

立法會

Legislative Council

LC Paper No. CB(1)1230/18-19

Ref. : CB1/PL/FA

Report of the Panel on Financial Affairs for submission to the Legislative Council

Purpose

This report which is made in accordance with Rule 77(14) of the Rules of Procedure of the Legislative Council ("LegCo") gives an account of the work of the Panel on Financial Affairs ("the Panel") during the 2018-2019 legislative session.

The Panel

2. The Panel was formed by a resolution passed by LegCo on 8 July 1998 and as amended on 20 December 2000, 9 October 2002, 11 July 2007 and 2 July 2008 for the purpose of monitoring and examining government policies and issues of public concern relating to financial and finance matters. The terms of reference of the Panel are set out in **Appendix I**.

3. For the 2018-2019 session, the Panel comprised 21 members, with Hon Christopher CHEUNG Wah-fung and Hon Kenneth LEUNG elected as Chairman and Deputy Chairman respectively. The membership list of the Panel is in **Appendix II**.

Major work

Macro economy

Hong Kong's economic performance and the trade conflict between China and the United States

4. During the 2018-2019 session, the Panel continued to provide a forum for LegCo Members to exchange views with the Financial Secretary ("FS") on

matters relating to macro-economic issues. The Panel noted at the meeting on 3 June 2019 that Hong Kong recorded a modest economic growth of 0.6% for the first quarter of 2019 over the same period of 2018. The global trading environment continued to face uncertainties created by the trade conflict between China and the United States ("US") ("China-US trade conflict") leading to the weakening of Hong Kong's external trade. Domestic demand also lacked momentum, reflecting the cautious local economic sentiment amid a challenging external environment. On the economic outlook for 2019, Members noted that for 2019 as a whole, the gross domestic product growth was forecast to be 2-3% while the forecast rates of headline and underlying consumer price inflation were both 2.5%. The near-term economic outlook would be subject to a high level of uncertainties. If the China-US trade tensions did not show any easing in the near term, the Hong Kong economy would inevitably face larger downward pressures.

5. Members expressed concern about the adverse impacts of the China-US trade conflict on the Hong Kong economy, and stressed the needs for the Administration to implement measures to mitigate the impacts in helping enterprises and the general public cope with the challenges ahead, and to maintain financial stability in Hong Kong. Some Members suggested that the Administration should continue to invest in community facilities, attract Mainland technology companies to seek secondary listing in Hong Kong, enhance support for the development of the logistics industry and consider reducing Government fees and charges, in order to stimulate the economy and relieve people's burden.

6. FS advised that given that Hong Kong was a small and open economy, it would be inevitably subject to pressure from the external economic environment. The Administration would maintain its role of "facilitator" and "promoter" in economic development and step up efforts in enhancing Hong Kong's competitiveness through diversifying the economy. In addition to enhancing the competitiveness of traditional key industries like financial services and high value-added logistics services, the Administration would step up efforts to promote the development of emerging industries. The Administration would monitor developments closely and render necessary assistance to Hong Kong enterprises to help them tide over the challenges ahead, as well as implement suitable counter-cyclical measures during economic downturn. Besides, the Administration would continue to invest in infrastructure and community facilities. As the trade tensions between the Mainland and the US might result in greater volatilities in the financial markets, financial regulators would continue to stay vigilant and closely monitor market situations with a view to ensuring financial stability. The implementation of a new listing regime in 2018 had created a new route to secondary listing for

overseas-listed emerging and innovative companies in Hong Kong. Also, the Administration would study measures to assist Hong Kong enterprises to better grasp the business opportunities in the Asian markets, and expand Hong Kong's free trade agreement and tax treaty networks.

Property market

7. Members expressed grave concern about the continual surge in flat prices despite the implementation of several rounds of demand-side management measures by the Administration and counter-cyclical macroprudential measures by the Hong Kong Monetary Authority ("HKMA"). Some Members expressed concern about the prevalence of "nano flats" (e.g. residential flats with a usable area of less than 20 square metres) in Hong Kong and enquired if the Administration would consider regulating the development of such flats, such as imposing a minimum standard on the flat size to be built by developers.

8. FS stressed that the demand-side management measures were introduced with the purposes of combating short-term speculation on properties and reducing investment demand. The Administration considered the property market was adjusting in an orderly manner and it was not the opportune time to relax the demand-side management measures. The Administration would continue to monitor the situation closely. On the regulation of "nano flats", FS advised that it might be inappropriate to stop developers from selling "nano flats" if minimum flat size requirement had not been imposed as a sale condition of the residential site concerned at the time of land sale.

Labour market

9. With the overall unemployment rate staying below 3%, Members expressed concern that a tight labour supply could impede Hong Kong's economic development. Some Members suggested that the Administration should formulate training and retraining strategies for the local labour force to help them adapt to economic restructuring, promote the use of technologies so as to reduce manpower needs, and motivate the young elderly to take up employment. Some Members urged the Administration to consider importing labour.

10. FS advised that the Administration would encourage the use of innovation and technologies ("I&T") to enhance productivity of the workforce, and had provided funding to establish two research clusters (one on healthcare technologies and another one on artificial intelligence and robotics technologies) in the Hong Kong Science Park. Furthermore, the

Administration would continue to invest in training and retraining to enhance the quality and competitiveness of the local workforce to help them cope with the changing economic structure including providing the Vocational Training Council and the Construction Industry Council with funding for meeting the demand for manpower development and enhancement of the skills of respective industries in Hong Kong.

Monetary affairs

11. The Panel continued to receive regular briefings from the Chief Executive of HKMA and his colleagues on the work of HKMA. At the three briefings during the 2018-2019 session, HKMA provided information on the global, regional, and local financial and economic situations, assessment of risks to Hong Kong's financial stability, banking supervision, development of the financial market and performance of the Exchange Fund ("EF").

Interest rate risks and measures on the property market

12. Noting that the US Federal Reserve had announced in early 2019 that it would slow down the pace of US interest rate increases, Members sought HKMA's assessment of the possible impacts on the local property and equity markets and whether capital outflow from Hong Kong would continue, as the markets had originally expected the interest rate normalization in the US would continue in 2019.

13. HKMA advised that while interest rates played a role, property prices were also determined by other factors such as land supply, the demand and supply of residential units, and household income levels. Although the pace of interest rate increases in the US might slow down, interest rates in Hong Kong might continue to increase as the pace of interest rate normalization in Hong Kong had been lagging behind that in the US. Under the Linked Exchange Rate System, if Hong Kong dollar ("HKD")-US dollar ("USD") interest rate spreads widened, investors would be induced to sell HKD for USD. Hong Kong's aggregate balance would decline, resulting in a rise in HKD interest rates, which would in turn support HKD exchange rate. Hong Kong's existing large Monetary Base provided an ample buffer against any capital outflow, and therefore the pace of HKD interest rate increases would not be too rapid. The global economy was overcast by a number of uncertainties including the lingering China-US trade conflict and the possibility of a hard Brexit. HKMA had been reminding the public to remain vigilant, manage risks prudently, and carefully assess their repayment ability given that mortgages were long-term loans.

Investment of the Exchange Fund

14. Noting that EF had invested in Belt and Road Initiative ("BRI") projects, some Members enquired about HKMA's risk assessment on infrastructure projects. Enquiries were also raised about how HKMA would consider the environmental, social and governance ("ESG") principles in making EF's investment decisions, and whether there was any target on EF's investments in green projects.

15. HKMA advised that with the aim to further diversify EF's assets, EF started investing in infrastructure projects under the Long-term Growth Portfolio in recent years. When considering whether to invest in individual infrastructure projects, HKMA would carefully assess the commercial and financial viability of the projects and implement appropriate risk-mitigating measures. HKMA stressed that it would make EF's investment decisions independently and adopt the same assessment criteria for all projects irrespective whether they were located along the Belt and Road or not. HKMA would also take ESG principles into account in EF's investment process. Besides incorporating ESG factors in its credit risk analysis of bond investment, HKMA had conducted ESG assessments for EF's investments in private equity and had been discussing with EF's external fund managers the feasibility of using ESG indexes as benchmarks for EF's investments. While HKMA would further increase EF's investments in green projects, it did not consider it appropriate to set a specific target for such investments.

Introduction of virtual banking

16. Some Members expressed concern that with more virtual banking licences granted by HKMA, there would be increasing competition for financial technologies ("Fintech") talents in the banking industry. They enquired about HKMA's measures in enhancing manpower training in the industry.

17. HKMA responded that analyses showed that if all the eight virtual banking licence applications HKMA had received so far were approved, the total manpower requirement of the eight virtual banks in the coming three years would only account for 1.7% of the existing manpower of the banking industry. HKMA had introduced measures including the Enhanced Competency Framework to improve capacity building in the banking industry which would be conducive to enhancing manpower training in the industry.

Update on the uncertificated securities market regime

18. The Panel received a briefing by the Administration, the Securities and Futures Commission ("SFC"), the Hong Kong Exchanges and Clearing Limited ("HKEX") and the Federation of Share Registrars Limited ("FSR") on the latest development in establishing an uncertificated securities market ("USM") regime in Hong Kong at the meeting on 19 March 2019. The USM regime would provide the option for investors to hold securities in their own names and without paper documents, such that investors would enjoy better legal protection and greater convenience as compared with the current paper-based regime. The legislative amendments for introducing the USM regime in Hong Kong were enacted in 2015. Further legislative amendments would be required for implementing a revised operational model for the USM regime, and the Administration planned to introduce the relevant bill into LegCo in the 2019-2020 legislative session.

19. Members suggested that the the Administration should, in taking forward the USM initiative, be mindful of the need of elderly investors who might prefer to hold their securities in paper certificates, and enquired about the timetable for achieving a full USM regime.

20. The Administration stressed that the USM regime would be taken forward in a progressive manner taking into account the operational experience, market readiness and investors' acceptance. While the Administration's ultimate goal was to achieve a full USM regime as early as possible, it would not devise a concrete timetable for implementing a full USM regime lest this would compromise flexibility. It was expected that the first batch of securities might begin to be held and transferred without paper documents in around 2022 if the necessary legislative amendments were in place and systems development was ready. FSR confirmed that with the full implementation of the USM regime, investors would need to convert their paper securities into uncertificated form.

21. As HKEX and FSR had to set up new systems to support the revised model for implementing the USM regime, members expressed concern about the cost implications on investors. There were enquiries about room for lowering the custodian fees payable by investors and shortening the settlement period of initial public offerings ("IPO") securities as the implementation of the USM regime would improve the efficiency of the market.

22. HKEX advised that the costs for the new systems would be borne by HKEX and share registrars. Regarding custodian fees, HKEX explained that the fees and charges would remain the same if investors continued to hold

securities through the Central Clearing and Settlement System in the way they did at present. If investors opted to hold securities in their own names and in uncertificated form, the relevant fees and charges would be determined by the market participants, and it was expected that market competition could help drive down the fees and charges. As for the impacts of the USM regime on the settlement period of IPO securities, SFC advised that since the securities would be in uncertificated form, and with the electronic platforms and electronic payment options made available, there would be room for shortening the settlement period.

Development of financial technologies

23. At the meeting on 1 April 2019, the Administration updated the Panel on the developments of Fintech landscape and latest measures taken by the financial regulators including HKMA, SFC and the Insurance Authority ("IA") in supporting the development of Fintech in Hong Kong.

24. Some members enquired whether the Administration had studied the challenges faced by Fintech companies in Hong Kong, and urged the financial regulators to enhance competitiveness of local Fintech companies in the global Fintech market and attract more overseas Fintech companies and Fintech talents to Hong Kong.

25. The Administration advised that in general, Fintech companies encountered problems such as recruiting talents, seeking funds and finding clients. InvestHK had been taking various measures to assist Fintech companies in resolving the problems. For instance, immigration facilitation was provided to eligible persons under the Talent List through the Quality Migrant Admission Scheme ("QMAS"). Successful applicants of QMAS were not required to have secured an offer of local employment before entering Hong Kong. Moreover, the Administration and financial regulators were actively pursuing collaboration with Mainland and overseas counterparts in Fintech development. Such efforts had resulted in the conclusion of Fintech co-operation agreements with major financial or Fintech hubs, as well as organization and participation in a number of major Fintech events.

26. On members' suggestion that the Administration and financial regulators should step up publicity and promotion on new electronic payment systems including stored value facilities ("SVFs") and Faster Payment System to help the public and the retail sector better grasp such systems, the Administration advised that following the enactment of the Payment Systems and Stored Value Facilities Ordinance (Cap. 584) in 2015, there had been rapid development in SVFs and retail payment systems in Hong Kong. It was noted

that a number of SVF operators were actively publicizing and promoting their services, and the Administration believed that the SVF industry would continue to develop.

27. With the rapid development of Fintech, members stressed the importance for the Administration and financial regulators to enhance cybersecurity and ensure sufficient supply of relevant talents in Hong Kong. The Administration pointed out that HKMA had launched a number of initiatives including the "Cybersecurity Fortification Initiative" to raise the level of cybersecurity of banks in Hong Kong, and the Professional Development Programme which helped increase the supply of qualified professionals in Hong Kong. Moreover, SFC issued in 2017 the Guidelines for Reducing and Mitigating Hacking Risks Associated with Internet Trading to provide guidance to intermediaries on the baseline requirements to enhance cybersecurity resilience. IA conducted consultation with the industry on its draft cybersecurity guidelines in November 2018 which were expected to come into effect by the end of 2019.

Development of the insurance industry in Hong Kong

28. At the meeting on 3 June 2019, the Administration consulted the Panel on the proposals to strengthen Hong Kong's competitiveness as an insurance hub by: (a) providing profits tax concessions for the insurance sector to promote the development of marine insurance and the underwriting of specialty risks in Hong Kong; (b) facilitating the issuance of insurance-linked securities ("ILS") in Hong Kong; and (c) expanding the scope of insurable risks by captive insurers set up in Hong Kong. The Administration planned to introduce the relevant legislative amendments into LegCo in the 2019-2020 legislative session.

29. While members expressed support for the proposals in general, they enquired about the benefits for policy holders including whether the proposals could lower insurance premium which in turn could attract more overseas companies to procure insurance policies in Hong Kong. Notwithstanding the Administration's proposal to restrict the selling of ILS to institutional investors, some members were concerned whether there would be measures to prohibit institutional investors from "repackaging" ILS into other types of financial products for selling to retail investors. Some members considered that the constituent funds of the Mandatory Provident Fund Schemes ("MPF funds") should not be allowed to invest in ILS as such high-risk investment products were unsuitable for the retired.

30. The Administration pointed out that policy holders could benefit from the proposals. As Hong Kong currently lacked relevant professionals in marine insurance business or specialty insurance business, multinational insurance companies in Hong Kong usually relied on their overseas branches for handling such insurance business. The proposals could promote the development of marine insurance and the underwriting of specialty risks in Hong Kong, and would therefore attract more overseas talents to Hong Kong. IA was liaising with the industry on further measures to promote the development of the insurance sector in Hong Kong.

31. Regarding investor protection measures for ILS, the Administration advised that it was discussing with SFC on measures to restrict the sale of ILS in the primary market to institutional investors only. Under the Mandatory Provident Fund Schemes Ordinance (Cap. 485), MPF funds were required to comply with stringent investment restrictions. As ILS were usually short term bonds, it was not envisaged that they could meet the investment objectives of MPF funds.

Establishment of a centralized electronic platform for the administration of Mandatory Provident Fund registered schemes

32. At the meeting on 18 December 2018, the Administration and the Mandatory Provident Fund Schemes Authority ("MPFA") consulted the Panel on the proposal to set up a centralized platform ("CP") to facilitate standardization, streamlining and automation of MPF scheme administration processes in order to maximize operational efficiency and create room for fee reduction. MPFA would set up a wholly owned subsidiary company to own and operate CP, and the Administration planned to submit the relevant legislative amendments to LegCo in 2021.

33. While members welcomed the Administration's proposal in general, they considered that enhancing employers' and MPF scheme members' utilization of CP would be vital to the success of the project, and enquired about measures to be taken by the Administration and MPFA in this regard.

34. MPFA advised that a dedicated task force had been formed under the Working Group on eMPF to collaborate with trustees in formulating and implementing relevant measures to raise the digital take-up rate of CP prior to its launch including examining the practices of trustees with higher digital take-up rates and encouraging them to share the successful experience with their counterparts.

35. Noting that MPFA's analysis had revealed that the launch of CP could result in an estimated annual saving of some \$1.1 billion for 20 years, members enquired how the Administration and MPFA would ensure that scheme members could benefit from the savings. Some members cautioned that it would take time to realize the benefits of CP and the public should not expect a drastic reduction in MPF administration costs in the inception years of CP.

36. MPFA advised that it had statutory power to require trustees to provide detailed cost breakdown of their MPF schemes (including trustee fees, administration fees, fund management fees, custodian fees and sponsor fees) and conduct inspections to verify the information if necessary. MPFA was conducting a transparency exercise to collect and disclose such information to facilitate scheme members' comparison. As the service charges of CP would be transparent and imposed on trustees on a cost-recovery basis, it would be easier for scheme members to compare the administration costs and management fees of various trustees after the launch of CP. It was also envisaged that the benchmarking effect resulting from the further lowering of the fee cap level of Constituent Funds under the Default Investment Strategy would motivate trustees to reduce the management fees of their MPF schemes.

37. The Administration's proposal of providing funding of \$3,367.15 million for developing CP and related expenses was incorporated in the Estimates of Expenditure 2019-2020 and the Appropriation Bill 2019 was passed by LegCo at the Council meeting of 16 May 2019.

Possible modifications to the rates concession mechanism

38. In view of the concern expressed by some LegCo Members and members of the public about the fairness of the current rates concession mechanism in ensuring the concession measure would benefit the needy more, the Administration had reviewed the mechanism and consulted the Panel at the meeting on 18 December 2018 on a number of possible options for modifying the mechanism. Among the options explored, the Administration considered that providing rates concession to one rateable property for each owner might be a more feasible approach to vary the rates concession mechanism ("the option") in achieving a more equitable distribution of the rates concession.¹ The Administration estimated that an initial set-up cost of \$200 million to \$300 million would be required for the Rating and Valuation Department ("RVD") to develop a property ownership database for implementing the option.

¹ Under this option, rates concession will be granted to one rateable property (which can be domestic or non-domestic) for each owner (which can be individual or company); and for a co-owned rateable property, only one owner may opt to receive rates concession for that property.

39. Members expressed grave concern over the option due to the implications on existing beneficiaries of the rates concession measure, in particular tenants who paid rates under tenancy agreements including many small and medium enterprises and small business operators renting non-domestic properties. Some members considered that the option, if implemented, would be very unfair to these tenants as they could no longer benefit from rates concession. Some members considered it unfair to restrict owners with a number of properties to rates concession for only one of their properties while they paid rates for all. These members further pointed out that some people might hold more than one property for meeting various needs (e.g. one for self-use and another for use by family members, one for residential use and one for doing business, elderly people who relied on rental income to support their living, etc.) and the proposed change would significantly reduce their benefits from rates concession. There was a suggestion that the Administration should consider amending the option to provide rates concession to more than one rateable property held by an owner, and to provide rates concession to tenants if the tenants of such properties were responsible for paying rates under the tenancy agreements. Members also expressed reservation over investing considerable resources for developing and maintaining the property ownership database for implementing a revised rates concession mechanism. After deliberation, the Panel passed a motion requesting the Administration to shelve the option for the time being in consideration that implementation of the option and development of the new property ownership system for implementing the option might not be in line with the principle of genuine fairness and the "value for money" principle respectively.

40. The Administration responded that it would take into account the members' views and concerns when considering rates concession arrangements. Regarding the suggestion of allowing each owner to enjoy rates concession for say, two or three eligible rateable properties or providing rates concession to tenants, the Administration explained that this would complicate the rates concession mechanism and create difficulties to RVD as it had to make different rates concession arrangements. Apart from setting up a new computer system for capturing information on property ownership and tenancies, there would be significant manpower implications on RVD for updating the system on an ongoing basis, as well as to handle related enquiries and complaints. It was also considered not cost-effective to invest considerable resources to keep track of changes to tenancies (e.g. changes arising from the signing of new tenancy agreements and termination of agreements).

41. The Panel noted that the Administration proposed in the 2019-2020 Budget to provide rates concession based on the existing mechanism. The Administration explained to the Subcommittee on Rating (Exemption) Order 2019² that at the Panel meeting on 18 December 2018, after considering the pros and cons, most Panel members had objected to modifying the existing rates concession mechanism. Noting the diverse views and reservations expressed by Panel members, the Administration had therefore shelved the proposal to modify the rates concession mechanism and adopted the existing rates concession arrangement for providing rates concession in 2019-2020.

Personal data protection issues relating to credit reference agencies

42. The incident of a data breach by a credit reference agency ("CRA"), the TransUnion Limited ("TransUnion"), involving unauthorized access to the customer credit reports of three government officials through its online platform in October and November 2018 ("the Incident"), had aroused public concern about the regulation of CRAs for the proper protection of personal data. TransUnion subsequently notified the Office of the Privacy Commissioner for Personal Data ("PCPD") of the Incident and temporarily suspended its online services. PCPD had commenced a compliance investigation on TransUnion. At the meeting on 7 January 2019, the Administration, HKMA, PCPD and TransUnion briefed the Panel on the follow-up actions taken in response to the Incident.

43. Given that CRAs maintained a vast amount of personal and sensitive data and that banks were both the information providers and service users of CRAs, some members urged the Administration to consider introducing a regulatory regime for CRAs with HKMA as the regulator.

44. The Administration and HKMA stressed that the Personal Data (Privacy) Ordinance (Cap. 486) ("PDPO") had clear provisions governing the protection of personal data privacy, and the handling of personal data by CRAs including the collection, accuracy, use, security, access and correction of data was regulated by the Code of Practice on Consumer Credit Data ("the Code of Practice") issued by PCPD. The Administration had no plan to introduce a regulatory regime for CRAs. The Incident was an issue pertaining to personal data protection, and the Administration, together with PCPD, would consider how the regulation of data protection could be further enhanced under the existing legal framework. Also, apart from CRAs, there were other third-party service providers in the market which would have access to and

² The Subcommittee on Rating (Exemption) Order 2019 was formed by the House Committee for scrutinizing the rates concession measures in the 2019-2020 Budget.

process personal data of bank customers, and they were not regulated by HKMA. HKMA would make reference to the outcome of PCPD's compliance investigation on the Incident, and work together with the banking industry to consider ways to further strengthen the arrangements between banks and CRAs. As regards compliance with PDPO and the Code of Practice, PCPD advised that incidents involving criminal activities or operating models not relating to the protection of privacy of individuals with respect to personal data might fall outside the scope of PDPO. In the light of the Incident, PCPD would conduct a comprehensive review of the Code of Practice with reference to the findings of the compliance investigation on TransUnion, and would consider improvements to the operation of the Code where necessary.

45. On some members' suggestion for HKMA to introduce competition in the market as at present TransUnion was the only CRA in the Hong Kong market, HKMA responded that it had been consulting the banking industry since the second quarter of 2018 on ways to further enhance the current mechanism on sharing and utilization of customers' credit information through CRAs. The consultation had covered, among others, the need of having more than one CRA in Hong Kong and the possible risks that might arise from an increasing number of CRAs operating in Hong Kong.

46. Some members sought clarification as to whether the sale of personal data by data users for profit was permissible under PDPO. PCPD advised that PDPO had provisions governing the actions required (such as notification) for the sale of personal data for financial gain, and a data subject could oppose to such an arrangement. TransUnion confirmed that consumers had to give consent before a business partner received any data from TransUnion. Enabling people of Hong Kong to access their credit information through TransUnion or its business partners would benefit people by providing them more channels to access their credit information. This had helped people understand their credit status, and facilitated their access to financial products and make informed financial decisions.

47. The Panel passed a motion at the meeting on 7 January 2019 urging the Administration to study the regulation of CRAs, strengthen the monitoring of the collection, holding, handling or use of customers' personal credit data, increase the transparency and security of using innovative technologies to provide personal credit data in the future, and refine the legislation to enhance the community's confidence in credit rating reference services.

Implementation of the Securities and Futures Commission's Code on Real Estate Investment Trusts

48. At the meeting on 7 January 2019, the Panel discussed with the Administration and SFC the implementation of SFC's Code on Real Estate Investment Trusts ("the REIT Code").

49. Some members expressed concern that SFC's amendments to the REIT Code in 2014 ("the REIT Code amendments") had incentivized REITs to engage in active property development business. As only one REIT (i.e. the Link Real Estate Investment Trust ("The Link")) enjoyed substantial growth in market capitalization since the implementation of the REIT Code amendments, these members cast doubt on the claimed benefits brought by the amendments to the development of Hong Kong's financial market. They further criticized The Link for maximizing its financial returns at the expense of the interests of the public rental housing residents and shop tenants, and called on the Administration and SFC to conduct a review of the REIT Code in light of the impact of the 2014 REIT Code amendments on the society, as well as to examine the need of further revising the REIT Code.

50. The Administration and SFC explained that before the introduction of the REIT Code amendments, subject to compliance with a REIT's constitutive documents and the requirements under the REIT Code, the REIT could adjust its investment portfolios (through, for example, the sale and purchase of its properties) in accordance with its investment strategies. Under the 2014 REIT Code amendments, REITs were only allowed to engage in a limited extent of property development activities, with the property development costs capped at 10% of the REIT's gross asset value. In drawing up the 2014 REIT Code amendments, SFC had made reference to the then practices of the international financial community. The 10% Cap requirement was more stringent than similar requirements in other jurisdictions including Singapore and Malaysia (which were 25% and 15% respectively). Further, the REIT Code provided that a SFC-authorized REIT must have dedicated investment in real estate that generated recurrent rental income (i.e. at least 75% of the REIT's gross asset value should be invested in such real estate at all times), and have to distribute a significant portion of its income (i.e. not less than 90% of its audited net income after tax) to unit holders in the form of regular dividends. With the restrictions prescribed in the REIT Code, it would be difficult for REITs to become property developers.

Regulatory arrangements to tackle malpractices by financial intermediaries for money lending

51. The Panel continues to monitor the implementation of the Administration's four-pronged approach for tackling the malpractices by financial intermediaries in relation to money lending ("intermediaries"), viz. imposition of more stringent licensing conditions on money lenders, enhanced Police enforcement, enhanced public education and publicity, and enhanced advisory services to the public.

52. While members considered that the four-pronged approach was effective in general, they expressed concern about debt collectors' improper practices in recovering loans including using intimidating acts and charging high administration fees on borrowers. Some members urged the Administration to conduct a review on the Money Lenders Ordinance (Cap. 163) ("MLO") including the cap of 60% per annum on the effective interest rate for a loan, making reference to the regulatory regimes of jurisdictions such as the United Kingdom ("UK") and Singapore.

53. The Administration advised that under MLO and the licensing conditions imposed on money lenders, the agents and employees of or any persons acting for money lenders were prohibited from charging any fees on a borrower other than the interest on a loan. Money lenders and debt collectors must not harass anyone or adopt unlawful or improper debt collection practices. The Police had conducted two targeted enforcement operations in 2019 against unlawful debt collection activities covering some 90 cases of criminal damage or intimidation, and arrested 16 people during the operations. If a licensed money lender was found to have been involved in improper debt collection practices, the Registrar of Money Lenders would take prompt follow-up actions, including requiring the money lender concerned to make rectification within a specified period, taking action to revoke the licence or raising objection to renew the licence.

54. The Administration further explained that there was no international standard practice in setting interest rate ceiling on money lending business. For instance, while Singapore did not impose a single ceiling on interest rate of all types of loan, the UK imposed a ceiling on the daily rate for high-risk short-term loans. The Administration assured the Panel that it would continue to closely monitor the operation of the regulatory regime for money lenders and consider the need of implementing new measures as and when necessary.

55. As regards the provision of advisory services to the public on money and debt management, some members suggested that the Administration should

set up a dedicated office to provide one-stop service to assist borrowers who were victims of fraudsters or unscrupulous intermediaries, and enhance public education and publicity to raise public awareness of and alertness to money lending-related malpractices.

56. The Administration advised that having considered the benefits of the three-year pilot programme launched in 2016 to provide assistance/counselling service to people in financial distress through dedicated telephone hotlines set up by two non-governmental organizations, the Administration would continue to provide resources for the services for another three years. Besides, the public could call the Registrar of Money Lenders' hotline or the "Anti-Scam Helpline 18222" set up by the Police to seek advice and assistance whenever they suspected that they had been approached by unscrupulous money lenders or intermediaries. Moreover, the Administration had rolled out three rounds of public education and publicity activities since 2016 including highlighting the prevalent malpractices of the intermediaries through Announcements of Public Interest on television and radio, placing territory-wide advertisements, posting videos on social media platforms, distributing posters and publicity leaflets, etc.

Other work

57. During the 2018-2019 legislative session, the Panel also discussed with the Administration and related bodies on a number of subjects. The major ones include:

- (a) legislative proposals, including:
 - (i) legislative amendments to provide profits tax exemption for funds operating in Hong Kong;
 - (ii) legislative amendments to improve the regulatory framework for the supervision of insurance groups where the holding company of an insurance group was incorporated in Hong Kong;
 - (iii) legislative amendments to enhance the investor compensation regime and to wind-up the Dealers Deposit Scheme; and
 - (iv) legislative amendments for implementing e-Stamping of share transfer documents;

- (b) briefings on the work of the Financial Services Development Council and the work of the Financial Reporting Council in 2018;
- (c) briefings on the proposed budgets of IA and SFC for the financial year 2019-2020; and
- (d) the proposal to create the Budget and Tax Policy Unit under the Financial Secretary's Office.

Meetings and visits

58. From October 2018 to July 2019, the Panel held a total of 12 meetings including two joint meetings. In April 2019, the Panel and three other Panels namely the Panel on Commerce and Industry, the Panel on Economic Development and the Panel on Information Technology and Broadcasting conducted a joint-Panel duty visit to the Yangtze River Delta Region. The delegation comprises a total of 22 Members. The purpose of the duty visit was to enable Members to better understand the economic, financial and I&T developments of a number of major cities in the Yangtze River Delta Region.

Council Business Division 1
Legislative Council Secretariat
July 2019

Legislative Council

Panel on Financial Affairs

Terms of Reference

1. To monitor and examine Government policies and issues of public concern relating to financial and finance matters.
2. To provide a forum for the exchange and dissemination of views on the above policy matters.
3. To receive briefings and to formulate views on any major legislative or financial proposals in respect of the above policy areas prior to their formal introduction to the Council or Finance Committee.
4. To monitor and examine, to the extent it considers necessary, the above policy matters referred to it by a member of the Panel or by the House Committee.
5. To make reports to the Council or to the House Committee as required by the Rules of Procedure.

Panel on Financial Affairs

Membership list for 2018 - 2019 session*

Chairman Hon Christopher CHEUNG Wah-fung, SBS, JP

Deputy Chairman Hon Kenneth LEUNG

Members 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-ye, GBS, JP
Hon Steven HO Chun-yin, BBS
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 CHU Hoi-dick
Hon Holden CHOW Ho-ding
Hon SHIU Ka-fai, JP
Hon CHAN Chun-ying, JP
Hon CHEUNG Kwok-kwan, JP
Hon LUK Chung-hung, JP

(Total : 21 members)

Clerk Ms Connie SZETO

Legal Adviser Ms Clara TAM

* Changes in membership are shown in Annex.

Panel on Financial Affairs
Changes in membership

Member	Relevant date
Hon Vincent CHENG Wing-shun, MH, JP	Up to 14 October 2018
Hon Tommy CHEUNG Yu-yan, GBS, JP	Up to 15 October 2018
Dr Hon Junius HO Kwan-yiu, JP	Up to 15 October 2018
Hon KWOK Wai-keung, JP	Up to 15 October 2018
Hon Jimmy NG Wing-ka, BBS, JP	Up to 15 October 2018
Dr Hon Elizabeth QUAT, BBS, JP	Up to 16 October 2018
Hon Paul TSE Wai-chun, JP	Up to 16 October 2018
Hon YIU Si-wing, BBS	Up to 19 October 2018
Dr Hon CHIANG Lai-wan, SBS, JP	Up to 22 October 2018
Hon MA Fung-kwok, SBS, JP	Up to 24 October 2018
Dr Hon Priscilla LEUNG Mei-fun, SBS, JP	Up to 26 October 2018
Hon CHAN Hak-kan, BBS, JP	Up to 29 October 2018
Hon Kenneth LAU Ip-keung, BBS, MH, JP	Up to 6 December 2018
Hon Martin LIAO Cheung-kong, GBS, JP	Up to 21 January 2019
Hon HO Kai-ming	Up to 14 March 2019