立法會
Legislative Council

LC Paper No. CB(1)1322/20-21
(These minutes have been seen by the Administration)

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Panel on Financial Affairs

Minutes of meeting held on
Monday, 3 May 2021, at 10:00 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-yee, GBS, JP
Hon MA Fung-kwok, GBS, JP
Hon Christopher CHEUNG Wah-fung, SBS, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, 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

Members absent : Dr Hon Junius HO Kwan-yiu, JP
Hon CHEUNG Kwok-kwan, JP
Dr Hon CHENG Chung-tai

Public officers attending : Agenda Item IV

Mr Eddie YUE, JP
Chief Executive
Hong Kong Monetary Authority

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

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

Mr Edmond LAU, JP
Deputy Chief Executive (Development)
Hong Kong Monetary Authority

Ms Linda SO
Executive Director (Corporate Services)
Hong Kong Monetary Authority

Agenda Item V

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

Mr Laurence LI, SC, JP
Chairman
Financial Services Development Council

Dr AU King-lun
Executive Director
Financial Services Development Council

Agenda Item VI

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

Mr Desmond WU
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)6

Ms Kitty TSUI
Acting Registrar of Companies

Ms Fanny LAM
Deputy Registry Manager (Public Search)
Companies Registry

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 Confirmation of minutes of meeting and matters arising

(LC Paper No. CB(1)828/20-21 — Minutes of meeting by videoconferencing on 1 February 2021)

The minutes of the meeting held on 1 February 2021 were confirmed.

II Information papers issued since the meeting on 9 April 2021

(LC Paper No. CB(1)795/20-21(01) — Administration's response to the letter from Hon Christopher CHEUNG on issues relating to the development of special purpose acquisition companies in Hong Kong

LC Paper No. CB(1)841/20-21(01) — Fourth quarterly report of 2020 on "Employees Compensation Insurance — Reinsurance Coverage for Terrorism"

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LC Paper No. CB(1)851/20-21(01) — Hong Kong Monetary Authority Annual Report 2020)

2. Members noted the information papers issued since the regular meeting held on 9 April 2021.

III Date of next meeting and items for discussion

(LC Paper No. CB(1)827/20-21(01) — List of outstanding items for discussion

LC Paper No. CB(1)827/20-21(02) — List of follow-up actions)

3. Members agreed to discuss the following items proposed by the Administration at the regular meeting scheduled for 7 June 2021, at 10:45am:

(a) Briefing by the Financial Secretary on Hong Kong's latest overall economic situation; and

(b) Development of financial technologies in Hong Kong.

IV Briefing on the work of Hong Kong Monetary Authority

(LC Paper No. CB(1)827/20-21(03) — Paper provided by the Hong Kong Monetary Authority)

Briefing by the Hong Kong Monetary Authority

4. 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 Deputy Chief Executive (Development), Hong Kong Monetary Authority ("DCE(D)/HKMA") updated members on the work of the Hong Kong Monetary Authority ("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 ("HKMC").

(*Post-meeting note*: The powerpoint presentation materials (LC Paper No. CB(1)863/20-21(01)) were issued to Members vide Lotus Notes e-mail on 3 May 2021.)

Discussion

Macroeconomic conditions and measures to help the public and local enterprises combat the coronavirus disease 2019

5. Ms Starry LEE expressed concern about the impacts of the heightened geopolitical tensions (particularly the conflict between China and the United States ("the US")) and the outbreak of the coronavirus disease 2019 ("COVID-19") on Hong Kong, and enquired whether HKMA had observed any abnormal capital flows into and out of Hong Kong.

6. CE/HKMA responded that HKMA had closely engaged international investors and financial institutions to understand their views on Hong Kong's status as an international financial centre. The main consideration of the international community was whether Hong Kong could continue to maintain its financial stability and provide business opportunities, particular those related to the Mainland. With the various initiatives including the Southbound Bond Connect and the Wealth Management Connect which would provide ample investment opportunities, it was observed that there was still significant interest within the international community in Hong Kong. As regards capital flows into and out of Hong Kong, CE/HKMA said that HKMA did not observe net outflow of capital as the Hong Kong dollar remained on the strong side and bank customers' deposits also continued to rise. Furthermore, an annual survey conducted by the Securities and Futures Commission ("SFC") indicated that the assets under management of Hong Kong's asset and wealth management business grew by about 20% in 2019, and it appeared that the growth trend had continued through to the first quarter of 2021.

7. In response to Mr LUK Chung-hung's enquiry about the impact of the stimulus measures introduced by the US recently on the global economy, CE/HKMA said that if the US continued to maintain its loose monetary and fiscal policy stance, its inflation rate would inevitably increase. Should inflation continue to increase, the US Federal Reserve might eventually be forced to raise the federal funds rate or reduce its bond purchases, which might lead to sharp corrections in the global asset markets. In turn, this might affect EF's investments. To mitigate these risks, EF had been maintaining a defensive and diversified investment strategy.

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8. The Chairman, Mr SHIU Ka-fai, Ir Dr LO Wai-kwok, Mrs Regina IP and Mr CHAN Kin-por expressed concern about the relatively low vaccination rate for COVID-19 in Hong Kong as compared to other major financial centres, which might adversely affect the confidence of the international community in Hong Kong and its competitiveness. They stressed the importance for the Administration to take more proactive measures to encourage the public to receive vaccination. Mrs IP and the Chairman considered that HKMA should advise the Administration to set up "vaccine bubbles" between Hong Kong and other major international financial centres to facilitate mutual flow of investors and financial practitioners who had received vaccination. The Chairman further considered that the Administration should examine the feasibility of setting up a "tourism bubble" in the Guangdong-Hong Kong-Macao Greater Bay Area ("the Greater Bay Area") which could help Hong Kong's economic recovery. Mr CHAN suggested that the Administration should consider releasing the vaccination rate for the age group between 18 and 60, which would likely be higher than that of the whole population of Hong Kong.

9. CE/HKMA shared the concern over the potential adverse impact of a relatively low vaccination rate. Internationally, discussions had shifted from infection control to encouraging the public to get vaccinated. He pointed out that without a high vaccination rate, the extent of economic reopening would be constrained. Furthermore, a relatively low vaccination rate compared to other international financial centres could undermine Hong Kong's competitiveness. He emphasised the importance for Hong Kong to increase its vaccination rate, and undertook to explore with the Administration the possibility of having more flexible cross-border travel arrangements for people who had received vaccination.

10. Mr SHIU Ka-fai welcomed the enhancement measures for the Special 100% Loan Guarantee under the Enhanced SME Financing Guarantee Scheme, and the launch of the 100% Personal Loan Guarantee Scheme ("PLGS"), and cautioned that HKMA should take preventive measures against possible abuse of the two schemes.

11. DCE(M)/HKMA agreed that a proper balance should be struck between ensuring simple application procedures for the two schemes and preventing possible abuse. HKMA had been maintaining close contact with the participating banks to strike such a balance, while maintaining a certain standard for approval. He added that for PLGS, it was clearly stated that the credit history of an individual would be adversely affected if he/she failed to repay the loan.

12. While welcoming the six-month extension of the Pre-approved Principal Payment Holiday Scheme ("PPPHS") to October 2021, the Chairman called on

HKMA to examine the feasibility of extending the scheme further as it would take a long time for the business of many enterprises (particularly small and medium-sized enterprises ("SMEs")) to return to the pre COVID-19 level.

13. CE/HKMA said that HKMA would liaise with the industry on the way forward of PPPHS under the Banking Sector SME Lending Coordination Mechanism around July / August 2021, having regard to the circumstances at the time and the need to balance between flexibility and maintaining the credit quality of banks. DCE(B)/HKMA clarified that the extension of PPPHS to October 2021 did not necessarily mean that the principal payment by eligible corporate customers would fall due at that time, as the principal payments would only resume six months after their extension.

Development of financial services

14. Noting that HKMA had been working closely with relevant associations in the banking industry to introduce more consumer credit reference agencies ("CRAs") in Hong Kong, Mr CHAN Chun-ying enquired about the progress concerned including the resources for taking forward the initiative (e.g. for conducting the relevant system testing) and the implementation timetable.

15. DCE(B)/HKMA advised that the relevant tender exercise led by the industry was underway largely according to schedule, despite slight delays due to COVID-19. It was envisaged that the tender would be awarded in mid-2021, followed by work on the technical details, and the new CRA system would be in operation by end-2022. He noted that the Hong Kong Interbank Clearing Limited had allocated sufficient resources to support this project.

16. Noting that green bonds issued by the Government were well received by the market, Ir Dr LO Wai-kwok enquired about plans to issue more green bonds in the near future. He further suggested that the Administration should diversify its green bond products. The Chairman concurred that the Administration should increase the issuance of government bonds to help replenish the fiscal reserves.

17. DCE(D)/HKMA responded that there was high market demand for Government green bonds, especially from international investors. As such, the Administration planned to move a resolution at the Council meeting in due course to raise the maximum amount of borrowing under the Government Green Bond Programme from HK$ 100 billion to HK$ 200 billion. It was envisaged that the Administration would, upon the passage of the resolution, issue green bonds amounting to between HK$ 170 billion and HK$ 200 billion in the coming three to five years. CE/HKMA added that the Administration would diversify its green

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bond products including issuances in different maturities and currencies, as well as retail bonds.

18. Mr Holden CHOW pointed out that the recent default of the Archegos Capital Management ("Archegos") on the margin calls of its leveraged transactions had led to massive losses of a number of foreign banks, and enquired whether HKMA would review Hong Kong's regulatory regime to prevent occurrence of similar incidents in Hong Kong. As according to sources, Archegos had utilized the less stringent family office regulations to circumvent certain regulatory requirements of the US regulators, Mr CHOW cautioned that the Administration should be prudent in promoting the development of family office business in Hong Kong.

19. DCE(B)/HKMA said that while Archegos operated as a family office, some of its transactions involved high leverage. HKMA was actively participating in discussions at international regulatory forums to review the incident and to identify any room for improving disclosure and reporting requirements. HKMA had also been liaising with the banking industry, in particular foreign banks that had exposures to Archegos, with a view to further enhancing the current regulatory data collection framework including monitoring leverage offered by banks.

Cybersecurity and development of financial technologies

20. Mr WONG Ting-kwong noted the challenges posed by the rapid digitalization of the financial industry and sought HKMA's elaboration on its work in maintaining Hong Kong's financial security.

21. CE/HKMA responded that HKMA attached great importance to cybersecurity, and had introduced a number of requirements for the banking industry to enhance banks' cyber risk management, as well as launched a number of initiatives to nurture cybersecurity talents in Hong Kong. As regards the regulation of illicit funds, DCE(B)/HKMA pointed out that Hong Kong's policy objective in the area of anti-money laundering and counter-terrorist financing ("AML/CTF") was to comply with the relevant international requirements. In the Mutual Evaluation Report of Hong Kong released by the Financial Action Task Force in September 2019, Hong Kong's AML/CTF regime was assessed to be compliant and effective. In view of the voluminous financial transactions conducted daily in Hong Kong, HKMA would promote the use of financial technologies to combat money laundering and terrorist financing. Going forward, HKMA would develop roadmaps to promote banks' technology adoption in this regard.

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22. Ms Starry LEE considered that Hong Kong should play a role in assisting the development of digital currency in the Mainland which was an initiative under the 14th Five Year Plan, and enquired about HKMA's work in promoting the development of digital currency.

23. CE/HKMA said that HKMA had been maintaining close communication with the People's Bank of China ("PBoC") on the matter. Apart from testing the cross-border payment of digital currency through the Multiple Central Bank Digital Currency Bridge Project with PBoC, the Bank of Thailand and the Central Bank of the United Arab Emirates, HKMA had launched testing schemes in collaboration with PBoC on the use of e-CNY, the digital renminbi issued by PBoC, in Hong Kong.

24. Mr Christopher CHEUNG opined that the development of e-CNY was one of the important factors to the internationalization of renminbi, and called on HKMA to step up its efforts in testing the use of e-CNY in Hong Kong. He enquired about the timeline on e-CNY development including the feasibility of opening e-CNY securities accounts in Hong Kong and using e-CNY for purchasing financial products in Hong Kong, and whether the use of e-CNY would increase the risk of capital outflow from China.

25. CE/HKMA responded that the utilization of e-CNY would initially be confined to retail level in the Mainland, and hence HKMA's relevant tests had been focusing on the use of e-CNY at the retail level. It was envisaged that the implementation of e-CNY would not lead to capital outflow from the Mainland as e-CNY was intended to only replace the use of banknotes. Meanwhile, it was envisioned that individual residents in the Greater Bay Area would be able to carry out cross-boundary investment in wealth management products distributed by banks in Hong Kong under the Wealth Management Connect, for which preparations were underway.

The property market

26. Mr Abraham SHEK opined that the high property price in Hong Kong was attributable to a number of factors including the Administration's "high land price policy", the prolonged property development process due to the Administration's red tape, the surge in construction costs in recent years, and the demand-side management measures which had reduced the supply of flats in the secondary market. He stressed that the Administration should expedite housing supply particularly the supply of public rental housing, and said that HKMA should relax the loan-to-value ("LTV") ratio caps for property transactions in the secondary market. He also remarked that HKMC's Mortgage Insurance

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Programme ("MIP") could not meet the existing market demand, and called on HKMA to address the matter.

27. CE/HKMA noted the supply- and demand-side factors at play in Hong Kong's property market. He explained that putting a cap on the LTV ratio was one of HKMA's countercyclical macroprudential measures, and HKMA would review the measures having regard to the latest developments in the property market. He further pointed out that under HKMC's MIP for completed residential properties, a property valued at up to HK$8 million could be eligible for a mortgage loan with up to 90% LTV ratio; and a property valued up to HK$10 million could be eligible for a maximum LTV ratio of 80%. HKMA would continue to review its various measures for potential room of enhancement.

28. Pointing out that Hong Kong's composite interest rate had remained below 3% since 2008 and the existing low interest rate environment would likely persist for some time, the Chairman suggested that HKMA should consider relaxing the stress tests on the repayment ability of mortgage loan applicants so that more members of the public could take out mortgage loans.

29. DCE(B)/HKMA said that HKMA was aware of similar comments raised by the market. He pointed out that while the market tended to be more focused on the current low interest rate environment, mortgage loans involved long-term commitments by the borrowers. Currently, the average tenor of new mortgage loans was close to 27 years. While HKMA would continue to review its stress testing requirements having regard to evolving developments, such requirements had to take into account interest rate developments in the longer horizon.

The Exchange Fund

30. Mr CHAN Kin-por and Mr LUK Chung-hung enquired if HKMA had put in place any precautionary measures against a possible interest rate hike in future given that EF's investment mainly involved bonds.

31. CE/HKMA responded that HKMA could take a number of measures to mitigate potential impact of shocks. First, in terms of return, EF could adjust the proportion of bonds versus other assets; second, EF could increase the proportion of bonds denominated in the US dollar with shorter maturities to reduce the impact of interest rate fluctuations; third, while EF's Backing Portfolio had to hold US dollar bonds with shorter maturities in order to maintain liquidity, there was more flexibility in the EF's Investment Portfolio to hold other types of bonds. HKMA would continue to review and make adjustments to EF investments according to market developments.

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Schemes administered by the Hong Kong Mortgage Corporation

32. Mr CHAN Chun-ying opined that HKMC's Reverse Mortgage Programme ("RMP") was not well received by property owners due to the relative low caps imposed on the maximum amount of specified property value and the low monthly payout amount which was insufficient to meet applicants' daily expenses in the long run. Considering the rising inflation rate and property prices, he enquired whether HKMA would conduct a comprehensive review on RMP.

33. CE/HKMA responded that HKMA conducted review of RMP on a regular basis, and there were plans in the near future to step up on the promotion of the retirement schemes (including RMP) administered by HKMC.

34. In response to Mr LUK Chung-hung's enquiry about the progress of HKMA's review on the Annuity Plan ("AP"), DCE(M)/HKMA said that a number of factors had to be considered including life expectancy of the population and the return of EF. HKMC would continue to examine possible enhancements to AP based on latest parameters. At the same time, as mentioned by CE/HKMA, HKMA would also step up the promotion of AP.

V Work of the Financial Services Development Council

(LC Paper No. CB(1)827/20-21(04) — Administration's paper on "Work of the Financial Services Development Council"

LC Paper No. CB(1)827/20-21(05) — Updated background brief on Financial Services Development Council prepared by the Legislative Council Secretariat)

Briefing by the Administration

35. At the invitation of the Chairman, Chairman of Financial Services Development Council ("C/FSDC") briefed members on the work accomplished by FSDC in 2020-2021 which included publication of nine research reports and documents on various areas of financial services, promoting Hong Kong's advantages as an international financial centre through participating at meetings and events conducted virtually or in a hybrid mode, organizing human capital development events targeting industry players, students of tertiary institutions and

young graduates (e.g the pilot job-shadowing programme, the Practitioner Speakers Series, the CV Clinic, etc.), and launching the Financial Industry Recruitment Scheme for Tomorrow ("FIRST") to help create 1 500 new positions in the financial services industry.

36. Under Secretary for Financial Services and the Treasury ("USFST") said that the year 2020-2021 was the second full year that FSDC performed its role as an incorporated entity with staff of its own. The Government continued to provide funding for FSDC in the form of annual subvention and appointed three new members to the Board of FSDC. FSDC appointed its new Executive Director in 2020, and had made great achievements in conducting research, promoting market development and nurturing talents for the betterment of the Hong Kong's financial services industry. Since its establishment, FSDC had published 47 research reports and papers providing recommendations to facilitate the continuous development of Hong Kong's financial services industry. The Government, relevant regulators and stakeholders were actively studying and taking forward proposals put forth by FSDC, particularly in areas of green finance, consolidating Hong Kong's status as a preferred family office hub, and enhancing the market infrastructure of Hong Kong's bond market, namely the Central Moneymarkets Unit ("CMU"), with a view to developing CMU as a major central securities depository platform in Asia and in the world in the long run. Moreover, FSDC had organized or participated in over 120 promotional events, held nearly 150 outreach meetings with industry players and more than 60 seminars and talks relating to the development of human capital.

Discussion

Resources of the Financial Services Development Council

37. Mr CHAN Chun-ying commended FSDC for its quality research reports and efforts in market promotion. Pointing out that there was only modest increase in FSDC's budget for 2021-2022 over that of 2020-2021, he expressed concern about the adequacy of resources for FSDC in carrying out its various functions, especially on market promotion, and requested FSDC to provide a comparison of the approved budget and actual expenditure for 2020-2021.

38. C/FSDC replied that the main difference between the approved budget and actual expenditure for 2020-2021 was the increase in expenditure for implementing social media marketing strategy. He undertook to provide the relevant information requested by Mr CHAN Chun-ying after the meeting.

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(*Post-meeting note:* The Administration's supplementary information was circulated to members vide LC Paper No. CB(1)910/20-21(02) on 17 May 2021.)

Research work of the Financial Services Development Council

39. Noting that nearly half of FSDC's staff was responsible for conducting research, Mr CHAN Chun-ying enquired if the manpower resources were sufficient to support FSDC's research work in the future. Moreover, he sought information on how FSDC would collaborate with the Government in mapping out the strategies for promoting the development of the financial services industry, in particular in ensuring that the themes of FSDC's research would be in line with the Government's policy objectives.

40. C/FSDC said that due to increased workload on market promotion, half of FSDC's staff responsible for conducting research also assisted in formulating marketing strategies relevant to the research themes/reports concerned. C/FSDC stressed that the objective of FSDC's research was to expand the scope of the Hong Kong financial markets and enhance Hong Kong's competitiveness as an international financial centre. The Policy Research Team would identify research themes and carry out the research to formulate relevant proposals for the consideration of the Government and regulators. FSDC would also co-ordinate with the Government and regulators on policy research relating to the macro-economic environment, such as the impacts of the monetary policies adopted by other jurisdictions in response to the COVID-19 pandemic on the economic development of Hong Kong.

41. Mr LUK Chung-hung enquired if FSDC would consider conducting a research on minimum commission for securities transactions in Hong Kong as he noted that the fierce competition in the securities industry had resulted in zero commission, which had made the operation of local small and medium-sized securities firms more difficult and seriously affected the livelihood of securities brokers.

42. C/FSDC remarked that the shifting of the investment portfolios of investors from stocks to other investment products associated with long-term financial planning and asset management might have increased the competition in the securities industry, and as a result, zero commission had become a means to promote cross-selling of financial products. For frontline practitioners in the securities industry, it would be important to assist them to expand their scope of services, such as introduce relevant measures to facilitate them to provide trading services to family offices set up in Hong Kong which were currently mainly provided by prime brokers.

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43. Mrs Regina IP said that subsequent to FSDC's study on Real Estate Investment Trusts ("REITs"), SFC had revised the "Code on Real Estate Investment Trusts" which, among other things, to allow REITs to invest in property development projects and sell their assets. She pointed out that the selling of shopping centres and markets in public rental housing estates by the Link Real Estate Investment Trust ("Link REIT") had serious adverse impacts on the local community, including driving away small businesses, huge increase in rentals thus pushing up the prices of goods, etc. She was of the view that allowing the Link REIT to dispose of its properties was inconsistent with FSDC's proposal of developing Hong Kong into a global Environment, Social, and Governance ("ESG") investment hub, and the growing importance of ESG principles in the international financial markets.

44. C/FSDC said that it was a common trend in the global financial markets to introduce measures to facilitate fund raising by REITs and capital works programme through listing. He took note of Mrs Regina IP's comments relating to Link REIT and said that FSDC would examine the feasibility of incorporating ESG elements in studies on REITs where appropriate in the future.

45. Mr Holden CHOW noted that FSDC's research in 2021-2022 would focus on themes including connectivity with the Mainland and the rest of the world, and enquired if FSDC would consider conducting research on measures to promote Hong Kong's participation in the Belt and Road Initiative, in particular to promote Hong Kong as a preferred fund raising platform for the Belt and Road related projects.

46. C/FSDC took note of Mr Holden CHOW's views and said that taking into account Hong Kong's comparative advantages, industry practitioners generally considered that Hong Kong should reinforce its role in enhancing financial connectivity with the Greater Bay Area rather than increase its participation in the Belt and Road Initiative. That said, FSDC would further discuss with industry practitioners and consider the need and feasibility of formulating strategies and measures, likely from an international prospective, to assist the financial services industry in seizing the business opportunities arising from the Belt and Road Initiative.

47. The Chairman pointed out that the local retail bond market remained small, and suggested that FSDC should conduct studies on relevant subjects including measures to promote corporate bond offering to retail investors, and to facilitate Mainland corporates in issuing bonds in foreign currencies in Hong Kong.

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48. C/FSDC agreed that the local bond market had potentials to develop further, particularly there was room of improvement in retail investors' access to the market. Indeed as revealed by a study, Hong Kong was the largest centre for arranging international bond issuance in Asia.

Implementation of proposals put forth by the Financial Services Development Council

49. Mr CHAN Kin-por enquired how FSDC would ensure the Government and regulators would take forward its recommendations, and whether FSDC would assist the Government and regulators in implementing its proposals and monitoring the progress.

50. C/FSDC responded that FSDC would closely monitor the progress of the Government and regulators in taking forward the various recommendations. While some of FSDC's proposals could be pursued at the local level, others would hinge on the relevant development of the international and Mainland markets, and FSDC would step up efforts in exchanging views with related regulatory bodies/organizations in the Mainland and overseas in pursuing such proposals. On the recommendations made in FSDC's research reports, USFST said the Government had been monitoring the progress of the follow-up actions taken. The Government would also co-ordinate with the relevant working groups of FSDC in developing policies and measures relating to a research topic/report, and in gauging the views of stakeholders. Given that the Secretary for Financial Services and the Treasury was an ex-officio member of the Board of FSDC and USFST was an ex-officio member of the Policy Research Committee of FSDC, the Government had been maintaining frequent and close dialogue with FSDC.

Work of the Financial Services Development Council on human capital development

51. Mr Christopher CHEUNG remarked that FSDC's policy research usually focused on strategies and measures to support the development of the financial services industry from a macro level, and little had been done to promote the development of SMEs in the industry. He pointed out that the financial services industry welcomed the FIRST scheme administrated by FSDC which had created 1 500 full-time positions in the industry and helped 748 employers hard hit by the pandemic in recruiting local talents. Referring to FSDC's plan to provide 200 additional jobs for young university graduates from 2019 to 2021 under FIRST, Mr CHEUNG asked whether there would be job positions to attract new entrants to the industry, in particular with a view to helping the industry to seize the opportunities arising from the development of the Greater Bay Area.

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52. C/FSDC said that FSDC was mindful of the need to support the development of the local financial services industry including identifying relevant research topics. As regards FIRST, C/FSDC and USFST advised that FIRST was a job creation scheme dedicated to the financial services industry, and nearly 90% of the applicants were SMEs employing less than 50 employees. All the 1 500 jobs created under FIRST had been approved. USFST added that in view of the deteriorating conditions in the labour market amid the COVID-19 pandemic, the proposed creation of 200 additional jobs under FIRST would aim at assisting young university graduates from 2019 to 2021 to find jobs in the financial services industry. The Government and FSDC would continue to study measures to facilitate the financial services industry to seize the growing opportunities in the Greater Bay Area. FSDC already issued a research report on enhancing financial connectivity in the Greater Bay Area in 2020.

(At 12:06 pm, the Chairman ordered that the meeting be extended for 15 minutes to 12:25 pm.)

VI Regulation of licensed money lenders

(LC Paper No. CB(1)827/20-21(06) — Administration's paper on "Regulation of licensed money lenders"

LC Paper No. CB(1)827/20-21(07) — Updated background brief on regulatory arrangements to tackle malpractices by financial intermediaries for money lending prepared by the Legislative Council Secretariat)

Briefing by the Administration

53. At the invitation of the Chairman, Deputy Secretary for Financial Services and the Treasury (Financial Services) Special Duties ("DS(FS)SD") updated members on the latest development in the regulation of licensed money lenders including issuance of two sets of new guidelines (i.e. the Guideline on Fit and Proper Criteria for Licensing of Money Lenders and the Guideline on Submission of Business Plan by Applicant of a Money Lenders Licence) in January 2021 by the Registrar of Money Lenders, and imposition of new or improved conditions on money lenders licences with effect from 16 March 2021 as and when they were granted or renewed. He added that having regard to the

recommendations in the Consumer Council's report entitled "Money Lending – Reforming Law and Trade Practices for Consumer Protection" and taking into account other relevant factors, the Administration proposed to introduce amendments to sections 24 and 25 of the Money Lenders Ordinance (Cap. 163) ("MLO") to lower the statutory interest rate cap and the extortionate rate for money lending from the existing per annum 60% and 48% respectively to per annum 48% and 36% respectively. The Administration had informed licensed money lenders and the banking sector of the proposal and would continue to collect feedback. Meanwhile, the Administration had commenced preparation work for the relevant legislative exercise.

Discussion

Enforcement

54. Mr LUK Chung-hung enquired about the reasons for the low number of site inspections conducted by the Companies Registry ("CR") on licensed money lenders in 2020 (i.e. 188) as compared to that in 2019 (i.e. 497), and the details of follow-up actions taken by the Police on complaints against deception involving financial intermediaries. He expressed disappointment that the Administration had not proposed any new enforcement measures against the malpractices of licensed money lenders and financial intermediaries, such as raising the penalties for relevant offences and sanctions for breaches of relevant requirements.

55. DS(FS)SD advised that the Police had carried out a number of targeted enforcement exercises in 2019 and 2020 resulting in prosecution of 38 financial intermediaries for crimes relating to deception, and conviction of 10 intermediaries with imprisonment sentences. Further enhancement of enforcement and sanctions against the malpractices of licensed money lenders and financial intermediaries would be examined in the Administration's medium-term review on the regulation of licensed money lenders. Acting Registrar of Companies ("ARC") added that CR's site inspections in 2020 were affected by the COVID-19 pandemic. Government departments fully resumed normal public services in February 2021 and CR's inspections on licensed money lenders had been gradually returning to the pre COVID-19 level since then. It was envisaged that the number of site inspections would increase in 2021.

56. At the request of Mr LUK Chung-hung, the Administration was required to provide relevant information for the past five years regarding the objection raised by CR to the Licensing Court in respect of licence renewal by licensed money lenders which had committed serious non-compliance, including the number of such cases and the non-compliance or misconduct involved.

(*Post-meeting note:* The Administration's supplementary information was circulated to members vide LC Paper No. CB(1)941/20-21(02) on 24 May 2021.)

Improved licensing conditions for money lenders

57. Mr CHAN Chun-ying enquired whether the improved licensing conditions for money lenders were enforced by CR, and if so, whether CR had sufficient manpower to discharge the new duties.

58. DS(FS)SD said that most of the improved licensing conditions for money lenders would be enforced by CR, which had already established a dedicated team comprising staff with relevant enforcement experience. The Administration would review the manpower of CR when necessary.

59. Mr Kenneth LAU declared that one of his family members was operating licensed money lending business. He enquired whether the Administration would, in enforcing the new licensing condition regarding the affordability assessments of borrowers, recommend a debt servicing ratio to facilitate compliance by money lenders. He also asked how the Administration would enforce the amended licensing condition for licensed money lenders regarding the proper use of referees' information.

60. DS(FS)SD responded that the Administration would not set an absolute debt servicing ratio for the new licensing condition concerned so as to allow flexibility having regard to circumstances of individual cases. As regards the use of referees' information, he said that some people had been claimed as referees of borrowers without their knowledge. Some of them were even harassed by the money lenders or financial intermediaries concerned. The amended licensing condition sought to tackle the problem.

61. Mrs Regina IP pointed out that some foreign domestic helpers borrowed money from more than one money lender at the same time, and asked whether the Administration had information on the borrowing situation of foreign domestic helpers in Hong Kong.

62. DS(FS)SD said that while the Administration conducted annual survey to get apprised of the latest landscape of the money lending sector. Survey results revealed that foreign domestic helpers accounted for the largest share in terms of the number of loan transactions, and that some of them might borrow money from more than one money lender. He pointed out that under the new licensing condition, a licensed money lender would need to conduct affordability assessment on a borrower before reaching loan agreement, taking into account the

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borrower's ability to make repayments affordably, including his / her income, expenditure, the impact of the loan on his / her overall financial situation, etc. The new licensing condition would lead to more reasonable loan agreements between borrowers and lenders.

Proposed lowering of the statutory interest rate cap

63. Mr CHAN Chun-ying and Mr Kenneth LAU welcomed the Administration's proposal of lowering the statutory interest rate cap and the extortionate rate. In particular, Mr CHAN cautioned that some money lenders might circumvent the measure by requiring clients to enter into loan agreements with high administration fees. Mr LAU remarked that similar measures should be applied to credit card businesses given the existing low interest rate environment. Mr LUK Chung-hung enquired how the proposed new interest rate cap of 48% was worked out.

64. Noting members' views, DS(FS)SD explained that any administration fees charged by money lenders had to be calculated in the interest rates as mandated under MLO. On the proposed new statutory interest rate cap, he explained that reference had been made to the prevailing interest rates of the local money lending sector including banks, relevant practices in comparable jurisdictions, as well as the community's views.

Interface with the proposed new inspection regime of the Companies Register

65. Mrs Regina IP enquired whether the Administration's proposed new inspection regime of the Companies Register (which sought to bring certain uncommenced provisions of the Companies Ordinance (Cap. 622) into operation) would have any adverse impact on the regulation of licensed money lenders.

66. ARC advised that licensed money lenders were required to notify CR on their appointment of financial intermediaries, and such information was included in the Register of Money Lenders ("RML") which was available at the website of CR for public inspection. Such information would help a prospective borrower to understand whether a financial intermediary had been appointed by any licensed money lender(s). RML was unrelated to the Companies Register and the proposed new inspection regime of the Companies Register would have no impact on the regulation of licensed money lenders.

(At 12:22 pm, the Deputy Chairman took the chair in the absence of the Chairman. At 12:24 pm, the Deputy Chairman ordered that the meeting be further extended for 10 minutes to 12:35 pm to allow sufficient time for discussion.)

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VII Any other business

67. There being no other business, the meeting ended at 12:32 pm.

Council Business Division 1
Legislative Council Secretariat
13 September 2021