

## **Chapter III : Financial Services**

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3.1 At the Chairman's invitation, the Secretary for Financial Services (SFS), Mr Rafael S Y HUI, gave a presentation on the major programmes under his policy areas in 2000-01 (Appendix V-2).

### **Regulation of the financial market**

3.2 Referring to the frenzy for high-technology (hi-tech) stocks as shown in a recent initial public offering (IPO) of shares on the Growth Enterprise Market (GEM) and public concern that the issuer had been granted preferential waivers in the listing process, Miss Emily LAU enquired about the provision for programmes to step up investor education, strengthen the regulatory framework and maintain the level playing field of the financial market.

3.3 On investor education, SFS advised that the subject had been discussed in a question raised at the Council meeting on 15 March 2000. He pointed out that the Financial Services Bureau (FSB) had not earmarked any resources for investor education programmes. It was a long term and continuing task for the Securities and Futures Commission (SFC) and market bodies to organise educational and promotional programmes to enhance investors' awareness of investment risks and of their responsibility to safeguard their own interests. SFC had been working closely with the Stock Exchange of Hong Kong (SEHK) and the securities industry in running a series of proactive investor education activities through different channels and means in order to pass on the message to different target groups.

3.4 As regards issues relating to subscription arrangements and waivers granted to issuers upon their listing on GEM, SFS advised that the subject had been discussed at the meeting of the Panel on Financial Affairs (FA Panel) on 13 March 2000. The Government had noted SFC's view that the sponsors should be responsible for putting in place satisfactory subscription arrangements for IPO. In this regard, SFC had undertaken to consider incorporating into the Code of Practice on Corporate Finance the sponsor's responsibilities in IPO exercises expected by the regulator within three months. SFS noted that there were concerns over the granting of waivers to the issuer as revealed in a recent case. He pointed out that as explained by the SEHK at the FA Panel meeting, none of the waivers granted were unique to the issuer. He stressed that the Government shared SFC's view that while market operators should be provided with flexibility in the application of listing rules, an appropriate balance had to be struck between

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promoting the GEM and protecting investors' interests. SFC and SEHK would review GEM Listing Rules and issues relating to investor protection with a view to improving the regulatory framework of GEM. In this connection, SFC would study the regulatory regimes of hi-tech boards of other major overseas markets.

3.5 As regards the regulation of the financial market, SFS stressed that the Government was committed to improving the regulatory framework to keep it on par with international standards and promoting an open, fair and orderly market. Legislative proposals would be put forward to further strengthen the regulatory regime and enhance the discipline and transparency of the market. For instance, the Securities and Futures Legislation (Provision of False Information) Bill 2000 had been introduced into LegCo on 15 March 2000. The object of the Bill was to criminalize the provision of false, misleading or incomplete information to the regulatory bodies and front-line market operators, so as to strengthen the regulatory capabilities of these bodies and uphold the integrity of the market for investor protection. Moreover, FSB planned to introduce the Securities and Futures Bill in the 2000-01 LegCo session for enactment before April 2001. The Bill aimed at consolidating ten existing securities related ordinances to provide a comprehensive regulatory framework for the market.

### **Improvement on the financial infrastructure of Hong Kong**

3.6 About details of the programmes to enhance the financial infrastructure of Hong Kong, the Deputy Secretary for Financial Services (1) (DS(FS)1) advised that the Steering Committee on the Enhancement of the Financial Infrastructure (the Steering Committee) had submitted its recommendations to the Financial Secretary in October 1999. The Steering Committee's most important recommendation was to establish an open and secure electronic network which would allow the straight-through processing of all securities and derivatives transactions. It was expected that Hong Kong Exchanges and Clearing Limited (HKEx) would take about two years to complete the critical aspects of the new network, including the upgrading of the securities clearing system and the consolidating of the clearing systems for various derivative products onto one platform. The Steering Committee also recommended other measures for implementation in the short term. For example, filing of documentation from intermediaries through SFC's intranet and provision of a new consolidated account reporting service by HKEx would be made possible

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within six months. DS(FS)1 also advised that the expenditure involved in all these measures was estimated to be in terms of hundreds of millions, details of which would be known at a later stage.

### **Human resources development needs for the financial services sector**

3.7 As regards the enhancement of human resources development needs for the financial services sector, the Deputy Secretary for Financial Services (2) advised that \$2 million had been earmarked for setting up a new advisory committee in mid-2000 to co-ordinate efforts of the industry, human resources training providers, tertiary institutions and relevant departments for the purpose. It was anticipated that the advisory committee would organise various activities including seminars, workshops as well as undertake studies on the human resources needs for the financial services sector. Depending on the work plans of the advisory committee, more resources would be sought in future years when necessary.

### **Mandatory Provident Fund system**

3.8 In reply to Mr FUNG Chi-kin's enquiry about the provision for overseeing the implementation of the Mandatory Provident Fund (MPF) system, SFS advised that the Finance Committee approved in 1998 a grant of \$5 billion for setting up the Mandatory Provident Fund Schemes Authority (MPFA) and supporting its recurrent expenditure for the initial 17 years of operation. In the long term, MPFA would derive income from various fees and investment returns of the said grant.

### **Role of Government in insolvency administration**

3.9 Members noted that \$8 million had been earmarked in 2000-01 for commissioning a consultancy study to critically review the role of the Government in insolvency administration. Mr Martin LEE expressed support for the Government's initiatives in this respect. He opined that a major overhaul of the existing insolvency and bankruptcy legislation was necessary. In response, SFS remarked that due to the restructuring of the economy of Hong Kong, there were less and less available assets in liquidation and bankruptcy cases, thus

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resulting in substantial Government subsidises for these cases. The Administration therefore considered it necessary to review the role of the Official Receiver's Office in this regard. The consultancy study would examine, inter alia, issues relating to enhancing competition among private sector insolvency practitioners through their increasing participation in the administering of insolvency cases and, strengthening the regulatory regime by introducing a licensing system for these practitioners. It was envisaged that the consultancy study would be completed within one to one and a half years, following which a public consultation would be conducted.

### **Hire of services and professional fees**

3.10 In response to Mr HUI Cheung-ching's enquiry, DS(FS)1 explained that the substantial increase of over 140% in provision under Subhead 111 - Hire of services and professional fees was mainly due to the full-year provision of additional resources for conducting hearings of Insider Dealings Tribunal (IDT). Due to the increase in workload of IDT in recent years, hearings were often held concurrently which had resulted in an increase in provision for hiring the services of Chairmen and Members, verbatim reporters, witnesses and outside counsels etc. On the other hand, part of the provision under the Subhead had been earmarked for the preparation and implementation of the Securities and Futures Bill.

3.11 As regards the enquiry about the number of cases dealt with by IDT in each of the previous few years and the breakdown on the cost involved, SFS undertook to provide the required information after the meeting. He added that the time required for processing these cases had been lengthened because of the complexity of the issues involved, thus making it difficult to work out an estimate of the exact number of cases to be processed each year and the provision required.

### **Census and statistics**

3.12 Whilst complimenting the Administration on the downward revision of 18.5% in the cost of the Social Statistics programme in 1999-2000, Mr NG Leung-sing enquired about the effect of the downward revision of cost on the scale of the Pre-test Survey (the Survey) for the 2001 Population Census (the Census). The Commissioner for Census and Statistics (C for C&S) advised that the main purpose of the Survey was to test run the work flow in conducting the

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Census. Although the scale of the Survey had been reduced, the test objectives were maintained and the preparatory work for the Census was progressing according to schedule.

3.13 Responding to Miss Emily LAU's suggestion for the Census and Statistics Department (C&SD) to analyse research findings by gender and ethnicity, C for C&S advised that such analyses were normally made but the details might not be presented in publications owing to space limitation in reports. However, members of the public could contact C&SD for the unpublished data. On the other hand, C&SD had been utilising demographic and socio-economic data collected from household surveys, such as gender, in different studies analysing the characteristics of Hong Kong population. For instance, an article on "A Profile of the Females in Hong Kong, 1999" was published in the Hong Kong Monthly Digest of Statistics for March 2000. The article provided an overview of the female population in Hong Kong. The public was welcomed to contact C&SD for enquiries about topical research conducted by the Department. C&SD would also assist researchers in getting unpublished statistical information for conducting related research.