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Legislative Council

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Legislative Council
Panel on Financial Affairs

Minutes of Meeting held on
Monday, 11 October 1999, at 3:45 pm
in the Chamber of the Legislative Council Building

Members present	:	Hon Ambrose LAU Hon-chuen, JP (Chairman) Hon James TIEN Pei-chun, JP Hon Albert HO Chun-yan Hon Martin LEE Chu-ming, SC, JP Dr Hon David LI Kwok-po, JP Hon NG Leung-sing Hon Ronald ARCULLI, JP Hon James TO Kun-sun Hon CHEUNG Man-kwong Hon HUI Cheung-ching Hon SIN Chung-kai Hon Jasper TSANG Yok-sing, JP Hon Timothy FOK Tsun-ting, JP Hon FUNG Chi-kin
Non-Panel member attending	:	Hon CHAN Kam-lam
Members absent	:	Hon Eric LI Ka-cheung, JP (Deputy Chairman) Hon LEE Cheuk-yan Hon Ambrose CHEUNG Wing-sum, JP Hon Bernard CHAN Dr Hon Philip WONG Yu-hong Hon Emily LAU Wai-hing, JP

Public officers attending	**:**	Agenda Item I Mrs Rebecca LAI Acting Secretary for Financial Services Ms AU King-chi Deputy Secretary for Financial Services Ms Julina CHAN Acting Deputy Secretary for Financial Services Mr K Y TANG Government Economist Mr Alan WONG Commissioner of Insurance Mr Fred HO Commissioner for Census and Statistics Mr Gordon W E JONES Registrar of Companies Mr Eamonn O' CONNELL Acting Official Receiver Mr Raymond L C LI Executive Director (Banking Policy) Hong Kong Monetary Authority For Agenda Item II Miss Denise YUE, JP Secretary for the Treasury Mrs Carrie LAM, JP Deputy Secretary for the Treasury
Clerk in attendance	**:**	Ms Estella CHAN Chief Assistant Secretary (1)4
Staff in attendance	**:**	Ms Pauline NG Assistant Secretary General 1

Ms LEUNG Siu-kum
Chief Assistant Secretary (1)2

Mr Daniel HUI
Senior Assistant Secretary (1)5

I Briefing by the Secretary for Financial Services on the Chief Executive's Policy Address 1999

(LC Paper No. CB(1)69/99-00 - Policy objective for the Financial Services Bureau)

The Acting Secretary for Financial Services (SFS(Atg)) briefed members on the policy objectives of the Financial Services Bureau as set out in her speaking note circulated to members under LC Paper No. CB(1)323/99-00.

2. As regards Hong Kong Monetary Authority (HKMA)'s initiatives regarding increased transparency and further development of Hong Kong's banking sector, the Executive Director (Banking Policy) (ED/BP) of HKMA highlighted the following points :

(a) HKMA would commence studies in early 2000 on the issue of further enhancing depositor protection and on the feasibility of a commercial credit register for the banking industry in Hong Kong;

(b) HKMA was implementing a more risk-based approach in monitoring and supervision of authorised institutions as recommended in the Hong Kong Banking Sector Consultancy Study in 1998;

(c) To improve the transparency of the banking sector, the policy of requiring local and foreign institutions to increase the amount and the frequency of disclosure, particularly in relation to asset quality would continue to be implemented;

(d) Initiatives to develop Hong Kong's banking industry including further deregulation of the remaining interest rate rules, review on ways to reform the three-tier authorization system into a two-tier system and review the minimum paid-up capital requirements for different tiers of authorised institutions, would be pursued in the coming year.

Regulatory framework for the financial services sector

3. Mr SIN Chung-kai opined that in order to maintain Hong Kong's status as a major international financial centre, our regulatory framework for the financial services sector had to be enhanced to a standard on par with other international financial centres. In this regard, he noted that the existing requirement of half-yearly disclosure by companies listed in the Stock Exchange of Hong Kong (SEHK) fell short of the quarterly disclosure requirements in overseas international financial centres. He enquired whether there was any plan to increase the disclosure frequency of companies in Hong Kong. In response, SFS(Atg) advised that the Government would continue to enhance the regulatory framework in the light of international experience and standards. However, in proposing any new regulatory requirement, Hong Kong had to take into account its own market conditions and the industry's acceptance of the proposed regulatory requirement. The Deputy Secretary for Financial Services (DS/FS) further advised that additional requirements on disclosure of information had been proposed in the composite Securities and Futures Bill. She emphasized that in deciding on a regulatory requirement, a balance had to be struck between protecting investors' interests and acceptance by the trade.

4. Mr Albert HO Chun-yan was concerned whether the slow progress in reforming the Companies Ordinance (Cap. 32) would hinder the pace in enhancing Hong Kong's status as a major international financial centre. SFS(Atg) agreed that the legal framework for companies was conducive to the running of business in Hong Kong. She advised that the Standing Committee on Company Law Reform was examining the consultancy report on the Review of the Companies Ordinance and was expected to submit its report to the Government early next year. The target of introducing legislation on facilitating the administration of companies in financial trouble was delayed because more time was required to conduct public consultations on certain proposals of the Law Reform Commission. She also remarked that the complexity and technicality in legislative drafting of the proposed corporate rescue regime had taken longer time than anticipated.

5. Mr NG Leung-sing and Mr HUI Cheung-ching referred to the Chief Executive's appeal to banks in providing more credit facilities for small and medium enterprises (SMEs) and enquired whether HKMA would issue guidelines or put in place supporting measures in this respect such that the proposed policy could be implemented with minimum risk to the banking sector. ED/BP agreed that the banking sector should continue to operate under prudent commercial principles. He advised that more credit facilities could be made available to SMEs without compromising prudential standards if the banks were better enabled to assess the credit worthiness of a company not only based on the amount of assets it owned, but also on its business prospects, cashflow analysis and profit potentials. In connection with the proposed study on a commercial credit register, HKMA would consider the establishment of a credit register on SMEs and relevant data could be made available to the banking sector to assist

them in assessing the comprehensive credit worthiness of SMEs. He further advised that extending more credit facilities to SMEs could also diversify the profit source of banks.

6. In reply to Mr CHAN Kam-lam's question on whether HKMA would consider relaxing the guideline regarding the 70% maximum loan to value ratio on property mortgage, ED/BP said that the 70% maximum loan to valuation ratio guideline was a long term policy and had proven to be effective in assisting the local banking sector to tide over the financial turmoils in 1997 and 1998. He remarked that the guideline should not be easily adjusted in accordance with economic situations, otherwise the market would speculate on changes to the guideline as the economy changed.

7. Mr FUNG Chi-kin referred to a recent protest by some investors against the Securities and Futures Commission (SFC)'s decision to suspend trading of the shares of some listed companies and queried whether SFC's decision was targeted at certain type of business and whether SFC's power in this respect was too wide. In response, SFS(Atg) advised that SFC's decision on suspension of trading of shares would not target at any company or any type of business. Such decision would only be made on occasions where there were unusual price and volume movements of the listed securities of a company, for instance where share prices fluctuated abnormally during a short period of time. Such share price performance normally suggested that either some price-sensitive information concerning a company had leaked out, or the share price of a company was intentionally manipulated. The aim of the suspension was to enable the company to disclose relevant information to investors to restore the level playing field before any further trading took place, or to allow time for SFC to investigate whether the share prices had indeed been manipulated. SFC's action was necessary in order to protect the investing public including minority shareholders of the company in question. She further advised that a company with its shares suspended for trading for a long period of time was usually either in financial trouble or unwilling to make appropriate disclosure of information. The SEHK issued monthly report on the latest positions regarding companies under prolonged suspension.

Further development of the financial market

8. In reply to Mr NG Leung-sing's question on HKMA's policy on enhancing the competitiveness and efficiency of Hong Kong's banking sector, ED/BP advised that the Banking Sector Consultancy Study had pointed out that the local banking sector would unavoidably be facing increasing competition in the years to come. The study recommended promoting competition in the banking sector by removing unnecessary regulatory barriers and allowing market forces to play a larger role in the consolidation of the banking industry. The relevant initiatives included deregulation of the remaining interest rate rules, relaxation of the one

branch policy on foreign banks and allowing restricted licence banks to gain access to the Real Time Gross Settlement System.

9. Mr Ronald ARCULLI opined that it was important for Hong Kong to develop a bond market in order to enhance Hong Kong's status as an international financial centre. He was concerned about the possible effect on the securities market arising from the pouring in of substantial amount of funds from the Mandatory Provident Fund (MPF) to the securities market, in view of the requirement that not less than 30% of funds in MPF schemes had to be invested in assets with Hong Kong dollar denomination. In response, SFS(Atg) agreed that Hong Kong needed to further develop its bond market, and in this regard, Exchange Fund Bills and Notes issued by the Hong Kong Monetary Authority had provided impetus to the development of Hong Kong bond market. The Administration had been conscious in providing the necessary infrastructure for a bond market, such as the availability of an electronic clearing and settlement system for bonds and establishing linkages with international and overseas Central Securities Depositories. As regards policy to promote the development of the bond market, SFS(Atg) added that the Government would consider tax concessions to bond holders provided that such measures would not adversely affect the simplicity of the existing taxation system of Hong Kong. As regards the requirement for MPF schemes to hold 30% of its assets in Hong Kong dollars denomination, SFS(Atg) remarked that the requirement was considered appropriate and the expected impact of this requirement on the securities market in Hong Kong would be positive rather than negative.

Other issues

10. Mr CHEUNG Man-kwong noted that the Secretary for Financial Services had in previous occasions undertook to propose legislative amendments to enhance the accountability and transparency of the HKMA. As the adverse impact of the Asian financial crisis had diminished and the market was relatively stable for the proposed legislative amendment, he enquired about the progress made in this respect. SFS(Atg) replied that when the Secretary for Financial Services made his pledge last year, he had indicated that such legislative amendments should only be considered when the Asian financial turmoil had subsided completely. It was certainly not envisaged to be undertaken within two years from then. She emphasized that the Administration had not forgotten its commitment in this regard and would propose relevant legislative amendments when the time was ripe.

II Briefing by the Secretary for the Treasury on the Chief Executive's Policy Address 1999

(LC Paper No. CB(1)69/99-00 - Policy Objective for Finance Bureau)

11. At the Chairman's invitation, the Secretary for the Treasury (S for Tsy) briefed members on the policy objective for the Finance Bureau as set out in her speaking note (LC Paper No. CB(1)97/99-00(01)).

12. Mr NG Leung-sing was in support of the Administration's objective of limiting the growth rate of government expenditure below that of the overall economy. He enquired whether the Government had also set a target ceiling on government expenditure as a percentage of the yearly Gross Domestic Product (GDP). In response, S for Tsy advised that although the Administration did not have such a ceiling, the Government policy was to ensure that the growth of Government expenditure over time would not exceed the growth of the economy. Owing to the economic downturn and the Government's conscious decision to maintain its spending plans in 1998-99 and 1999-2000 so as not to drive the economy into deeper recession, the cumulative growth in government expenditure had temporarily exceeded the cumulative growth in GDP. The Government was committed to closing this gap in the coming years by controlling the growth of Government expenditure and achieving higher productivity.

13. In reply to Mr FUNG Chi-kin's question on the amount to be spent on capital works projects over the next five years, S for Tsy advised that during the five-year period from 1999-2000 to 2003-04, expenditure on Government's capital works project would amount to $170 billion, excluding capital works of the Mass Transit Railway Corporation (MTRC) and the Kowloon-Canton Railway Corporation (KCRC). During the same period, estimated expenditure for railway projects of the MTRC and KCRC, urban renewal, etc., would amount to over $80 billion. S for Tsy emphasized that continued investment in the infrastructure was necessary to enhance Hong Kong's competitiveness and sustain longer term growth.

14. As regards the proportion of the $80 billion to be spent on railway projects and urban renewals, S for Tsy advised that the amount to be spent on railway project would be larger than that for urban renewal.

15. Mr SIN Chung-kai noted that part of the Exchange Fund consisted of the Government's budget surplus cumulated in previous years, and enquired whether part of the investment return of the Exchange Fund, such as profit realized from sale of part of the shares acquired by the Government in August 1998, would be reflected in the Government's revenue account. S for Tsy replied that with effect from 1 April 1998, return of Government's fiscal surplus invested with the Exchange Fund would be linked to the overall investment return of the Exchange Fund. Investment returns on Government's surplus were reflected in Government's revenue and expenditure statement. She said one of the main reasons why the original budget deficit for 1998-99 was reduced from $32 billion to $23 billion was because the investment return on our fiscal reserves was higher

than expected. S for Tsy further advised that the Government had not estimated the investment return of the Exchange Fund in the coming year, but for 1998-99, total investment return on our fiscal reserves was around $26 billion.

16. Mr HO Chun-yan opined that the proposed privatization of the MTRC should be able to help reducing the budget deficit in 2000-01. He was concerned whether Government's efforts to reduce budget deficit would be hindered if the privatization of MTRC did not materialize for certain reasons. In response, S for Tsy agreed that the income to be realized by the Government through privatization of the MTRC would help reducing the budget deficit. However, the revenue to be realized from privatization of the MTRC was only a portion of Government's revenue. If Government's revenue from other sources could be increased, the budget deficit could still be reduced.

17. Mr ARCULLI was of the view that the target of achieving 5% savings in three years under the Enhanced Productivity Programme (EPP) was too conservative. S for Tsy remarked that whilst the Government would wish to set more aggressive targets under the EPP, the Government was conscious of the possible adverse impact of the EPP on Departments and Bureaux. The 5% target was set after detailed deliberations and was believed to be realistic and achievable.

III Any other business

18. There being no other business, the meeting ended at 5:30 pm.

Legislative Council Secretariat
2 December 1999