立法會
Legislative Council

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Panel on Financial Affairs

Minutes of meeting held on
Monday, 4 November 2002 at 10:45 am
in the Chamber of the Legislative Council Building

Members present	:	Hon Ambrose LAU Hon-chuen, GBS, JP (Chairman) Hon Henry WU King-cheong, BBS, JP (Deputy Chairman) Hon James TIEN Pei-chun, GBS, JP Hon Albert HO Chun-yan Hon LEE Cheuk-yan Dr Hon David LI Kwok-po, GBS, JP Hon James TO Kun-sun Hon Bernard CHAN, JP Hon CHAN Kam-lam, JP Hon SIN Chung-kai Hon Jasper TSANG Yok-sing, GBS, JP Hon Emily LAU Wai-hing, JP Hon MA Fung-kwok, JP
Non-Panel Member attending	:	Hon Cyd HO Sau-lan
Members absent	:	Hon Kenneth TING Woo-shou, JP Hon Eric LI Ka-cheung, JP Hon NG Leung-sing, JP Dr Hon Philip WONG Yu-hong Hon Abraham SHEK Lai-him, JP

Public officers attending	**:**	**Agenda Item IV** Hong Kong Monetary Authority Mr Joseph YAM, GBS, JP Chief Executive Mr David CARSE, SBS, JP Deputy Chief Executive Mr Norman CHAN, SBS, JP Deputy Chief Executive Mr Tony LATTER, JP Deputy Chief Executive **Agenda Item V** Hong Kong Monetary Authority Mr Y K CHOI, JP Executive Director (Banking Supervision) Home Affairs Bureau Mrs Nancy HUI Principal Assistant Secretary Financial Services and the Treasury Bureau Ms Kinnie WONG Principal Assistant Secretary (Financial Services)
Attendance by invitation	**:**	**Agenda Item V** Dao Heng Bank Limited Mr Frank WONG Chairman Overseas Trust Bank Limited Mr R G SULLIVAN Chief Executive Officer

DBS Kwong On Bank Limited

Mr Ted LING
Head of Wealth Management

Mr Anthony SOMERSET
Head of Legal

Freshfields Bruckhaus Deringer

Ms Teresa KO
Partner

Mr Kim CHAN
Solicitor

PricewaterhouseCoopers

Mr Simon TSANG
Partner - Financial Services Division - Assurance and Business Advisory Services

Mr Antoinette HOON
Senior Manager - Financial Services Division - Assurance and Business Advisory

Mr Phillip MAK
Partner - Tax Services

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

Staff in attendance : Ms Pauline NG
Assistant Secretary General 1

Ms Bernice WONG
Assistant Legal Adviser 1

Mr Joey LO
Assistant Secretary (1)1

Ms Christina SHIU
Legislative Assistant

I Confirmation of minutes and matters arising
(LC Paper No. CB(1) 148/02-03)

The minutes of the Financial Affairs Panel meeting held on 10 October 2002 were confirmed.

II Information papers issued since last meeting

(LC Paper No. CB(1) 71/02-03	--	2001 Population Census Main Tables provided by the Census and Statistics Department
LC Paper Nos. CB(1) 114/02-03(01)-(04)	--	Submissions from members of the Public on the proposed revisions to the Code of Practice on consumer credit data in relation to the sharing of positive credit data)

2. Members noted that the above two papers were issued for members' general information in October 2002.

III Date of next meeting and items for discussion
(LC Paper Nos. CB(1)164/02-03(01) & (02))

Regular meeting on 2 December 2002

3. Members agreed to hold the next regular Panel meeting on Monday, 2 December 2002, at 10:45 am to discuss the following items:

(a) Briefing by the Financial Secretary (FS) on the latest economic development of Hong Kong;

(b) Briefing on the proposed Employees Compensation Insurer Insolvency Scheme; and

(c) Briefing on the Bills of Exchange (Amendment) Bill.

Special meeting in December 2002

4. The Chairman said that subsequent to the special meeting with FS on 25 October 2002 on “Fiscal deficits and the budgeting of Government expenditure for years from 2003-04 to 2006-07”, some LegCo Members had indicated the need

to invite FS to another meeting to continue discussion on the subject. He advised that FS had suggested the special meeting for this purpose to be held on 20 December 2002, from 11:30 am to 12:45 pm.

5. Mr James TIEN pointed out that the proposed date might not be convenient to Members as some of them might not be available after 18 December 2002 which was the date for the last Council meeting before the Christmas holiday break. Ms Emily LAU, on the other hand, suggested that the follow-up meeting on fiscal deficits could take place on 2 December 2002.

6. The Chairman said that FS had advised that he would be meeting LegCo Members in groups for consultation of the 2003-04 budget from 1 to 15 November 2002 and he expected that Members would put forward a number of proposals for tackling the problem of fiscal deficits. In order to allow him the opportunity to study the proposals in depth, FS had suggested that the special meeting should be scheduled towards the latter part of December. The Assistant Secretary General 1 advised that 20 December 2002 was chosen as quite a number of committees continued to meet after 18 December 2002, including the Finance Committee which would meet on 20 December 2002. Nonetheless, the Chairman noted members' view that the date for the special meeting should be advanced, preferably before 18 December 2002. Members agreed to consult FS and re-schedule the meeting accordingly.

(*Post-meeting note*: The special meeting was re-scheduled for Monday, 16 December 2002, at 11:00 am.)

IV Briefing by the Chief Executive of the Hong Kong Monetary Authority

(LC Paper Nos. CB(1) 164/02-03(03) and 215/02-03(01))

7. The Chairman welcomed the Chief Executive, Hong Kong Monetary Authority (CE/HKMA) and his three deputies to the meeting. Upon invitation, CE/HKMA briefed the Panel on HKMA's major areas of work.

Briefing on the work of HKMA

8. In maintaining the stability and integrity of the monetary system, CE/HKMA said that the Hong Kong dollar exchange rate continued to be stable against the US dollar. Notwithstanding that the 12-month Hong Kong dollar forward points had risen significantly to over 300 pips since early September 2002, possibly triggered by market rumors about the Linked Exchange Rate (LER) system and concern over the fiscal deficit problem, the general situation remained stable and there was no cause for immediate concern.

9. As regards performance of the banking sector, CE/HKMA said that the banking system remained sound. The situation of personal bankruptcy had slightly stabilized. However, there was continued deterioration in the quality of credit card receivables with the credit card delinquency and charge-off ratios staying at high levels. In respect of residential mortgage lending, the asset quality of the mortgage portfolio continued to hold up well despite the number of cases of residential mortgage loans in negative equity had risen in the third quarter of 2002. The rescheduled loan ratio continued to rise, reflecting that banks were responsive to assist borrowers in financial difficulties.

10. Concerning work to enhance protection for depositors and banking consumers, CE/HKMA advised that the draft legislation for the deposit protection scheme would be ready by end of 2002. The HKMA was closely monitoring the implementation of the revised Code of Banking Practice for improvement in customer complaint handling procedures and had issued a guideline requiring banks to put in place effective and efficient systems for dealing with customer complaints.

11. In promoting the financial infrastructure, CE/HKMA said that HKMA had continued its efforts to enhance the efficiency and robustness of Hong Kong's infrastructure. It also co-operated with international counterparts in bringing forward initiatives to promote the financial infrastructure in the region.

12. As regards the performance of the Exchange Fund (EF), CE/HKMA advised that the total assets of the EF amounted to HK$942.7 billion at the end of October 2002. Of this, placement by other government funds was HK$303.3 billion, and the accumulated surplus was HK$317.4 billion. On the EF's Hong Kong equity portfolio purchased in August 1998, CE/HKMA said that the shares disposal programme had been completed in the fourth quarter of 2002 and the current value of Hong Kong equities retained by the EF as long term investment was about HK$52.8 billion. As about the future of the Exchange Fund Investment Limited (EFIL), CE/HKMA advised that the company could be wound down or continue to manage the equity portfolio of the EF. The EFIL Board would be consulted on the matter. CE/HKMA also took the opportunity to thank LegCo Members including Mr Eric LI, Mr NG Leung-sing, and Mr CHAN Kam-lam for their valuable contribution as members of the EFIL Board.

Discussion with Members

Exchange Fund and fiscal reserves

13. Mr Albert HO asked whether the recent rise of 12-month Hong Kong dollar forward points to over 300 pips had indicated a confidence crisis on the Hong Kong dollar. He further enquired whether HKMA would consider transferring part of the EF accumulated surplus to the fiscal reserves so as to

bolster the Government's financial position and help alleviate the problem of fiscal deficits.

14. In response, CE/HKMA said that the Hong Kong dollar forward was an indicator of market sentiment and confidence in our currency. Given the concern over the problem of fiscal deficits, it was understandable that the market had responded sensitively to rumors about the LER system. While the 12-month forward points of 300 pips was considered a low figure when compared with the historic height of over 7,000 pips in 1997-98, CE/HKMA cautioned that the three-year Hong Kong dollar forward points had risen to over 1,000 pips.

15. On the relationship between the fiscal reserves and the EF, CE/HKMA explained that they were distinct from each other. Whilst the Government placed its fiscal reserves in the EF and received returns annually, the EF's accumulated surplus was the profits accumulated from investment of the EF over the past years since the establishment of the Fund. Such surplus had formed part of the EF for backing the Hong Kong dollar and the LER system.

16. As regards the proper use of the EF's accumulated surplus, CE/HKMA advised that the Fund had more than sufficient foreign exchange assets to back the monetary base. However, in defending the Hong Kong dollar against currency attacks in 1998, the Government had to deploy substantial amounts of funds in the EF. This indicated the need to maintain a level of reserves in excess of the size of the monetary base. As such, HKMA would be concerned with using the EF's accumulated surplus to address the fiscal deficit problem. Nonetheless, CE/HKMA stressed that the control of the EF rested entirely with FS. According to section 8 of the Exchange Fund Ordinance (EFO) (Cap. 66), FS, with approval of the Chief Executive in Council, could transfer funds from the EF to the general revenue of the Government after satisfying certain conditions, such as having regard to the purposes of the EF and the possible impacts on the stability of the monetary and financial system, as stipulated in section 3 of the EFO. CE/HKMA added that he would offer his views to FS in this respect if such a decision were made to use section 8 of the EFO.

17. Sharing the views of Mr Albert HO, Ms Emily LAU opined that for the benefit of members, HKMA should provide a paper explaining the mechanism for effecting the transfer of funds from the EF, the factors to be considered during the process, and the possible implications involved. CE/HKMA reiterated that the control of the EF rested with FS. He would consult FS before providing the paper to the Panel.

(*Post-meeting note*: The information paper was circulated to members vide LC Paper No. CB(1)410/02-03 dated 29 November 2002.)

18. Given the risks and uncertainties in the international financial market, in particular, the imminence of war between US and the Middle East, Ms Emily LAU

expressed concern about the likely impacts on the investment returns of the EF and asked whether HKMA had any strategy to cater for the situation. Mr LEE Cheuk-yan also asked for an assessment on the performance of the EF investments for the 2002-03 financial year.

19. In reply, CE/HKMA said that because of volatility in the international financial market and geopolitical uncertainties, it would be extremely difficult to predict the outcome of investment returns for the EF for 2002-03. There were strong rebounds in the stock and bond markets in October 2002. For the first ten months of 2002, the EF had recorded a total investment income of HK$30.8 billion. As regards the EF's investment strategy, CE/HKMA said that the EF's holdings of US dollars and Euro had been above their preferred neutral positions, while that of the Japanese yen had been below. On the share of the EF investment earnings for the fiscal reserves placed with the EF, CE/HKMA said that the share had amounted to HK$10.5 billion.

20. In view of the sluggish property market, Ms Emily LAU expressed concern whether the new office accommodation of HKMA, which was procured by using the EF, had become a negative asset. She remarked that there was public concern about whether the money had been well spent and whether the new office was a good investment of the EF. In response, CE/HKMA said that that the new office was a fixed asset of the EF and was shown under the category of "other assets" on the EF balance sheet. As the procurement cost of HK$3.7 billion was not made with borrowed money, the accommodation could not be regarded as a negative equity asset.

Residential mortgages

21. Mr CHAN Kam-lam noticed that asset quality of residential mortgage portfolio had improved. He asked whether HKMA would consider relaxing the 70 % mortgage ceiling to 90% so as to help homebuyers and boost the property market. In response, CE/HKMA said that the 70 % mortgage ceiling was a long term policy which had been operating well and contributed favourably to maintaining the stability of the banking sector. The HKMA did not see the need to relax the 70 % mortgage ceiling. However, it noted that many property developers had been providing second mortgages to top up lending for homebuyers. HKMA welcomed these arrangements to bring risks away from the banking sector.

22. On Ms Emily LAU's enquiry about assistance to homeowners in negative equity, CE/HKMA advised that the percentage of negative equity homeowners being charged below the best lending rate had increased from 52% in the second quarter to 55% in the third quarter in 2002. Besides, the Hong Kong Mortgage Corporation had introduced a programme to assist homeowners in negative equity to seek refinancing.

Sharing of credit data

23. On the proposal of sharing of positive consumer credit data, Mr LEE Cheuk-yan pointed out that the banking sector and consumers had expressed divergent views. He opined that to better safeguard the interest of consumers, only information on the total number of credit cards should be disclosed while banks should be responsible for finding out other relevant information on the credit details of individual clients in assessing their application for loans.

24. In response, the Deputy Chief Executive, HKMA (DCE/HKMA) said that Mr LEE's proposal might not be feasible. He explained that limiting banks in accessing information relating to consumers' credit details, such as the amount of outstanding loans, would not provide an accurate picture on the indebtedness of consumers. Moreover, it might be unfair to consumers because in many cases the number of credit cards in their possession might not necessarily reflect their indebtedness position and would therefore distort their status of credit worthiness. DCE/HKMA reiterated that banks would need comprehensive and accurate information to assess the credit risk of clients and the proposal of sharing positive credit data was a practical way to achieve this end. He added that positive data sharing scheme was also implemented in overseas jurisdictions.

25. As regards progress on the establishment of the Commercial Credit Reference Agency (CCRA) Scheme, DCE/HKMA shared Ms Emily LAU's view that early establishment of the credit reference agency could help increase availability of credits to businesses, in particular, the small and medium sized enterprises. He advised that the working group formed to follow up on the implementation details of the proposal had made good progress. Notwithstanding there were different views on the issue of how banks should obtain customers' consent for their data to be shared, there was no disagreement that the scheme could encourage banks to lend with greater confidence. It was envisaged that the details of the scheme would be worked out by end of 2002.

Level playing field between banks and brokerage firms in the conduct of securities business

26. With the anticipated commencement of the Securities and Futures Ordinance (SFO) (Cap. 571) in early 2003, Mr Henry WU enquired about the regulation over banks' securities business in order to ensure fair competition and a level playing field between banks and brokerage firms in the conduct of securities business.

27. In response, DCE/HKMA explained that under the dual-regulator approach enshrined under the SFO, brokerage firms would be regulated by the Securities and Futures Commission (SFC) and HKMA would remain as the frontline regulator of banks in their conduct of securities business. As HKMA

supervised the various businesses undertaken by banks on a consolidated basis, such an approach would reduce regulatory cost and overlaps. To ensure that regulation of banks' securities business would be on par with that on brokerage firms, HKMA would adopt SFC's standards in supervising brokerage firms for supervising banks. The HKMA and SFC would also revise their Memorandum of Understanding (MOU) to clearly set out their respective supervisory duties over banks under the new regulatory regime. The revised MOU, which would soon be available, would be provided to LegCo Members for information.

28. On Mr Henry WU's concern that some banks had reduced their commission charges in securities dealings in order to compete for business, DCE/HKMA said that while brokerage firms were subject to the stock exchange's minimum brokerage commission rule, banks were not governed by the rule. DCE/HKMA opined that banks and brokerage firms were providing services on different platforms. Brokerage firms had certain competitive edges and provided various value-added services to clients, including better and detailed advice in dealings, while banks offered basically an execution service. As such, banks should not pose direct threat to the business of brokerage firms.

Capital flow between the Mainland and Hong Kong

29. In reply to Mr SIN Chung-kai's enquiry about progress in enhancing the capital flow between the Mainland and Hong Kong, CE/HKMA said that concrete proposals had been forwarded for consideration by the Mainland authorities. It was worth pointing out that there was an asymmetric flow of capital between the two economies in recent years as evidenced by the enormous amount of direct investments made in the Mainland but not vice versa. The situation was partly due to capital controls in the Mainland which had restricted outward capital investment in Hong Kong. While HKMA was keen in promoting capital flow between the two economies so as to bring benefits to both economies in terms of stimulating economic growth and creating more jobs, the Mainland was cautious that too hasty financial liberalization of the Mainland market might undermine its monetary and financial stability. CE/HKMA said that HKMA would continue developing and enhancing financial infrastructure to facilitate activities between the two economies.

V Private Member's Bill on the merger of Overseas Trust Bank Limited and DBS Kwong On Bank Limited with Dao Heng Bank Limited
(LC Paper Nos. CB(1) 49/02-03(01), 131/02-03(01) and 215/02-03(02))

30. The Chairman welcomed representatives from the three banks and the Administration to the meeting. At the invitation of the Chairman, Dr David LI, sponsor of the Private Members' Bill (the Bill) briefed members on the purpose of the Bill which was to consolidate the businesses of the Overseas Trust Bank Limited and DBS Kwong On Bank Limited with the Dao Heng Bank.

Mr Frank WONG, Chairman of the Dao Heng Bank Limited also highlighted the envisaged benefits of the Bill.

Benefits of the bank merger

31. Ms Emily LAU expressed support for the Bill in principle to facilitate consolidation in the banking industry in order to enhance its competitiveness. However, she was concerned about whether the merger would result in staff-lay off and whether enhancement in competitiveness of the banks would bring benefits to consumers in terms of lower fees for services.

32. On the envisaged benefits of the merger, Mr Frank WONG advised that the merger would bring benefits to the size and standing of the DBS Group and assist its expansion in the fast growing Mainland market which would also provide new job opportunities. Moreover, the merger would create economies of scale, enhance efficiencies, achieve cost savings, and provide better and more cost-effective services to customers. For instance, customers would enjoy a wider branch network, the DBS Group would invest in systems and provide new and improved services to customers, such as internet banking and phone banking. It was believed that the merger would benefit both customers and staff.

33. As regards Ms Emily LAU's concern over possible redundancy in staff, Mr R G SULLIVAN, the Chief Executive Officer, Overseas Trust Bank Limited, advised that the present staff level had been stabilized and significant lay-off was not anticipated in the foreseeable future. On the other hand, the DBS Group's expansion programme into the Mainland would create 300 new jobs and provide development opportunities for existing staff and new recruits. Upon further enquiry by Ms Emily LAU on the number of staff laid off and branches closed, Mr SULLIVAN remarked that through harmonization efforts, some 350 jobs had been eliminated with only a small number of redundancies achieved mainly through the voluntary resignation of staff. Currently, the three banks operated a total of 77 branches. This number would be basically maintained after the merger with perhaps a few closed due to normal wastage. As less than one-third of customers' transactions were done through branches, closing down of some branches should not affect the services available to customers. It was envisaged that with enhancement in the competitiveness of the DBS Group, it would be in a more viable position to maintain employment and to provide better services to customers.

34. Mr Albert HO said that the Democratic Party supported the Bill. He sought assurance from the banks that the interests of concerned parties, including customers, guarantors, creditors and debtors, would be duly protected in the merger. Mr SULLIVAN said that the DBS Group had consulted the relevant authorities and regulators to ensure that no undue benefits would be gained by any party as a result of the merger. The interest of existing customers would not be affected. Their approved credit lines would be maintained and their personal data

would be duly protected. The three banks would launch communication programmes to explain the merger and its possible effects to customers. Ms Teresa KO, Partner of Freshfields Bruckhaus Deringer, supplemented that her firm was carrying out due diligence to ensure that the merger would not constitute an event of default under the legal documents entered by the banks. In response to Mr Albert HO's further enquiry, Ms KO confirmed that other relevant authorities, such as HKMA, the Financial Services and the Treasury Bureau, the Privacy Commissioner for Personal Data, etc, had been duly consulted and they had not raised particular issues which necessitated amendment of the Bill.

VI Any Other Business

Rating of Hong Kong by International Credit Rating Agencies
(LC Paper No. CB(1) 202/02-03)

35. The Chairman referred members to a letter dated 2 December 2002 from Ms Emily LAU which sought the Panel's agreement to request the LegCo Secretariat Research and Library Services Division to compile information on the captioned subject. Members agreed to Ms LAU's proposal.

36. The meeting ended at 1:00 pm.

Council Business Division 1
Legislative Council Secretariat
3 January 2003