立法會
Legislative Council

LC Paper No. CB(1)1394/03-04
(These minutes have been seen
by the Administration)

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Panel on Financial Affairs

Minutes of meeting
held on Monday, 2 February 2004 at 9:30 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) 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 NG Leung-sing, JP Hon James TO Kun-sun Hon Bernard CHAN, JP Hon CHAN Kam-lam, JP Hon SIN Chung-kai Dr Hon Philip WONG Yu-hong, GBS Hon Jasper TSANG Yok-sing, GBS, JP Hon Emily LAU Wai-hing, JP Hon Abraham SHEK Lai-him, JP
Non-Panel Member attending	:	Hon LI Fung-ying, JP
Members absent	:	Hon Kenneth TING Woo-shou, JP Hon James TIEN Pei-chun, GBS, JP Dr Hon Eric LI Ka-cheung, GBS, JP

Public officers attending : Agenda Item IV

Mr Edmond LAU
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)

Mr CHOI Yiu-kwan
Executive Director (Banking Supervision)
Hong Kong Monetary Authority

Mr Arthur YUEN
Division Head, Banking Supervision Department
Hong Kong Monetary Authority

Agenda Item V

Mr Joseph YAM, GBS, JP
Chief Executive
Hong Kong Monetary Authority

Mr Norman CHAN, SBS, JP
Deputy Chief Executive
Hong Kong Monetary Authority

Mr William RYBACK
Deputy Chief Executive
Hong Kong Monetary Authority

Agenda Items VI and VII

Mr Henry TANG, GBS, JP
Financial Secretary

Miss Shirley YUEN
Administrative Assistant to the Financial Secretary

Mr Joseph YAM, GBS, JP
Chief Executive
Hong Kong Monetary Authority

Mr Eddie YUE, JP
Executive Director
Hong Kong Monetary Authority

Attendance by invitation : Agenda Item IV

Standard Chartered Bank

Mr Peter WONG
Director

Mr Julian FONG
Chief Financial Officer
HK, China & NE Asia

Miss Pauline LI
Regional Head of Legal & Compliance
Asia Pacific

Slaughter & May

Mr St. John FLAHERTY
Partner

Mr Richard JONES
Partner

KPMG

Mr Charles KINSLEY
Principal

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

Agenda Item IV

Ms Bernice WONG
Assistant Legal Adviser 1

Agenda Item VI

Mr Jackie WU
Research Officer 1

Mr Michael YU
Research Officer 7

I. Confirmation of minutes of meetings

(LC Paper No. CB(1)857/03-04 — Minutes of special meeting on 15 November 2003

LC Paper No. CB(1)823/03-04 — Minutes of meeting on 6 December 2003)

The minutes of the meetings held on 15 November and 6 December 2003 were confirmed.

II. Information paper issued since last meeting

2. Members noted the following information paper issued since the last regular meeting held on 5 January 2004:

(a) Speech of the Chief Executive of the Hong Kong Monetary Authority and the press release on "Issues in Monetary Policy" (LC Paper Nos. CB(1)835/03-04(01) and (02)).

III. Date of next meeting and items for discussion

(LC Paper No. CB(1)847/03-04(01) — List of outstanding items for discussion

LC Paper No. CB(1)847/03-04(02) — List of follow-up actions)

3. The Chairman informed members that the next regular meeting of the Panel would be held on Monday, 1 March 2004 and that one of the proposed discussion items was "Briefing on the draft Wing Hang Bank Limited (Merger) Bill". The Chairman declared interest as a non-executive director of the Wing Hang Bank Limited and invited the Deputy Chairman to preside over the discussion of Agenda Item III. The Deputy Chairman took over the chair.

4. The Deputy Chairman informed members that the following four items were proposed for discussion at the regular meeting to be held on Monday, 1 March 2004, from 10:00 am to 1:00 pm:

(a) Review on the financial regulatory framework for securities dealers and securities margin financing providers;

(b) The Securities and Futures Commission Budget for the Financial Year 2004-05;

(c) Study on the feasibility of establishing an Insurance Policyholders Protection Fund; and

(d) Briefing on the draft Wing Hang Bank Limited (Merger) Bill (the Bill).

5. On paragraph 4(a) above, members noted that following a review by the Working Group convened by the Securities and Futures Commission (SFC), the Administration would consult the Panel on the proposals seeking to address the risks facing the practitioners and investors in the securities market. On paragraph 4(b), SFC would brief the Panel on its budget for the next financial year. On paragraph 4(c), the Administration would consult the Panel on the proposal to establish insurance policyholders' protection funds in Hong Kong. As regards paragraph 4(d), members noted that the Bill, which would be a Member's Bill to be introduced by Dr David LI, provided for the merger of Wing Hang Bank Limited with Chekiang First Bank, Limited. Dr LI and representatives of the merging entities would brief the Panel on the draft Bill. Members agreed that the above four items be discussed at the next regular meeting to be held on 1 March 2004.

IV. Briefing on the draft Standard Chartered [Bank] (Hong Kong) Limited (Merger) Bill

(LC Paper No. CB(1)847/03-04(03) — Information note (including the draft Bill) provided by Dr Hon David LI)

Briefing on the draft Bill

6. At the invitation of the Chairman, Mr Peter WONG, Director, Standard Chartered Bank briefed members on the draft Standard Chartered [Bank] (Hong Kong) Limited (Merger) Bill. The Bill would be a Member's Bill to be introduced by Dr David LI. Mr WONG pointed out that the Bill provided for the merger and reorganization of the undertakings of the Hong Kong branch of Standard Chartered Bank, Manhattan Card Company Limited, Standard Chartered Finance Limited, Standard Chartered International Trade Products Limited and Chartered Capital Corporation Limited (together, the "Transferring Entities") by transferring their assets and liabilities to a new, wholly owned subsidiary within the Standard Chartered Group. All of the Transferring Entities were members of the Standard Chartered Group. The wholly owned subsidiary had been incorporated in Hong Kong and would be named "Standard Chartered Bank (Hong Kong) Limited (SCB(HK)L)". It had submitted an application to the Hong Kong Monetary Authority (HKMA) to become authorized as a bank under the Banking Ordinance (Cap. 155), and the application was being considered by HKMA.

7. Mr Peter WONG further pointed out that Standard Chartered Bank had been operating in Hong Kong for over 150 years and comprised over 4 000 staff. The merger and the incorporation of the Standard Chartered Group's Hong Kong business locally would be an important milestone demonstrating the Group's long-term commitment to and confidence in Hong Kong and China, and would tie in with the Group's development strategy for Greater China. It would also enable the Group to strengthen its local franchise and capitalize on the ample business opportunities created as a result of the closer economic integration between Hong Kong and the Mainland. Mr WONG then highlighted the following four points:

(a) The merger would not result in the reduction in the number of jobs and branch offices of the Transferring Entities or reduction in staff remuneration;

(b) The merger would not result in a breach of any of the data protection principles enshrined in the Personal Data (Privacy) Ordinance (PDPO) (Cap. 486). Standard Chartered Bank would inform its customers of the merger and the impact on them, including arrangements for the transfer of their personal data;

(c) Standard Chartered Bank was a note-issuing bank. The Bank was seeking the authorization of the new SCB(HK)L as a note-issuing bank in place of Standard Chartered Bank. While the matter was being considered by the Government, the current plan was that, if the new SCB(HK)L was authorized as a note-issuing bank, this would take effect on the same day as the appointed day under clause 3 of the Bill, i.e. the day upon which the merger would take effect; and

(d) The merger would not result in any reduction in tax revenue receivable by the Government.

8. Upon invitation by the Chairman, the Principal Assistant Secretary for Financial Services and the Treasury (Financial Services) (PAS/FST(FS)) briefed members on the Administration's views on the draft Bill. He advised that it was the Government's policy to support consolidation of the banking sector in Hong Kong which should be conducive to enhancing the efficiency of the sector and the stability of the banking system. As part of this policy, the Administration promoted and facilitated bank mergers where reasonable proposals were submitted for consolidation. In line with this policy, the Administration was in support of the Bill. The Executive Director (Banking Supervision) of Hong Kong Monetary Authority (ED(BS)/HKMA) also confirmed that HKMA was in support of the Bill.

Discussion

Merits of the merger

9. Ms Emily LAU was pleased to note the Standard Chartered Group's long-term commitment to and confidence in Hong Kong. Responding to Ms LAU's enquiry, Mr Peter WONG pointed out that the merger and the incorporation of the Group's Hong Kong business locally would enable Standard Chartered Bank to capitalize on the ample business opportunities created as a result of the closer economic integration between Hong Kong and the Mainland, in particular the business opportunities brought about by the Closer Economic Partnership Arrangement (CEPA) in the medium and long term. For example, under CEPA, the requirement for conducting renminbi business by the mainland branches of Hong Kong banks was relaxed. Under the new requirement, the profitability assessment was made on the basis of the overall profitability position of all branches instead of that of individual branches of a bank. Standard Chartered Bank believed that CEPA would open up further business opportunities for Hong Kong banks in the years to come.

Transfer of note-issuing function

10. Whilst supporting the proposed merger, Mr NG Leung-sing enquired about the arrangements for and the date of the transfer of the note-issuing function. Mr St. John FLAHERTY, Partner, Slaughter & May advised that the proposed arrangements were based on those in the Bank of China case, when its note-issuing

functions were transferred to Bank of China (Hong Kong) Limited upon its being authorized as a note-issuing bank. That transfer took place on the same appointed day as the other transfers under the Bank of China (Hong Kong) Limited (Merger) Ordinance (Cap. 1167). PAS/FST(FS) added that under the draft Bill, the same date would be adopted for the transfer of business undertakings from the Transferring Entities to the new SCB(HK)L and for the transfer of the note-issuing function from Standard Chartered Bank to the new SCB(HK)L in order to avoid confusion.

11. Responding to Mr NG Leung-sing, ED(BS)/HKMA advised that no additional expenditure would be required to be borne by HKMA as a result of the transfer of the note-issuing function arising from the proposed merger.

Protection of personal data

12. Ms Emily LAU was concerned whether the transfer of customers' personal data from the Transferring Entities to SCB(HK)L would be in compliance with the statutory data protection principles, and how the customers concerned would be informed of the transfer of their personal data. Mr Peter WONG reiterated that the transfer of personal data under the Bill would not result in a breach of any duty of confidentiality or a contravention of PDPO. He also pointed out that the customers, who might have been aware of the proposed merger through the media, would be informed of the proposed merger through the Bank's day-to-day correspondence with them.

13. Ms Emily LAU sought the Administration's views on the relevant experience from the merger of the banks involved in the Bank of China (Hong Kong) Limited (Merger) Bill in 2001 and whether any complaints had been received from customers. PAS/FST(FS) confirmed that the provision on the transfer of personal data, i.e. clause 8(l) of the current draft Bill, was modeled on a similar provision in the Bank of China (Hong Kong) Limited (Merger) Ordinance. The transfer of personal data in the Bank of China case had been carried out smoothly and the Administration was not aware of any customers' complaints arising from the transfer. PAS/FST(FS) further pointed out that both the Privacy Commissioner for Personal Data and the Home Affairs Bureau (HAB) had been consulted on the relevant provisions under the current draft Bill. The Privacy Commissioner was satisfied that the transfer of personal data in connection with the proposed merger should not result in a contravention of PDPO, including the Data Protection Principles of PDPO. HAB was also satisfied with the relevant provisions under the draft Bill. In this connection, PAS/FST(FS) informed members that HAB was planning to introduce some technical amendments to PDPO, including a provision to specify that the transfer of personal data pursuant to merger activities with the surviving entity providing a similar service should not result in a contravention of PDPO. ED(BS)/HKMA confirmed that the provision on transfer of personal data in the draft Bill was modeled on similar provisions in previous bank merger bills, and that no customer complaints had been received arising from the previous bank merger cases.

Impact on tax receivable by the Government

14. In response to Ms Emily LAU's enquiry, Mr Peter WONG explained that the Bill would have the effect of deeming SCB(HK)L as one and the same as the Transferring Entities in law, and allowing any profits and losses of the Transferring Entities to be treated as the profits and losses of SCB(HK)L from the appointed day under the Bill. Hence, the merger would not result in any reduction in tax revenue receivable by the Government. Mr Charles KINSLEY, Principal, KPMG added that as the Bank's profits arising from its operation in Hong Kong would largely remain the same after the merger, the amount of tax payable by the Bank would not be reduced.

Impact on staff

15. Ms Emily LAU was concerned about the impact of the merger on the staff of the Transferring Entities. In this connection, she enquired whether the staff concerned was in support of the merger. Mr Peter WONG reiterated that the merger would not have any impact on the number of staff and their remuneration, and that this point had been made clear to the staff concerned. So far, none of the staff concerned had raised objection to the merger.

Alternatives for dealing with bank mergers

16. Mr SIN Chung-kai noted that bank mergers in Hong Kong were normally effected through the introduction of a Member's bill while merger of other types of companies were not. He doubted whether the introduction of a Member's bill was the most effective means to deal with bank mergers. PAS/FST(FS) explained that given the large number of outstanding agreements between the transferring entities and their customers in a bank merger case, the Administration had supported the previous bank merger bills to ensure the proper transfer of all properties and liabilities of the transferring entities which were governed by Hong Kong law. The enactment of a Member's bill on a case-by-case basis had proven to be an effective means to deal with bank mergers.

17. Anticipating that other bank merger bills would be introduced into the Legislative Council in future, Mr SIN Chung-kai suggested the Administration to explore other alternatives to deal with bank mergers and make reference to overseas experience. PAS/FST(FS) advised that bank mergers in the United Kingdom were also effected through the introduction of a Member's bill on a case-by-case basis. As regards alternatives to deal with bank mergers, one of the options could be the enactment of a piece of generic legislation to govern the merger of banks and financial institutions. However, in view of the differences in functions and scope of business of various banks and financial institutions in Hong Kong, the generic legislation might not be able to cater for all circumstances.

V. Briefing on the work of the Hong Kong Monetary Authority
(LC Paper No. CB(1)847/03-04(04) — Power-point presentation material provided by the Administration)

Briefing on the work of the Hong Kong Monetary Authority

18. At the invitation of the Chairman, the Chief Executive of the Hong Kong Monetary Authority (CE/HKMA) gave a power-point presentation on HKMA's key areas of work. CE/HKMA highlighted the following points:

(a) On review of 2003, against a background of domestic difficulties, exacerbated by the Severe Acute Respiratory Syndrome (SARS), and considerable volatility in world markets, Hong Kong enjoyed a high degree of monetary and banking stability in 2003. HKMA played a key role in Moody's upgrading of Hong Kong's credit rating to A1 in late 2003.

(b) On currency stability, the Hong Kong dollar/US dollar spot exchange rate had remained stable until a marked strengthening from 22 September 2003. It was the result of recent weakening of the US dollar, intensifying pressure for revaluation (or more flexibility) of renminbi (RMB), unwinding of short positions in the Hong Kong dollar, solid economic recovery in Hong Kong, as well as Hong Kong's robust current account surpluses and international investment position.

(c) On market expectations on currency, Hong Kong dollar forward points shifted to a discount since September 2003. The Hong Kong Currency Board arrangements translated currency strength arising from capital inflow into an expansion of the Monetary Base, more foreign reserves and lower domestic interest rates. The converse applied when the currency weakened. Reflecting inflows of funds and the sale of US dollars by banks to HKMA, banks' clearing balances (Aggregate Balance) held with the Exchange Fund (EF) went up to historical highs in recent months. The Aggregate Balance stood at $52.2 billion as at 21 January 2004 and was reaching $54 billion recently.

(d) The external factors affecting risks and vulnerabilities of currency included, among others, political pressure on RMB exchange rate. It was justifiable for RMB to maintain its existing exchange rate and appropriate for the Mainland authorities to liberalize its capital accounts progressively to deal with the huge capital inflow. The movements of RMB and Hong Kong dollar forward exchange rates diverged in 2002 and the first half of 2003. A positive correlation between the two had re-emerged since September 2003, as both were under appreciation pressure. It was unnecessary for Hong Kong dollar exchange rate to follow changes in RMB exchange rate. As regards domestic factors, the robust economic recovery, growing economic integration between Hong Kong and the Mainland, and huge current account surpluses and net international investment position had contributed to maintaining the stability of Hong Kong dollar, while concerns about the budget deficit, high unemployment rate, deflation and possible return of SARS continued to pose uncertainties.

(e) On performance of the banking sector, stability was largely maintained in 2003 despite the industry had gone through one of its toughest times in recent years. Benefited from the recent revival in the economy, the number of bankruptcy petitions fell from 5 080 in the third quarter to 4 356 in the fourth quarter of 2003. Preliminary figures of banks' residential mortgage loans in negative equity indicated a decline by around 32 200 to 67 600 during the three-month period from September to December 2003.

(f) On the enhancement of protection of bank customers, there were indications that the benefits of the positive data sharing scheme were being realized. HKMA had required banks to take appropriate precautionary measures and follow-up actions for cases of fraudulent bank websites and Automatic Teller Machine (ATM) fraud. In respect of ATM fraud, no new cases had been reported in the last two months and only one reported case was yet to be resolved.

(g) On the development of financial infrastructure, preparatory work for implementation of the New Capital Accord by end of 2006 was underway and the Panel would be briefed on the subject in the next few months. The Hong Kong dollar and US dollar Real Time Gross Settlement links between Hong Kong and Guangdong were being developed and implementation was targeted in 2004.

(h) The provision of personal RMB business in Hong Kong was a milestone for consolidating Hong Kong's status as an international financial centre. Since commencement of the use of RMB bank cards in Hong Kong on 18 January 2004, there had been 27 000 transactions carried out involving a total of $40 million. Businesses on RMB deposits, money exchange and remittances were expected to be launched before the end of February 2004.

(i) On the performance of EF, the investment income of $89.6 billion in 2003 was the third highest return in the history of EF. The rate of investment return was 10.2%, which was 70 basis points above the investment benchmark. The net investment income of EF for 2003 was $83.4 billion, with $25.7 billion as fiscal reserves' share and $57.7 billion added to the accumulated surplus of EF. The fiscal reserves' share was more than double the amount of $12.1 billion budgeted for in the financial year 2003-04. As for the investment outlook of EF for 2004, the investment environment was unlikely to be conducive to the kind of gains for EF seen in 2003. Returns on bonds would most likely continue to be limited as interest rates were expected to rise, the prospects for equities were uncertain, and currency markets would probably continue to be volatile.

(*Post-meeting note:* Updated Charts 38 and 39 of the presentation material were circulated to Members vide LC Paper No. CB(1)927/03-04 on 3 February 2004.)

Discussion

Aggregate Balance in the banking sector

19. Noting that the Aggregate Balance in the banking sector was reaching $54 billion, Mr CHAN Kam-lam enquired about the cause for the high level of Aggregate Balance and the measures to address associated risks, such as speculative activities on the Hong Kong dollar.

20. In reply, CE/HKMA explained that under the Currency Board system, capital inflow into Hong Kong would lead to an expansion of the Monetary Base (of which the Aggregate Balance was a crucial component), more foreign reserves and lower domestic interest rate. There was no limit to the size of Aggregate Balance. As long as banks sold US dollars to HKMA, HKMA had to create Hong Kong dollars, and Aggregate Balance would correspondingly increase. CE/HKMA pointed out that there was no concern on the part of HKMA about the current size of Aggregate Balance, nor HKMA took any view on what the size should be. He considered that at present, the most suitable policy option to deal with capital inflow was to allow Aggregate Balance to increase. As Aggregate Balance earned no interest for banks, allowing it to increase to a size until the total opportunity cost for holding it became too high would eventually cause banks to switch out of Hong Kong dollar into foreign assets to earn some return, thus reversing the capital inflow.

21. CE/HKMA stressed that the Linked Exchange Rate system and the Currency Board system had been operating effectively despite the recent continuous capital inflow. The loose monetary conditions brought about by the capital inflow had benefited Hong Kong. Low domestic interest rates were helpful to the recovery of Hong Kong economy. There were no sign of excessive credit creation indicating an inflationary pressure. Moreover, increases in US dollar in the portfolio of EF had generated interest income for the Fund. However, if the loose monetary conditions became a cause of concern, there were three other policy options to deal with the issue. Firstly, HKMA could enlarge interest rate differential through imposing a charge on large clearing balances maintained by banks, i.e. introducing negative interest rates. While HKMA currently did not contemplate introducing such charges on banks, if this were to materialize, it seemed that there was no reason for banks to

pass on the charges to small depositors. There should be scope for banks to make arrangements to avoid affecting small depositors, e.g. by passing the charges only to very large depositors. Secondly, HKMA could consider absorbing large Aggregate Balance through the issue of EF paper. Thirdly, HKMA could consider introducing a Convertibility Undertaking on the strong side of the Link.

Investment income of EF

22. Members noted that EF had gained a sizable net investment income of $83.4 billion in 2003, with $25.7 billion as fiscal reserves' share and $57.7 billion added to the accumulated surplus of EF. As at end of December 2003, the accumulated surplus of EF amounted to $384.9 billion. Mr LEE Cheuk-yan considered that it was high time to review how the accumulated surplus of EF should be used. In his view, the sum of money should be used for the benefit of the general public. He therefore urged the Administration to consider using the accumulated surplus of EF for 2003 to address the budget deficit problem and to relieve the financial hardship of the general public.

23. Ms Emily LAU commended HKMA for the good investment performance of EF achieved in 2003. Ms LAU shared Mr LEE Cheuk-yan's view and requested the Administration to consider how the accumulated surplus of EF could be used for the benefit of the general public.

24. In response, CE/HKMA said that as the accumulated surplus of EF belonged to the people of Hong Kong, it was justified to use it for their benefit. In this connection, CE/HKMA pointed out that as provided for in the Exchange Fund Ordinance (EFO) (Cap. 66), EF was under the control of the Financial Secretary (FS) and such control should be exercised in consultation with the Exchange Fund Advisory Committee (EFAC). The EFO also provided that apart from using the EF for its primary purpose, FS might, with a view to maintaining Hong Kong as an international financial centre, use EF as he thought fit to maintain the stability and the integrity of the monetary and financial systems of Hong Kong. Moreover, FS might, after consulting EFAC and in accordance with section 8 of EFO, transfer from EF to the General Revenue any sum or part of any sum where he was satisfied that such transfer was not likely to affect adversely his ability to fulfil any purpose for which EF was required to be or might be used under EFO.

25. Responding to Mr LEE Cheuk-yan's enquiry, CE/HKMA said that while it was difficult to determine the appropriate level of EF to be maintained, currency crises in the past had indicated that a sizable EF was vital for Hong Kong to withstand currency attacks and external shocks. From the point of view of the Monetary Authority, it was appropriate to adopt a prudent approach in maintaining the level of EF.

26. Responding to Ms Emily LAU's enquiry, CE/HKMA explained that the fiscal reserves placed with EF were absorbed under the item of "Placements by other

HKSAR government funds" in Chart 52. He also pointed out that before 1998, the fiscal reserves placed with EF received fixed interest returns. It was agreed in 1998 that from then on the fiscal reserves placed with EF would receive the same variable rate of investment returns as other parts of the Fund.

Sharing of positive credit data

27. Mr LEE Cheuk-yan enquired about the benefits for bank customers brought about by the positive credit data sharing scheme. CE/HKMA advised that there were indications that the benefits were being realized. He pointed out that many banks had launched new products with interest rates based on individual customers' creditworthiness. For instance, some banks had offered credit card loans with interest rates below 10% and tax loans with very low interest rates to customers.

Non-banking activities conducted by AIs

28. Referring to Charts 33 and 41 of the presentation material which indicated that authorized institutions (AIs) had expanded into new areas of business and generated more non-interest income from brokerage, share registry and wealth management services, Mr Henry WU enquired about the information and figures on the relevant non-interest income of AIs. CE/HKMA agreed to provide the information.

29. Mr Henry WU also enquired about the impact of such expansion of services on HKMA's supervisory work on AIs and its manpower plan. CE/HKMA advised that at present, HKMA had no plan to increase its establishment. In fact, HKMA had reduced it establishment in the past few years despite the increase in workload. On the supervision of AIs, CE/HKMA advised that HKMA adopted a risk-based supervisory approach and required AIs to put in place appropriate risk management systems to manage different risks associated with their businesses. The Deputy Chief Executive of the Hong Kong Monetary Authority (DCE/HKMA) added that HKMA had been closely monitoring the development of new lines of business of AIs and would review its supervisory approach accordingly.

30. Referring to the Chief Executive's 2004 Policy Address where it was mentioned that Hong Kong was well placed to further develop as an international financial services and asset management centre such as Switzerland, Mr Henry WU enquired whether this initiative would have any impact on HKMA's supervisory work on AIs. DCE/HKMA remarked that asset management was a promising area for AIs to explore new opportunities. HKMA had been monitoring AIs' compliance with international standards in this area, such as anti-money laundering initiatives, while taking into account the practical situations in the banking sector of Hong Kong.

31. Mr Henry WU was concerned that the dual regulator approach for regulating securities business conducted by AIs enshrined under the Securities and Futures Ordinance (SFO) (Cap. 571) would give rise to inconsistencies in regulatory standards and requirements. CE/HKMA stressed that the regulatory regime under

SFO had proven effective and suitable for Hong Kong. DCE/HKMA supplemented that HKMA had been cooperating closely with SFC in regulating securities business conducted by AIs. Senior levels of the two regulatory bodies met regularly to discuss areas of concerns with a view to ensuring that there would be no regulatory overlap nor gap. Upon Mr Henry WU's request, CE/HKMA undertook to provide information on HKMA's supervisory actions taken on AIs' securities business since the commencement of SFO on 1 April 2003.

(*Post-meeting note*: The information provided by HKMA in response to members' requests at paragraphs 28 and 31 was circulated to members vide LC Paper No. CB(1)1111/03-04 on 25 February 2004.)

Issues related to the case of the Bank of China (Hong Kong) Limited

32. Ms Emily LAU and Mr James TO expressed concern about the lack of representation from Mr LIU Jinbao (the former Chief Executive of Bank of China (Hong Kong) Limited (BOCHK)) in the "Report by the Special Committee on the Corporate Governance, Credit Approval process, Risk Management and Internal Control Mechanism of BOCHK", and the actions taken by HKMA in investigating the BOCHK's loan granted to New Nongkai Global Investment Limited. They pointed out that the case of BOCHK had caused considerable public concern and enquired about the follow-up actions taken by HKMA with the Mainland authorities.

33. In reply, DCE/HKMA said that BOCHK had maintained transparency in handling the case by issuing various public statements in June 2003 and published the full report of the Special Committee and major findings of the two relevant external auditors' reports in September 2003. HKMA was monitoring the implementation of the various recommendations made in the reports by BOCHK. DCE/HKMA considered the recommendations in the reports sufficient to address the issues relating to the weaknesses identified in the high-level control framework and credit risk management framework of BOCHK. He also considered that should HKMA have the opportunity to interview Mr LIU Jinbao, it might not have much help on HKMA's investigation. DCE/HKMA further pointed out that any criminal activities relating to the case were within the purview of the law enforcement authorities of the Mainland and Hong Kong. HKMA had been maintaining close liaison with its counterpart in the Mainland, i.e. the China Banking Regulatory Commission (CBRC), in following up the case. Should there be any information relating to criminal activities on the case that might be helpful to HKMA in taking its supervisory actions in respect of BOCHK, CBRC would inform HKMA through their regular contact.

34. Ms Emily LAU and Mr James TO pointed out that HKMA's supervisory response in respect of the case of BOCHK had important implications on its capability in supervising AIs based outside Hong Kong and maintaining public confidence in the banking system in Hong Kong. Mr TO also enquired whether HKMA had encountered difficulties in pursuing the matter with the Mainland authorities.

35. In response, CE/HKMA stressed that HKMA took matters which might adversely affect AIs' operations and their reputation seriously. HKMA's supervisory policy and approach on AIs had been operating effectively and had contributed to maintaining the stability of the banking sector. He believed that the public was confident about HKMA's supervisory capability. If any problems were identified in the supervisory process, HKMA would discuss with the AI concerned to work out appropriate remedial actions. For matters relating to the AIs which were based outside Hong Kong, HKMA could seek assistance from overseas banking regulators.

36. In respect of the case of BOCHK, CE/HKMA advised that while HKMA was precluded under the Banking Ordinance (BO) (Cap. 155) from disclosing details of its supervisory actions relating to individual AIs or persons, HKMA's supervisory response in respect of the case was in line with HKMA's usual practice. CE/HKMA also confirmed that HKMA had sought assistance from the relevant Mainland authorities in conducting the investigation and attempted to contact Mr LIU Jinbao through CBRC. However, it was not within the purview of HKMA to investigate into criminal activities involved in the case.

37. Responding to Mr SIN Chung-kai's concern about regulation on an AI's operations in the Mainland, CE/HKMA reiterated that AIs were required to put in place comprehensive risk management systems to manage their risks associated with businesses in Hong Kong and the Mainland. AIs were required to provide separate capital for their operations in the Mainland.

38. Mr James TO considered that HKMA should continue to follow up the case of BOCHK. He said that he would consider pursuing the matter in future Panel meetings.

VI. Governance of the Hong Kong Monetary Authority

(LC Paper No. CB(1)595/03-04	—	Paper on "Points of concern and suggestions on the governance of the Hong Kong Monetary Authority" prepared by the Legislative Council Secretariat
LC Paper No. CB(1)847/03-04(05)	—	Paper provided by the Administration
LC Paper No. CB(1)847/03-04(06)	—	Power-point presentation material provided by the Administration
LC Paper No. CB(1)772/03-04(01)	—	Reply dated 12 January 2004 from the Director of Administration to the Clerk to Panel on Public Service
LC Paper No. CB(1)847/03-04(07)	—	Extract from the minutes of the meeting of the Panel on Public Service on 15 December 2003
LC Paper No. CB(1)296/03-04(04)	—	Paper on "Study of remuneration of senior executives of statutory and other bodies" provided by the Administration
LC Paper No. CB(1)171/02-03	—	Minutes of the special meeting of the Panel on Public Service on 3 July 2002
File Ref: CSO/ADM CR3/1136/02	—	Legislative Council Brief on "Review of remuneration of senior executives of statutory and other bodies" issued by the Administration Wing in June 2002)

39. The Chairman reminded members that at the meeting on 2 June 2003, the Panel deliberated on the governance of HKMA. In view of the various concerns and suggestions raised, members decided that the subject should be further discussed at a meeting of the Panel, and FS and CE/HKMA should be invited to the meeting. A special meeting for such purpose was then scheduled to be held on 31 July 2003. Following the resignation of the former FS in mid-July 2003, the Panel decided that the special meeting should be deferred to the 2003-2004 session.

40. At the invitation of the Chairman, the Executive Director of the Hong Kong Monetary Authority (ED/HKMA) gave a power-point presentation on the governance of HKMA. ED/HKMA highlighted the following points:

(a) The powers, mandate and responsibilities of HKMA were prescribed in EFO and BO. Sections 3(1) and 3(1A) of EFO provided that EF was under the control of FS, and the purposes of EF were to maintain the stability of Hong Kong dollar as well as Hong Kong's position as an international financial centre and integrity of the monetary and financial systems in Hong Kong. FS was required to consult EFAC in exercising the powers under EFO. Sections 5A and 5B of EFO stipulated that FS should appoint a Monetary Authority (MA) to assist him in carrying out his duties under the Ordinance and to perform such functions as FS might direct. The BO provided MA with the legal powers to regulate and supervise the banking sector.

(b) EFAC advised FS on matters relating to the governance of HKMA. It was formed under section 3(1) of EFO with FS as the Chairman. EFAC currently consisted of 12 members including MA, five members from the banking sector and six members from accounting, business and academic sectors. There were three subcommittees under EFAC: the Sub-committee on Currency Board Operations monitored and reported on currency board arrangements; the Audit Sub-committee gave advice and guidance on audit-related issues; and the Remuneration and Finance Sub-committee made recommendations on pay and conditions of service, human resources policy, and budgetary and administrative issues.

(c) The Remuneration and Finance Sub-committee consisted of six non-official and non-banking members. The annual budget and the annual pay review of HKMA were carefully scrutinized by the Sub-committee before endorsement by EFAC and approval by FS. The annual pay review took into account the findings of independent consultants on pay trends and pay levels in the private sector, and assessments of the performance of HKMA.

(d) The accounts and operations of HKMA were subject to continuous scrutiny by the Director of Audit and HKMA's Internal Audit Division (which operated independently and reported direct to CE/HKMA). The Audit Sub-committee, which was made up of four non-official members, scrutinized and monitored the accounts and made recommendations on the audits carried out by the Director of Audit and the Internal Audit Division (IAD).

(e) While no single pattern of governance could be applied to all central banks, there was general international consensus on two principles.

First, a central banking institution should have operational and resource independence to enable it to carry out its responsibilities without political influence. Second, it should be transparent in its operations and accountable to the community.

(f) The autonomy given to HKMA in its day-to-day operations and the means adopted for pursuing policy objectives was compatible with and complemented by a high degree of transparency. In addition to briefing LegCo at regular intervals, HKMA had over the past few years implemented other measures to enhance the transparency of its works. For example, the disclosure arrangements for the operation of the Currency Board system and the accounts of EF had been enhanced. Moreover, detailed information on HKMA's work was made known to the public through its website and publications, as well as contacts with the media, educational and community programmes. To further enhance the transparency of its operations, HKMA had implemented new measures recently. These included publishing the Exchange of Letters between FS and MA on 25 June 2003, publishing on its website the remuneration policies of HKMA staff and code of conduct of members of EFAC, as well as setting up HKMA's new information centre.

Discussion

Overall governance arrangements of HKMA

41. Ms Emily LAU recalled that the purchase of permanent accommodation for HKMA using $3.7 billion from EF in 2001 had aroused public concern about the governance of HKMA, in particular the lack of public scrutiny of HKMA's expenditure. Arising from the subsequent discussions at the meetings of the Panel, Members had made a number of suggestions for improving the governance of HKMA. Referring to the paper prepared by the LegCo Secretariat (LC Paper No. CB(1)595/03-04) and the submission from the Hong Kong & Kowloon Trades Union Council (tabled at the meeting), Ms LAU urged FS to consider Members' suggestions and address the public concerns.

(*Post-meeting note:* The written submission of the Hong Kong & Kowloon Trades Union Council was circulated to Members vide LC Paper No. CB(1)927/03-04(01) on 3 February 2004.)

42. On the provision of HKMA's permanent accommodation, FS advised that the Administration had examined three options: the construction of a new building, the provision of office accommodation in rented premises, or the purchase of permanent accommodation. As no suitable land was identified for constructing a new building for the purpose, the first option was not adopted. Having considered financial analysis that it would be more cost-effective for HKMA to purchase its own premises

than renting office premises, the then FS had approved in 2001 for HKMA to purchase its permanent accommodation. In making the decision, the then FS had consulted EFAC and the Department of Justice (DoJ). DoJ had confirmed that it was appropriate to use EF for the purpose. However, to allay public concerns and to remove doubts about deployment of funds from EF, the Administration had, pursuant to section 6(b) of EFO, sought the Chief Executive's approval for using EF to purchase permanent accommodation for HKMA.

43. Mr CHAN Kam-lam considered the existing governance arrangements of HKMA suitable and effective in ensuring checks and controls. He considered it unnecessary to introduce any changes. He also considered it not appropriate for HKMA to model its governance arrangements on those of the central banks in other jurisdictions. Moreover, Mr CHAN pointed out that it might not be cost-effective to establish an independent authority for regulating the banking sector in Hong Kong.

Powers and functions of HKMA

44. Mr SIN Chung-kai stated that the Democratic Party had all along supported the proposal of enacting a piece of legislation to clearly specify the powers and functions of HKMA. In this connection, Mr SIN pointed out that the powers and functions of SFC and the Mandatory Provident Fund Schemes Authority were clearly specified in SFO and the Mandatory Provident Fund Schemes Ordinance (Cap. 485) respectively. Moreover, it was in line with the international trend for monetary and financial regulators to set out clearly their powers and functions in legislation. Mr SIN urged FS to consider the proposal.

45. Whilst appreciating that the proposal mentioned by Mr SIN Chung-kai would have the merits of enhancing HKMA's credibility, FS pointed out that as the current arrangement had worked well, there were no strong justifications for introducing changes at this stage. Given that the proposal involved fundamental changes to the existing arrangement, FS considered it necessary to examine the proposal carefully to avoid causing any adverse impacts on the stability of the monetary and financial systems. He said that the Administration would not rule out the proposal completely, and would study it at an appropriate juncture.

Annual budget of HKMA

46. Referring to the existing practice under which SFC would present its annual budget to the Panel for Members' information before the commencement of the relevant financial year, Mr SIN Chung-kai considered that HKMA's annual budget should be subject to the same arrangement. Ms Emily LAU supported Mr SIN's views.

47. In reply, FS re-iterated that under the existing arrangement, HKMA's annual budget was subject to careful scrutiny by the Remuneration and Finance Sub-committee, endorsement by EFAC and approval by FS. It was also subject to

continuous scrutiny by the Director of Audit and HKMA's IAD. The existing arrangement had been effective in allowing sufficient flexibility in resource deployment for HKMA and providing checks and controls, while ensuring that HKMA's operations were free from political influence. Given that CE/HKMA attended before the Panel in February, May and November each year to brief Members on HKMA's work and the briefing in May included the presentation on HKMA's annual report including its accounts, FS considered that there were opportunities for Members to raise questions on the accounts of HKMA.

48. Mr SIN Chung-kai re-iterated that his proposal would enhance the transparency of HKMA's expenditure and public confidence in its accountability.
Admin He called on FS to consider the proposal in the coming financial year.

Remuneration for senior staff of HKMA

49. Mr LEE Cheuk-yan pointed out the public concern that the present remuneration levels of the senior staff of HKMA were on the high side. In fact, the remuneration of CE/HKMA was much higher than that of FS. According to the Report on "Review of Remuneration of Senior Executives in Statutory and Other Bodies" prepared by the Hay Group Limited (Hay Group Report), the Government's consultant, in June 2002, the remuneration of CE/HKMA was much higher than that of the Chairman of the Federal Reserve in the United States (less than US$140,000 per year) and that of the Chairman of the Financial Service Authority in UK (£290,000 for the year 2000-01). The Hay Group Report had made a number of recommendations, including downward adjustment of the remuneration of CE/HKMA and adoption of qualitative factors in determining the remuneration packages of the senior staff of the bodies covered by the Report. Noting that the Administration had accepted the recommendations of the Hay Group Report, Mr LEE enquired about the measures taken in implementing the recommendations relating to HKMA.

50. FS advised that the Hay Group Report was prepared in connection with the consultancy study commissioned by the Administration in early 2002 to study the remuneration of senior executives of ten selected statutory and other bodies. The main tasks of the consultancy study were to determine whether the remuneration packages of the senior executives in the selected bodies were in line with those holding comparable positions in the private sector, and to establish for them comparable and competitive remuneration packages. In the Hay Group Report, the consultant had specified benchmarks rather than ceilings on the remuneration of senior executives, which should serve as references for the selected bodies in determining the remuneration packages of the senior executives. The governing boards of the selected bodies could make adjustment in the remuneration levels taking into account the qualitative factors, such as the size and complexity of the organizations, their certainty of availability of resources, job security, exposure to public scrutiny, and prestige and honour of the senior positions. FS also advised that the Administration had accepted the Hay Group Report and invited the governing

boards of the selected bodies to carefully consider the recommendations therein. The selected bodies had been requested to advise the relevant Directors of Bureaux on their acceptance of the study recommendations and submit annual reports thereafter on the detailed implementation of the various recommendations.

51. As regards application of the recommendations of the Hay Group Report to HKMA, FS pointed out that the Remuneration and Finance Sub-committee had considered the recommendations and noted that most of the recommendations already represented the existing practices of HKMA. These practices included targeting the remuneration levels at the median of the financial sector, applying a variable-to-fixed ratio in the remuneration package, using independent pay consultants to monitor levels and trends of remuneration in the financial sector, designating a committee to deal with remuneration issues, following the levels of disclosure provided for in the Companies Ordinance, and exercising flexibility in deciding the remuneration package of individuals to take into account their background, capability or performance. FS said that the implementation framework was endorsed by EFAC and approved by the then FS in December 2002 for implementation in HKMA annual pay review exercise starting in March 2003. FS stressed that HKMA annual pay review exercise was conducted independently by consultants on the basis of surveys on pay trends and pay levels in the private sector, and assessments of the performance of HKMA. Recommendations on pay review were then considered by the Remuneration and Finance Sub-committee and endorsed by EFAC before approval by FS. HKMA staff took no part in the deliberations of the Sub-committee and were not present at such discussions.

52. On the concern about the perceived high level of remuneration for CE/HKMA, FS advised that the Remuneration and Finance Sub-committee and EFAC had considered the matter and decided that the existing remuneration level for the post should be maintained. In making the decision, the Sub-committee and EFAC had taken into account qualitative factors such as the special skills, capabilities and performance of the present incumbent of the post, and the fact that the existing remuneration package had included other fringe benefits like retirement benefit and accommodation allowance.

53. Mr CHAN Kam-lam considered the present remuneration level of CE/HKMA appropriate and that it was inappropriate to compare the level with that of FS.

54. Given the unique functions of HKMA, Mr LEE Cheuk-yan considered it inappropriate to compare the remuneration levels of the senior executives of HKMA with those of comparable positions in the local financial services sector. In this connection, Ms Emily LAU considered that the remuneration levels of the senior executives should be comparable to those of comparable positions in overseas financial markets, such as the central bank governors.

55. In reply, FS maintained that the present arrangements for determining the remuneration of the senior executives of HKMA were appropriate. As the majority of

work of HKMA was carried out in Hong Kong, it was justified and necessary for HKMA to compete for talents with companies in the local financial services sector. FS however considered it not appropriate or meaningful to compare remuneration across different central banks given that they operated in different economies and the situations in their job markets also varied considerably. In this connection, FS pointed out that the remunerations of many US Federal Reserve employees, including that of DCE/HKMA who was formerly a staff, were higher than that of the Chairman of the Federal Reserve. This example illustrated the complexity of the factors involved in setting the remuneration levels of quality staff in the financial services sector.

56. Mr NG Leung-sing remarked that the Hay Group Report was compiled by an independent consultant with market data collected in early 2002. The methodology and recommendations of the Report should be respected. He was pleased to note that the selected bodies covered by the Report had responded positively to the recommendations by incorporating them into their arrangements for determining remuneration for staff as appropriate.

Audit arrangements in HKMA

57. Referring to Chart 9 of the presentation material, Mr NG Leung-sing enquired about the appointment of the Chairman for the Audit Sub-committee and the work performed by the Director of Audit and IAD of HKMA. In this connection, Mr Henry WU queried whether it was appropriate for IAD to report to CE/HKMA. In order to ensure independence of IAD, Mr WU suggested that it should report directly to the Audit Sub-committee.

58. ED/HKMA advised that the Chairman of the Audit Sub-committee was appointed by FS with due regard to the capabilities, relevant expertise and experience of the candidates. The present Chairman of the Subcommittee was Mr Marvin CHEUNG, a professional accountant with recognized audit experience. The Audit Sub-committee received regular audit reports and studies from IAD on HKMA's operations and accounts, and made recommendations on the audits carried out by the Director of Audit. The Director of Audit was appointed by the Chief Executive under section 7 of EFO to scrutinize the accounts and operations of HKMA. He was required to give a fair view on HKMA's accounts which would be incorporated into the annual report.

59. Regarding Mr Henry WU's concern about the reporting system of IAD, ED/HKMA explained that while IAD reported to CE/HKMA on accounting issues identified in the day-to-day operations of HKMA, the division operated independently in conducting audit checks on the operations and accounts of HKMA. Moreover, IAD submitted audit reports and studies for making improvements in accounting systems to the Audit Sub-committee direct. ED/HKMA also pointed out that in order to enhance audit checks on HKMA, the Audit Sub-committee had reviewed the audit arrangements in 2003. The current audit arrangements, which

were comparable to the stringent requirements of listed companies, met the standards of relevant guidelines promulgated by the Hong Kong Society of Accountants.

VII. Functions and responsibilities between the Financial Secretary and the Monetary Authority in monetary and financial affairs

(LC Paper No. CB(1)847/03-04(08)	—	Power-point presentation material provided by the Administration
LC Paper Nos. CB(1)2111/02-03 (01), (02) and (03)	—	Exchange of letters between the Financial Secretary and the Monetary Authority on the functions and responsibilities in monetary and financial affairs)

60. Members noted that in the light of the recommendations in the International Monetary Fund Financial Sector Assessment Programme set out in its Financial System Stability Assessment report for Hong Kong, the Administration published an Exchange of Letters dated 25 June 2003 between FS and MA, setting out the division of functions and responsibilities between the two in monetary and financial affairs, and an accompanying letter dated 25 June 2003 from FS to MA, specifying the monetary policy objective and the structure of the monetary system of Hong Kong. The Letters aimed to enhance transparency and credibility of policies and efficiency of operations in monetary and financial affairs.

61. Owing to the limited time available, members agreed that there was no need for the Administration to give a presentation on the subject.

Discussion

Accumulated surplus of EF

62. Mr LEE Cheuk-yan reiterated his concern raised earlier under Agenda Item V of the meeting. Noting that EF was under the control of FS, Mr LEE urged FS to consider utilizing the $57 billion surplus of EF for 2003 to address the budget deficit problem and to relieve the financial hardship of the general public. He was of the view that the strong financial position of EF (total assets of EF was over $1,000 billion as at 31 December 2003) was sufficient for maintaining the stability of Hong Kong dollar. Ms Emily LAU pointed out that there had been increasing public concern about the adverse impacts of the reduction in public expenditure on the public, in particular on the less privileged class. Ms LAU concurred that Mr LEE's proposal was a viable means to address the problem of budget deficit.

63. In response, FS advised that with a view to enhancing transparency of the financial performance and position of the Government and promote greater awareness of public finance in the community, the Administration had started

publishing accrual-based accounts in this financial year. The accrual accounts for 2002-03 published in January 2004 had included the accounts of EF with details of the fiscal reserves and investment returns. The assets in EF were recognized as assets of the Government, which were owned by Hong Kong people. FS stressed the need for the Government to adopt a prudent approach in setting the appropriate level of EF to be maintained and to boost the financial position of EF for the purposes of maintaining the stability of Hong Kong dollar and the monetary and financial systems in Hong Kong. He considered it not prudent at this point in time to utilize the accumulated surplus of EF for meeting Government operating deficits. Despite that the promising investment performance of EF in 2003 had boosted the financial position of the Fund, the investment outlook for 2004 remained uncertain and was expected to be difficult. It was unlikely that EF could achieve the good returns seen in 2003. Moreover, deploying the accumulated surplus of EF to meet Government operating deficits would not tackle the budget deficit problem at root.

64. On the measures to address the budget deficit problem, FS re-iterated that containing the growth of Government operating expenditure was one of the three major measures to solve the problem. Given that the growth in Government operating expenditure had out-paced economic growth since 1997, there was an urgent need to curb the growth and identify areas of savings. FS pointed out that the strategies adopted by the Administration were pragmatic and moderate. He also stressed that reduction in public expenditure would not be implemented uniformly across the public sector. FS cautioned that international rating agencies had raised concerns about deferring the target of achieving fiscal balance to 2008-09. Such concerns might adversely affect the ratings on Hong Kong and would increase funding costs for private corporations and Government in the issuance of bonds. FS added that commitment and concerted efforts by both the community and the Administration were important to achieve the target of restoring fiscal balance.

Delegation of powers to MA

65. On paragraph 13 of the Exchange of Letters, Ms Emily LAU noted that if FS had himself exercised the powers delegated to MA, or had chosen to override MA by giving him instructions, he was required to disclose publicly why he had done so. However, Ms LAU noted that it was also provided that FS was not required to make such disclosure if he considered, after consultation with MA, that such disclosure was prejudicial to the stability and integrity of the monetary and financial systems of Hong Kong. Ms LAU was concerned whether there were any safeguards to ensure the proper discharge of power by FS in this respect.

66. CE/HKMA explained that the disclosure requirement in paragraph 13 of the Exchange of Letters was to provide checks and balances on the powers delegated to MA, and to enhance transparency in the policies and operations in monetary and financial affairs. Nonetheless, as the prime objective of the monetary and financial policies was to maintain the stability of the monetary and financial systems of Hong Kong, it was appropriate and necessary to exclude matters that would be prejudicial

to the stability of monetary and financial systems from public disclosure. FS pointed out that there had been no incident in the past that warranted the use of the overriding power by FS.

67. Mr Albert HO commented that as the overriding power by FS would undermine the credibility of the actions/decisions taken by MA, and hence would affect the stability of the monetary and financial systems of Hong Kong, it was rather unlikely that FS would invoke the overriding power and make any disclosure in this regard. CE/HKMA pointed out that it might not necessarily be the case that all such disclosures would adversely affect the stability of the monetary and financial systems of Hong Kong. Ms Emily LAU considered it more appropriate for FS to consult EFAC, instead of MA, on such disclosure and suggested that the Exchange of Letters be amended to this effect. FS pointed out that section 3(1) of EFO provided that FS should consult EFAC in exercising his power in the control of EF. He assured members that EFAC would be consulted in matters relating to the exercise of the overriding power by FS. Given that paragraph 2 of the Exchange of Letters had clearly stipulated the role of EFAC in the management of EF, CE/HKMA considered it not necessary to amend the Letters.

VIII. Any other business

68. There being no other business, the meeting ended at 1:15 pm.

Council Business Division 1
Legislative Council Secretariat
30 March 2004