

立法會
Legislative Council

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by the Administration)

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Panel on Financial Affairs

**Minutes of policy briefing-cum-meeting held on
Monday, 7 December 2020, at 9:00 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 Abraham SHEK Lai-him, 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 MA Fung-kwok, GBS, JP
Hon Christopher CHEUNG Wah-fung, SBS, JP
Hon Martin LIAO Cheung-kong, GBS, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Dr Hon Junius HO Kwan-yiu, JP
Hon Holden CHOW Ho-ding
Hon SHIU Ka-fai, JP
Hon CHAN Chun-ying, JP
Hon LUK Chung-hung, JP
Hon Kenneth LAU Ip-keung, BBS, MH, JP
Dr Hon CHENG Chung-tai

Member attending : Hon Michael TIEN Puk-sun, BBS, JP

Members absent : Hon Steven HO Chun-yin, BBS
Hon CHAN Han-pan, BBS, JP
Hon CHEUNG Kwok-kwan, JP

**Public officers
attending**

: Agenda Item III

Mr Paul MP CHAN, GBM, GBS, MH, JP
Financial Secretary

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

Ms Alice LAU Yim, JP
Permanent Secretary for Financial Services and the
Treasury (Treasury)

Mr Andrew AU Sik-hung, JP
Government Economist

Ms Jessie WONG Hok-ling, JP
Head of the Budget and Tax Policy Unit

Mr Willy TSOI
Administrative Assistant to Financial Secretary

Agenda Item IV

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

Ms Alice LAU Yim, JP
Permanent Secretary for Financial Services and the
Treasury (Treasury)

Ms Salina YAN, JP
Permanent Secretary for Financial Services and the
Treasury (Financial Services)

Mr Joseph CHAN, JP
Under Secretary for Financial Services and the Treasury

Mr Chris SUN, JP
Deputy Secretary for Financial Services and the Treasury
(Financial Services)1

Mr Aaron LIU, JP
Deputy Secretary for Financial Services and the Treasury
(Financial Services)2

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

Mr Maurice LOO, JP
Deputy Secretary for Financial Services and the Treasury
(Treasury)2

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

Staff in attendance : Miss Sharon LO
Senior Council Secretary (1)9

Ms Sharon CHAN
Legislative Assistant (1)4

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I Information papers issued since the regular meeting on 2 November 2020

(LC Paper No. CB(1)207/20-21(01) — Third Quarter Economic Report 2020 and the press release

LC Paper No. CB(1)306/20-21(01) — Administration's paper on "Legislative proposal to refine the scope of regulated activities and provide for licensing fees under the Over-the-counter derivative regulatory framework in Hong Kong")

Members noted the information papers issued since the regular meeting held on 2 November 2020.

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II Date of next meeting and items for discussion

(LC Paper No. CB(1)289/20-21(01) — List of outstanding items for discussion

LC Paper No. CB(1)289/20-21(02) — List of follow-up actions)

2. Members agreed to discuss the following items proposed by the Administration at the regular meeting scheduled for 4 January 2021, at 9:30am:

- (a) Detailed proposals for taking forward the eMPF Platform project and related matters;
- (b) Tax concession for carried interest;
- (c) Inland Revenue (Amendment) (Qualifying Amalgamations, Specified Assets and Furnishing of Returns) Bill 2021; and
- (d) Contribution of Hong Kong to the 12th Replenishment of the Asian Development Fund.

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

(LC Paper No. CB(1)289/20-21(03) — Administration's paper on Hong Kong's recent economic situation and near-term outlook

LC Paper No. CB(1)289/20-21(04) — Information pack for the Financial Secretary's consultations on the 2021-2022 Budget)

Briefing by the Administration

3. At the invitation of the Chairman, the Financial Secretary ("FS") briefed Members on Hong Kong's latest overall economic situation and short-term economic forecasts and consulted Members on the 2021-2022 Budget. FS said that the Hong Kong economy saw some improvement in the third quarter of 2020 owing to an improved external trading environment amid the accelerated growth of the Mainland economy, the stabilization of the local Coronavirus Disease 2019 ("COVID-19") situation in the latter part of the quarter and stronger financial

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market activity. However, economic activity was still notably below the pre-recession level. The economy contracted by 3.5% in the third quarter from a year earlier, visibly narrower than the 9% contraction in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, real Gross Domestic Product rebounded by 2.8% in the third quarter, arresting the declines in the preceding five quarters. While local consumption and business sentiments showed relative improvement in recent months, the near-term economic outlook would hinge critically on the local epidemic situation. Moreover, the evolving relations between China and the United States ("US"), heightened geopolitical tensions and Brexit negotiations would cast uncertainties around the sustained recovery of the Hong Kong economy.

4. FS said the 2021-2022 Budget would be announced on 24 February 2021. In the face of the current difficult economic environment, the Administration would make good use of fiscal reserves to stimulate the economy, safeguard jobs and relieve people's hardship. In fact, in order to combat the epidemic and provide assistance to businesses and individuals hard hit by the epidemic and those directly affected by the Government's anti-epidemic and social distancing measures, the Government had already launched a series of support measures costing over \$300 billion. According to the latest estimate, the consolidated deficit for the current financial year would increase significantly from the original estimate of \$139.1 billion to about \$300 billion, while the fiscal reserves as at the end of the 2020-2021 financial year would drop to some \$800 billion, equivalent to 13 to 14 months of government expenditure. Against such background and on the premise of maintaining fiscal prudence and financial stability, the 2021-2022 Budget would focus on the optimal use of resources to implement the committed initiatives in an orderly and effective manner. The Administration would carefully consider the views of Members and the public when preparing the 2021-2022 Budget.

(Post-meeting note: The press release containing the speaking note of FS (Chinese version only) was issued to Members vide LC Paper No. CB(1)355/20-21(01) on 7 December 2020.)

5. The Government Economist ("G Econ") gave a powerpoint presentation on Hong Kong's recent economic situation and near-term economic outlook.

(Post-meeting note: The notes of the powerpoint presentation (LC Paper No. CB(1)344/20-21(01)) were issued to Members vide Lotus Notes email on 7 December 2020.)

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Discussion

Measures to support enterprises and relieve people's burden

6. Mr CHAN Chun-ying referred to the counter-cyclical measures and three rounds of measures under the Anti-epidemic Fund ("AEF") introduced in the 2020-2021 Budget amounting to over \$340 billion for relieving the severe impact of the COVID-19 epidemic on the local economy, and enquired if any unused funds under individual measures could be used to assist individuals and industries hard hit by the epidemic, such as the tourism industry.

7. FS advised that the majority of AEF measures were in progress and there was a contingency provision under AEF to meet urgent needs. The Administration would closely monitor the implementation of various AEF measures to meet the needs of the affected sectors and members of the public. FS said that the Chief Executive had announced in the 2020 Policy Address additional relief measures for the tourism industry, involving a total commitment of close to \$600 million.

8. Mr Michael TIEN referred to the Administration's proposal to lower the age eligibility of the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities ("the \$2 transport fare concession scheme") from the current 65 to 60 and requested the Administration to provide details on the financial impact of the proposal, including how the estimated additional yearly expenditure of about \$6,000 million were worked out. He further considered it unreasonable that the fare concession should remain at \$2 throughout the scheme and opined that the Administration should conduct regular review on the concession amount taking into account future fare increases.

9. FS advised that the Labour and Welfare Bureau had been conducting a comprehensive review on the \$2 transport fare concession scheme covering various issues such as age eligibility, coverage of public transport modes, etc. Relevant recommendations and implementation arrangements would be announced in due course. In working out the estimated additional recurrent expenditure for lowering the age eligibility of the scheme from 65 to 60, a number of considerations had to be taken into account, such as the relevant population size and its growth rate, frequency of trips made, fare concessions provided by individual public transport operators, etc. The Administration would provide the information requested by Mr TIEN after the meeting.

(Post-meeting note: The Administration's supplementary information was circulated to Members vide LC Paper No. CB(1)425/20-21(02) on 4 January 2021.)

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10. Mr SHIU Ka-fai expressed grave concern about further deterioration on the unemployment rate, in particular in the consumption- and tourism-related sectors, with the six-month Employment Support Scheme ("ESS") ending in late November 2020. It was expected that closure of enterprises and massive layoffs would continue due to the difficult economic environment. He enquired if the Administration would consider launching the third tranche of ESS to subsidize enterprises with genuine difficulties so as to retain jobs. He also enquired if the Administration would explore ways to reduce government recurrent expenditure given that the level was approaching \$500 billion a year and the fiscal reserves had already declined sharply to some \$800 billion.

11. FS responded that the Administration had no plan to launch the third tranche of ESS but would continue to implement measures to provide relief to businesses and individuals hard hit by the epidemic and those directly affected by the Government's anti-epidemic and social distancing measures. For example, the Administration had rolled out additional relief measures for the tourism industry, involving a total commitment of close to \$600 million, as the industry was expected to continue facing grave and prolonged challenges for some time in the future. FS said that while the room for reducing the Government's recurrent expenditure was limited, the Administration would exercise extra caution when incurring recurrent expenditure and focus on the optimal use of resources in implementing the committed initiatives. Moreover, the Government's Efficiency Office would support Policy Bureaux and Departments in the wider adoption of innovation and technology and streamlining of processes with a view to enhancing public service. He added that the Administration had decided to maintain "zero growth" in the civil service establishment in the coming year. When launching new services or enhancing existing services, all Departments must do so through reprioritization and redeployment of existing resources first.

Measures to promote economic development

12. Pointing out that the International Monetary Fund's economic forecasts had indicated that the economies of the Mainland and emerging and developing Asia were expected to rebound by 8.2% and 8% respectively for 2021, Ir Dr LO Wai-kwok highlighted the need for Hong Kong to grasp the opportunities brought about by the rapid economic growth of the Mainland and emerging and developing Asia. Moreover, he opined that the implementation of the amendments to the Agreement on Trade in Services of the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA") in June 2020 and various measures introduced by the Development Bureau to facilitate the construction industry and related professionals to extend business to the Mainland (e.g. allowing certain professionals to directly register for practice in Qianhai of Shenzhen and Hengqin of Zhuhai) could provide Hong Kong enterprises and professional sectors with more preferential treatment to tap into business

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opportunities in the Mainland market. He suggested that the Administration should explore ways to extend such preferential treatment to other construction-related professionals. He further stressed the importance of resuming cross-boundary travel with the Mainland in paving the way for Hong Kong's economic recovery.

13. Mr WONG Ting-kwong expressed concern on the possible impact of uncertainties in the global economic and political situations on Hong Kong's future economic development, particularly the tense relations between China and the US, removal of Hong Kong's special treatment by the US and queries raised by some Western countries on the effective implementation of "One Country, Two Systems" in Hong Kong. He called on the Administration to review Hong Kong's position and develop middle- and long-term strategies to promote Hong Kong's economic development, including measures to attract and retain talents, as well as to attract overseas enterprises to set up offices in Hong Kong.

14. FS remarked that the economies of the Mainland and emerging and developing Asia were expected to have a brighter outlook than other economies in the next year. Under "One Country, Two Systems", Hong Kong would continue to benefit from the Mainland's reform and further opening-up as well as its accelerated economic growth. It was noted that the Mainland had adopted a new development strategy featuring "dual circulation", which took the domestic market as the mainstay while enabling domestic and foreign markets to interact positively to boost each other. The Administration would continue to assist Hong Kong enterprises in tapping into the Mainland domestic market to leverage the enormous business opportunities presented by the development strategy, especially for the innovation and technology as well as financial services sectors. On innovation and technology, the Administration would continue to promote the development of Cyberport and the Hong Kong Science Park to help attract professionals and talents to work and settle in Hong Kong. On financial services, Hong Kong's listing regime had been expanded to allow companies with weighted voting rights ("WVR") structures in emerging and innovative sectors and pre-revenue bio-tech companies to be listed in Hong Kong. It was noted that amid the tense China-US relations, an increasing number of Mainland companies listed on overseas exchanges were seeking secondary listing in Hong Kong. In addition, the Hong Kong Trade Development Council would set up a Small and Medium Enterprise Centre in the Guangdong-Hong Kong-Macao Greater Bay Area ("Greater Bay Area") to provide multi-faceted support to facilitate Hong Kong enterprises to tap into the Mainland domestic market. To encourage and support young people to work and pursue their career in the Greater Bay Area, the Administration would launch the Greater Bay Area Youth Employment Scheme ("GBAYES") with 2 000 places initially to encourage enterprises with operation in both Hong Kong and the Mainland cities of the Greater Bay Area to recruit and

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deploy local university graduates to work in the Greater Bay Area. On Ir Dr LO's suggestion of extending the preferential treatments under CEPA to other construction-related professionals, FS undertook to relay the views to the Development Bureau for consideration.

15. Regarding tapping into new markets in the emerging and developing Asia, FS advised that Hong Kong had already signed a Free Trade Agreement with the Association of Southeast Asian Nations ("ASEAN") and the Administration had set up Hong Kong Economic and Trade Offices in three ASEAN countries, namely, Thailand, Singapore and Indonesia, with a view to enhancing Hong Kong's trade relations with ASEAN, opening up opportunities for Hong Kong enterprises in ASEAN as well as actively participating in and supporting the Belt and Road Initiative. In addition, the Administration would continue to organize joint overseas missions with Mainland cities for Hong Kong enterprises to Belt and Road countries, including those in ASEAN, in order to explore investment and cooperation opportunities.

16. Mr Kenneth LAU noted that due to the implementation of the Linked Exchange Rate System in Hong Kong, there was limited room for the Administration to adjust its monetary policy in order to stimulate the economy. He sought details on the financial policy the Administration would implement to stimulate the economy and promote employment in the face of the current epidemic.

17. FS advised that while the Hong Kong economy would likely resume positive growth in 2021, the pace and extent of the recovery would be affected by a number of external and internal factors, in particular when COVID-19 vaccines could be rolled out and the time to be taken for large-scale vaccination. Apart from the development of the epidemic, the China-US tensions would also cast uncertainties around the sustained recovery of the Hong Kong economy. In view of the budget deficit for 2020-2021 and the projected deficit for 2021-2022, FS stressed that the Administration would make good use of fiscal reserves to promote economic development, support enterprises and provide assistance to the public and businesses hard hit by the epidemic.

18. Mr Holden CHOW was of the view that in addition to participating in the Mainland's "domestic circulation", Hong Kong, with its international experience and network, could further strengthen its intermediary role in "international circulation" which could bring continuous impetus to Hong Kong's economic development. He therefore suggested that the Administration should step up promotion to enable the international community to have a thorough and updated understanding of the situations in Hong Kong with a view to rebuilding international confidence in Hong Kong and attracting more foreign investment

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which in return would provide development opportunities for a wide range of professionals as well as large, medium and small enterprises in Hong Kong.

19. FS said that in the past few months, the Administration and financial regulators, such as the Hong Kong Monetary Authority ("HKMA") and the Securities and Futures Commission ("SFC"), had engaged foreign investors to update them on the latest situations in Hong Kong and enhance their confidence in making investments in Hong Kong. It was noted that the level of foreign investment in Hong Kong had remained stable.

Financial stability

20. Dr CHENG Chung-tai said that the bank accounts of a former Council Members, Mr HUI chi-fung, and his family members had been frozen by some banks in Hong Kong in the recent few days. He expressed grave concern about the negative impacts of the incident on the robustness of Hong Kong's financial and banking systems, and the Administration's initiative in attracting overseas investors in setting up family offices in Hong Kong. He stressed that the Administration must explain the incident in detail including the reasons for freezing the accounts and why some accounts were partially released later.

21. Mr CHAN Chun-ying commented that banks would handle customers' accounts in accordance with the relevant laws and regulations. In general, banks would take appropriate risk mitigating measures, such as restraining the operation of accounts, only when the accounts were suspected to be involved in irregular or suspicious transactions.

22. FS advised that the Administration would not comment on individual cases. The relevant regulatory bodies would follow up on the case with the banks concerned in accordance with the established rules and procedures. He stressed that the incident was irrelevant to the development of family office business in Hong Kong.

The residential property market

23. Mr SHIU Ka-fai noted that the home purchase affordability ratio (i.e. mortgage repayment to income ratio) remained high, and enquired if the Administration would develop measures to assist genuine users to acquire residential properties besides implementing the various demand-side management measures for residential properties.

24. FS clarified that the purpose of the various demand-side management measures was to allow first-time buyers better opportunity to purchase a property in a demand-supply imbalance situation, instead of reducing the property price.

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Various targeted demand-side management measures had been implemented to curb certain specific types of demand, including short-term speculative demand, external demand and investment demand. He said that the various demand-side management measures had served their purpose as indicated by the significant decline in the total transaction volumes of first- and second-hand residential properties to around 60 000 per year after implementation of the measures.

Retirement protection

25. Ms Starry LEE said that Council Members and members of the public who were in financial distress caused by the COVID-19 epidemic (particularly the unemployed and underemployed) had called on the Administration to relax the withdrawal conditions of accrued benefits in their Mandatory Provident Fund ("MPF") accounts for meeting their immediate needs. She urged the Administration to seriously consider such views.

26. FS stressed that the MPF System was designed to provide the working population with retirement protection. Relaxing the current requirements for withdrawal of MPF benefits could risk undermining the integrity of the MPF System and adversely affect the accrued benefits available to MPF scheme members upon retirement.

27. Mr LUK Chung-hung pointed out that many elderly people relied on stable investment income to support their retirement life, such as the dividend payment of HSBC Holdings plc ("HSBC") which had been cancelled recently and interest payment of Sliver Bond. Noting that most Guaranteed Funds run by MPF trustees only provided low guaranteed rate of return, he enquired whether the Administration would consider the Hong Kong Federation of Trade Unions' suggestion of providing an investment fund to be managed by HKMA as an alternative investment for scheme members given that HKMA's investment funds had a good track record of stable investment return.

28. Referring to the recent incident that the Board of HSBC had decided to cancel the fourth interim dividend in respect of 2019, the Chairman requested the Administration to follow up the issue given that dividend payment of HSBC had been a major source of income for a number of Hong Kong citizens.

29. FS advised that the MPF System was one operated by approved trustees of MPF schemes. The Administration had been striving to improve the MPF System, including the development of the eMPF Platform which would be a large-scale financial infrastructure aiming to enhance the operational efficiency of MPF schemes and create room for reduction in management fees, thus improving the net investment returns for scheme members. Moreover, with a view to enhancing the interest of scheme members who did not know how or did not want to make

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investment choices, the fee-controlled Default Investment Strategy ("DIS") was introduced to facilitate scheme members in making MPF investment that could fulfil the long-term retirement savings objective. He remarked that the Administration had no plan to provide an MPF investment fund under the management of HKMA. As regards HSBC's decision to withhold the dividend payment, FS said that the decision was made upon request by the bank's regulator in the United Kingdom. The Administration had conveyed the strong views of the public on the incident to the bank concerned.

Budget related issues

30. Mr CHAN Chun-ying pointed out that the number of unemployed persons living in low-income households increased by 200% (i.e. 50 000 persons) in the third quarter of 2020 on a year-on-year comparison, whereas the overall Comprehensive Social Security Assistance ("CSSA") caseload only went up by 2.5% (i.e. 5 409 cases) from its trough in January 2020. He sought clarification on the difference between the two figures, in particular if the unemployed persons were not qualified to apply CSSA. He also asked if the Administration would consider setting up an unemployment relief fund in order to provide temporary financial support for the unemployed.

31. Ms Starry LEE and Mr Holden CHOW strongly urged the Administration to set up an unemployment relief fund to provide direct financial assistance for the unemployed. Ms LEE pointed out that the relief measures with a total amount of \$340 billion rolled out by the Government mainly focused on supporting enterprises. She considered it inappropriate to provide unemployment relief to individuals through the CSSA framework only. Mr CHOW expressed grave concern on the high unemployment rates of the consumption- and tourism-related sectors and considered that the proposed unemployment relief fund could provide short-term financial relief to individuals from industries hard hit by the COVID-19 epidemic as well as the unemployed or underemployed persons living in low-income households. He further called on the Administration to closely liaise with the Central Government in ensuring adequate supply of COVID-19 vaccines developed or produced in the Mainland for use by Hong Kong people.

32. The Chairman expressed concern that after ESS ended in late November 2020, there would be waves of closure of enterprises and further rise in the unemployment rate. In addition to establishing an unemployment relief fund, he suggested that the Administration should consider setting up a temporary fund to assist the unemployed persons to re-join the workforce through changing occupations. He also considered that the Administration should roll out support measures in the coming Budget for enterprises and individuals including assisting unemployed persons to set up their own businesses to help them tide over the difficult times. Besides, the Administration should ensure that sufficient funds

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would be available for taking forward various initiatives announced in the 2020 Policy Address, such as initiatives to further deepen the mutual access between the Mainland and Hong Kong financial markets, to devise new directions for youth development, etc.

33. Mr Michael TIEN urged the Administration to consider providing another round of \$10,000 cash payout to Hong Kong permanent residents to relieve their financial burden.

34. G Econ advised that low-income households referred to households with monthly household income below \$9,000. As regards the application for CSSA, applicants' income and other factors including their assets would be considered. Unemployed persons might choose not to apply CSSA. Thus the number of unemployed persons living in low-income households and the number of CSSA applicants might not match. He added that to provide more assistance to the unemployed and their families, the Administration had announced in April 2020 the "Special Scheme of Assistance to the Unemployed" under the CSSA system, under which the asset limits for CSSA applicants had been temporarily relaxed for six months from 1 June 2020. In September 2020, the Administration further extended the special scheme for another six months to 31 May 2021.

35. As regards the proposal of setting up an unemployment relief fund, FS said that as provided in the Secretary for Labour and Welfare's previous reply to the Council, there were no mechanisms/systems in place to disburse unemployment assistance fund promptly in Hong Kong. Given that it would take considerable time to set up the relevant mechanism to provide unemployment relief, the quickest way to provide support for the unemployed was through the existing CSSA framework. Indeed it was noticed that unemployed persons applying CSSA had significantly increased in the past few months, with an average monthly 16 864 cases from January to September 2020 and a 43% increase as compared to the average in the same period in 2019. He stressed that the Administration would strive to contain the epidemic, facilitate the gradual resumption of cross-boundary travel between Hong Kong and the Mainland without the need for compulsory quarantine in an orderly manner when the epidemic in Hong Kong was under control, and introduce measures as necessary to support Hong Kong's economic recovery. He added that the Administration would step up efforts to combat unemployment, including creating 30 000 time-limited job opportunities for people with different academic qualifications and skill sets under the second round of AEF, and the launch of the third tranche of the Love Upgrading Special Scheme by the Employees Retraining Board offering 20 000 retraining places with allowance.

36. In response to the Chairman's enquiry regarding the procurement of COVID-19 vaccines, FS said that the Food and Health Bureau and the Department

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of Health had been closely monitoring the development of COVID-19 vaccines, and liaising with individual vaccine developers, with a view to purchasing vaccines which would meet the criteria of safety, efficacy and quality for the Hong Kong population.

37. Pointing out that the Administration would continue to invest in capital works to stimulate economic recovery, Ir Dr LO Wai-kwok suggested that the Administration should set up a professional development fund for the youth to facilitate them in developing careers in the construction industry. FS noted the suggestion.

38. Mr Michael TIEN noted that the Government's annual recurrent expenditure was approaching \$500 billion and urged that the Administration should seriously consider broadening the tax base through introducing new taxes which would be beneficial to the sustained recovery of Hong Kong's economy and at the same time would not pose a heavy financial burden to the general public, such as imposing sales tax on luxurious commodities. Mr CHAN Kin-por expressed a similar view and suggested that the newly established Budget and Tax Policy Unit conduct a thorough study on Hong Kong's existing tax regime and explore new taxes for enhancing Government revenue without undermining the competitiveness and attractive business environment of Hong Kong.

39. FS remarked that during an economic downturn, it would be inherently contradictory to boost tax revenues by increasing the existing tax rates or introducing new taxes, which might have the effect of suppressing the momentum and confidence in economic recovery and run counter to the concept of countercyclical fiscal policy. That said, the Administration would continue to enhance Hong Kong's tax regime and explore feasibility of broadening the tax base so as to ensure that adequate resources would be available to support the sustainable development and long-term financial stability of Hong Kong. He stressed the need to arrive at a consensus in the society before the introduction of any new taxes.

40. Mr CHAN Kin-por pointed out that the aging population in Hong Kong was one of the long-term challenges the Administration must face. He considered that promoting a healthy retirement life (e.g. encourage elderly people to do exercises and maintain a healthy diet) would help ease the heavy financial burden of the public healthcare system which in return might help contain the rapid growth in public expenditure on health services.

41. FS concurred with the importance of promoting a healthy retirement life for Hong Kong people. In this regard, the Government planned to set up District Health Centres in all 18 districts gradually to strengthen district-level primary healthcare services with a view to encouraging the public to maintain a healthy

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lifestyle and enhancing their capability in self-care and home care, thereby reducing the demand for specialist services and hospitalization. The Administration would also make use of these District Health Centres to provide services on health promotion, health screening for target groups, community rehabilitation, etc.

42. Mr Christopher CHEUNG noted that the fiscal reserves had declined sharply from the equivalent of 23 months of government expenditure at the beginning of 2020 to about 13 months at the end of the year. Understanding that the Administration might need to raise revenue and cut expenditure in order to maintain fiscal prudence and financial stability, he emphasised that expenditure on measures for relieving people's hardship and improving people's livelihood, particularly the low-income group, should not be reduced. Moreover, he suggested that the Government should continue to promote the listing of companies with WVR structures as well as secondary listing in Hong Kong with a view to increasing the turnover of securities and the relevant revenue from stamp duty, instead of just raising the rate of stamp duty as suggested recently by a scholar. He also urged the Administration to consider postponing the implementation of the proposal to increase the listing threshold.

43. Dr Junius HO was of the view that in order to increase government revenue and contain expenditure, the Administration should broaden the tax base and at the same time continue to maintain a low and simple tax regime. The Administration should also facilitate Hong Kong enterprises in capitalizing the opportunities presented by the Greater Bay Area. He also opined that the Administration should review the establishment of the civil service with a view to maintaining a lean and efficient civil service.

44. FS noted the views and suggestions expressed by Mr CHEUNG and Dr HO. He said that the Administration was committed to providing quality services to the public and would at the same time continue to keep the civil service establishment under control. He advised that in considering whether to adjust the existing tax rates, including stamp duty on securities transactions, the Administration would take into account all relevant factors, including whether such measures would undermine the competitiveness of Hong Kong's business environment and tax regime and whether the measures would help promote market development. For example, to promote the development of exchange-traded fund ("ETF") in Hong Kong, the Administration had waived all stamp duty payable on the transfer of shares or units of ETFs. Regarding the listing threshold, FS said that the Hong Kong Exchanges and Clearing Limited ("HKEX") was consulting the market on the revision to the "Profit Requirement" which had been introduced in 1994. The Administration and HKEX would carefully examine the views and comments received before making a final decision on whether to increase the Profit Requirement.

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(At 11:09 am, the Chairman ordered that the meeting be suspended for 5 minutes. The meeting resumed at 11:14 am.)

IV Briefing by the Secretary for Financial Services and the Treasury on the Chief Executive's 2020 Policy Address

(LC Paper No. CB(1)289/20-21(05) — Administration's paper on 2020 Policy Address - Policy Initiatives of the Financial Services and the Treasury Bureau)

Other relevant documents

The Chief Executive's 2020 Policy Address and the Supplement)

Briefing by the Administration

45. The Secretary for Financial Services and the Treasury ("SFST") briefed Members on the policy initiatives of the Financial Services and the Treasury Bureau ("FSTB") featured in the Chief Executive's 2020 Policy Address. He highlighted the following areas of work set out in the Administration's paper (LC Paper No. CB(1)289/20-21(05)):

- (a) promoting mutual capital market access by accelerating the inclusion of pre-profit biotechnology companies listed in Hong Kong meeting certain prescribed criteria in the scope of eligible securities under Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect ("Stock Connect") ("the Stock Connect initiative");
- (b) promoting mutual access of financial services in the Greater Bay Area including implementation of the two-way cross-boundary wealth management connect pilot scheme ("Wealth Management Connect"), early establishment of after-sales service centres by Hong Kong insurance industry in the Mainland cities of the Greater Bay Area under the Mainland and Hong Kong CEPA, and early implementation of the "unilateral recognition" policy for motor insurance policies of Hong Kong vehicles entering Guangdong through the Hong Kong-Zhuhai-Macao Bridge;
- (c) enhancing Hong Kong's position as a major asset and wealth management centre in Asia through promoting the development of

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real estate investment trusts, private equity funds and family office business;

- (d) promoting the development of financial technologies ("Fintech") by launching the Fintech Proof-of-Concept Subsidy Scheme and a public consultation on the regulatory framework for virtual asset services providers;
- (e) pursuing various ongoing initiatives, including fostering the establishment of an Uncertificated Securities Market regime, enhancing Hong Kong's status as an international risk management centre and its position as a regional green and sustainable finance hub, and collaborating with the Mandatory Provident Fund Schemes Authority in developing the eMPF Platform;
- (f) alleviating the economic shock brought by COVID-19 by abolishing doubled ad valorem stamp duty ("DSD") on non-residential property transactions and creating jobs in the financial industry through the launch of Fintech Anti-epidemic Scheme for Talent Development ("FAST") and Financial Industry Recruitment Scheme for Tomorrow ("FIRST"); and
- (g) enhancing government procurement arrangements to facilitate enterprises (especially small and medium sized enterprises ("SMEs") and start-ups) to participate in tendering.

(Post-meeting note: The press release containing the speaking note of SFST (Chinese version only) was issued to Members vide LC Paper No. CB(1)374/20-21(01) on 10 December 2020.)

Discussion

Development of financial services in the Guangdong-Hong Kong-Macao Greater Bay Area

46. While welcoming the Administration's initiative to implement the Wealth Management Connect, Mr CHAN Chun-ying enquired whether the Administration would formulate relevant supporting measures like remote onboarding and product promotion to cope with challenges brought by COVID-19, such as the temporary suspension of cross-boundary travel between Hong Kong and the Mainland.

47. Mr Christopher CHEUNG pointed out that mutual market access measures such as the Wealth Management Connect had been under discussion by

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the relevant authorities for some time, and enquired if the delay in implementation was due to obstacles like the lack of a regulatory regime on remote onboarding. He also enquired whether the Hong Kong securities industry, in particular the SME securities firm, can benefit from remote onboarding.

48. SFST advised that the implementation framework of the Wealth Management Connect was jointly announced by the relevant regulatory authorities of the Mainland, Macao and Hong Kong in June 2020. The authorities were working out the implementation details and would consult the industry as appropriate. It was anticipated that banks would adjust their business to facilitate the implementation. It was envisaged that the implementation framework and relevant measures might not be applied to the local securities industry directly. SFST stressed that in allowing remote onboarding, the Administration was mindful of the need to strike a proper balance between convenience and customer protection.

49. Mr CHAN Kin-por welcomed the initiative to set up insurance service centres in the Greater Bay Area but expressed concern as how the local insurance sector could benefit from the initiative. He urged that the Administration should actively engage the Hong Kong Federation of Insurers in formulating the implementation details including inviting its representatives to participate in discussion meetings between the Insurance Authority and the Mainland insurance regulator.

50. SFST said that the implementation of the insurance service centres initiative involved both facilitation and regulatory measures. The Administration had been maintaining close liaison with the industry to ensure the industry's views were duly taken into account in taking forward the initiative, and would continue to do so.

51. The Chairman enquired about the reasons for not extending the "unilateral recognition" policy for motor insurance policies to Hong Kong vehicles entering Macao through the Hong Kong-Zhuhai-Macao Bridge. He also relayed the Business and Professionals Alliance for Hong Kong's proposal for the Administration to launch the Greater Bay Area Pass which would help strengthen Hong Kong's role as an international financial centre.

52. SFST said that the introduction of the Greater Bay Area Pass involved complex issues including numerous regulatory issues and multiple regulators in the Mainland, Macao and Hong Kong, which would require detailed study.

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The property market

53. Pointing out that many enterprises were facing a challenging operating environment, Ir Dr LO Wai-kwok welcomed the Administration's move to abolish DSD on non-residential property transactions so that companies in financial difficulties arising from the COVID-19 epidemic could sell their non-residential properties to address their immediate needs. He opined that the Administration should carefully monitor the development in the residential property market and review whether there would be room for adjusting the existing demand-side management measures.

54. Mr Michael TIEN expressed concern that the abolition of DSD might induce owners to sell their non-residential properties, and might in turn make it more difficult for shop tenants to seek rental reduction from owners. He suggested that the abolition of DSD should only apply to transactions of vacant and self-use non-residential properties.

55. SFST remarked that significant decline in both the transaction volume and prices of non-residential properties was noticed over a period of time due to the severe COVID-19 epidemic situations. The Administration considered it the right time to abolish DSD so as to facilitate the selling of non-residential properties by businesses for addressing their financial predicament or liquidity needs. SFST pointed out that the residential and non-residential property markets were two different markets and had different issues to be addressed. The Administration would continue to monitor both markets closely. SFST stressed that the abolition of DSD would apply to all non-residential property transactions and it would not be appropriate to exclude certain types of non-residential properties which would easily lead to abuse.

Development in financial technologies

56. Mr CHAN Chun-ying opined that Hong Kong should strive to launch a pilot scheme on the use of Digital Currency/Electronic Payment ("DCEP") developed by the People's Bank of China outside the Mainland. Noting that HKMA was conducting tests on cross-border payment systems, he enquired about the progress and whether the Administration had plans to apply DCEP in Hong Kong. Mr WONG Ting-kwong enquired about Hong Kong's possible role in the development of DCEP.

57. SFST responded that the Mainland had launched pilot schemes on DCEP in a number of cities. It was believed that the utilization of DCEP would initially be confined to retail level. The Administration would review Hong Kong's role in the cross-border application of DCEP and its utilization at institutional level. HKMA would liaise with its Mainland counterparts as necessary, and the

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Financial Services Development Council had established a task force to study the subject.

58. Noting that the use of certain electronic payment methods, such as AliPay, was getting more popular in Hong Kong, Mr WONG Ting-kwong was concerned whether a regulatory regime was in place to protect consumers.

59. Mr Michael TIEN expressed concern about the slow pace of development in new electronic payment systems in Hong Kong, and urged the Administration to step up efforts in promoting the use in this respect.

60. SFST responded that the Administration was aware of the relatively low adoption rate of stored value facilities ("SVFs") in certain premises like public markets, and would step up promotion in this regard. It was noted that there had been rapid expansion in electronic payment methods including the Faster Payment System in Hong Kong during the COVID-19 pandemic. SFST further pointed out that relevant legislation including the Payment Systems and Stored Value Facilities Ordinance (Cap. 584) was in place to regulate the use of SVFs. The Administration would also take measures to nurture more Fintech talents in promoting the development of SVFs.

Developing Hong Kong's fundraising platform and green finance market

61. Referring to the further grandfathering arrangements in respect of companies seeking secondary listing in Hong Kong announced by HKEX in end-October 2020 which involved companies with WVR structures, Mr Holden CHOW enquired about the estimated number of companies which planned to use the new arrangements, and whether the Administration had set any target in this respect. He further enquired how the the Stock Connect initiative could enhance employment in Hong Kong. He suggested that, as a complementary measure, the Administration should consider inviting famous innovation companies to set up branches in the Lok Ma Chau Loop and the Hong Kong Science Park. Mr Christopher CHEUNG enquired if the Administration would consider further expanding the scope of eligible securities for Stock Connect to cover companies secondary-listed in Hong Kong, so as to facilitate more Mainland companies to secondary-list in Hong Kong.

62. SFST pointed out that since the implementation of a new listing regime by HKEX in April 2018 to allow the listing of companies from emerging and innovative sector, 37 companies had been listed under the new regime among which 26 were pre-revenue / pre-profit biotechnology companies. It was envisaged that a considerable number of eligible companies would make use of the new initiative set out in the 2020 Policy Address to apply for secondary listing in Hong Kong. Regarding further expansion of the scope of eligible securities

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under Stock Connect, SFST remarked that the Administration would further liaise with the Mainland authorities. On the benefits of the relevant initiatives, SFST pointed out that the financial services industry currently contributed to about one-fifth of Hong Kong's Gross Domestic Product and provided more than 270 000 jobs. The initiatives would not only increase the demand for various professional services including legal and accounting services, but also promote the development of other related sectors.

63. In promoting the development of local bond market, Mr Christopher CHEUNG enquired whether the Administration would introduce measures such as reducing the minimum transaction threshold or facilitating the listing of bonds.

64. SFST said that the Administration adopted a multi-pronged approach to promote the development of Hong Kong's bond market. Apart from issuing Government bonds, the Administration had been encouraging companies to issue bonds in Hong Kong and would discuss with the relevant Mainland authorities with a view to implementing the Southbound Trading of Bond Connect. SFST added that in considering proposals to further promote Hong Kong's bond market development, the Administration would take investor protection issues into account.

65. Mr CHAN Chun-ying enquired whether the Administration would consider measures including introducing capital deduction and tax relief in order to promote the development of green finance in Hong Kong.

66. SFST responded that under the Green Bond Grant Scheme and the Pilot Bond Grant Scheme, the Administration and HKMA would subsidize eligible bond issuers in obtaining certification under the Green Finance Certification Scheme and issuing bonds in Hong Kong respectively. The Administration welcomed views from Members and the industry on measures to strengthen Hong Kong's position as a regional green and sustainable finance hub.

Measures to alleviate Hong Kong's economic shock and future economic development of Hong Kong

67. Mr Kenneth LAU pointed out that while the Hong Kong economy was hit hard by the COVID-19 pandemic, the Administration had declined to accept suggestions including launching the third tranche of ESS and allowing the unemployed to withdraw their MPF accrued benefits. Mr LAU enquired about specific measures to assist the middle class in financial need, including whether the Administration would consider subsidizing employees in making the mandatory MPF contributions for a certain period of time.

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68. The Chairman expressed concern about the possible occurrence of financial crisis amid the launching of quantitative easing by many major economies to cope with COVID-19-related economic problems. He urged the Administration to explore further measures (including implementation of the "Hong Kong Health Code" system which was crucial to the resumption of cross-boundary travel between Hong Kong and the Mainland) to revitalize the Hong Kong economy. In his view, the resumption of cross-boundary travel between Hong Kong and the Mainland was vital to the success of Wealth Management Connect.

69. SFST responded that the Administration had launched several rounds of relief measures to alleviate the economic shock brought by the COVID-19 pandemic. It was observed that the unemployment rate in the financial services sector was relatively low. The Administration had also introduced a number of measures including FAST and FIRST to create jobs and nurture talents in the sector.

70. Mr Abraham SHEK expressed concern about the rising tension between China and many economies, and enquired if the Administration had reviewed Hong Kong's role under this challenging environment. He also pointed out that the 2020 Policy Address contained few measures on wealth creation, and enquired how the Administration would restore the confidence of Hong Kong people and international investors in Hong Kong. Mr SHEK further considered that the Administration should examine how Hong Kong could assist the Mainland in attracting foreign investments, and should not take the development of the Greater Bay Area as the major solution to Hong Kong's economic difficulties. Moreover, it would be inadequate for the Administration to merely launch GBAYES to subsidize the youth to work there. He cautioned that it would be impractical to tackle Hong Kong's existing challenges by just encouraging the youth to work in the Greater Bay Area.

71. Mr SHIU Ka-fai enquired about the Administration's assessments on the benefits of Hong Kong's integration with the Greater Bay Area for the financial services sector and the labour market (particularly the benefits on youth employment), and the possibility that Hong Kong's status as an international financial centre could be taken over by other cities in the Greater Bay Area. He opined that the Administration should be mindful of the fact that while Hong Kong benefited from the Mainland's opening up and reform in the 1980s, almost all factories in Hong Kong then had eventually relocated to the Mainland.

72. Mr Holden CHOW opined that Hong Kong could still play the role of a "connector" between the Mainland and the rest of the world. He stressed the need for the Administration to formulate measures including promoting the green environment in Hong Kong and providing sufficient education opportunities in

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order to attract expatriates to come and stay in Hong Kong, and to publicize such measures to the international community.

73. On the economic development in Hong Kong, SFST said that Hong Kong still possessed many strengths to create wealth, including proximity to the Mainland, independent judicial system, and economic systems aligning with international standards. The Administration would continue to develop measures to attract investments from both the Mainland and the international community. It was also observed that international investors in general viewed Hong Kong as a springboard for accessing the Mainland market. The Administration had implemented a number of measures which were successful in strengthening Hong Kong's role as an international financial centre. For instance, the average daily trade value of the Northbound and Southbound Trading of Stock Connect had increased by ninefold and threefold respectively since 2017.

74. As for the benefits of promoting Hong Kong's development in the Greater Bay Area, SFST remarked that the development in the Bay Area would deepen the cooperation between Hong Kong and the Mainland, and in turn would expand Hong Kong's market access to the Mainland. He pointed out that currently around one-fifth of the Mainland's "high value-added persons" (i.e. an individual with a net worth of at least one million US dollars) lived in the Greater Bay Area. The 2020 Policy Address had set out a number of measures to help Hong Kong companies provide services to such people. GBAYES was launched with the purpose to broaden the participants' experience and perspectives.

Management of public finance

75. Noting that the annual trend growth rate of the Government's investment in capital works in the coming five years would stand at some 8.7%, Ir Dr LO Wai-kyok cautioned that FSTB should liaise with relevant bureaux/departments ("B/Ds") closely on the implementation of capital works projects to avoid overspending.

76. The Chairman expressed concern about possible depletion of the fiscal reserves if deficits persisted and with the continuous implementation of large scale capital works projects. He suggested that the Administration should examine the feasibility of issuing more Government bonds and allowing retail investors to purchase the bonds.

77. SFST agreed that the Administration should use its resources prudently to maintain fiscal stability and discipline. FSTB would liaise closely with relevant B/Ds including the Food and Health Bureau and the Transport and Housing Bureau on the delivery of capital works projects.

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Financial regulation in Hong Kong

78. Mr LUK Chung-hung referred to the recent price fluctuations of the Next Digital Limited which were suspicious to have involved market manipulation, and opined that SFC, which had not taken regulatory actions, should strengthen its regulation of Hong Kong's securities market.

79. SFST refrained from making comments on individual cases. He stressed that financial regulators in Hong Kong had been discharging their duties prudently. The Financial Reporting Council ("FRC") had also signed a Memorandum of Understanding with the Ministry of Finance on cooperation in respect of audit regulation, which, inter alia, facilitated FRC to gain access to audit working papers located in the Mainland.

80. Mr Holden CHOW enquired about the Administration's view on the decisions of some overseas regulators withholding banks incorporated in their jurisdictions to distribute dividends, and whether it would liaise with the banking industry on the issue.

81. SFST responded that the Administration was aware of the dissatisfaction of certain members of the public regarding the cancellation of dividend payments by some banks. He stressed that individual banks would decide their own dividend policies and HKMA had liaised with the banking industry on the matter.

Government procurement policy

82. Noting that the Government Logistics Department had been updating the procurement plans of Government departments on its webpage more frequently starting from October 2020, Mr LUK Chung-hung enquired whether the Administration would consider not applying the requirements under the World Trade Organization's Agreement on Government Procurement to low value procurement, so as to facilitate the participation of bidders which were SMEs and bidders that could create more jobs in Hong Kong.

83. SFST responded that the Administration had implemented a pro-innovation government procurement policy since April 2019. The policy required that procuring departments should not set tenderers' experience as an essential requirement in general unless absolutely necessary and with prior approval, so as to encourage competition in procurement and minimize entry barriers, particularly for SMEs and start-ups.

(At 12:26 pm, the Chairman ordered that the meeting be extended for 15 minutes to 12:45 pm to allow sufficient time for discussion.)

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(At 12:43 pm, the Chairman ordered that the meeting be further extended to finish discussion of the item. No member raised objection.)

V Any other business

Outstanding item for discussion

84. Mr Abraham SHEK said that he had suggested at an earlier Panel meeting that the Secretariat should conduct a study on issues relating to the development of Hong Kong's bond market.

85. The Chairman advised that pursuant to the work plan meeting of the Panel with the Administration on 23 November 2020, the Research Office of the Secretariat would provide an information paper on the said issues by end of January 2021. The Administration would also provide a paper on Hong Kong's bond market development in due course.

86. There being no other business, the meeting ended at 12:50 pm.

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Legislative Council Secretariat
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