立法會
*Legislative Council*

LC Paper No. CB(1)427/20-21
(These minutes have been seen by the Administration)

Ref : CB1/PL/FA

**Panel on Financial Affairs**

**Minutes of meeting held on**
**Monday, 2 November 2020, at 9:30 am**
**in Conference Room 1 of the Legislative Council Complex**

**Members present** : Hon Jeffrey LAM Kin-fung, GBS, JP (Chairman)
Hon WONG Ting-kwong, GBS, JP (Deputy Chairman)
Hon James TO Kun-sun
Hon Abraham SHEK Lai-him, GBS, JP
Prof Hon Joseph LEE Kok-long, SBS, JP
Hon Starry LEE Wai-king, SBS, JP
Hon CHAN Kin-por, GBS, JP
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Hon Paul TSE Wai-chun, JP
Hon Claudia MO
Hon Steven HO Chun-yin, BBS
Hon Frankie YICK Chi-ming, SBS, JP
Hon WU Chi-wai, MH
Hon YIU Si-wing, BBS
Hon MA Fung-kwok, GBS, JP
Hon Charles Peter MOK, JP
Hon CHAN Han-pan, BBS, JP
Hon Kenneth LEUNG
Dr Hon KWOK Ka-ki
Hon Dennis KWOK Wing-hang
Hon Christopher CHEUNG Wah-fung, SBS, JP
Dr Hon Helena WONG Pik-wan
Hon Martin LIAO Cheung-kong, GBS, JP
Hon POON Siu-ping, BBS, MH
Dr Hon CHIANG Lai-wan, SBS, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon Alvin YEUNG

Hon Andrew WAN Siu-kin
Dr Hon Junius HO Kwan-yiu, JP
Hon LAM Cheuk-ting
Hon Holden CHOW Ho-ding
Hon SHIU Ka-fai, JP
Hon CHAN Chun-ying, JP
Hon CHEUNG Kwok-kwan, JP
Hon HUI Chi-fung
Hon LUK Chung-hung, JP
Hon LAU Kwok-fan, MH
Hon Kenneth LAU Ip-keung, BBS, MH, JP
Dr Hon CHENG Chung-tai
Hon KWONG Chun-yu
Hon Jeremy TAM Man-ho

[According to the announcement made by the Hong Kong Special Administrative Region Government on 11 November 2020 pursuant to the Decision of the Standing Committee of the National People's Congress on Issues Relating to the Qualification of the Members of the Legislative Council ("LegCo") of the Hong Kong Special Administrative Region, Kenneth LEUNG, KWOK Ka-ki, Dennis KWOK Wing-hang and Alvin YEUNG were disqualified from being members of LegCo on 30 July 2020.]

**Public officers attending** : Agenda Item V

Mr Eddie YUE, JP
Chief Executive
Hong Kong Monetary Authority

Mr Arthur YUEN, JP
Deputy Chief Executive
Hong Kong Monetary Authority

Mr Howard LEE, JP
Deputy Chief Executive
Hong Kong Monetary Authority

Mr Edmond LAU, JP
Senior Executive Director
Hong Kong Monetary Authority

Agenda Item VI

Mr Christopher HUI Ching-yu
Secretary for Financial Services and the Treasury

Mr Sam HUI Chark-shum
Deputy Secretary for Financial Services and the Treasury (Financial Services)3

Mr Billy AU Ka-shing
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)4

Ms Phyllis MCKENNA
Official Receiver

Ms Lillian CHOW
Assistant Official Receiver (Legal Services)2 (Acting)

Agenda Item VII

Mr Aaron LIU Kong-cheung
Deputy Secretary for Financial Services and the Treasury (Financial Services)2

Ms Noel TSANG Fung-yi
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services) Insurance and Retirement Scheme

**Attendance by invitation** : Agenda Item VII

Mr Tony CHAN Sun-hung
Associate Director (Policy and Development)
Insurance Authority

Mr Adrian LAM Sze-loong
Senior Manager (Policy and Development)
Insurance Authority

**Clerk in attendance** : Ms Connie SZETO
Chief Council Secretary (1)4

**Staff in attendance :** Mr Hugo CHIU
Senior Council Secretary (1)4

Miss Sharon LO
Senior Council Secretary (1)9

Miss Judy YEE
Council Secretary (1)4

Ms Alice CHEUNG
Senior Legislative Assistant (1)1

Ms Sharon CHAN
Legislative Assistant (1)4

Ms Christy YAU
Legislative Assistant (1)8

Ms Haley CHEUNG
Legislative Assistant (1)10

Ms Vivian CHAN
Clerical Assistant (1)4

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**I Election of Deputy Chairman**

Election of Deputy Chairman

The Chairman referred members to the letters from 23 members (issued to all Members through email vide LC Paper No. CB(1)15/20-21 on 15 October 2020) indicating that they would not accept nomination for the position of Deputy Chairman of the Panel for the 2020-2021 session. He then invited nominations for the deputy chairmanship of the Panel.

2. Mr WONG Ting-kwong was nominated by Mr Holden CHOW and the nomination was seconded by Ir Dr LO Wai-kwok. Mr WONG accepted the nomination. The Chairman called for other nominations.

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3. Mr Kenneth LEUNG was nominated by Mr Jeremy TAM and the nomination was seconded by Mr Charles MOK. Mr LEUNG accepted the nomination.

4. As there was no other nomination, the Chairman announced a vote by secret ballot. After all members present had cast their votes, the Chairman invited Mr Holden CHOW and Mr Jeremy TAM who had nominated the two candidates to oversee the counting of votes. The two members came to the front of the Chairman's podium for the purpose. Of the members present for voting, 20 members voted for Mr WONG Ting-kwong, and 15 members voted for Mr Kenneth LEUNG. The Chairman declared that Mr WONG Ting-kwong was elected the Deputy Chairman of the Panel.

## II Confirmation of minutes of meeting and matters arising

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| (LC Paper No. CB(1)46/20-21 | — | Minutes of the meeting on 15 October 2020) |

5. The minutes of the meeting held on 15 October 2020 were confirmed.

## III Information papers issued since the regular meeting on 1 June 2020

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| (LC Paper No. CB(1)701/19-20(01) | — | 2019 Annual Report of the Hong Kong Mortgage Corporation Limited |
| LC Paper No. CB(1)712/19-20(01) | — | 2018-2019 Annual Report of the Process Review Panel for the Securities and Futures Commission |
| LC Paper No. CB(1)743/19-20(01) | — | Administration's paper on Government’s Investment in Cathay Pacific Airways Limited under the Land Fund to Uphold Hong Kong’s Status as an International Aviation Hub |

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| LC Paper No. CB(1)747/19-20(01) | — | First quarterly report of 2020 on "Employees Compensation Insurance — Reinsurance Coverage for Terrorism" |
| LC Paper No. CB(1)811/19-20(01) and (02) | — | Letter dated 10 June 2020 from Hon Andrew WAN Siu-kin on issues relating to Securities and Futures Commission's consultation on proposed amendments to the Code on Real Estate Investment Trusts (Chinese version only) and the Administration's response |
| LC Paper No. CB(1)898/19-20(01) | — | Administration's paper on Review of the Qualifying Criteria under the Securities and Futures (Professional Investor) Rules |
| LC Paper No. CB(1)936/19-20(01) | — | Second Quarter Economic Report 2020 and the press release |
| LC Paper No. CB(1)947/19-20(01) | — | The Quarterly Report of the Securities and Futures Commission (April to June 2020) |
| LC Paper No. CB(1)21/20-21(01) | — | Second quarterly report of 2020 on "Employees Compensation Insurance — Reinsurance Coverage for Terrorism") |

6. Members noted the information papers issued since the regular meeting held on 1 June 2020.

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## IV Date of next meeting and items for discussion

(LC Paper No. CB(1)48/20-21(01) — List of outstanding items for discussion)

Regular meeting in December 2020

7. Members agreed to discuss the following items proposed by the Administration at the regular meeting scheduled for Monday, 7 December 2020, from 9:00 am to 1:00 pm:

(a) Briefing by the Financial Secretary on Hong Kong's latest overall economic situation and 2021-2022 Budget consultation;

(b) Detailed proposals for taking forward the eMPF Platform project and related matters;

(c) Tax concession for carried interests;

(d) Inland Revenue (Amendment) (Qualifying Amalgamations, Specified Assets and Electronic Returns) Bill 2021; and

(e) Proposed creation of one permanent Principal Valuation Surveyor ("PVS") post in the Government Property Agency to oversee the property and facilities management of the boundary control points.

8. Regarding the discussion item in paragraph 7(b), Ms Starry LEE said that there were calls in the community and Legislative Council ("LegCo") that the members of the public who were in financial distress caused by the coronavirus disease 2019 ("COVID-19") epidemic should be allowed to withdraw the accrued benefits in their Mandatory Provident Fund ("MPF") accounts for meeting their immediate needs. She requested the Administration and the Mandatory Provident Schemes Authority ("MPFA") to address the issue during the discussion at the coming Panel meeting, and provide details in the discussion paper concerned. Mr James TO raised a similar request. He further requested MPFA to provide details on the requirements and procedures of withdrawing MPF benefits on the grounds of permanent departure from Hong Kong including the documents applicants were required to provide.

9. On the discussion item in paragraph 7(e), Mr Abraham SHEK asked if the Administration had explored the feasibility of contracting out the work of overseeing the property and facilities management of the boundary control points. He requested the Administration to provide relevant information including a costs

comparison of creating the permanent PVS post to take up the work and contracting out the job to external parties. Mr WU Chi-wai said that during Panel's discussion on the staffing proposal in the last session, some members expressed grave concern about creating the permanent PVS post. He queried the justification for the Administration to re-submit the item to the Panel so soon.

10. The Chairman said that he would convey members' concerns on the discussion items to the Administration.

Proposed discussion items for future meetings

*Development strategies and plans of the Hong Kong Exchanges and Clearing Limited*

11. Mr Kenneth LEUNG suggested that the Panel should invite representatives of the Hong Kong Exchange and Clearing Limited ("HKEX") to brief members on HKEX's future development strategies and plans, in particular amidst the challenges posed by great uncertainties in the global financial markets and imminent changes in the company's senior management.

*Corporate weighted voting rights regime*

12. Mr Christopher CHEUNG referred to HKEX's consultation on "Corporate Weighted Voting Rights ("WVR") Beneficiaries" conducted in January 2020 and the consultation conclusions released in October 2020, and suggested inviting the Administration, Securities and Futures Commission ("SFC"), and HKEX to brief the Panel on the subject, including HKEX's decision not to extend the current WVR regime to allow corporate WVR beneficiaries notwithstanding that a large number of respondents to the consultation supported in principle permitting corporate WVR beneficiaries.

*Regulation of virtual assets*

13. Dr CHIANG Lai-wan referred to the new licensing regime for virtual asset trading platforms introduced by SFC and the trial of Digital Currency Electronic Payment ("DCEP") system in some Mainland cities by the relevant Mainland authorities, and suggested the subjects be included in the Panel's list of outstanding items for discussion. She said that the Administration and relevant regulatory bodies should brief members on the details of the new licensing regime and the progress in the development of DCEP.

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*Economic development of Hong Kong*

14. Mr WONG Ting-kwong said that the United States ("US") Government had imposed sanctions on China and some top government officials of Hong Kong. He expressed concern about the possible impacts of the sanctions on banks and the economic development of Hong Kong, and suggested that the Hong Kong Monetary Authority ("HKMA") should brief members on the subject including the actions taken/to be taken by the banking industry.

15. Mr Abraham SHEK remarked that Hong Kong's financial and economic development had been hard hit by the COVID-19 epidemic and trade conflicts between China and the US, and Hong Kong's status as an international financial centre was facing increasing competition from neighbouring countries, like Singapore and Japan. He suggested that the Administration should brief members on its policies and measures to address the issues. Mr KWOK Ka-ki raised concern about possible large scale capital outflow and mass migration of people from Hong Kong. He considered that the Panel should discuss issues relating to Hong Kong's economic development in the light of such developments. Ms Claudio MO echoed Mr KWOK's concern and added that the Hong Kong's unemployment rate and level of fiscal deficits had hit record highs. She agreed that the Panel should discuss issues relating to Hong Kong's economic development.

*Bond market development in Hong Kong*

16. Mr Abraham SHEK observed that many companies after being successfully listed in Hong Kong moved to other financial centres in the region, like Singapore, to establish their head offices. Moreover, many issuers after issuing bonds in Hong Kong arranged the listing of the bonds in other exchanges like the Singapore Exchange. He expressed concern about the possible adverse impacts on the development of Hong Kong's securities and bond markets, and suggested inviting the Administration and relevant regulatory bodies to discuss related issues with the Panel. He also considered that the LegCo Secretariat should conduct a research on the issues including a comparison on the requirements and procedures for issuing and listing of bonds in Hong Kong and Singapore. Mr Kenneth LEUNG suggested that the Administration should brief the Panel on the development of Hong Kong's bond market including the development of a green bond market.

*Government's investment in Cathay Pacific Airways Limited*

17. Mr Jeremy TAM opined that the Panel should follow up issues relating to the Government's earlier investment in Cathay Pacific Airways Limited ("CX")

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using the Land Fund, and requested the Administration to provide reports on issues including repayment situation of the bridge loan provided by the Government to CX so far, and its assessment of CX's ability in repaying the outstanding bridge loan in future.

18. The Chairman said that issues relating to monetary and banking matters, and issues relating to Hong Kong's overall economic situation and economic development could be raised during regular briefings by HKMA and the Financial Secretary at Panel meetings respectively. In line with past practice, he and the Deputy Chairman would meet with the Secretary for Financial Services and the Treasury to discuss the work plan of the Panel for the 2020-2021 session. He invited members who had raised items for discussion by the Panel above to provide supplementary information on their proposed items to facilitate follow up by the Panel Clerk. Other members who wished to propose items for discussion by the Panel should also inform the Clerk in writing. He would discuss with the Administration at the work plan meeting on how to follow up the issues suggested by members.

## V Briefing on the work of Hong Kong Monetary Authority

(LC Paper No. CB(1)48/20-21(02) — Paper provided by the Hong Kong Monetary Authority)

Briefing by the Hong Kong Monetary Authority

19. At the invitation of the Chairman, the Chief Executive, Hong Kong Monetary Authority ("CE/HKMA"), the Deputy Chief Executive (Banking), Hong Kong Monetary Authority ("DCE(B)/HKMA"), the Deputy Chief Executive (Monetary), Hong Kong Monetary Authority ("DCE(M)/HKMA") and the Senior Executive Director (Development), Hong Kong Monetary Authority updated members on the work of HKMA through a powerpoint presentation. Topics included assessment of risks to Hong Kong's financial stability, banking supervision, financial infrastructure, development of the financial market, investment performance of the Exchange Fund ("EF"), and measures implemented by the Hong Kong Mortgage Corporation.

(*Post-meeting note*: The powerpoint presentation materials (LC Paper No. CB(1)96/20-21(01)) were issued to Members vide Lotus Notes e-mail on 2 November 2020.)

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Discussion

*Macroeconomic conditions and monetary stability of Hong Kong*

20. Noting that Hong Kong's ranking had dropped from the third to sixth place in the Global Financial Centres Index Report released in March 2020, coupled with the claim by some government officials that the principles of separation of powers were not applicable to Hong Kong and the possible prolonged fiscal deficit of the Government, Dr KWOK Ka-ki expressed concern that the confidence of foreign investors in Hong Kong would be seriously undermined, which might subsequently lead to a massive capital outflow from Hong Kong. He enquired how HKMA would tackle the problem. Mr KWONG Chun-yu expressed concern about continuous decrease in the level of deposits in Hong Kong since September 2020.

21. The Chairman, Mr SHIU Ka-fai, Ir Dr LO Wai-kwok and Mr CHAN Kin-por said that contrary to some critics' remarks about massive capital outflow from Hong Kong, HKMA's paper had shown that there was continuous capital inflow into Hong Kong in 2020. The Chairman called on HKMA to step up its efforts in disseminating information on capital flow into or out of Hong Kong in order to dispel rumours in the market.

22. CE/HKMA said that Hong Kong saw strong capital inflow in the past few months, as evidenced by the strengthening of the Hong Kong dollar ("HKD") and increase in deposits in Hong Kong. The fund inflow was not only from the Mainland but also from other parts of the world. In the past few months, HKMA had proactively reached out to some 9 000 persons in the international financial and investment community through various channels such as webinars to explain Hong Kong's situation, and highlight the resilience of Hong Kong's financial system as well as Hong Kong's attractiveness. Through these outreaching activities, international investors' concerns had subsided in general. Many of them had also expressed interest in tapping the opportunities in the Mainland, financial technologies ("fintech") and green finance presented by Hong Kong's financial platform.

23. Mr CHAN Kin-por sought HKMA's views on possible risks to Hong Kong arising from the huge capital inflow. Dr CHENG Chung-tai pointed out that while there had been continuous capital inflow into Hong Kong in recent months, HKMA should assess the risks about HKD subject to speculative attacks.

24. CE/HKMA said that amid the current accommodative monetary conditions around the globe, interest rates would inevitably remain low, and there were concerns over overheating in asset markets. HKMA had introduced

countercyclical macroprudential measures to strengthen Hong Kong's resilience against the associated risks. CE/HKMA also said that HKMA had been closely monitoring capital flow into and out of Hong Kong. For instance, HKMA had strengthened the surveillance framework, put in place contingency plans and maintained close communications with banks. HKMA would stay vigilant to guard against potential speculative attacks against HKD.

25. Referring to HKMA's letter dated 8 August 2020 to banks informing that the unilateral sanctions imposed by foreign governments on certain persons in the Mainland and Hong Kong had no legal status in Hong Kong, Mr WU Chi-wai enquired whether HKMA had assessed the impacts of the sanctions on the local banking sector, including whether a bank would be subject to possible "counter-measures" by the Mainland.

26. Ms Starry LEE expressed concern about the adverse impacts of lingering global uncertainties and continuous tensions between China and the US on Hong Kong. Pointing out that the US might impose sanctions on certain financial institutions in Hong Kong, she cautioned that HKMA should closely monitor the situations and take measures as appropriate. Mr KWONG Chun-yu expressed similar views.

27. CE/HKMA responded that as set out in the circular issued by HKMA on 8 August 2020, unilateral sanctions imposed by foreign governments would not create legal obligations for banks under Hong Kong law. Banks were also reminded to take into account any legal, business and commercial risks involved in establishing and implementing policies for their Hong Kong businesses. CE/HKMA said that banks in Hong Kong attached great importance to ensuring their businesses were conducted in ways that were compliant with applicable laws and regulations, hence no reason they should be subject to any sanction. Given the increasingly complex operating environment, HKMA had been in close dialogue with banks to ensure contingency plans were in place. He stressed that the banking sector was highly resilient with strong buffers against shocks. HKMA would also provide liquidity support to the banking sector as needed.

*Measures to help local enterprises combat the coronavirus disease-2019 pandemic*

28. The Chairman, Mr SHIU Ka-fai and Mr Christopher CHEUNG commended HKMA's efforts in helping local enterprises to combat the COVID-19 pandemic including the launch of the Pre-approved Principal Payment Holiday Scheme ("PPHS") and the Enhanced SME Financing Guarantee Scheme ("Enhanced SFGS"). The Chairman stressed that the fundamental solution to Hong Kong's present economic difficulties was for the Administration

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to take measures, including implementation of the "Hong Kong Health Code" system, so that cross-boundary travel between Hong Kong and the Mainland could be resumed to revitalize the Hong Kong economy. Ms Starry LEE shared the Chairman's view.

29. Mr CHAN Chun-ying and the Chairman expressed concern about a potential surge in the classified loan ratio of the banking sector when PPHS expired. Referring to pages 21 and 22 of HKMA's powerpoint, Mr CHAN enquired why the proportion of respondents who found it more difficult to obtain credit had increased from 27.3% in the fourth quarter of 2019 to 40.8% in the third quarter of 2020 even though banks' lending limits for small and medium enterprises ("SMEs") remained steady in general during the same period. He further enquired about the number of entities which had benefited from the Enhanced SFGS.

30. Regarding HKMA's measures to support SMEs, CE/HKMA and DCE(B)/HKMA said that HKMA would engage the banking sector and SMEs to discuss the way forward of PPHS under the Banking Sector SME Lending Coordination Mechanism with a view to striking a reasonable balance between relevant considerations. DCE(M)/HKMA added that among the some 3 100 applications approved after the launch of the Enhanced SFGS in October 2020, around 2 500 applications had benefited from the more favourable terms under the Scheme. As for the results of the SME survey, DCE(B)/HKMA stressed that the survey focused on the "perception" of SMEs over the credit approval stance of banks. It should be noted that only one-third of the respondents to the survey conducted in the third quarter of 2020 had actually borrowed from banks, and only about 20% of these respondents found it more difficult to obtain credit from banks.

31. In response to Mr WU Chi-wai's enquiry about the anticipated corporate default rate in the near future, DCE(B)/HKMA remarked that the corporate default rate was affected by a host of factors, including the flow of bank credit, as well as changes in economic conditions. HKMA had conducted a quantitative assessment which suggested that the estimated credit loss rate of the banking sector would be around 3-4% even under extremely stressed scenarios. Given banks' strong capital position, the aforementioned credit loss rate was considered manageable from a supervisory perspective.

32. Mr YIU Si-wing opined that while the decline in local retail activities had narrowed in recent months, the improvement would not be sustainable if resumption of the cross-boundary travel was not materialized in the short run. He sought HKMA's assessment of the performance of the domestic sector in the coming few months. Mr YIU also expressed concern about a possible surge in the

unemployment rate after the end of the second tranche of Employment Support Scheme ("ESS") in November 2020, which could impact on the financial stability of Hong Kong.

33. CE/HKMA said that the retail and tourism sectors were among the hardest-hit industries that faced a very challenging operating environment. As the COVID-19 pandemic had brought about structural changes to certain sectors, it would be important to reskill the employees in the affected sectors as appropriate. He said that while the expiry of ESS in November 2020 might add to pressure on Hong Kong's unemployment rate, the adverse impacts on the banking sector, which remained highly resilient with strong buffers, were considered manageable. HKMA would continue to closely monitor the employment situation and its resultant impact on Hong Kong's financial stability.

34. Mr CHAN Kin-por enquired how HKMA would help the banking industry tide over the existing challenging operating environment arising from the narrowing net interest margin and rising default rates on loans.

35. DCE(B)/HKMA said that amid the prolonged low interest rate environment, the net interest income and hence the profitability of banks across the globe would inevitably come under pressure. Notwithstanding this, the outlook of Hong Kong's banking sector remained positive. HKMA would work closely with banks in exploring new business opportunities and embracing fintech which would help reduce banks' operating costs. Deferral of the implementation of certain new international regulatory requirements in the banking sector would also help reduce banks' compliance cost.

36. In response to the Chairman's enquiry about HKMA's view on the decisions of some overseas regulators withholding banks incorporated in their jurisdictions to distribute dividends, CE/HKMA pointed out that the decision was made by individual banks according to their respective dividend policies having regard to a host of factors, including the regulatory requirements of their home jurisdictions as well as their assessment of the economic and operating environment.

*The property market*

37. Dr CHENG Chung-tai asked whether HKMA had assessed the risk to property mortgage loans arising from the increase in the number of primary market property transactions against an expected surge in the unemployment rate. Noting that Hong Kong's household debt to gross domestic product ("GDP") ratio remained on the high side, Ms Starry LEE enquired about measures taken by HKMA to prevent a possible surge in the number of negative equities.

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38. CE/HKMA and DCE(B)/HKMA said that to safeguard banking stability in Hong Kong, HKMA had launched eight rounds of countercyclical macroprudential measures on property mortgage loans over the years to enhance the risk management of the banking sector. It was not yet clear whether the property market had entered into a down cycle based on the latest data. HKMA would continue to closely monitor property market developments with a view to safeguarding the stability of Hong Kong's banking system. CE/HKMA added that the rise in household debt to GDP ratio was partly attributable to a decline in Hong Kong's GDP in recent quarters.

*Development of the financial market and financial infrastructure*

39. Dr CHENG Chung-tai pointed out that a number of companies set up their headquarters in other jurisdictions after listing in Hong Kong, and considered that HKMA should collaborate with other financial regulators to develop measures for enhancing Hong Kong's position as an international financial centre. Mr SHIU Ka-fai enquired how Hong Kong could enhance its competitiveness against the backdrop of rising China-US tensions.

40. CE/HKMA responded that Hong Kong's financial fundamentals remained sound. Despite all the challenges, it would be important for Hong Kong to continuously enhance its financial platform by seizing opportunities brought about by financial development in the Mainland, fintech and green finance, while proactively reaching out to international investors to promote the tremendous opportunities offered by Hong Kong's financial platform.

41. Noting that Hong Kong's neighbouring jurisdictions including Japan and Singapore had been examining potential opportunities arising from Brexit, Mr Kenneth LEUNG enquired how HKMA would help Hong Kong enterprises grasp the opportunities arising from Brexit. Referring to the report entitled "Enhancing Hong Kong's Role as a Centre for Regional and International Financial Institution Operations: Booking" published by the Financial Services Development Council in 2015, Mr LEUNG enquired if HKMA had studied the situations on back offices and booking centres set up by financial institutions in Hong Kong, and whether HKMA had relevant statistics in 2019 and 2020.

42. CE/HKMA said that HKMA would provide the information as requested by Mr Kenneth LEUNG in writing after the meeting. He agreed that Hong Kong should grasp the opportunities arising from Brexit despite the ongoing uncertainties involved. For instance, some international banks had been considering relocating their risk management and booking centres to Asia including Hong Kong, with a view to responding to the needs of their Asian

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customers in a more agile manner. It was envisaged that such relocation would take some time, and HKMA would continue to monitor the development and engage the industry.

(*Post-meeting note:* HKMA's supplementary information was circulated to members vide LC Paper No. CB(1)183/20-21(02) on 13 November 2020.)

43. Ir Dr LO Wai-kwok noted that the certain Asian economies including the Mainland saw improvement with the stabilization of their local epidemic situations. He sought HKMA's views on Hong Kong's cooperation with major Mainland cities such as Shanghai and Shenzhen in developing its renminbi ("RMB") business. Mr KWONG Chun-yu cautioned whether Hong Kong's position as an international financial centre would be replaced by Shenzhen given that the latter's GDP had already exceeded that of Hong Kong.

44. CE/HKMA said that Hong Kong and Shenzhen had their own strengths and were complementary to each other. While Shenzhen was strong in technology innovation, Hong Kong as an international financial centre had its competitive edge including free flow of capital, and robust financial infrastructure that was linked to the international markets. In order to facilitate financial collaboration between Hong Kong and Mainland cities, various mutual market access schemes such as Stock Connect had been launched and well-received by international investors. Building on this success, HKMA and the relevant Mainland authorities were fleshing out the implementation details of the Wealth Management Connect scheme in the Guangdong-Hong Kong-Macao Greater Bay Area with a view to further facilitating cross-boundary capital flow and financial intermediation.

45. Noting the rapid development in DCEP system (commonly known as e-CNY) in the Mainland, Mr Christopher CHEUNG enquired about the details including whether e-CNY would be accepted in Hong Kong and preparation taken by HKMA to pave way for the use of e-CNY in Hong Kong.

46. CE/HKMA said that e-CNY had been launched in a number of Mainland cities on a pilot basis. HKMA would maintain close dialogue with the relevant Mainland authorities to keep abreast of its latest developments. As RMB was already in use in Hong Kong, should the Mainland authorities intend to have pilot testing of the use of e-CNY for making cross-border payments in the future, HKMA would work closely with them on the corresponding preparatory work.

47. Mr Martin LIAO pointed out that many SMEs considered that enhanced sharing of their commercial data with the banking sector could help their lending

with banks. While the commercial data of SMEs were scattered in various platforms at present, Mr LIAO enquired whether HKMA had any plan to set up a centralized platform to help banks retrieve such data. He also enquired how HKMA would incentivize SMEs to share their data in the centralized platform, and what measures would be put in place to protect privacy of the data.

48. CE/HKMA said that difficulty in obtaining bank loans had been a long-standing pain point of SMEs. Therefore, HKMA had just announced during the Hong Kong FinTech Week 2020 held in early November 2020 that it was considering building a new financial infrastructure named Commercial Data Interchange ("CDI") so that with SMEs' consent, the relevant data providers could share SMEs' commercial data through the centralized platform with the relevant banks. With more comprehensive and timely information, banks could have a more thorough understanding of the loan applicants' latest business activities and prospects, and perform more precise and objective credit assessments. This would in turn help SMEs obtain bank financing more easily and quickly. HKMA would closely engage the banking sector and SME organizations when developing the platform, and would liaise with the Office of the Privacy Commissioner for Personal Data to ensure compliance with the relevant data protection regulations.

*The Linked Exchange Rate System and the Exchange Fund*

49. Mr KWONG Chun-yu enquired about the possibility for the Administration to introduce another round of Cash Payout Scheme ("CPS"), and whether the associated administrative cost could be further reduced.

50. In view of the need for the Administration to increase public expenditure in order to revive the Hong Kong economy, Mr Kenneth LAU cautioned that fiscal deficit might persist, and enquired if HKMA had any plan to issue bonds to support Government expenditure under the constraints of the Linked Exchange Rate System ("LERS").

51. CE/HKMA advised that the launch of CPS and the issuance of Government bonds were under the purview of the Financial Secretary. CE/HKMA emphasized that it was important to maintain fiscal discipline in order to underpin market confidence in LERS. It would thus be undesirable for the Administration to issue bonds solely for meeting its recurrent expenditure. On the other hand, there might be room to consider issuing bonds to finance projects with reasonable return (e.g. infrastructure projects). He also said that should there be indeed another round of CPS, there should be scope to streamline the relevant procedures and hence reduce the associated administrative cost as a database based on the first round of CPS was already in place.

52. Noting that the US had launched multiple rounds of quantitative easing, Mr WONG Ting-kwong sought HKMA's views on the possible impact on international trade and LERS. He also enquired whether HKMA would consider pegging HKD to a basket of currencies. Mr LUK Chung-hung echoed that HKMA should examine the feasibility of pegging HKD to a basket of currencies given that the correlation between the Hong Kong economy and the US economy was getting weaker.

53. CE/HKMA stressed that LERS had served Hong Kong very well in maintaining monetary stability over the years, and HKMA had no intention or plan to introduce changes to LERS. A stable exchange rate was crucial for Hong Kong as a small and open economy. Moreover, there would be practical difficulties to peg HKD to a basket of currencies under the Currency Board System which underpinned LERS. He further said that the demand for the US dollar ("USD") was expected to remain strong in the foreseeable future given the dominance of the USD in international trade and financial transactions.

54. Noting that the investment performance of EF had been stable and satisfactory, Mr LUK Chung-hung consider that HKMA should examine the feasibility of offering investment products following the investment pattern of EF for the public. Mr CHAN Chun-ying enquired whether HKMA had any plan to increase EF's fee payment to fiscal reserves to help address the possible prolonged fiscal deficit of the Government.

55. CE/HKMA pointed out that the statutory purposes of EF were stipulated in the Exchange Fund Ordinance (Cap. 66), which were to affect the exchange value of HKD and to maintain monetary and financial stability of Hong Kong. The primary investment objectives of EF were therefore to preserve capital and ensure sufficient liquidity, and subject to the aforementioned objectives, to achieve an investment return that would help preserve EF's long-term purchasing power.

*(At 11:51 am, the Chairman ordered that the meeting be suspended for five minutes. The meeting resumed at 11:56 am.)*

## VI Companies (Corporate Rescue) Bill

(LC Paper No. CB(1)48/20-21(03) — Administration's paper on "Legislative Proposals of the Companies (Corporate Rescue) Bill"

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LC Paper No. CB(1)48/20-21(04) — Updated background brief on the introduction of a statutory corporate rescue procedure and insolvent trading provisions in Hong Kong prepared by the Legislative Council Secretariat)

Briefing by the Administration

56. At the invitation of the Chairman, Secretary for Financial Services and the Treasury ("SFST") briefed members on the legislative proposals of the Companies (Corporate Rescue) Bill ("the Bill"), which sought to introduce a statutory corporate rescue procedure ("CRP") and insolvent trading provisions in Hong Kong. He highlighted the salient features of the Bill, including policy objectives, benefits and details, as well as various measures (including a phased payments scheme) to protect the interests of employees when a company was undergoing corporate rescue. He pointed out that while the "debtor-in-possession" model in the US (i.e. Chapter 11 of the United States Bankruptcy Code) was more well-known, the Bill was of a different model. With reference to the practices in the United Kingdom ("UK") and Australia, the Bill proposed appointing an independent professional third party as a provisional supervisor ("PS") to prepare a rescue plan (i.e. a voluntary arrangement ("VA")) instead of entrusting the management of the debtor-company with the task to rescue itself as in the US model. The Administration had also sought to reduce court proceedings involved in CRP in order to save legal costs in light of the experiences of the UK and Australia. SFST stressed that the Bill would help companies in short-term difficulties to try reviving their business and prepare Hong Kong for the forthcoming economic difficulties. The proposals in the Bill had taken into account the views of various stakeholders. The Administration's plan was to introduce the Bill into LegCo in early 2021.

Discussion

*Timeframe of and resources for the legislative exercise*

57. Mr Kenneth LEUNG said that the accountancy sector welcomed the proposed CRP and considered that the Administration should introduce the Bill into LegCo as soon as possible.

58. Dr CHENG Chung-tai enquired whether the Administration's plan in taking forward the Bill would be affected by the withdrawal of a staffing proposal

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at the meeting of the Finance Committee on 30 October 2020 (i.e. FCR(2020-21)68) which involved turning two supernumerary directorate posts in the Financial Services and the Treasury Bureau ("FSTB") permanent, which inter alia were responsible for the legislative exercise of the Bill.

59. Pointing out that the current term of LegCo might stand prorogued in July 2021, Mr LUK Chung-hung considered that the Administration should introduce the Bill, which was complex, in the next legislative term so that LegCo would have sufficient time to scrutinize the Bill and seek views from interested parties.

60. On the staffing proposal relating to the introduction of a statutory CRP, SFST responded that the Administration planned to review and re-submit the staffing proposal concerned in due course, and stressed that the Administration would deploy sufficient manpower resources to take forward the legislative exercise and implement the proposed CRP regime. The Administration would also liaise with the business and relevant professional sectors on measures to promote the use of CRP. As regards the legislative timetable of the Bill, SFST and Deputy Secretary for Financial Services and the Treasury (Financial Services)3 ("DS(FS)3") reiterated that the Administration planned to introduce the Bill into LegCo in January or February 2021 the earliest.

*Benefits of the proposed statutory corporate rescue procedure*

61. Mr LUK Chung-hung expressed concern about the effectiveness of the proposed CRP in saving companies in financial difficulties. Mr POON Siu-ping further enquired about the Administration's assessment on the number of companies which could use the proposed CRP.

62. While expressing support for the directions in the Bill, Mr Martin LIAO was concerned how SMEs, which currently employed some 90% of the local workforce and hard hit by COVID-19 epidemic, could benefit from the proposed CRP. He also enquired whether the Administration would put in place measures to help SMEs undertaking corporate rescue.

63. SFST responded that the Administration had consulted various stakeholders when preparing the Bill. He pointed out that the moratorium was necessary for the PS to have sufficient time to prepare a VA proposal. It was envisaged that the proposed CRP could help companies in short-term financial difficulties to turn around and avoid resorting to winding up, and hence retain the jobs of employees. He added that the market had called for the introduction of a statutory CRP, which was also in place in many jurisdictions. The proposed CRP would be a timely and useful option for companies experiencing short-term

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difficulties brought by Hong Kong's recent economic set-back to try reviving their business.

64. DS(FS)3 responded that while large companies were more likely to use CRP, it was envisaged that SMEs in financial distress but with promising business prospects would also make use of CRP. Also, the unsecured creditors of larger companies were often SMEs. Such SMEs would also benefit if the larger companies concerned could be rescued by CRP. On measures to help SMEs to undertake CRP, DS(FS)3 advised that the Administration had been discussing related matters with relevant professional bodies (including professional bodies in the legal and accountancy sectors). The Administration would collaborate with such bodies in promoting CRP to SMEs.

*Provisional supervision and moratorium*

65. Mr CHAN Chun-ying enquired about the reasons for not adopting the US model (i.e. to allow the management of a company to retain control of the company during corporate rescue). In his view, the management of the company would be in a better position in working out a VA as it was more familiar with the situations of the company concerned. Given that the court would have the power to extend the period of provisional supervision as it considered fit, Mr CHAN enquired whether there would be any limit on the extension of the period, and the relevant requirements under the similar regimes of other jurisdictions. He also enquired whether CRP would override the winding-up procedures set out in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) ("CWUMPO").

66. Mr Kenneth LEUNG enquired about the liabilities of PSs under the proposed CRP, and the possible roles of the directors and management (who might help the PS to prepare a VA) of a company under CRP.

67. SFST explained that CRP involved many stakeholders. The US model was not adopted as there were concerns from some stakeholders that the management of a company undertaking CRP were not independent parties and might only act in the interests of the company. DS(FS)3 added that it was envisaged that the court's approval for the extension of the provisional supervision period beyond six months would only be sought for more complex cases. While there would be no provision in the Bill prescribing the limit of the period of extension the court might grant, the extension period had to be reasonable. DS(FS)3 also advised that CRP would complement the winding-up procedures under CWUMPO as the court's leave was necessary for a company already entered into winding-up to initiate CRP.

68. On the liabilities of PSs, DS(FS)3 advised that they would be subject to personal liability on certain contracts under the proposed CRP. He also pointed out that the PS could retain the company's management if it was considered useful in assisting the preparation of the VA.

69. While recognizing that a CRP would help companies in financial difficulties to turn around, Mr CHAN Kin-por was concerned that the services of PSs and Supervisors would be costly and compromise the benefits of CRP. He asked whether the Bill would have provisions regulating the fees charged by PSs and Supervisors, or imposing a ceiling on their fees.

70. DS(FS)3 advised that similar to the current winding-up regime of companies, the Bill would not impose any ceilings on the fees of PSs or Supervisors. Notwithstanding, the creditors could apply to the court for a decision if they were unable to reach an agreement with PSs or Supervisors on that. It was also anticipated that typical fees of CRP would gradually emerge through market force.

71. At the request of Dr CHENG Chung-tai, the Administration was required to provide information on: (a) the proposed arrangements for a company undertaking provisional supervision if the service of relevant government departments and the court was suspended during the provisional supervision by unforeseeable circumstances like the spread of COVID-19; and (b) whether the timeframe of the provisional supervision set out in the Bill would be adjusted in the light of (a).

> (*Post-meeting note:* The Administration's supplementary information was circulated to members vide LC Paper No. CB(1)227/20-21(01) on 17 November 2020.)

*Protection of employees' interest*

72. Mr LUK Chung-hung said that Members belonging to the Hong Kong Federation of Trade Unions had reservations over the Bill. He pointed out that while the Bill proposed that the arrears of wages due before the commencement of provisional supervision should be paid with reference to the relevant cap of the Protection of Wages on Insolvency Fund ("PWIF") within 30 days after commencement of provisional supervision (i.e. Phase 1 of the phased payments scheme), employees' application for ex-gratia payments under PWIF would be delayed if the VA prepared by the PS was eventually not adopted. There were also concerns about applying the relevant caps of PWIF in the calculation of arrears of wages under CRP as such caps had been in place for a long time and

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should warrant a separate review, and that the amounts would be grossly insufficient to meet the needs of employees.

73. Mr POON Siu-ping expressed concern as how the proposed CRP could protect the interests of employees. He enquired about the party responsible for determining the timeframe for the various phases of the phased payments scheme, whether employees' rights to apply for ex-gratia payments under PWIF would be adversely affected by the proposed CRP, and whether employees could petition the court to wind up a company if they were unsatisfied with the VA prepared by the PS.

74. Mr KWONG Chun-yu was concerned whether there would be sufficient safeguards to prevent possible abuse of the proposed CRP by employers in evading their responsibilities for employees' outstanding entitlements.

75. SFST remarked that protection for employees was one of the contentious issues during past discussions on a statutory CRP. There were specific proposals in the Bill to protect the interest of employees including the phased payments scheme. DS(FS)3 added that the Bill would explicitly set out a clear timeframe for the three phases of the payments scheme. If a company undergoing CRP failed to make a phased payment in accordance with the relevant provisions of the Bill, the employees concerned would no longer be bound by the moratoria provided in the Bill, and could petition the court to wind up the company.

76. Mr Kenneth LAU expressed support for the proposed CRP which had included measures to protect employees' interests. He enquired if the Administration would consider expanding the scope and raising the ceiling of ex-gratia payments under PWIF with a view to addressing the labour sector's concern about the phased payment scheme.

77. DS(FS)3 responded that the phased payment scheme under the proposed CRP and the payment under PWIF would operate in a complementary manner, and PWIF was under the purview of the Labour and Welfare Bureau. If any relevant change was introduced to PWIF, it would be suitably reflected in the proposed CRP.

*Protection of creditors' interests*

78. While expressing support for the Bill in principle, Mr WONG Ting-kwong was concerned whether the Bill offered sufficient protection for unsecured creditors (such as suppliers). He pointed out that past cases of winding-up of companies in financial difficulties revealed that the interests of unsecured creditors (particularly the suppliers) had not been adequately protected,

notwithstanding that such creditors had taken actions to help the companies in difficulties to revive their business. Mr WONG also opined that in view of concerns from the business and labour sectors, the Bills Committee to be formed should carefully scrutinize the Bill.

79. Mr Christopher CHEUNG shared Mr WONG's concern, and asked why only the major secured creditors ("MSCs") had the right to object to the initiation of CRP.

80. The Chairman said that he supported the policy objectives of the proposed CRP. He opined that while MSCs and PS enjoyed higher priorities of payment under the proposed CRP, the interests of unsecured creditors (particularly the suppliers) might not be adequately protected. He called on the Administration to consider enhancing the protection for such parties under the Bill.

81. DS(FS)3 responded that there would be provisions under the Bill on measures to protect the interests of various parties including MSCs, unsecured creditors (which included suppliers) and employees. He explained that the rights of MSCs and unsecured creditors were protected by different means under the proposed CRP. While the no-objection of MSCs was necessary for the initiation of CRP, they had no right to vote in the creditors' meetings. On the other hand, unsecured creditors could vote in the creditors' meetings, which would decide, inter alia, whether the company undertaking CRP should adopt the VA proposal prepared by the PS. The Bill offered certainty by stipulating a defined timeframe for the PS to prepare the VA.

Conclusion

82. The Chairman concluded that Panel members had no objection to the Administration's plan of introducing the Bill into LegCo in early 2021.

*(At 12:45 pm, the Chairman ordered that the meeting be extended for 20 minutes to 1:05 pm to allow sufficient time for discussion.)*

## VII Update on the regulation of insurance-linked securities

(LC Paper No. CB(1)48/20-21(05) — Administration's paper on "Update on the regulation of insurance-linked securities"

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LC Paper No. CB(1)48/20-21(06) — Background brief on regulation of insurance-linked securities prepared by the Legislative Council Secretariat)

Briefing by the Administration

83. At the invitation of the Chairman, Deputy Secretary for Financial Services and the Treasury (Financial Services)2 ("DS(FS)2") briefed members on the latest development of the implementation of a new regulatory regime for insurance-linked securities ("ILS") business in Hong Kong. He said that as a risk management tool that enabled insurers or reinsurers to offload risks that they had underwritten to the capital market by way of securitization, ILS were often regarded an alternative form of reinsurance. ILS would also offer an exposure uncorrelated to economic cycles to institutional investors, hence providing them with an option to diversify their portfolios. While the issuance of ILS had been largely confined to the US and European markets, there were potential business opportunities in Asia. In particular, the Central Government had announced in November 2019 its support for Mainland insurers to issue catastrophe bonds, a common type of ILS, in Hong Kong. The initiative did not only promote the growth of an ILS market in Hong Kong, but also its bond market. To facilitate the industry to seize the potential business opportunities, the Administration introduced the Insurance (Amendment) Bill 2020 into LegCo in March 2020 to provide for a new regulatory regime for ILS business under the Insurance Ordinance (Cap. 41). The Bill was passed in July 2020 and enacted as the Insurance (Amendment) Ordinance 2020.

84. DS(FS)2 said that the Administration and the Insurance Authority ("IA") had since then been preparing the subsidiary legislation in relation to the new ILS regulatory regime, which primarily proposed: (a) charging a fixed authorization fee of $15,000 for a special purpose insurer ("SPI") for carrying on special purpose business under the new ILS regulatory regime, and thereafter on an annual basis; and (b) confining the sale of ILS to eligible institutional investors owing to the complex product structure of ILS and the prospect of losing a substantial part of the sum invested on occurrence of a trigger event. It was also proposed that user fees currently provided for under the Insurance (Prescribed Fees) Regulation (Cap. 41B) would apply to the regulation of SPIs in order to recover IA's costs of providing specific services.

85. DS(FS)2 added that IA would finalize the rules prescribing restrictions on the sale of ILS (such as the types of eligible institutional investors for ILS, and the minimum investment size of each ILS transaction) taking into account feedback

received from the public consultation exercise and discussions with stakeholders, with a view to striking a reasonable balance between market development and protection of investors. The Administration aimed to table the subsidiary legislation for the new regulatory regime for ILS at LegCo for negative vetting within the first quarter of 2021.

Discussion

*Minimum investment size of insurance-linked securities transactions*

86. Mr CHAN Kin-por said that the insurance sector supported the launch of the new regulatory regime for ILS, as it would provide alternative investment options for insurers and other institutional investors. He urged the Administration and IA to take into account the views expressed by the insurance industry, including lowering the proposed minimum investment size of US$1 million or equivalent for each ILS transaction to, say US$750,000 or US$500,000 or equivalent.

87. DS(FS)2 advised that the proposed minimum investment size was set after making reference to international practices of ILS transactions. The Administration was mindful that ILS would be a relatively new risk management tool in Hong Kong and eligible institutional investors might prefer to start with a smaller investment size upon entering this new market. As such, IA would consider adjusting the proposed minimum investment threshold in the light of feedback received in the consultation exercise, views from the stakeholders, and the practices in global ILS markets.

*Investors of insurance-linked securities*

88. Mr Kenneth LEUNG enquired about the types of institutions constituting the eligible investors of ILS, and how investments in ILS would be accounted for in the institutional investors' capital adequacy requirements.

89. DS(FS)2 advised that the eligible institutional investors for ILS would broadly include a few categories including (a) banks or authorized financial institutions; (b) insurance companies (including reinsurance companies); (c) corporations carrying on the business of providing investment services; (d) governments, central banks and multilateral agencies; (e) authorized exchange companies; and (f) collective investment schemes but excluding those retail funds authorized by SFC, MPF funds, approved pooled investment funds which could be invested by MPF funds and occupational retirement schemes. As regards capital adequacy requirements, DS(FS)2 responded that it would be up to the

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institutional investors to act in accordance with the standards and requirements set by their respective regulatory bodies.

90. Noting that the sale of ILS would be confined to institutional investors and transactions would not take place in retail market, Mr Kenneth LEUNG remarked that this might have impact on the liquidity of ILS. He also enquired about how the risk of ILS would be assessed and whether it would be done by any parties such as credit rating agencies.

91. DS(FS)2 advised that ILS were considered unsuitable for retail investors as they were highly specialized investment products. Given that the maturity period of ILS was relatively short in general (usually of three to four years), investors tended to hold ILS until maturity. As such, restricting the sale of ILS to institutional investors was not expected to affect the liquidity of ILS. DS(FS)2 further advised that given the complex product structure, risk assessment and pricing of ILS were usually taken up by institutions which had the relevant knowledge and expertise in reinsurance underwriting. Currently, around 70% of investors of catastrophe bonds were dedicated ILS funds or hedge funds.

Conclusion

92. The Chairman concluded that the Panel had no objection to the Administration's plan to table the subsidiary legislation at LegCo in the first quarter of 2021.

## VIII Any other business

93. There being no other business, the meeting ended at 12:58 pm.

Council Business Division 1
Legislative Council Secretariat
29 December 2020