

**立法會**  
**Legislative Council**

LC Paper No. CB(1)1509/20-21  
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by the Administration)

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**Panel on Financial Affairs**

**Minutes of policy briefing-cum-meeting held on  
Monday, 18 October 2021, at 8:30 am  
in Conference Room 1 of the Legislative Council Complex**

**Members present** : Hon Jeffrey LAM Kin-fung, GBS, JP (Chairman)  
Hon WONG Ting-kwong, GBS, JP (Deputy Chairman)  
Hon 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, GBM, GBS, JP  
Hon MA Fung-kwok, GBS, JP  
Hon Christopher CHEUNG Wah-fung, SBS, JP  
Ir Dr Hon LO Wai-kwok, GBS, 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 CHEUNG Kwok-kwan, JP  
Hon LUK Chung-hung, JP  
Hon Kenneth LAU Ip-keung, BBS, MH, JP

**Public officers  
attending** : Agenda Item III

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

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

Miss Cathy CHU, JP  
Permanent Secretary for Financial Services and the  
Treasury (Treasury)

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

Ms May CHAN, 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) Special Duties

Mr Raistlin LAU, JP  
Deputy Secretary for Financial Services and the  
Treasury (Treasury)1

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

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 Darryl CHAN, JP  
Acting Deputy Chief Executive (Development)  
Hong Kong Monetary Authority

**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**

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|-------------------------------|--|
| (LC Paper No. CB(1)1322/20-21 | — Minutes of meeting on 3 May 2021     |
| LC Paper No. CB(1)1323/20-21  | — Minutes of meeting on 7 June 2021    |
| LC Paper No. CB(1)1324/20-21  | — Minutes of meeting on 9 August 2021) |

The minutes of the meetings held on 3 May 2021, 7 June 2021 and 9 August 2021 were confirmed.

**II Information papers issued since the meeting on 6 September 2021**

- |                                   |  |
|-----------------------------------|--|
| (LC Paper No. CB(1)1407/20-21(01) | — Administration's paper on Development of Hong Kong as a Premier Listing Platform                   |
| LC Paper No. CB(4)1109/20-21(03)  | — Administration's paper on Implementation of the recommendations made by the Law Reform Commission) |

2. Members noted the information papers issued since the regular meeting held on 6 September 2021.

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**III Briefing by the Secretary for Financial Services and the Treasury on the Chief Executive's 2021 Policy Address**

(LC Paper No. CB(1)1411/20-21(01) — Administration's paper on 2021 Policy Address - Policy Initiatives of the Financial Services and the Treasury Bureau

Other relevant documents — The Chief Executive's 2021 Policy Address and the Supplement)

Briefing by the Administration

3. 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 2021 Policy Address. He highlighted the following areas of work set out in the Administration's paper:

- (a) promoting the development of Hong Kong's listing platform and bond market, including supporting the Hong Kong Exchange and Clearing Limited ("HKEX") to establish a listing regime for special purpose acquisition companies in Hong Kong, issuing government bonds regularly, and implementing various support measures such as tax incentives, subsidy schemes, etc.;
- (b) strengthening offshore Renminbi ("RMB") business by increasing the demand for the issuance and trading of RMB securities and facilitating the issuance of offshore RMB bonds;
- (c) deepening mutual market access between Hong Kong and the Mainland including launching the cross-boundary Wealth Management Connect ("WMC") in September 2021 and MSCI China A-share index futures contract in October 2021;
- (d) enhancing the Mandatory Provident Fund ("MPF") System by facilitating MPF investments in China A-shares and China bonds and taking forward the eMPF Platform Project;

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- (e) facilitating small and medium enterprises ("SMEs") in obtaining trade finance with the establishment of "Commercial Data Interchange" by the Hong Kong Monetary Authority ("HKMA");
- (f) promoting the development of green and sustainable finance in Hong Kong through measures including issuing retail green bonds in 2021-2022, and setting up a Carbon Market Work Stream under the Green and Sustainable Finance Cross-Agency Steering Group to assess Hong Kong's capability for developing into a regional carbon trading centre;
- (g) promoting the development of financial technology ("Fintech"), including exploring with the Mainland the formation of a one-stop sandbox network and studying the prospect of issuing retail central bank digital currency in Hong Kong (i.e. e-HKD); and
- (h) nurturing financial talents by exploring the development of professional qualification standards for the Fintech sector under the Qualifications Framework, and adding the professions of "experienced professionals in compliance in asset management" and "professionals in Environmental, Social and Governance ("ESG")" to the Talent List of Hong Kong.

*(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)1429/20-21(01) on 18 October 2021.)*

Discussion

*Strengthening offshore Renminbi business*

4. Noting that the Administration was examining the feasibility of allowing securities eligible for southbound trading under the Stock Connect to be denominated in RMB, Mr CHAN Chun-ying and Ms Starry LEE enquired about the implementation details and timetable. Mr CHAN also sought information on the Administration's plan to further strengthen Hong Kong's status as a global offshore RMB business hub, including allowing securities listed in Hong Kong to trade and settle in RMB.

5. Mr Christopher CHEUNG said that he supported FSTB's policy initiatives in the coming year, in particular measures to promote two-way flow of cross-boundary RMB funds and the development of offshore RMB products.

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Regarding the proposal to allow securities listed in Hong Kong to be denominated in RMB, he expressed concerns over possible decline in the trading volume due to the associated exchange rate risk and increase in the operating costs of listed companies. Given that HKEX might need to upgrade its system to facilitate trading and settlement of securities denominated in RMB, Mr CHEUNG was concerned whether HKEX would transfer the costs to securities brokers.

6. SFST responded that in view of the internationalization of RMB, the Administration was looking into specific measures to enhance demand for the issuance and trading of RMB securities, as well as exploring the feasibility of allowing stocks traded via the southbound trading under Stock Connect to be denominated in RMB. Notably, allowing trading of RMB-denominated securities via the southbound trading under Stock Connect could mitigate the foreign exchange rate risk borne by Mainland investors, and providing greater certainty for the trading price. He stressed that the Administration would continue to liaise with the industry and the Mainland authorities to promote two-way flow of cross-boundary RMB funds and development of offshore RMB products and tools.

7. Mr WONG Ting-kwong opined that in addition to conducting pilot testing of e-CNY for making cross-boundary payments in Hong Kong, the Administration should promote Hong Kong as an offshore e-CNY centre, in particular in using e-CNY for cross-boundary trade settlement and transactions in the capital market. To help promote interconnection with cities in the Guangdong-Hong Kong-Macao Greater Bay Area ("Greater Bay Area"), he further suggested that the Administration should co-ordinate with the Shenzhen Municipal People's Government in exploring the feasibility of using e-CNY to facilitate two-way flow of cross-boundary RMB funds, especially between Hong Kong and Qianhai.

8. SFST took note of Mr WONG's views and advised that HKMA had completed the first phase of technical testing on e-CNY with the Digital Currency Institute of the People's Bank of China ("PBoC") in 2020, and was collaborating with PBoC on the next phase of technical testing including inviting more banks to participate and testing the use of different means to top up e-CNY wallets. He added that the Administration would continue to explore more channels to facilitate two-way flow of capitals, talents and financial services within the Greater Bay Area (including Qianhai) to reinforce and enhance the status of Hong Kong as a global hub for offshore RMB business.

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*Promoting development of the bond market and green and sustainable finance in Hong Kong*

9. In response to Mr CHAN Chun-ying's enquiry about the Administration's measures to facilitate the issuance of offshore RMB bonds in Hong Kong by Mainland cities particularly those in the Greater Bay Area, SFST said that the Administration would continue to promote the advantages of Hong Kong's bond market to Mainland cities and maintain close liaison with relevant Mainland authorities with a view to facilitating the issuance of offshore RMB bonds and deepening Hong Kong's bond market development.

10. Mr Holden CHOW sought details on the implementation timetable and roadmap in developing Hong Kong as a regional carbon trading centre. He also enquired about the pool of ESG professionals in Hong Kong and suggested that the Administration should compile relevant statistics.

11. SFST said that the Administration had been working in concert with the financial regulators and the industry to promote the development of green and sustainable finance in Hong Kong, with a view to contributing to achieving carbon neutrality before 2060 in the Mainland and before 2050 in Hong Kong as well as elevating Hong Kong's position as a green and sustainable finance hub in the region. Among others, the Carbon Market Work Stream under the Green and Sustainable Cross Agency Steering Group was assessing the feasibility of developing Hong Kong as a regional carbon trading centre. It was expected that the relevant study would be completed by the end of 2021.

12. Ir Dr LO Wai-kwok sought information on the progress in implementing the Government Green Bond Programme ("GGBP"), and the mechanism for funding green projects using the proceeds raised under the Programme. Moreover, he referred to the Northern Metropolis Development Strategy announced in the 2021 Policy Address and the current global low interest rate environment, and opined that the Administration should explore the feasibility of issuing Government bonds and Government green bonds to raise funds for financing individual development projects in the Northern Metropolis. The Chairman concurred that the Administration should consider issuing Government bonds to finance individual development projects in the Northern Metropolis and allowing retail investors to purchase such bonds. He also urged the Administration to formulate a concrete plan for development of the Northern Metropolis as soon as possible.

13. SFST responded that the Administration had been taking a multi-pronged strategy in promoting the development of green and sustainable finance in

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Hong Kong. Since the establishment of GGBP, the Administration had successfully issued a total of US\$3.5 billion of green bonds under the Programme which were well received by global institutional investors, and the Administration also had plans to issue green bonds for retail investors in 2021-2022. To help attract more green and sustainable bond issuers and borrowers to use Hong Kong's fundraising platform and professional services, the Administration had launched a three-year Green and Sustainable Finance Grant Scheme to provide subsidies for eligible bond issuers and loan borrowers to cover their expenses on bond issuance and external review services. On the regulatory front, financial regulators including HKMA and the Securities and Futures Commission ("SFC") had issued practical guides on climate-related disclosures by making reference to the recommendations of the Task Force on Climate-related Financial Disclosures of the Financial Stability Board. Besides, the Administration would continue to attract and nurture talents to support the long-term development of green and sustainable finance in Hong Kong. Regarding the proceeds raised under GGBP, SFST said that the Administration published a Green Bond Report every year providing information on the allocation of the proceeds and the environmental benefits brought about by the green projects funded by the proceeds.

*Retirement protection and the Mandatory Provident Fund System*

14. Ms Starry LEE pointed out that the Administration's plan for the public to convert their MPF assets into an annuity had aroused much public concern. She sought clarification on whether the proposed conversion would be compulsory. She also stressed the need for the Administration and the Mandatory Provident Fund Schemes Authority ("MPFA") to enhance public education on the MPF System in raising general awareness and promoting better understanding of the System as a retirement savings system.

15. SFST advised that the Administration and MPFA were working in full steam to press ahead with the eMPF Platform Project, including introducing an amendment bill to provide for the legal basis to designate the Platform as the common gateway for scheme administration processes in the MPF System. He stressed that one of the key objectives of the eMPF Platform was to reduce administration costs and create room for fee reduction for the benefit of scheme members. The introduction of the eMPF Platform would allow scheme members to manage their MPF-related matters, including viewing the information on all MPF accounts digitally, through one single platform. The Administration and MPFA would continue to educate the public about the MPF System, investment and retirement planning. SFST further said that the Labour and Welfare Bureau ("LWB") was looking into ways to encourage the public to convert their MPF



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assets into an annuity, and stressed that the proposed conversion was only an option rather than mandatory arrangement.

16. Mr CHAN Kin-por said that the MPF industry was supportive of the eMPF Project and willing to work with the Administration and MPFA to ensure a smooth transition from the existing system to the new eMPF Platform. He opined that to achieve the policy objective of the Project (i.e. lowering the fees of MPF System), the Administration and MPFA should further simplify the administrative procedures and streamline the outdated processes of the MPF System, thereby further enhancing efficiency and driving down costs including compliance costs of trustees. Moreover, he highlighted the importance for the Administration and MPFA to continue to meet with the MPF industry during the transitional period in clarifying issues raised as well as addressing concerns.

17. SFST assured that the Administration and MPFA would continue to have constructive dialogue with the MPF industry to ensure smooth transition to the new eMPF Platform. It was expected that the eMPF Platform would come into full operation in around 2025 when all trustees complete the onboarding process. Moreover, the Administration and MPFA would continue to explore feasible measures to increase the choices and investment return of MPF funds, with a view to enhancing the value of retirement benefits of scheme members, including studying measures to facilitate MPF investment in government bonds issued in the Mainland, thereby tapping into the opportunities in the Mainland bond market and making MPF investment more diversified.

18. Mr LUK Chung-hung expressed concern over poverty among the elderly, and opined that the Administration should enhance the public annuity scheme (i.e. the Hong Kong Mortgage Corporation ("HKMC") Annuity Plan), including increasing flexibility on premium payment and payout arrangement, with a view to encouraging elderly people to participate in the HKMC Annuity Plan. He also suggested that the Administration should entrust non-government organizations in promoting financial planning and explaining the benefits of the HKMC Annuity Plan to the public (e.g. the premium payments under the HKMC Annuity Plan would be excluded from the calculation of asset under Old Age Living Allowance).

19. SFST advised that the HKMC Annuity Plan was launched in 2018 to help elderly people transform their savings into lifelong streams of fixed and guaranteed annuity income and to assist them in making better retirement financial planning. The Annuity Plan was well received by the public and the total premiums received stood at \$2.5 billion in 2020. FSTB and LWB would

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continue to look into ways to enhance public awareness of financial and retirement planning and formulate measures to promote the HKMC Annuity Plan.

20. Dr Junius HO suggested that the Administration should consider revitalizing the MPF System by allowing scheme members to make early withdrawal of part of their accrued benefits when they reached the age of 50 for taking out medical insurance.

21. SFST responded that the MPF System was designed as a long-term saving scheme for retirement. Any proposals allowing early withdrawal of accrued benefits from the MPF System must take into consideration the corresponding reduction of scheme members' accrued benefits for their retirement. If the preservation requirement on accrued benefits was relaxed and scheme members were allowed to make early withdrawal to meet short-term financial needs, the accrued benefits would be leaked from the MPF System from time to time and the function of accumulation of MPF benefits for value growth would be weakened, thereby undermining the integrity of the System and rendering it difficult to achieve the purpose of assisting the working population to save for their retirement. SFST added that to encourage members of the public to take out medical insurance, premiums paid by a person for purchasing health insurance plans under the Voluntary Health Insurance Scheme would be allowed for tax deduction.

*Management of public finance and tax issues*

22. Mrs Regina IP noted with concern the forecast growing deficits in the coming few years amidst decline in government income and continuous increase in government expenditure for implementing new policy initiatives and other improvement measures, such as the introduction of the Higher Old Age Living Allowance and enhancements to the Working Family Allowance Scheme. Pointing out that Article 107 of the Basic Law provided that "The Hong Kong Special Administrative Region must follow the principle of keeping the expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product ("GDP")", Mrs IP enquired about measures the Administration would take to increase government revenue and reduce expenditure.

23. SFST responded that the Government would ensure that the financial commitments would be commensurate with the growth in revenue by exploring measures to increase revenue and reduce expenditure. To increase government revenue, Hong Kong must maintain the development and vibrancy of the

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economy and identify new areas of growth. Regarding containing growth in public expenditure, the Government would implement measures including freezing the civil service establishment in 2021-2022 and launching an expenditure reduction programme to reduce public expenditure without affecting livelihood-related services with the objective to cut recurrent expenditure by 1% in 2022-2023. To this end, all government departments would strive to reduce their general day-to-day expenses by undertaking critical reviews, adjusting their priorities and enhancing efficiency in order to achieve the savings target. For example, the Census and Statistics Department was considering proposals to re-engineer its workflow and adopt a new approach for conducting population censuses which was expected to save around half of the costs involved.

24. Referring to the Organisation for Economic Co-operation and Development's decision to implement a global minimum corporate tax rate of at least 15% for large corporates, and the tax concessions introduced by the Administration in recent years for promoting the development of particular industries/sectors, e.g. aircraft leasing, Mr Holden CHOW asked about the Administration's strategies and measures to maintain Hong Kong's competitiveness as a global financial centre and trade hub. The Chairman pointed out that the Administration should continue to provide tax concessions to particular industries/sectors, including aircraft leasing and ship leasing.

25. SFST advised that the proposed minimum tax rate would only apply to multinational enterprise groups with annual revenue of more than \$750 million Euros. He stressed that Hong Kong would continue to maintain a simple, transparent and fair tax regime to attract investors, and the Administration would devise new facilitating measures to ease the operating burden of enterprises.

*Measures to sustain economic recovery and promote economic development*

26. Mr SHIU Ka-fai was of the view that in order to pave way for a broader based economic recovery, it was essential to keep the coronavirus disease 2019 ("COVID-19") pandemic under control so as to create favorable conditions for resuming quarantine-free travel between Hong Kong and the Mainland. As some economies, such as Singapore, had already adjusted their anti-epidemic strategies and would gradually relax their control and preventive measures, vis-a-vis that Hong Kong would continue to implement strict travel restrictions and quarantine measures, Mr SHIU expressed concern that multinational companies and talents in the financial services industry might consider re-locating to these economies. Pointing out that the Consumption Voucher Scheme had helped stimulate consumption and provided an additional boost to the local economic recovery,

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Mr SHIU enquired if the Administration would consider introducing another round of voucher of \$3,000 before the Chinese New Year.

27. SFST assured Members that the Government would strive to contain the pandemic, facilitate the gradual resumption of cross-border 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.

28. The Chairman expressed support for FSTB's policy initiatives in the coming year which had included various measures advocated by the business community and financial services sector, such as promoting the development of bond market and green and sustainable finance in Hong Kong, deepening and widening the mutual access between the financial markets of Hong Kong and the Mainland, etc. He expressed concern about the dissemination of rumours and false information about Hong Kong by certain Western media, and stressed that the Administration must step up its efforts to promote Hong Kong to the international community and provide latest information on Hong Kong's situations and development, especially after the implementation of the National Security Law in Hong Kong. As the Administration would not adopt the strategy of "co-existing with the virus" for coping with the pandemic, the Chairman enquired why the Administration had yet to launch the "Hong Kong Health Code" system which would facilitate gradual resumption of quarantine-free travel with the Mainland.

29. SFST advised that the Administration would step up promotion (e.g. through social media and overseas Hong Kong Economic and Trade Offices) to enable the international community to have a thorough understanding of the current situations in Hong Kong, and to boost international confidence in Hong Kong and the city's reputation as a competitive international financial centre. For example, the Administration had recently published the "Report on Hong Kong's Business Environment" which set out Hong Kong's current business environment and advantages, and described the development opportunities available in Hong Kong. Furthermore, the Administration would continue to explore measures to facilitate two-way flows of capital, talents and information with the Mainland particularly the Greater Bay Area. In this regard, the Administration was co-organizing the "Set Sail for GBA – Scheme for Financial Leaders of Tomorrow" with the Greater Bay Area Homeland Youth Community Foundation with a view to providing young people in Hong Kong with a platform to understand and explore the development opportunities in the Greater Bay Area through direct exchanges and interactions with business leaders.

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30. Mr Christopher CHEUNG pointed out that under the Growth Enterprise Market ("GEM") Listing Rules, HKEX might cancel the listing of an issuer listed on GEM where trading for the securities concerned had been continuously suspended by HKEX for 12 months. He urged that HKEX should review and enhance the GEM Listing Rules with a view to increasing investor protection and enhancing Hong Kong's listing regime.

31. SFST said that HKEX was conducting a review on the positioning and functions of GEM and the GEM Listing Rules would also be reviewed with a view to strengthening regulation.

32. Mr CHAN Chun-ying referred to the "Commercial Data Interchange" to be established by HKMA, and enquired if the Administration would consider establishing a personal information database, by making reference to the Know-your-customer Utility developed by the Singaporean Government, with a view to facilitating financial institutions to collect credit information of individual customers through a centralized government platform.

33. SFST said that HKMA was establishing the "Commercial Data Interchange" with the objective of facilitating SMEs in obtaining trade finance, and the system was expected to commence operation next year. The Administration would keep in view the development and implementation of the "Commercial Data Interchange" in considering the way forward.

34. Mr CHAN Kin-por noted that in order to align Hong Kong's regulatory regime of the insurance industry with international standards, the Administration would implement a risk-based capital regime to replace the existing rule-based capital regime. He called on the Administration to implement the new regime in phases, engage the industry closely, and pay heed to the needs of small and medium-sized insurers. SFST took note of Mr CHAN's views.

#### **IV Briefing on the work of Hong Kong Monetary Authority**

(LC Paper No. CB(1)1411/20-21(02) — Paper provided by the  
Hong Kong Monetary  
Authority)

##### Briefing by the Hong Kong Monetary Authority

35. At the invitation of the Chairman, the Chief Executive, Hong Kong Monetary Authority ("CE/HKMA"), the Deputy Chief Executive (Banking),

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Hong Kong Monetary Authority ("DCE(B)/HKMA"), the Deputy Chief Executive (Monetary), Hong Kong Monetary Authority ("DCE(M)/HKMA") and the Acting Deputy Chief Executive (Development), Hong Kong Monetary Authority ("ADCE(D)/HKMA") updated members on the work of HKMA through a powerpoint presentation. Topics included assessment of risk to Hong Kong's financial stability, banking supervision, development of the financial market and financial infrastructure, investment performance of the Exchange Fund ("EF"), and measures implemented by HKMC.

*(Post-meeting note: The powerpoint presentation materials (LC Paper No. CB(1)1427/20-21(01)) were issued to Members vide Lotus Notes e-mail on 18 October 2021.)*

Discussion

*Macroeconomic conditions, measures to help the public and local enterprises combat the coronavirus disease 2019, the monetary stability of Hong Kong*

36. The Chairman, Mr WONG Ting-kwong and Mr CHAN Chun-ying welcomed HKMA's decision to further extend the Pre-approved Principal Payment Holiday Scheme ("PPPHS") and the Enhanced SME Financing Guarantee Scheme, which could help many SMEs to tide over the difficult operating environment. The Chairman considered that HKMA should start exploring the way forward for the phasing out of PPPHS if the Hong Kong economy continued to improve but cautioned that it should not be terminated abruptly.

37. Mr CHAN Kin-por was concerned that the imminent tapering by major economies including the United States ("the US") might increase the risk of the bursting of asset bubbles created by these economies' loose monetary policies in the past few years. He sought HKMA's assessment of the issue, measures it would take to prepare Hong Kong for the change, and its advice to members of the public.

38. CE/HKMA explained that if the US were to commence tapering and start raising interest rates gradually next year, the interest rate differential between the United States Dollar ("USD") and Hong Kong Dollar ("HKD") would widen slowly. At some point, this could potentially lead to outflow of funds to USD. Under the Linked Exchange Rate System ("LERS"), should monetary tightening in the US lead to a weakening of the HKD exchange rate to the weak-side Convertibility Undertaking, HKMA would buy HKD upon request by banks at HK\$7.85 per USD. The Aggregate Balance would then contract and drive HKD

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interest rates up, pushing HKD away from the weak-side limit to stay within the Convertibility Zone. This automatic adjustment mechanism would help Hong Kong adjust to the developments in the US. That said, as a result of the loose monetary conditions globally in recent years, valuations of various asset markets were very high. HKMA, together with SFC, would closely monitor developments including the potential impact of a possible global monetary tightening on asset markets, with a view to maintaining Hong Kong's financial stability. He also said that members of the public should prudently manage risk in making investment decisions as market volatility could potentially be high.

39. In response to the Chairman's enquiry about developments of the local credit growth rate since 2017, DCE(B)/HKMA explained that credit growth would fluctuate from year to year, driven by various factors such as changes in banks' risk appetite and economic cycles. While HKMA would not target any particular level of credit growth, overall speaking, the objective was to ensure that credit from the banking system would be able to support the needs of the real economy on an ongoing basis.

40. Mr MA Fung-kwok enquired whether there were data indicating that a high COVID-19 vaccination rate could help economic recovery, and if so, whether there were any financial or economic measures that could help boost the local vaccination rate.

41. CE/HKMA responded that among those economies which had yet to recover to their pre-pandemic level, the COVID-19 vaccination rates were relatively low. Some of those economies were also reliant on the tourism industry. This suggested that there appeared to be some correlation between vaccination rate and economic recovery. A high vaccination rate would generally benefit sectors including tourism, retail and catering. While it would not be appropriate for HKMA to use financial measures to boost the local vaccination rate, HKMA had been encouraging banks to raise their employees' vaccination rates to support operational continuity.

*Impacts of the Mainland's regulatory measures over a number of sectors*

42. Referring to the under-performance of the local stock market since June 2021, Mr Abraham SHEK enquired whether this was due to the local stock market's over-reliance on the Mainland market and/or had reflected the impact of the Mainland's recent regulatory measures. Mr MA Fung-kwok sought HKMA's views on the divergence observed between stock markets and economic performance in Hong Kong as well as on the Mainland; and the alleged claim that the recent implementation of various anti-monopoly measures by the Mainland

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had led to the relocation of large asset management companies from Hong Kong to other financial centres such as Singapore.

43. CE/HKMA said that while the Mainland's recent regulatory measures over a number of sectors had affected the performance of stock markets in both Hong Kong and the Mainland in the short term, such regulatory measures (such as those relating to deleveraging) would be conducive to the Mainland's economic development and market stability in the long run. DCE(M)/HKMA added that the local stock market was affected by a number of different factors including recent developments in the Mainland such as the implementation of regulatory measures over a number of sectors, the episodic outbreak of COVID-19 in certain regions, and power shortages in a number of provinces.

44. As regards the asset and wealth management business in Hong Kong, CE/HKMA said that recent data suggested that the assets under management of Hong Kong's asset and wealth management business grew by about 20% in 2020. According to SFC, there was also an increase in the number of asset management companies registered in Hong Kong in 2021. Hence, it did not appear that asset management companies were leaving Hong Kong in droves.

*Development of financial services*

45. Mr CHAN Chun-ying enquired about the implementation timetable of the Cross-boundary WMC, and whether HKMA would explore measures to assist Hong Kong people who did not have investment accounts in the Mainland in purchasing investment products under the Northbound Trading.

46. CE/HKMA responded that HKMA was currently processing WMC applications submitted by local banks. It was envisaged that the applications would be approved very shortly. HKMA was also liaising with the PBoC on measures to facilitate Hong Kong people's purchase of investment products under the Northbound Trading, including the provision of attestation service for account opening and the feasibility of using the Mainland's Category 1 and Category 2 bank accounts opened by Hong Kong residents as WMC accounts for Northbound Trading.

47. Mr WONG Ting-kwong sought HKMA's view on the suggestions raised by the Democratic Alliance for the Betterment and Progress of Hong Kong of linking Hong Kong's Faster Payment System ("FPS") with the Mainland's Online Payment Interbank Settlement System to enable the conduct of real-time cross-boundary payment and remittance through online means, increasing the existing daily limit for cross-boundary remittance to the Mainland



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(i.e. RMB 80,000), and allowing cross-boundary remittance to third party accounts in the Mainland.

48. The Chairman enquired about the collaboration between Hong Kong and the Mainland in developing digital currencies so as to strengthen Hong Kong's role as a premier offshore RMB centre. He also stressed the importance for HKMA to safeguard cybersecurity and protect users in taking forward the initiative.

49. CE/HKMA responded that HKMA was actively liaising with its Mainland counterparts on measures to facilitate cross-boundary payment and remittance, including exploring the feasibility of linking FPS with e-CNY. In taking forward the initiative, HKMA attached high importance to security and relevant measures were being taken, such as the use of advanced encryption technologies and testing the resilience against attacks. As regards the suggestions of increasing the existing daily limit for cross-boundary remittance and allowing cross-boundary remittance to third party accounts, CE/HKMA said that these involved policy considerations by the Mainland authorities. HKMA would continue to work with Mainland authorities to see if there was room to relax these measures, especially as financial integration increased with the development of the Greater Bay Area.

50. Mrs Regina IP enquired about the efficacy of the Administration's measures (including the provision of tax incentives) in promoting the development of the private equity ("PE") fund industry in Hong Kong.

51. ADCE(D)/HKMA said that the Legislative Council ("LegCo") had passed the Limited Partnership Fund Bill and the Inland Revenue (Amendment) (Tax Concessions for Carried Interest) Bill 2021, which sought to establish a registration regime for limited partnership funds ("LPFs") and provide tax concessions for carried interest distributed by eligible PE funds operating in Hong Kong respectively. Since the commencement of the new LPF regime in August 2020, over 340 LPFs had registered in Hong Kong so far, and a number of them were PE funds. As for the tax concessions for carried interest, HKMA had received a number of enquiries from PE funds. So far, the PE funds had yet to formally apply for tax concessions from the Inland Revenue Department. It was noted that it might take time for carried interests to materialize and the number of applications to pick up.

52. In response to Mr CHAN Chun-ying's enquiry about the progress of HKMA's consultation for introducing a fintech module unit in the Enhanced Competency Framework, DCE(B)/HKMA said that HKMA was consolidating

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the feedback received during industry consultation and aimed to finalise the module soon. HKMA hoped that the initiative could both attract external talents and existing practitioners in the banking industry.

*Regulation of virtual assets*

53. Mr Christopher CHEUNG expressed concern about the risks arising from the development of virtual currencies, in particular the Mainland had imposed stringent regulation over such trading activities but such activities were still allowed in Hong Kong. He enquired whether HKMA had assessed the risks associated with virtual currencies and examined the need of establishing further regulation concerned.

54. CE/HKMA responded that the Administration would introduce a bill into LegCo requiring any person seeking to engage in the regulated activity of operating a virtual asset exchange in Hong Kong to apply for a licence from SFC. Besides, virtual assets that were used for payment or investment purposes were currently subject to the regulatory regimes under the Payment Systems and Stored Value Facilities Ordinance (Cap. 584) and the Securities and Futures Ordinance (Cap. 571) respectively. Internationally, virtual assets had been a subject of attention. While at the current juncture, virtual assets accounted for a small part of Hong Kong's financial system and therefore posed limited systemic risk to financial stability, HKMA would continue to actively participate in international discussions on the regulation of virtual assets. CE/HKMA added that it was important to have a globally consistent approach towards virtual assets to avoid regulatory arbitrage. In the meantime, it was necessary to strengthen investor education in this area.

*Development of the property market*

55. In response to Mrs Regina IP's enquiry about the regulation over property developers providing flat buyers with mortgages of high loan-to-value ("LTV") ratio, DCE(B)/HKMA said that HKMA was aware of the issue. While property developers were not under the supervision of HKMA, HKMA had been monitoring the risks faced by banks in providing credit to property developers which offered high LTV mortgages. A few years ago, HKMA had introduced regulatory arrangements under which banks should set aside an adequate amount of capital for exposures to property developers offering high LTV mortgages. This, in turn, could translate into a premium on the developers' costs of credit. DCE(B)/HKMA added that eligible homebuyers could apply for HKMC's Mortgage Insurance Programme to obtain mortgage loans with higher LTV ratio.

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56. Dr Junius HO sought HKMA's assessment of the property market in view of factors faced locally such as high property prices, a low inflation rate and low interest rates, an extremely high household debt to GDP ratio; as well as external factors such as the massive quantitative easing implemented by the US.

57. CE/HKMA responded that the property market was affected by a host of factors and it would be difficult to predict its trend. Property purchase was a long-term decision, and prospective property buyers should make the decision based on careful assessment of their need, repayment ability, and other circumstances. As mortgage loans were long-term commitments, an important consideration would be the implications of a potential increase in interest rates further down the road. CE/HKMA also said that although Hong Kong's household debt to GDP ratio was on the high side, in order to assess the financial robustness of households, one should also look at the asset side of the household balance sheet. Compared with other major economies, Hong Kong had the highest household net worth-to-liabilities ratio.

*Performance of the Exchange Fund*

58. Mr Abraham SHEK sought details of the respective proportions of EF's investment in Hong Kong equities and other equities, and how HKMA would adjust the proportions concerned in light of changing local and global economic situations.

59. CE/HKMA and DCE(M)/HKMA said that EF investments were diversified as a whole and HKMA would continue to manage these investments taking into account local and global circumstances. As for EF's investment in Hong Kong equities, this was a result of the Administration's operations in the local stock market in August 1998, when EF acquired a portfolio of Hong Kong equities. A substantial portion of the portfolio was later disposed through the launch of Tracker Fund in 1999. EF's present holdings in Hong Kong equities were mainly the remaining equities after the listing of Tracker Fund, and no significant adjustment had been made on such holdings since then.

60. The Chairman enquired about the possible impact of the imminent tapering by the US on the Mainland and Hong Kong which both held a large amount of bonds denominated in USD, and the precautionary measures taken by HKMA.

61. CE/HKMA said that precautionary steps to mitigate potential impact of the tapering of the US Federal Reserve included, for example, holding more cash,

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diversifying to non-USD assets, and increasing the proportion of bonds denominated in USD with shorter maturities.

*Review of the Deposit Protection Scheme*

62. Noting that the Administration had plans to review the Deposit Protection Scheme ("DPS"), Mr CHAN Chun-ying enquired whether consideration would be given to increasing the existing compensation limit of the Scheme (i.e. HK\$500,000 per depositor per licensed bank) having regard to relevant practices of the United Kingdom and the European Union.

63. DCE(B)/HKMA responded that the current coverage rate of Hong Kong's DPS was in line with the prevailing international standards. That said, the next review of DPS would also cover the compensation limit.

**V Any other business**

64. There being no other business, the meeting ended at 11:16 am.