

**立法會**  
**Legislative Council**

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**Panel on Financial Affairs**

**Minutes of meeting held on  
Monday, 13 January 2003 at 6:00 pm  
in Conference Room A 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 Kenneth TING Woo-shou, JP  
Hon James TIEN Pei-chun, GBS, JP  
Hon Albert HO Chun-yan  
Hon LEE Cheuk-yan  
Hon NG Leung-sing, JP  
Hon Bernard CHAN, JP  
Hon CHAN Kam-lam, JP  
Hon SIN Chung-kai  
Dr Hon Philip WONG Yu-hong  
Hon Jasper TSANG Yok-sing, GBS, JP  
Hon Emily LAU Wai-hing, JP
- Members absent** : Hon Eric LI Ka-cheung, JP  
Dr Hon David LI Kwok-po, GBS, JP  
Hon James TO Kun-sun  
Hon Abraham SHEK Lai-him, JP  
Hon MA Fung-kwok, JP
- Non-Panel Members attending** : Hon Martin LEE Chu-ming, SC, JP  
Dr Hon LAW Chi-kwong, JP  
Hon Michael MAK Kwok-fung

- Public officers attending** : Financial Services and the Treasury Bureau
- Mr Frederick MA  
Secretary for Financial Services and the Treasury
- Mr Alan LAI  
Permanent Secretary for Financial Services and the Treasury (Treasury)
- Mr Tony MILLER  
Permanent Secretary for Financial Services and the Treasury (Financial Services)
- Clerk in attendance** : Ms Connie SZETO  
Chief Assistant Secretary (1)4
- Staff in attendance** : Ms Pauline NG  
Assistant Secretary General 1
- Mr Joey LO  
Assistant Secretary (1)1
- Ms Christina SHIU  
Legislative Assistant
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Action

**Briefing by the Secretary for Financial Services and the Treasury on the relevant policy initiatives in the Chief Executive Policy Address 2003**  
(LC Paper No. CB(1) 716/02-03)

The Chairman thanked Mr Frederick MA, Secretary for Financial Services and the Treasury (SFST), and his two Permanent Secretaries Mr Alan LAI and Mr Tony MILLER for attending the meeting. He then invited SFST to start briefing Members on the relevant policy initiatives in the Chief Executive Policy Address 2003.

Financial Services

2. SFST said that the Chief Executive Policy Address had reaffirmed the importance of the financial services industry as one of the four main economic pillars of Hong Kong which employed about 6% of the total work force and constituted 13% of the gross domestic products (GDP). The development of the financial services industry was crucial in maintaining Hong Kong as a major

international financial centre and as the premier capital formation centre of the Mainland. To meet these objectives, SEST stressed that it was necessary to upgrade corporate governance of companies in Hong Kong, to enhance protection for investors, and to facilitate development of new investment products.

3. On specific measure to enhance corporate governance, SEST advised that the Administration, in conjunction with the Securities and Futures Commission (SFC), the Hong Kong Exchanges and Clearing Limited (HKEx) and other relevant parties, had drawn up a Corporate Governance Action Plan for 2003 identifying five priority areas and devising a timeframe for implementation. The details of the Action Plan were given in the Annex to the Administration's information paper.

4. As regards development of the bond market, SEST advised that the Administration would amend the prospectus-related requirements in the Companies Ordinance (Cap. 32) to streamline the provisions and to facilitate the offerings of new debt instruments. Furthermore, the Administration would promote investment in bonds to retail investors. Apart from simplifying relevant rules and regulations to facilitate issuance of bonds by government-owned or private corporations, the Administration would step up investor education relating to retail bonds for the benefit of investors.

5. On enhancing protection for bank depositors and insurance policy holders, SEST remarked that the Administration would introduce the legislative proposal to establish the Deposit Protection Scheme into the Legislative Council (LegCo) in the first half of 2003, and to complete the feasibility study of setting up the Insurance Policy Holders' Protection Fund by mid 2003.

### Treasury

6. Turning to policy initiatives on the treasury side, SEST said that the Chief Executive Policy Address had stressed that solving the fiscal deficit problem was Government's top priority. The Administration was implementing measures to control and contain growth in public expenditure in the period of 2003-04 to 2006-07 to achieve a balanced budget and to ensure the public expenditure would not exceed 20% of GDP. Departmental expenses would be reduced by 1.8% across the board to contain the operating expenditure at \$210.4 billion in 2003-04, and be further reduced to \$200 billion by 2006-07. SEST remarked that one way to resolve the deficit problem was to raise revenue through levying the Boundary Facilities Improvement Tax in early 2004. The tax would be imposed on all persons departing Hong Kong by land or sea to generate revenue to help finance the improvement of boundary facilities.

7. On enhancing efficiency and cost-effectiveness of provision of Government services, SFST said that the proposal of merging the Government Land Transport Agency, the Government Supplies Department and the Printing Department to form a new Government Logistics Department by July 2003 would strengthen operational co-ordination and enhancing efficiency in services and result in a reduction of 60 posts amounting to an annual saving of \$26.47 million.

Discussion with Members

*Securities and Futures Market*

8. Mr Henry WU opined that the Chief Executive Policy Address appeared to have neglected the hardship the small and medium sized brokerage firms would face and the possibility that a large number of firms would be forced to wind up after the abolishment of minimum brokerage commission rates with effect from 1 April 2003. Mr WU asked whether the Administration had any plan to assist the industry amid the current difficult economic environment.

9. In reply, SFST re-affirmed the Administration's recognition of the contributions of small and medium sized brokerage firms in promoting Hong Kong's securities and futures market, and increasing its depth and liquidity. SFST reiterated that the initiatives enshrined in the Policy Address aimed at enhancing Hong Kong's position as an international financial centre, improving its competitiveness in order to attract both local and overseas investors. The Administration believed that a vibrant financial market would bring about new business opportunities and increase employment for the brokerage industry. SFST stressed that the Administration was fully aware of the brokerage industry's concerns over the proposed liberalization of the brokerage commission rates. The Administration would convey its views on the issue to the HKEx and the latter would make a final decision at the Board meeting to be held on 15 January 2003.

10. With a view to enhancing protection for investors against risk of insolvency of brokerage firms and facilitating their transactions, Mr CHAN Kam-lam opined that the Administration should pursue with the HKEx to promote the facility of the central securities depository and encourage individual investors to open accounts with the clearing companies. Sharing Mr CHAN's view, SFST advised that the SFC and the HKEx were actively pursuing the proposal. However, owing to technical difficulties involved, there was yet no definite implementation timetable.

11. Referring to difficulties encountered by some Taiwan companies in seeking listing in Hong Kong, Mr CHAN Kam-lam asked how the Administration would promote inward capital investment and assist companies which encountered difficulties in this regard. SFST reiterated the Administration's commitment to promoting market development through

removing product entry barriers and creating a conducive business environment to attract foreign investment. He stressed that the door was opened for all types of foreign investments and companies were welcomed to the market provided that they met the regulatory requirements and complied with the relevant rules. On promoting the development of new investment products, SFST advised that the SFC and the HKEx were working closely in this area. In addition to the introduction of the hedge funds authorization guidelines to allow the offer of hedge funds to retail investors, the SFC would consult the public shortly on the launching of the real estate investment trusts through which to widen the choices of investment products for investors.

Admin 12. Mr SIN Chung-kai noticed that the amount of investment made by Hong Kong enterprises in the Mainland had greatly exceeded that made by Mainland companies in Hong Kong. He asked how the initiative of expediting the economic integration with the Pearl River Delta area would help attracting investment from the Mainland. SFST agreed that improvement in the capital flow between the Mainland and Hong Kong would benefit both economies in terms of stimulating economic growth and creating new employment. He stressed that the Administration was actively pursuing with the relevant Mainland authorities in achieving the target. Both sides had been engaging in continuous discussions on the subject. He undertook to report the progress of discussions to the Panel when details were available.

*Improving Corporate Governance in Hong Kong*

13. Mr NG Leung-sing welcomed the initiatives in the Policy Address of enhancing Hong Kong's position as an international financial centre, upgrading corporate governance of companies, and promoting the development of the bond market and fund management business. On the standards of corporate governance, Mr NG cast doubt on the propriety of adopting "the international standards" as the recent corporate scandals cropping up in the US had aroused concern as whether compliance with such standards would address corporate governance problems of listed companies.

14. In response, SFST reaffirmed the need to bring the corporate governance regime in line with the international standards which was essential for Hong Kong in maintaining its status as an international financial centre. He advised that in developing the standards on corporate governance, the SFC had made reference to rules and regulations promulgated by the International Organization of Securities Commissions (an international organization comprising experts and high-level representatives from securities regulators of the world) to ensure that the standards adopted would be the best practices internationally.

Admin 15. On Mr NG Leung-sing's suggestion of establishing a "merit point system" to award companies with good corporate governance practices, SFST welcomed the suggestion and agreed to convey it to the SFC for consideration.

16. Ms Emily LAU expressed support for the initiative to upgrade corporate governance in Hong Kong. With regard to the Corporate Governance Action Plan for 2003, Ms LAU asked for details on the scope of the Standing Committee on Company Law Reform (SCCLR) Phase II Corporate Governance Review and the estimated timing for introducing the relevant legislative proposals into LegCo. Ms LAU added that the major concerns of the public were the role of the independent directors in a company, their responsibilities to the shareholders and legal liabilities. She asked whether these issues would be covered in Phase II of the Corporate Governance Review.

17. In order to expedite completion of Phase II of the Corporate Governance Review, SFST advised that the Administration, the SFC and the HKEx would render full support to the SCCLR by putting forward proposals for amending the Companies Ordinance in the first quarter of 2003. These proposals would include related party transactions, shareholders' rights, disclosure requirements, liability of professional advisers relating to misstatements in listing documents etc. As these proposals involved very complex issues, it was expected that the SCCLR would take time to study them and hence it was premature to give a definite legislative timetable in this regard. SFST supplemented that the Companies (Amendment) Bill 2002 which was currently under scrutiny by the LegCo had incorporated a number of the recommendations put forward in Phase I of the Corporate Governance Review. The Administration intended to submit legislative proposals covering recommendations relating to shareholders' remedies under another amendment bill in the second quarter of 2003.

18. On issues related to the role and responsibilities of independent directors, SFST said that the SCCLR would review them further in the context of Phase II of the Corporate Governance Review. Moreover, the initiative of the HKEx in upgrading the Listing Rules to implement various corporate governance measures under Priority I of the Corporate Governance Action Plan to be implemented in the second quarter of 2003 would to some extent help address the concern on the issues.

19. As to Ms Emily LAU's concern about the apparent lack of professionals in Hong Kong eligible for appointment as independent directors of companies, SFST said that according to the information of the Hong Kong Institute of Directors, some 800 of its members were qualified to serve as independent directors for companies. However, there was concern among independent directors about the proposal of imposing same legal liabilities on them as those imposed on executive directors. The Permanent Secretary for Financial Services and the Treasury (Financial Services) added that this issue had been covered in the Phase I of the Corporate Governance Review. Related issues would be re-examined in the Phase II Review. It was understandable that the independent directors were concerned about their role in the light of the recent corporate scandals in the US.

20. Ms Emily LAU expressed support for the initiative to enhance regulation of the accountancy profession in an effort to strengthen the regulation of intermediaries involved in the process of initial public offer (IPO) of shares. Noting that the Hong Kong Society of Accountants (HKSA) had recently released improvement proposals in this regard, Ms LAU asked how the Administration would follow-up on these proposals and when relevant legislative amendments would be introduced.

21. While sharing that the credibility and integrity of the accountancy profession were important in maintaining investors' confidence in listed companies, SFST remarked that there had been discussion with the HKSA recently on ways to improve the self-regulatory regime of the accountancy profession. But the Administration had not yet received concrete proposals from the HKSA. SFST stressed that the Administration would study the proposals carefully and work in collaboration with the HKSA in finalizing legislative proposals by the third quarter of 2003.

*Addressing the Fiscal Deficit Problem*

22. Referring to the Policy Address that the alleged cause for the current fiscal deficit problem was the rise in public expenditure during the period of the bubble economy between 1991-92 and 1996-97 when public expenditure grew on average by 14% annually which greatly out-paced the rate of economic growth, Mr NG Leung-sing enquired about the reasons for the rapid increase in public expenditure during the period.

23. With regard to the huge fiscal deficit of over \$60 billion recorded in 2001-02, SFST pointed out that it was a cumulative figure mainly brought about by excessive public expenditure incurred in the previous years. For instance, from 1996-97 to 2002-03, annual expenditure over health, welfare and food had increased by some 38% (the expenditure for the Comprehensive Social Security Assistance Scheme and the Social Security Allowance Scheme had risen by 75%), and that for education and manpower had increased by 34% . In this connection, the Permanent Secretary for Financial Services and the Treasury (Treasury) added that the surge in public expenditure in 1991-96 was partly attributed to the inflation prevailing during the period. While Hong Kong suffered from deflation from 1997 onward, reduction in public expenditure during a deflationary period was difficult to achieve under a cash based accounting system of the Government.

24. Mr LEE Cheuk-yan expressed concern over the initiatives in the Policy Address to eliminate the fiscal deficit by cutting public expenditure and raising revenue. He opined that these proposals might have the negative impacts of aggravating the unemployment problem and adding hardship to the general public. He was of the view that recent media reports on proposals of levying tax on bank deposits and reducing basic personal allowance for salaries tax had aroused wide public concern. On the other hand, the target to downsize the

number of civil servants to 160,000 by 2006-07 and the plan to reduce public expenditure across the board by 1.8% in 2003-04 had caused much concern in the public sector. Mr LEE sought the Administration's clarification on measures to be implemented in addressing the fiscal deficit problem and enquired about the estimated savings that could be achieved in downsizing the civil service.

25. On the concern about increasing taxes, SFST said that the Financial Secretary (FS) had promptly clarified the misunderstanding of his media statements about the possibility of tax increases. The FS had reiterated that the various possible means to resolve the deficit problem would be carefully considered in the context of the 2003-04 Budget and no decision had been made at the moment.

26. As regards the proposal of cutting the civil service establishment, SFST advised that it was indicated in the Policy Address that the target would be achieved through freezing recruitment, natural wastage, voluntary retirement, redeployment and improved working procedures etc. As such, it would be difficult at this early stage to come up with an accurate estimation on the savings to be attained since it would depend on how the downsizing scheme was to be rolled out. However, as about 70% of government recurrent expenditure was spent on personal emoluments, SFST envisaged the savings resulted from the proposal would be huge.

27. As to the proposal of introducing the Boundary Facilities Improvement Tax in early 2004, Mr SIN Chung-kai expressed concern about the possible negative impact on the income of the Kowloon-Canton Railway Corporation (KCRC) and the likely pressure on increasing fares for the railway service. Mr SIN asked about the Administration's assessment on these issues.

28. In reply, SFST remarked that the FS had announced the Administration's intention to impose the Boundary Facilities Improvement Tax in his 2002-03 Budget. The Administration was working out the implementation details with a view to introducing the bill into the LegCo within the current legislative session. SFST said that there was a separate mechanism for determining the KCRC fares. The two issues should be considered separately.

29. There being no other question and business, the Chairman declared the meeting closed at 7:05 pm.