

**LegCo Panel on Financial Affairs
Meeting on 7 March 2005**

List of follow-up actions

The Securities and Futures Commission Budget for the Financial Year 2005-06

1. The Securities and Futures Commission has undertaken to provide information on the annual expenses incurred by its Chairman' Office in the previous few years.

Proposals to enhance the oversight of public interest activities of auditors and establish a Financial Reporting Council

2. Given the Administration's advice that the establishment of a Financial Reporting Council (FRC) suits the unique circumstances in Hong Kong, the Administration is requested to provide a paper covering the following items:
 - (a) The unique circumstances in Hong Kong that justify the establishment of a FRC;
 - (b) Experience of overseas jurisdictions in the regulation of accounting profession, including the following aspects:
 - (i) the regulatory regime, in particular, whether the accounting profession is subject to a self-regulatory regime;
 - (ii) whether the self-regulatory body or other bodies are responsible for:
 - investigating suspected irregularities of auditors of listed corporations in relation to the audit of published accounts or financial statements of such corporations and the preparation of any auditors' reports for inclusion in prospectuses (i.e. the functions of the Audit Investigation Board proposed by the Administration); and
 - enquiring into suspected non-compliance of the financial reports of listed corporations with relevant accounting requirements under the legislation and rules (i.e. the functions

of the Financial Reporting Review Committee proposed by the Administration);

- (iii) the funding arrangements for performing the functions mentioned in item (ii) above.

- 3. The Administration is requested to report to the Panel in due course on the outcome of the public consultation on the FRC proposal and the proposed way forward.

Management of Government investment incomes

- 4. The Administration is requested to provide a paper to address the following issues raised by members:

Dividend payout policy

- (a) Please provide the reasons why the Kowloon-Canton Railway Corporation (KCRC), Airport Authority (AA) and Hong Kong Science and Technology Parks Corporation (HKSTPC) have not paid any dividends to the Government in some of the years where profits were recorded;
- (b) The Administration should put in place a proper mechanism to govern the dividend payout policy of public corporations. The mechanism should cover the circumstances under which the dividends payable to the Government should be paid or waived; and
- (c) It is noted that HKSTPC signed a shareholder agreement, which covered the dividend payout policy, with the Government in 2004. The same arrangement should be adopted for other public corporations.

Role of public officers appointed to boards of public corporations

- (d) The Administration should strengthen the role of public officers appointed to public corporations in ensuring the protection of Government investment interests;

Value for money audit

- (e) Apart from the MTR Corporation Limited (MTRCL) which is a listed company, other public corporations should be required to conduct value for money audit to ensure that the public moneys invested in the corporations are properly used, and the audit reports should be published to enhance transparency.
5. The Administration is requested to provide a paper to address the following points of concern raised by members on the land grant policy and the impact of the policy on government revenue:
- (a) Land and revenue generated from its sale are important sources of income for the Government. The Administration should ensure the effective use of the limited land resources and that its land grant policy is able to safeguard public interest, maximize financial gains for the community, achieve fair competition and maintain market stability;
 - (b) The Administration should ensure that the land granted to public corporations is put into effective use for the development of their core business, such as the large piece of land on the Airport Island granted to AA. It is suggested that any part of the land which has not been used for the core business of AA should be returned to the Government and put up for sale through open bidding;
 - (c) The policy of subsidizing commercially operated infrastructural projects in the form of land is in contravention of the Basic Law;
 - (d) The policy of subsidizing commercially operated infrastructural projects in the form of land, which is a remnant of the colonial era, no longer suits the present day circumstances. In particular, it is unjustified for the Government to apply the policy to MTRCL since the listing of the corporation in October 2000;
 - (e) The Government, in considering whether it should subsidize a commercially operated infrastructural project in the form of land, should ensure that the granting of such a subsidy would be in the interest of the public. In this connection, the Administration should set up a transparent

and professional mechanism for:

- (i) assessing the value of the land involved and the financial gains to be achieved by putting up the land for sale through open bidding; and
 - (ii) assessing the rate of return for the Government on the assumption that such a subsidy has been granted to the project.
- (f) As pointed out by the Hong Kong Institute of Surveyors, the application of the “green field site” principle in the premium assessment for the two railway corporations imposes an important assumption (i.e. no railway development) into the valuation process and thus would have significant implications for the premium assessment. Other things being equal, the availability of railway development would normally enhance accessibility and thus land values. In other words, the application of the “green field site” principle in the premium assessment for the two railway corporations has resulted in the loss of revenue. The Administration is requested to address this concern and provide the justifications for applying the principle in premium assessment; and
- (g) On the land premia paid by MTRCL and KCRC for each of the development projects set out in Appendices II and VII to the Administration’s paper issued in February 2005 (LC Paper No. CB(1)1020/04-05(07)), the Administration is requested to explain the basis for calculating the amounts of the land premia involved.