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來函檔號 YOUR REF.:

22 October 2020
(By email)

Clerk to the Finance Committee
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong
(Attn: Ms Angel SHEK)

Dear Ms SHEK,

Issues related to item FCR(2020-21)68 of the Finance Committee

We refer to your email dated 20 October 2020 requesting the Administration to respond to the questions raised by the Hon WU Chi-wai on the agenda item **FCR(2020-21)68**. Our response is attached at Annex.

Yours sincerely,

[Chinese version signed]

(TE Chi-wang)

for Secretary for Financial Services and the Treasury

Encl.

Issues related to item FCR(2020-21)68 of the Finance Committee

1. Since the commencement of the new auditor regulatory regime on 1 October 2019, the Financial Reporting Council (FRC), an independent oversight body of auditors, has been making its own operational arrangements for the performance of its statutory functions and the usage of its expenditure. Under the Financial Reporting Council Ordinance, the directors of the FRC are appointed by the Chief Executive and the FRC must submit its estimates of income and expenditure for each financial year for approval by the Financial Secretary (FS). The Government should continue its policy oversight over the FRC.

In particular, during the initial operation of the new auditor regulatory regime, the FRC has been using the seed capital provided additionally by the Government for migration to the new regime and maintaining regular liaison with the Financial Services and the Treasury Bureau (FSTB). By communicating with the management of the FRC, the FSTB strives to ensure that the overall operation and development direction of the FRC are in line with the policy intent and in the interest of the public.

2. The FSTB assists the FS in evaluating the income and expenditure position of the FRC, analysing whether its estimates of income and expenditure are reasonable, and making recommendations as necessary so as to ensure proper use of resources. Upon the FS's approval of the FRC's estimates of income and expenditure for its first financial year (i.e. 1 October 2019 to 31 March 2021), the FSTB should regularly examine if the FRC uses its resources in accordance with its estimates (e.g. by reviewing the progress of recruiting additional staff members for various departments¹), thereby ensuring that the FRC has established and maintained an efficient operational system for all its statutory functions and has fulfilled its important regulatory role.

Starting from 1 January 2022, the FRC will be funded by introducing three levies on securities transactions, public interest entities and public interest entity auditors respectively. The FRC should submit its annual work report and financial report to the Legislative Council (LegCo) and brief the LegCo Panel on Financial Affairs (the FA Panel) on its annual estimates. The FSTB will assist the FRC in carrying out these tasks and will attend the relevant LegCo meetings.

¹ Under the new regime, the FRC has set up a new management structure for its expanded statutory functions, which comprises the Department of Inspection, the Department of Investigation and Compliance, the Department of Discipline, the Department of Oversight, Policy and Governance and the Department of Finance and Administration.

3. To have a more complete picture of the market situation of the unsecured personal loan business of licensed money lenders, the FSTB and the Companies Registry extended the relevant survey this year. The survey has largely been completed and the FSTB will report the survey results to the FA Panel next year. Taking into account the views of the FA Panel and other relevant stakeholders (including the report “Money Lending - Reforming Law and Trade Practices for Consumer Protection” published by the Consumer Council), the Government will consider a new round of regulatory enhancement measures.
4. To address public concern over money lending-related malpractices, the Government has adopted a four-pronged approach to tackle the issues. Enhancing public education and publicity and enhancing debt-advisory services to the public through non-governmental organisations (NGOs) are amongst the measures implemented.

On enhancing public education and publicity, for the past three years (i.e. 2018-19, 2019-20 and 2020-21), the expenditure involved were \$1.89 million, \$0.92 million and \$0.67 million respectively (up to September 2020) on publicity activities in respect of money lending-related malpractices and prudent borrowing. The public education and publicity activities vary over the years and the channels used include television and radio Announcements in the Public Interest, advertisements on newspapers and public transport, publicity on social media, etc. Since 2017, the videos on social media have a total view count of over 1.7 million. Meanwhile, relevant government departments and organisations such as the Anti-Deception Coordination Centre of the Police, the Hong Kong Monetary Authority (HKMA), the Consumer Council and the Investor and Financial Education Council have also carried out money lending-related publicity in accordance with their respective mandates. The FSTB has been closely monitoring the market development, and would collaborate with the relevant departments and organisations as appropriate.

As for enhancing debt-advisory services to the public through NGOs, the Government has been entrusting two NGOs (namely Caritas-Hong Kong and Tung Wah Group of Hospitals) since 2016 to provide assistance for people in financial distress. The two NGOs offer these people counselling support and advise them on how to handle debt problems (such as giving them information on how to increase income/cut expenditure and restructure debts), and will refer them to their associated social service units for further advisory services if necessary. To further strengthen these services, the FSTB has allocated to each of the two NGOs an additional subsidy of \$1.1 million per year since 2019². In the past five years (i.e. from 2016-17 to 2020-

² The subsidy amount for 2019-20 was calculated on a pro rata basis, i.e. about \$370,000 for each organisation.

21), the respective numbers of hotline enquiries/assistance requests handled by these two NGOs were 2 256, 2 949, 3 526, 3 533 and 1 989³.

Similar to the arrangement for other matters concerning the regulation of money lenders, the relevant work is currently being supervised by the two supernumerary posts, and absorbed by existing resources and manpower, including one Senior Administrative Officer and one Senior Executive Officer. The FSTB will meet and communicate with the NGOs concerned from time to time to exchange views on their services and other related issues.

5. To achieve the policy objective of promoting the development of financial technologies (Fintech) in Hong Kong and attracting Mainland and overseas Fintech companies to establish their presence in Hong Kong, the FSTB has been providing policy steer for the dedicated Fintech team under the InvestHK since its establishment while maintaining close liaison with the team on Fintech-related matters which include holding regular inter-departmental meetings. The dedicated team also consults the FSTB on its annual work plan.
6. The development of Fintech is crucial to enhancing the competitiveness of the financial services sector. In recent years, various financial regulators have set up dedicated units to specifically provide support and advice for financial institutions (FIs) under their ambits in respect of Fintech applications and relevant regulatory requirements. The FSTB also coordinates cross-sectoral projects. In this connection, the FSTB chairs a Coordination Group on Implementation of Fintech Initiatives. The Group meets regularly to co-ordinate the progress and planning of Fintech initiatives pursued by regulatory authorities and other stakeholders (including the Cyberport and the Science Park) and facilitate the co-operation and exchange among these bodies. The work is undertaken and followed up by the supernumerary directorate officers.
7. In general, the regulatory requirements and law applicable to conventional FIs also apply to FIs with new service models such as virtual banks and virtual insurers. Financial regulators will make adjustments as appropriate to cater for the needs and operating models under the risk-based principle. We will continue to maintain close liaison with the financial regulators through existing mechanisms and will, in the light of the needs, co-ordinate the efforts of various bureaux/departments and regulators to conduct legislative amendment exercises as appropriate.

³ Figures as at September 2020.

8. The Fintech initiatives implemented in recent years such as virtual banks, virtual insurers and Faster Payment System (FPS) are conducive to the promotion of financial inclusion. Taking the FPS as an example, there are currently 34 banks (including most of the retail banks) and 12 stored value facilities (SVF) operators with mobile applications that support the system. To enhance financial inclusion, the Government has accepted payment of taxes, rates and Government rent, and water charges through the FPS since November 2019. In addition, four government departments will shortly accept payment by the FPS at their service counters and self-service kiosks.

Meanwhile, to ensure public accessibility of basic banking services, the HKMA has been encouraging the banking industry to put the principle of financial inclusion into practice when developing their banking networks, e.g. providing services through mobile branches and video teller machines. The HKMA has also made use of different promotional activities and channels such as television programmes, radio broadcasting, printed media and the Internet to disseminate information on the use of various banking services. The purpose is to increase public understanding of Internet banking, SVF and mobile payment services and enable the public to better understand their rights and responsibilities.

9. The subsidy scheme for promotion of contactless payment in public markets aims to provide a one-off subsidy for tenants of public markets under the Food and Environmental Hygiene Department (FEHD) and the Hong Kong Housing Authority (HKHA). The subsidies will be used to meet the initial set-up costs as well as service and other fees for the provision of at least one contactless payment means for market patrons while the contactless payment would be processed through a licensed bank or a SVF licensee regulated by the HKMA or a debit/credit card scheme. Having regard to the development of contactless payment tools which is already very mature, and the fact that the subsidy scheme mainly involves disbursement of subsidy for tenants of public markets under the FEHD and the HKHA, the Food and Health Bureau and the Transport and Housing Bureau have been tasked to implement the scheme.

To monitor the implementation of measures under the Anti-epidemic Fund and the use of the Fund, the Government has set up the Anti-epidemic Fund Steering Committee chaired by the Chief Secretary for Administration, with members being the Directors of Bureaux (including the Secretary for Financial Services and the Treasury (SFST)) in charge of the relevant measures.

10. Hong Kong, China joined the Asian Infrastructure Investment Bank (AIIB) as a full and separate non-sovereign member in June 2017. The FS and the SFST are the Governor and the Alternate Governor respectively, representing Hong Kong, China in the AIIB's meetings, and the Under Secretary for Financial Services and the Treasury (USFST) serves as an Advisor to the Board of Directors (BoD). Since Hong Kong, China became an AIIB member, the FS or the SFST have attended the annual Board of Governors meetings, while the USFST participates in the quarterly BoD meetings.

Currently, the holders of the two supernumerary posts are responsible for maintaining day-to-day liaison with the AIIB and facilitating the Hong Kong SAR Government officials' participation in the AIIB's meetings. We continue to encourage the AIIB to leverage the strength of Hong Kong as an international financial centre to support its operation. Since 2017, the AIIB has awarded some US\$4.78 million worth of corporate procurement contracts to professional services providers in Hong Kong, covering areas such as auditing, management consultancy, information technology and staff development. The AIIB also organised a recruitment fair in Hong Kong in 2018 to recruit Hong Kong talent to serve in the AIIB. Among those recruited, Mr TSE Man-shing, former Director of Corruption Prevention of the Independent Commission Against Corruption (ICAC), took up the post of Chief Ethics Officer in the Ethics Office of the AIIB in August 2020. We have also facilitated exchanges between the AIIB and various professional sectors in Hong Kong, including arranging a visit to and a briefing by the ICAC for AIIB personnel in 2019.

Looking ahead, we will continue the discussion with the AIIB on the setting up of an office in Hong Kong with corporate treasury functions. We will also encourage the AIIB to make use of the capital markets in Hong Kong to issue bonds.

11. The AIIB and the Asian Development Bank (ADB), both regional multilateral development finance institutions, aim at promoting economic growth and connections through investment to enhance the living standard and spending power in the region. They will bring positive impact and boost the development of Hong Kong as an externally-oriented economy.

The capital markets, asset management professionals and a wide range of financial products in Hong Kong can support the operation of the ADB in areas such as project financing, bond issuance, investment, financial management and foreign exchange management. As at end-2019, Hong Kong enterprises were awarded a total of US\$980 million worth of procurement contracts and consultancy services for ADB funded projects. In 2019, the ADB raised under its Global Medium-term Note Programme a total of US\$370 million in the capital markets

in Hong Kong. We will continue to encourage the AIIB and the ADB to leverage the strength of Hong Kong as an international financial centre to support their operation.

12. Currently, Deputy Secretary for Financial Services and the Treasury (Financial Services)³ (DS(FS)³) is responsible for, inter alia, overseeing the policies and legislation relating to the accountancy sector, corporate insolvency, individual bankruptcy, companies, money lenders and trusts; measures to promote the development of Fintech; and matters relating to the AIIB and the ADB. DS(FS)³ is supported by Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)⁶ (PAS(FS)⁶) for policy matters relating to companies, money lenders and trusts, measures to promote the development of Fintech, and Hong Kong's participation in the AIIB and the ADB. As the workload of different policy areas varies with time, their proportion in the work of the two posts also changes accordingly. As for the present situation, matters relating to corporate liquidation and rescue regime as well as Fintech and money lender policies take up a larger portion in the work of the above posts. We do not expect change in the workload distribution because of making these two posts permanent.

13. The FSTB has deliberated in detail before proposing to make permanent these two supernumerary posts, and is of the view that there is a genuine and long-term need for these two posts to provide high-level policy steer and inputs on an ongoing basis for the work under their supervision. Take the three areas of work mentioned by the Hon WU Chi-wai in his letter as an example. For the implementation of the new auditor regulatory regime, apart from continuing to assume the policy oversight role, the Government also has to regularly review the overall accounting and auditing regulatory regime in Hong Kong from the policy perspective so as to ensure that the regime is benchmarked against the latest international standard and practice. On the regulation of money lenders, the Government has to keep a close watch over the market situation and its development, with a view to continuously enhancing the regulatory measures including administrative measures and licensing conditions, and conducting reviews on the regulatory requirements under the Money Lenders Ordinance (Cap 163) as necessary. As for the introduction of the statutory corporate rescue procedure, the Bill concerned is an integral part of the overall corporate governance regime in Hong Kong. If the Bill is passed, we will provide policy steer on an ongoing basis for the Official Receiver's Office regarding the implementation of the new legislation and will take forward other policies and legislative proposals to refine the corporate governance regime in Hong Kong.