage SMEs to make applications under TVP to improve security of their information systems.

Review of legislation for protection of personal information

- 20. The Deputy Chairman asked whether the Administration had examined if existing legislation was up-to-date in ensuring protection of individuals and their personal data in the light of the increasing prevalence of online activities such as Internet payment and other cyber commercial activities. In particular, the Deputy Chairman expressed concerns about the protection of personal privacy of children. She also asked if OGCIO would play a more proactive role in initiating reviews and providing guidelines to the relevant bureaux and departments ("B/Ds").
- 21. <u>GCIO</u> said that OGCIO would update internal guidelines and policies on a regular basis to strengthen the requirements in different security areas. Other B/Ds, as well as the respective statutory organizations, would also keep the

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respective legislation and guidelines under review. In response to the Deputy Chairman's further enquiry, <u>US for IT</u> said that, if appropriate, the Administration would cover the security measures when briefing the panel on new technology initiatives such as electronic identity.

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22. As suggested by the Deputy Chairman, the Chairman requested the Admin Administration to provide supplementary information on plan for legislative review in view of the privacy and information security issues arising from the development of e-commerce, Internet of things, financial technology, etc.

International and regional collaboration

- 23. Mr CHAN Chung-ying noted that the Government Computer Emergency Response Team Hong Kong ("GovCERT") had participated in a number of annual conferences each year. He asked whether participating in such activities was effective in establishing collaboration networks in preventing cyber attacks.
- 24. <u>DGCIO</u> explained that participation in annual conferences, such as those organized by the Forum of Incident Response and Security Teams and the Asia Pacific Computer Emergency Response Team, had been effective in enabling GovCERT to establish a communication network with regional and international organizations for information exchange. This would enable the Administration to collect latest information on security risks, for example, attacks by latest malware and ransomware, and offer advice to the general public.

Assessment on the cyber security situation and victimization surveys on cyber crimes

25. Mr James TO mentioned that the Hong Kong Police Force ("HKPF") conducted victimization surveys in addition to incident reports on crimes. The information gathered from the different sources would allow more in-depth comparison and assessment of the criminal activities committed vis-à-vis the number of incidents reported. Mr TO requested the Administration to provide written information on assessment on the current cyber security situation in Hong Kong by making reference to local and international sources and whether the Administration would conduct victimization surveys on cyber crimes. The Chairman agreed that victimization surveys should be conducted as the computer crime statistics would likely be under-reported as many victims tended not to report their cases to HKPF for follow-up.

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- 26. <u>DGCIO</u> responded that the number of computer security incident handled by HKCERT and the technology crime statistics gathered by Hong Kong Police Force ("HKPF") generally corresponded. He added that the industry had also conducted surveys on computer security risks in various economies. For example, Microsoft had published a survey report related to cyber attacks. According to the findings in Microsoft's survey, the computer security risk in Hong Kong was not particularly serious.
- 27. In response to Ms Claudia MO's enquiry, Assistant Government Chief Information Officer (Cyber Security and Standards) said that according to the survey report compiled by Microsoft, about 6.4 out of every 100 computers in Hong Kong had encountered an attempt of malware attack (i.e. not necessarily been actually infected), as compared with the world average of 7.8 per 100 computers. The worst encounter rate in the survey was 26.6 per 100 computers. In response to Ms Claudia MO's further enquiry, GCIO undertook to provide information on world-wide encounter rate as summarized in the Microsoft's report for members' information.

Professional training and public awareness

- 28. <u>Ms YUNG Hoi-yan</u> asked if the Administration would introduce more training programmes that enabled trainees to be awarded internationally accredited qualifications in information security. As many of these training programmes were expensive, <u>Ms YUNG</u> asked if the Administration would provide subsidies for SMEs to support their employees to undergo such training.
- 29. <u>DGCIO</u> responded that the Administration had been collaborating with relevant professional bodies to encourage information technology ("IT") personnel to sit for professional examinations and obtain accredited qualifications. According to ISACA¹ and the International Information System Security Certification Consortium, about 4 500 qualifications in Certified Information Security Manager, Certified Information Security Auditor and Certified Information System Security Professional were being held by IT professionals in 2017, accounting for about 3% to 5% of all IT professionals in Hong Kong. The IT professionals with these relevant qualifications were capable of performing information security work.
- 30. <u>DGCIO</u> supplemented that different subsidy schemes of the Government might be used for information security training of IT professionals. <u>The Chairman</u> said that more support should be provided for IT personnel to sit for accreditation examinations. He suggested that the scope of the Continuing

¹ ISACA is formerly known as Information Systems Audit and Control Association and now goes by its acronym only.

Education Fund should be extended to cover examination fees. <u>The Chairman</u> said that a manpower survey should be conducted to assess the demand for informational security personnel. <u>GCIO</u> responded that the Vocational Training Council had been conducting IT manpower survey regularly.

31. <u>Ms YUNG Hoi-yan</u> asked what other activities the Administration would organize in the coming year to raise young people's awareness of cyber security in using mobile devices, cloud services and social media. <u>DGCIO</u> responded that the Administration put heavy emphasis on raising cyber security awareness among the youth. For example, OGCIO and HKPF organized various competitions for young people on cyber security-related matters, and would continue to conduct school visits in collaboration with information security professional associations in the coming year.

Helping victims of cyber crime to recover lost data

- 32. Mr CHAN Kin-por asked if the Administration would play a more active role in helping victims of cyber crime and Internet fraudulent cases to recover their data and reduce loss. DGCIO said that HKPF had advised owners of websites to take precaution and remove any malware from their systems. He added that HKPF would launch another scheme later in 2018 to alert smartphone owners to remove malware and clear it from their smartphones. DGCIO supplemented that the Administration would set up a cross-sector platform for sharing information and analyses on the various cyber security risks and vulnerabilities, and would disseminate the information to the community.
- 33. Mr CHAN Chi-chuen noted that HKPF had helped victims of ransomware attacks to recover their data. He asked whether HKPF was able to recover locked data upon request by victims of ransomware or whether HKPF had to enlist the help of OGCIO or other professional organizations.
- 34. <u>DGCIO</u> said that decrypting data locked by ransomware would normally require special skills and technology. Unless certain flaws were discovered in the encryption process, it was normally not feasible for any organization or individual to decrypt such data.
- 35. <u>The Chairman</u> commented that the Administration should step up publicity efforts and remind the public to exercise vigilance against malware and ransomware.

VI. Arrangements for the frequency spectrum in the 900 MHz and 1800 MHz Bands upon expiry of the existing assignments for Public Mobile Telecommunications Services and the Spectrum Utilization Fee

(LC Paper No. CB(4)577/17-18(05)

Administration's paper on the arrangements for the frequency spectrum in the 900 MHz and 1800 MHz bands upon expiry of the existing assignments for public mobile telecommunications services and the spectrum utilization fee

LC Paper No. CB(4)577/17-18(06)

Paper on arrangements for the frequency spectrum in the 900 MHz and 1800 MHz bands upon expiry of the existing frequency assignments prepared by the Legislative Council Secretariat (Updated background brief))

LC Paper No. CB(4)581/17-18(01) (tabled at the meeting and subsequently issued via e-mail on 12 February 2018)

Paper on arrangements for the frequency spectrum in 900 and the MHz 1800 MHz bands upon expiry of the existing assignments for public mobile telecommunications services provided by the Office of **Communications Authority** (power-point presentation materials) (Chinese version only)

LC Paper No. CB(4)581/17-18(02) (tabled at the meeting and subsequently issued via e-mail on 12 February 2018)

Paper on arrangements for the frequency spectrum in 900 MHz and the 1800 MHz bands upon of existing expiry the assignments for public mobile telecommunications services and the spectrum utilization fee provided by Commerce the Economic Development (power-point Bureau materials) presentation (Chinese version only))

Presentation by the Administration

36. At the invitation of the Chairman, <u>Permanent Secretary for Commerce and Economic Development (Communications and Creative Industries)</u> ("PS(CCI)") briefed members on the arrangements for the frequency spectrum in the 900 MHz and 1800 MHz bands ("900/1800 MHz Spectrum") upon expiry of the existing assignments for public mobile telecommunications services and the spectrum utilization fee ("SUF"). <u>Deputy Director-General of Communications</u> (<u>Telecommunications</u>) and <u>Principal Assistant Secretary for Commerce and Economic Development (Communications and Creative Industries)A</u> then gave a power-point presentation on the subject.

Discussion

Auctions of spectrum

- 37. Mr YIU Si-wing queried whether the auction of spectrum would be competitive as there were only a few mobile network operators ("MNOs") in Hong Kong. He also queried the reasons for the drastic drop in the number of submissions received during the second public consultation on the approach to spectrum re-assignment as compared with the first. Mr YIU asked how the Administration had improved services and spectrum allocation arrangements in the light of the comments received.
- 38. <u>PS(CCI)</u> said that it had been the Government's policy since 2007 that a market-based approach in spectrum management should be used whenever the Communications Authority ("CA") considered that there were likely to be

competing demands from providers of non-Government services. In fact, seven auctions had been held since then for assignment of spectrum for mobile services and the response had been positive, a testimony of competitive demands for spectrum as a scarce public resource.

- 39. <u>Director-General of Communications</u> ("DGC") went on to say that during the first round of public consultation, a total of 325 public submissions had been received when stakeholders were consulted on a number of options for re-assignment of frequency spectrum. Having considered and consolidated the comments and suggestions, CA and the Administration conducted the second round of public consultation, the focus of which was on a revised hybrid option and understandably, most of the concerns as expressed in the first round of consultation were addressed.
- 40. <u>DGC</u> added that many of the comments received were concerned about the continuation of the fourth generation ("4G") mobile communications service in certain MTRC stations and the second generation ("2G") services being provided by existing MNOs. CA had taken into account this concern and responded by doubling the right of first refusal spectrum ("RFR Spectrum") for each of the four incumbent spectrum assignees to 20 MHz. Secondly, licensees would be required to seek the prior consent of CA and to make satisfactory arrangements for the affected customers before the phasing out of 2G or any higher generations of mobile services could be implemented.
- 41. Likewise, in response to stakeholders' concerns about auction prices and SUF for spectrum offered under the right of first refusal, <u>PS(CCI)</u> said that Secretary for Commerce and Economic Development ("SCED") had adjusted downward both the auction reserve price for the Auctioned Spectrum and the minimum price for the RFR Spectrum against the price ranges proposed in the second consultation.
- 42. The Chairman noted that the spectrum auction price in the previous spectrum re-assignment exercise was lower probably because competition was not very intense after one of the bidders withdrew following its merger with another operator. The Chairman commented that competition might be more intense this time and the auction price could be pushed to a very high level; and some operators might be able to out-bid other operators and obtain a larger share of the Auctioned Spectrum. He asked whether the Administration would implement measures to discourage a few operators monopolizing the spectrum.
- 43. <u>PS(CCI)</u> explained that in the previous auction of spectrum in the 1.9-2.2 GHz band, CA approved the merger of two operators after SCED had decided on the spectrum prices based on the pre-merger five-operator

competition scenario. The merger was approved on condition that, inter-alia, the merged operator would withdraw from participating in the auction for the spectrum that would take place later in the year. Even with the withdrawal of one operator, there was competition in the bidding process among the three remaining MNOs for the spectrum.

44. For the current spectrum re-assignment exercise, <u>PS(CCI)</u> said that at least a total of 120 MHz of spectrum would be made available for auction. The release of such a large quantity of spectrum at one time might have an impact on the auction price. Taking into account this factor and the anticipated launch of the fifth generation mobile services in around 2020, and the needs for operators to invest substantial resources into building the necessary infrastructure, SCED decided that the auction reserve price should be set closer to the average of auction reserve prices of the two most recent auctions (i.e. \$38 million per MHz). <u>DGC</u> supplemented that, to avoid unduly high concentration of spectrum holding in the hands of any single assignee, a spectrum cap of 90 MHz would be imposed on the aggregate amount of the 900/1800 MHz Spectrum, with a subcap of 20 MHz for spectrum in the 900 MHz band, which might be acquired by any successful bidder in the auction.

Impact of auction on mobile service fees

45. The Deputy Chairman queried how SUF would affect the cost of mobile communications services and how it might affect consumers. explained that according to the operating accounts submitted by MNOs, SUF for all the 552 MHz of spectrum allocated for mobile services only accounted for about 3% to 4% of their operating costs. For SUF of the 900 MHz and 1800 MHz spectrum in particular, the share of the operating costs was less than 1%. Even if the levels of SUF increased after the auction, the impact on service fees would unlikely be significant. PS(CCI) added that the mobile communications service market was very competitive. The fluctuation in service fees reflected the market conditions more than the variation in SUF. She supplemented that the previous auction of spectrum in the 1.9-2.2 GHz band for the provision of third generation mobile services did result in an increase in SUF. However, there was no corresponding escalation in mobile communications service charges in general. Rather, there was a spate of price cutting initiatives from MNOs in response to market forces.

Provision of mobile service in remote areas

46. <u>The Deputy Chairman</u> asked whether the Administration would impose conditions on spectrum assignees to expand the coverage of service to ensure that people living in remote areas could have access to mobile communications

and Internet services.

- 47. <u>DGC</u> said that spectrum assignees would be required to undertake that their services should cover at least 90% of the population. As announced in the 2017 Policy Address, the Administration would provide telecommunications companies with financial incentives in the form of a subsidy to encourage the extension of fibre-based network to villages in rural and remote areas. Details were being worked out and the respective District Councils, relevant stakeholders and this Panel would be consulted in due course.
- 48. The Deputy Chairman queried if MNOs could be required to expand their service coverage rather than having to wait for the extension of fixed network connection to remote areas. PS(CCI) said that it was technically difficult to extend mobile communications services to a remote location before the roll out of the fixed network infrastructure thereto. DGC supplemented that most mobile communications services were already able to reach more than 90% of the population.

Installation of transmission facilities

- 49. <u>Mr Alvin YEUNG</u> noted that the turnaround time for an application to use government premises to install mobile base stations would take more than 400 days on the average. He asked if the Administration could expedite the process so that the mobile services could be improved with the re-assignment of spectrum.
- 50. <u>PS(CCI)</u> said that the 900/1800 MHz Spectrum was currently in use to provide mobile services. Operators had already installed the necessary mobile base stations and most of them were located in private premises. <u>DGC</u> supplemented that in case where operators had to apply for the use of government premises or government land for providing services in certain remote areas, permission from more than one department might have to be sought. While the Office of the Communications Authority would play a coordinating role to speed up the process, it took time for operators to provide the necessary information and comply with the requirements set by the respective departments involved.
- 51. <u>PS(CCI)</u> said that operators might have to resort to using government premises to install transmission facilities if more and more property owners were wary of the health risks arising from the radiation from the transmission facilities installed in their premises. If these property owners declined to renew the tenancies to the operators, the latter would have to seek new locations, including government premises, for the installation of mobile base stations.

Second generation mobile communications services

- 52. <u>Mr YIU Si-wing</u> enquired about the profile of 2G service users in Hong Kong and whether the Administration had a timetable for phasing out 2G services. <u>Mr YIU</u> also asked if the Administration had evaluated whether a transitional period of three years was reasonable to phase out 2G services and whether the sector had been consulted.
- 53. <u>PS(CCI)</u> said that there were currently 1.47 million 2G service subscribers in Hong Kong. <u>DGC</u> supplemented that it would be up to MNOs to decide whether and when to phase out 2G and other generations of mobile services based on their respective commercial circumstances. The Administration adopted a technology-neutral approach and would defer to the market on timetable for phasing out such services. However, MNOs would need to seek the prior consent of CA and make satisfactory arrangements for the customers before phasing out 2G or any higher generations of mobile services.
- 54. As regards the Deputy Chairman's enquiry regarding the provision of 4G services in MTRC, <u>PS(CCI)</u> said that existing telecommunications facilities in some MTRC stations did not support the use of the 2.3 GHz and 2.5/2.6 GHz bands for the provision of 4G services. It was therefore necessary to offer to each of the incumbent spectrum assignees a right of first refusal to be assigned 2 x 10 MHz of spectrum in the 1800 MHz band to ensure continuity of 4G services in these MTRC stations.

Tax arrangements in respect of spectrum utilization fees

- 55. <u>The Chairman</u> noted that spectrum assignees would be given a choice to pay SUF either by lump sum payment upfront or annual instalments. He asked whether the Administration had considered how different payment arrangements would affect the tax commitment of the assignees.
- 56. <u>PS(CCI)</u> said that the spectrum re-assignment arrangements and SUF were part and parcel of telecommunications policy under the respective jurisdiction of CA and SCED. Tax obligation in connection with SUF fell outside the purview of telecommunications policy and did not feature in the decision making process of CA and SCED. She added that as advised by the Inland Revenue Department, insofar as government taxation policy was concerned, SUF was considered a capital investment and hence not tax-deductible.

Legislative timetable

57. In response to the Chairman's enquiry, <u>PS(CCI)</u> said that the Administration intended to table the relevant subsidiary legislation in the Legislative Council for negative vetting to effect SUF and to enable the respective spectrum to be auctioned, in the second quarter of 2018. Following the completion of the legislative process, CA would then offer the incumbent spectrum assignees in the second half of 2018 the right of first refusal for the reassignment of the RFR Spectrum. The Administration expected that the auction for the Auctioned Spectrum could be conducted around the end of 2018.

VII. Any other business

58. There being no other business, the meeting ended at 4:30 pm.

Council Business Division 4
<u>Legislative Council Secretariat</u>
29 March 2018