立法會
Legislative Council

LC Paper No. CB(1)1096/03-04
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Panel on Financial Affairs

Minutes of special meeting
held on Thursday, 15 January 2004 at 3:30 pm
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 Kenneth TING Woo-shou, JP
Hon James TIEN Pei-chun, GBS, JP
Dr Hon David CHU Yu-lin, 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 SIN Chung-kai
Hon Jasper TSANG Yok-sing, GBS, JP

Members absent : Dr Hon Eric LI Ka-cheung, GBS, JP
Hon NG Leung-sing, JP
Hon CHAN Kam-lam, JP
Dr Hon Philip WONG Yu-hong, GBS
Hon Emily LAU Wai-hing, JP
Hon Abraham SHEK Lai-him, JP

Public officers attending	**:**	Mr Frederick MA, JP Secretary for Financial Services and the Treasury Mr Tony MILLER, JP Permanent Secretary for Financial Services and the Treasury (Financial Services) Mr Alan LAI, JP Permanent Secretary for Financial Services and the Treasury (Treasury)
Clerk in attendance	**:**	Miss Salumi CHAN Chief Council Secretary (1)5
Staff in attendance	**:**	Ms Pauline NG Assistant Secretary General 1 Ms Connie SZETO Senior Council Secretary (1)4 Mr Joey LO Council Secretary (1)1 Ms May LEUNG Legislative Assistant

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I. Briefing by the Secretary for Financial Services and the Treasury on the relevant policy initiatives featuring in the Chief Executive's 2004 Policy Address

(Paper provided by the Administration for the meeting
LC Paper No. CB(1)752/03-04(01)
Relevant documents
(a) Address by the Chief Executive at the Legislative Council meeting on 7 January 2004 — "Seizing Opportunities for Development Promoting People-based Governance"; and

(b) The 2004 Policy Address — "Policy Address")

Briefing by the Secretary for Financial Services and the Treasury

Upon invitation by the Chairman, the Secretary for Financial Services and the Treasury (SFST) briefed Members on the initiatives relating to the Financial Services and the Treasury Bureau (FSTB) in the Chief Executive (CE)'s Policy Address 2004 and the progress in implementing the measures announced in the Policy Agenda 2003. SFST highlighted the following two initiatives enshrined in the CE's Policy Address 2004:

(a) The Administration would continue to strengthen Hong Kong's position as an international financial centre. On the development of personal renminbi (RMB) businesses in Hong Kong, the Central People's Government had agreed to enable local banks, beginning this year, to operate personal RMB businesses, including deposits, remittances, money exchange and RMB bank cards. The Administration believed that the scheme would provide a new channel for the flow of RMB funds between Hong Kong and the Mainland through the banking system to facilitate trade and spending by tourists, and would facilitate the development of banking businesses in Hong Kong and the Mainland. This would reinforce Hong Kong's position as an international financial centre. Banks participating in the scheme were expected to start operating RMB businesses within the coming one to two months; and

(b) On asset management, the Administration aimed to develop Hong Kong as a leading asset management centre in Asia. To achieve this target, the Administration would strive to provide a favourable environment for maintaining the presence of international fund management companies in Hong Kong and attracting new players. It would continue to improve the regulatory regime to enhance the effectiveness of the market, to facilitate the launch of new investment products and to improve settlement and clearing systems for securities and funds. The Administration was working on proposals to amend the Inland Revenue Ordinance (Cap. 112) to exempt offshore funds from profits tax. All these measures would help enhance Hong Kong's competitiveness as an international asset management centre.

2. On fiscal policy, SFST mentioned that the Financial Secretary (FS) had announced at the Council meeting on 22 October 2003 the new target of achieving fiscal balance in 2008-09. The Administration would continue to implement measures to contain public expenditure from 2004-05 to 2008-09 with a view to reducing operating expenditure to $200 billion by 2008-09.

3. As regards the Administration's plan to dispose of its assets, SFST advised that the sale of civil service housing loans and various housing loans portfolio had been

successfully completed and raised proceeds of over $15 billion in 2003-04. Moreover, the Administration planned to move a resolution under section 3(1) of the Loans Ordinance (Cap. 61) to seek approval of the Legislative Council (LegCo) to authorize the Government to raise up to $6 billion through securitizing future revenue from specified bridges and tunnels. The Administration would work closely with the subcommittee formed by LegCo to study the proposed resolution and provide further information on the exercise to address Members' concerns.

4. On efficiency enhancement measures, SFST pointed out that the merger of the former Government Land Transport Agency, Government Supplies Department and Printing Department had been completed and the new Government Logistics Department was established on 1 July 2003. The merger would achieve annual savings of about $26.5 million. Furthermore, FSTB had just put forward a package of proposals to rationalize the directorate structure in the Bureau and the Inland Revenue Department as from 1 April 2004. The proposals would produce net annual savings of about $1.3 million in staff costs. FSTB would consider other efficiency enhancement measures and brief the Panel on such proposals in due course.

(*Post-meeting note:* The speaking notes of SFST (in Chinese version only) were circulated to Members vide LC Paper No. CB(1)802/03-04(01) on 16 January 2004.)

Discussion

Disposal or securitization of Government assets

5. Responding to Mr Henry WU, SFST confirmed that the recent recovery in the economy had resulted in the increase in Government revenue. In particular, due to the promising investment performance of the Exchange Fund in 2003, the share of investment income for the fiscal reserves placed with the Fund was expected to be over the estimated amount of $12 billion in the 2003-04 Budget. Given the increase in Government revenue, Mr WU asked whether the Administration would review its plan on disposal of Government assets. SFST pointed out that while the increase in Government revenue had improved the fiscal position, it was anticipated that there would still be budget deficits in the coming several years. It was necessary to identify alternative sources of funds for investment in infrastructure projects. The plan to sell or securitize Government assets was announced in the 2003-04 Budget as a means of raising funds for capital works projects. As such, the Administration would continue with the plan and explore other feasible proposals. Given that some of the proposals required LegCo's approval, the actual timing for their implementation was not within Government's control.

6. Mr SIN Chung-kai expressed support for the proposed securitization of future revenue from toll bridges and tunnels on behalf of Members of the Democratic Party. In response to Mr SIN's enquiry about other proposals for selling or securtizing

Government assets in 2004-05, SFST advised that the Hong Kong Housing Authority was working out the details of securitizing its retail and car-park facilities through listing in the Stock Exchange of Hong Kong. On the other hand, FS had been actively considering the proposal to issue Government bonds and would provide further details on the subject in the 2004-05 Budget. SFST re-iterated that the securitization of future revenue from toll bridges and tunnels would signify Government's continual effort in promoting the development of bond market in Hong Kong. SFST added that proposals to dispose of or securtize Government assets would help develop Hong Kong's capital market and reinforce Hong Kong's position as an international financial centre, which were in line with the Government's policy objectives.

7. While supporting the objective of the proposed securitization of future revenue from tolls on specified bridges and tunnels, Mr Henry WU expressed concern about the lack of detailed information provided by the Administration. He urged the Administration to provide more details on the securitization exercise, such as selection of the arranger and measures to address possible conflict of interest if the financial adviser of the exercise were to be appointed as the arranger. The Permanent Secretary for Financial Services and the Treasury (Treasury) (PS/FST(T)) responded that the Administration was aware of Members' concerns and would endeavour to provide the required information as far as possible. Representatives of the Administration and the financial adviser of the exercise would attend the meeting of the Subcommittee on the proposed resolution under section 3(1) of the Loans Ordinance to be held on 16 January 2004 to explain the details to Members. Members agreed that questions relating to the proposed securitization exercise should be discussed at the Subcommittee meeting.

Developing Hong Kong as an international asset management centre

8. Referring to the new initiative to develop Hong Kong as an international financial services and asset management centre such as Switzerland (paragraph 33 of the CE's 2004 Policy Address), Mr Henry WU enquired about the measures for achieving the target.

9. SFST pointed out that with a favourable economic environment and robust financial infrastructure, Hong Kong had become a major fund management centre in Asia. With the bulk of the world's savings generated within Asia and the fast growing demand for fund management services in the Mainland, Hong Kong was well positioned to tap the world's savings and develop as a world-class international fund management centre. Indeed, as indicated in a survey on global fund management conducted in 2000, Hong Kong had captured 5% of internationally invested private funds and become one of the world's important fund management centres. The Administration recognized that there were great potentials for the financial services and asset management services to further develop in Hong Kong, in particular, high value-added services in fund management, corporate investment management, personal banking, insurance sales and various investment and savings instruments.

With a view to enhancing the development of Hong Kong's fund management industry and Hong Kong's competitiveness, the Administration would work with the industry to create a favourable business environment, to improve market infrastructure, and to identify other measures facilitating the access of international funds to Hong Kong. At the request of Mr Henry WU, SFST agreed to provide after the meeting the results of the survey conducted in 2000 on global fund management, showing the fund management activities of various international financial centres including Switzerland and Hong Kong.

(*Post-meeting note:* The summary of results of the survey on global fund management conducted in 2000 was circulated to Members vide LC Paper No. CB(1)861/03-04(01) on 29 January 2004.)

10. Pointing out that the legislation and regulatory regime in Switzerland were very different from those in Hong Kong, Mr Henry WU expressed doubt about the propriety for Hong Kong to adopt the systems of Switzerland. SFST clarified that the Administration had no intention to adopt the banking and fund management legislation or systems of Switzerland in Hong Kong. According to the survey on global fund management conducted in 2000, Switzerland was recognized as the world's top asset management centre capturing more than 25% of internationally invested private wealth. The Administration's aim was to develop Hong Kong as an international financial services and asset management centre with scale comparable to that of Switzerland.

Enhancing quality of the market

11. Whilst expressing support for the initiative to implement the Corporate Governance Action Plan (the Action Plan) for improving corporate governance of companies in Hong Kong, Mr Kenneth TING considered that instead of adopting the standards of the United Kingdom and United States entirely, the Administration should develop suitable standards to cater for the situations in Hong Kong and implement the initiatives in a progressive manner. To facilitate participation of local companies and market players in the process, Mr TING suggested that membership of the Listing Committee and of the Securities and Futures Commission (SFC)'s consultative committees should be broadened to include more representatives from local companies.

12. In response, SFST assured Members that the Administration, SFC and the Hong Kong Exchanges and Clearing Company Limited (HKEx) were all committed to upgrade the corporate governance standards in Hong Kong and would co-operate closely in implementing the Action Plan. SFST agreed that the standards should be practicable and cater for the needs of Hong Kong's market as well as be in line with international standards. The Administration, SFC and HKEx would take into account the views of Members and of the market in developing and implementing the standards.

13. Dr David CHU was concerned that the initiatives to enhance quality of the market, such as raising disclosure requirements on listed companies, would increase the operating costs of companies, in particular, small companies. He enquired about the additional costs involved and whether the Administration would streamline the regulatory requirements in order to relieve the financial burden on small companies.

14. SFST pointed out that encouraging more disclosure by companies and improving transparency of their operations were important measures to enhance quality of the market. While these initiatives would increase the operating costs of companies, it was difficult to quantify the additional costs involved. However, studies indicated that companies with good corporate governance had helped increase investors' confidence and ultimately benefited the companies. As regards concern about financial burden on small companies, SFST said that the Administration welcomed suggestions from Members on how to streamline the regulatory requirements for reducing operating costs of small companies.

Derivative action initiated by SFC

15. Mr Albert HO expressed support for the provisions on statutory derivative action in the Companies (Amendment) Bill 2003 (the Bill) to enable a minority shareholder of a company to initiate litigation on behalf of the company to enforce rights of the company in relation to wrongs done to the company. Pointing out that regulators in overseas jurisdictions were empowered to take derivative action on behalf of minority shareholders against wrongs done to the company if it was justifiable in the public interest, Mr HO urged the Administration to explore feasibility of providing SFC with such power in order to improve corporate governance of companies and enhance protection of shareholders.

16. In response, SFST explained that the provision on derivative action under the Bill aimed to facilitate minority shareholders to seek remedies for the company in respect of misconduct/wrongs done by the majority shareholders to the company. As regards whether SFC should be empowered to take derivative action on behalf of minority shareholders, SFST advised that the proposal was one of the recommendations in Phase I of the Corporate Governance Review made by the Standing Committee on Company Law Reform in July 2001. The Administration and SFC had consulted the public on the proposal in May 2003, and the results indicated limited support and numerous reservations from vast majority of the respondents. As such, the Administration and SFC had agreed to hold the proposal in abeyance for the time being pending the passage of the statutory derivative action provisions in the Bill, and the conclusion of the Civil Justice Reform being conducted by the Judiciary. SFST added that as part of the Action Plan, SFC and HKEx were working on other proposals, including tightening listing requirements on companies and the requirement for companies to seek approval of minority shareholders on connected

transactions, to improve corporate governance of companies and enhance protection of shareholders.

17. Mr Albert HO re-iterated that the proposal for SFC to initiate derivative action on behalf of minority shareholders was worth pursuing and should be considered separately from the Civil Justice Reform. The Permanent Secretary for Financial Services and the Treasury (Financial Services) (PS/FST(FS)) pointed out that it was a controversial proposal. Since SFC would be responsible for the costs of the derivative action and that any damages awarded by the Court would go to the company, there were questions on the practicability of the proposal and the appropriateness for SFC to use public resources on private commercial disputes. As regards the Civil Justice Reform, PS/FST(FS) advised that the Judiciary was considering under the Reform whether, in principle, to adopt a group litigation scheme in Hong Kong, such as class action procedures which would empower shareholders to seek redress collectively. As such, it would be appropriate to take into account findings of the Reform and postpone decision on the proposal after the

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Reform had been concluded. At the request of Mr HO, SFST agreed to consider the proposal in reviews to be conducted in future.

Commercialization of archive programmes of the Radio Television Hong Kong

18. Quoting the Radio Television Hong Kong (RTHK)'s proposal to commercialize its archive programmes as an example, Mr SIN Chung-kai pointed out that there were numerous business opportunities for departments to commercialize their products and services. Mr SIN opined that the RTHK's proposal would not only create a new source of Government revenue, but would also meet market demand for its archive programmes. It would be a cost-effective means to deal with the huge quantity of archive programmes. He called on the Administration to encourage and facilitate departments to implement commercialization projects by providing incentives, such as allowing departments to keep the income from the projects for provision of new services.

19. PS/FST(T) advised that FSTB had been actively exploring the commercialization proposal with RTHK over the last year. The Administration had yet to make a decision on the matter because of the complex issues involved, such as intellectual property rights of the programmes, whether and how the cost and income of the project should be appropriated between the Administration and RTHK in compliance with the Public Finance Ordinance (Cap. 2), etc. PS/FST(T) further advised that the Administration was seeking legal advice and would formulate suitable policy to facilitate commercialization of Government products and services.

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Mr SIN Chung-kai enquired when the relevant policy would be introduced. SFST assured Members that FSTB would closely follow up the issue and report the progress to the Panel in due course.

Automatic Teller Machine fraud cases

20. Mr Albert HO expressed concern about the recent Automatic Teller Machine (ATM) fraud cases where pinhole cameras were found at some of the ATMs. He stressed the need to upgrade the technology and security systems of ATM cards and ATM machines. In reply, SFST said that the Hong Kong Monetary Authority (HKMA), the Police and banks took the matter seriously and had been actively working with ATM network providers on measures to upgrade the security systems of ATM networks and improve the design of ATM cards with a view to enhancing protection of bank customers in the long run. He undertook to convey Mr HO's concerns to HKMA.

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Other issues

21. Responding to Dr David LI's enquiry, SFST said that, as far as he was aware, the Hong Kong and Shanghai Banking Corporation Limited (HSBC) had not moved its private banking headquarters from Hong Kong to Singapore. HSBC's operations in Hong Kong were of a much larger scale than those in Singapore in terms of number of staff and amount of assets managed. Nevertheless, SFST undertook to clarify the issue with HSBC.

22. Dr David LI enquired whether the Singapore Government had implemented any tax concession measures for overseas banks to establish operations in Singapore. As the matter might have impact on Hong Kong's competitiveness as an international financial centre, the Chairman requested the Administration to seek clarification from HSBC on whether the bank had moved or planned to move its private banking headquarters to Singapore and if so, whether this was due to any tax concession policy implemented in Singapore.

(*Post-meeting note:* The Administration received confirmation from HSBC that the bank had no intention to move its private banking headquarters to Singapore. The Administration's reply was circulated to Members vide LC Paper No. CB(1)861/03-04(01) on 29 January 2004.)

II. Any other business

23. There being no other business, the meeting ended at 4:30 pm.

Council Business Division 1
Legislative Council Secretariat
27 February 2004