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Legislative Council

LC Paper No. CB(1)176/06-07
(These minutes have been seen by the Administration)

Ref : CB1/PL/FA/1

Panel on Financial Affairs

Minutes of meeting
held on Monday, 3 July 2006 at 9:00 am
in the Chamber of the Legislative Council Building

Members present	**:**	Hon Bernard CHAN, GBS, JP (Chairman) Hon Ronny TONG Ka-wah, SC (Deputy Chairman) Hon James TIEN Pei-chun, GBS, JP Hon LEE Cheuk-yan Dr Hon David LI Kwok-po, GBS, JP Hon James TO Kun-sun Hon CHAN Kam-lam, SBS, JP Hon SIN Chung-kai, JP Hon Emily LAU Wai-hing, JP Hon Abraham SHEK Lai-him, JP Hon Jeffrey LAM Kin-fung, SBS, JP Hon Andrew LEUNG Kwan-yuen, SBS, JP Hon WONG Ting-kwong, BBS Hon CHIM Pui-chung Hon Albert Jinghan CHENG Hon TAM Heung-man
Members attending	**:**	Hon LI Fung-ying, BBS, JP Hon WONG Kwok-hing, MH Dr Hon Fernando CHEUNG Chiu-hung
Member absent	**:**	Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP

Public officers attending	**:**	**<u>Agenda Item III</u>**

Mr Raymond CHAN
Division Head, Banking Development Department
Hong Kong Monetary Authority

Mrs Millie NG
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)5

<u>Agenda Item IV</u>

Mr Frederick MA, JP
Secretary for Financial Services and the Treasury

Ms Julia LEUNG Fung-yee, JP
Executive Director (External)
Hong Kong Monetary Authority

Mr Richard YUEN, JP
Commissioner of Insurance

<u>Agenda Item V</u>

Ms Cora HO
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)3

Attendance by invitation	**:**	**<u>Agenda Item III</u>**

<u>The Hong Kong Association of Banks</u>

Mr Peter WONG
Chairman (also Executive Director, The Hongkong and Shanghai Banking Corporation Limited)

Mr Peter SULLIVAN
Vice Chairman (also Executive Director & Chief Executive Officer, Standard Chartered Bank (Hong Kong) Limited)

Mr David LAM
Deputy Chief Executive
Bank of China (Hong Kong) Limited

Mr CHAN Kay-cheung
Executive Director and Deputy Chief Executive
The Bank of East Asia Limited

Dr Philip WU
Executive Director & Chief Executive
Wing Lung Bank Limited

Mr Alexander CHU
Country Coverage Head
Hong Kong, ABN AMRO Bank N.V.

Mr Mason W K YUEN
Executive Director & Deputy General Manager, Nanyang Commercial Bank Limited

<u>Consumer Council</u>

Mrs CHAN WONG Shui, BBS, JP
Chief Executive

Ms Connie LAU Yin-hing
Deputy Chief Executive

<u>Agenda Item IV</u>

Mr Martin WHEATLEY
Chief Executive Officer
Securities and Futures Commission

<u>Agenda Item V</u>

Ms Hendena YU
Chief Operating Officer
Mandatory Provident Fund Schemes Authority

Clerk in attendance : Miss Salumi CHAN
Chief Council Secretary (1)5

Staff in attendance : Ms Rosalind MA
Senior Council Secretary (1)8

Mr Justin TAM
Council Secretary (1)3

Ms May LEUNG
Legislative Assistant (1)8

Action

I. Outstanding issues

(LC Paper No. CB(1)1848/05-06(01) — List of outstanding items for discussion

LC Paper No. CB(1)1848/05-06(02) — List of follow-up actions

LC Paper No. CB(1)1887/05-06(01) — Information paper provided by the Hong Kong Monetary Authority on "Progress of preparation of Basel II Capital Rules and Disclosure Rules"

LC Paper No. CB(1)1900/05-06(01) — Letter dated 28 June 2006 from the Clerk to Panel to the Administration

LC Paper No. CB(1)1900/05-06(02) — Reply dated 30 June 2006 from the Administration

LC Paper No. CB(1)1900/05-06(03) — Letter dated 29 June 2006 from Hon James TO to the Panel Chairman, suggesting that the Administration be invited to respond to further questions

LC Paper No. CB(1)1900/05-06(04) — Letter dated 29 June 2006 from Hon James TO to the Panel Chairman, suggesting that Mr Paul CHENG, Chairman of the Board of Directors of The Link Management Limited, be invited to respond to further questions)

As today's meeting was the last regular meeting of the Panel for the current session, the Chairman invited members to deliberate on the way forward for the following two outstanding issues:

(a) Capital Rules and Disclosure Rules for the implementation of Basel II in Hong Kong; and

(b) Conflict of interest issue and other financial issues involved in and after the listing of The Link Real Estate Investment Trust (The Link REIT).

Capital Rules and Disclosure Rules for the implementation of Basel II in Hong Kong

2. The Chairman pointed out that when the Panel was briefed at its meeting on 4 May 2006 on the development of the Capital Rules and Disclosure Rules for the implementation of Basel II in Hong Kong, the Panel requested the Administration to provide an update in writing in June on the progress of its preparation of the two sets of Rules so as to facilitate members' consideration of the need for further deliberation on the draft Rules before their gazettal. The Chairman then referred members to the two written responses provided by the Administration. According to the Administration's latest written response dated 30 June 2006, the English text of the revised draft Capital Rules and Disclosure Rules would be available by the end of September and mid-October respectively, and that if the Rules were to be in place by 1 January 2007, the latest date they would be tabled in the Legislative Council (LegCo) and which would provide sufficient time for the negative vetting to be completed before the LegCo meeting on 20 December 2006 would be 1 November 2006. Working back from this date, the Administration indicated that it would need to finalize the draft for gazettal by around 20 October 2006.

3. The Chairman advised that as the two sets of draft Rules contained over 1 000 pages, the Assistant Legal Adviser (ALA) had expressed his concern that the maximum scrutiny period of 49 days for subsidiary legislation (assuming that the scrutiny period was extended by resolution from 28 days to 49 days) might not be sufficient for Members to scrutinize the two sets of Rules after the Rules had been tabled before LegCo for negative vetting. ALA therefore suggested that consideration might be given to setting up a subcommittee to study the two sets of Rules in final draft form. Mr SIN Chung-kai shared ALA's concern. However, as the English text of the revised draft Capital Rules and Disclosure Rules would only be available by the end of September and mid-October respectively and the Administration needed to finalize the draft for gazettal by around 20 October, Mr SIN said that he had no strong views on whether a subcommittee should be formed before or after the gazettal of the two sets of Rules.

4. After discussion, members decided that the need for setting up a subcommittee to study the two sets of Rules should be considered by the House Committee after the Rules had been tabled before LegCo. To expedite the legislative process and facilitate the timely implementation of the new requirements under Basel II, Ms Emily LAU urged that the Hong Kong Monetary Authority (HKMA) should fully address the concerns of the banking industry during its industry consultation and statutory consultation on the two sets of Rules.

Conflict of interest issue involved in and after the listing of The Link REIT

5. The Chairman pointed out that at the meeting on 3 April 2006, the Panel decided to follow up the above subject by inviting Mr Paul CHENG, Chairman of the Board of Directors of The Link Management Limited (The Link), to provide written response to further questions from members, and that Mr CHENG's written response would be issued to members for consideration of the need or otherwise for the Panel to have further discussion on the subject. The Chairman then drew members' attention to the written responses from Mr Paul CHENG, the Administration and The Link (LC Paper Nos. CB(1)1627/05-06(03) to (05)) and the two letters dated 29 June 2006 from Mr James TO (LC Paper Nos. CB(1)1900/05-06(03) and (04)). He invited Mr TO to brief members on his two letters.

6. Mr James TO pointed out that the written responses from Mr Paul CHENG, the Administration and The Link had not fully addressed his concerns but had given rise to further questions set out in his two letters dated 29 June 2006. Mr TO considered it prudent for the Panel to further examine the relevant issues to ascertain whether conflict of interests were involved in Mr CHENG's two roles, i.e. the Chairman of the Board of Directors of The Link as well as a Senior Advisor to Deutsche Bank. He also considered that discussion at a meeting would enable Members to examine the relevant issues with Mr CHENG and the Administration in a more direct and effective manner. He therefore suggested that Mr CHENG and the Administration be invited again to attend a meeting of the Panel to discuss the relevant issues, and to provide written response to further questions raised by members. Dr David LI supported Mr TO's suggestion.

7. Mr Jeffrey LAM opined that as Mr Paul CHENG and The Link had already provided written responses to the questions raised by Mr James TO, there was no need for the Panel to discuss the subject further or to invite Mr CHENG again to attend a meeting of the Panel.

8. Mr Abraham SHEK considered that any further questions from members might be forwarded to Mr Paul CHENG for written response and it was not necessary for the Panel to invite Mr CHENG again to a meeting to discuss the subject. Mr SHEK also expressed concern on whether it was appropriate for the Panel to continue to discuss issues related to The Link, which was a listed company.

9. Mr Albert CHENG pointed out that while The Link was a listed company, it was different from other listed companies in the sense that it was established to manage the divested properties of the Housing Authority (HA), which were formerly public assets and affected the well-being of many residents and tenants of public housing estates. It was in the public interest for LegCo Members to follow up the relevant issues. Instead of repeatedly seeking clarifications from Mr Paul CHENG in writing, the Panel should invite Mr CHENG to attend a meeting for discussion of the relevant issues with members.

10. Mr SIN Chung-kai and Ms Emily LAU supported Mr James TO's suggestion mentioned in paragraph 6 above. Mr SIN pointed out that the further questions raised by Mr TO were mainly concerned about the incidents happened before or during the listing of The Link REIT, which were public affairs rather than internal affairs of a listed company. In this connection, Mr James TO drew members' attention that the concerns set out in his two letters dated 29 June 2006 were not related to the internal affairs of The Link and should not be seen as an intervention of the internal operation of a listed company.

11. Given that members had diverse views, the Chairman proposed and members agreed that a decision be made through the casting of vote.

12. The Chairman put to vote the question that the Panel should follow up the above subject. Of the members present, seven voted for and one voted against the question, and two abstained from voting. The Chairman declared that the Panel decided to follow up the above subject.

13. The Chairman then put Mr James TO's suggestion mentioned in paragraph 6 above to vote. Of the members present, seven voted for and one voted against the suggestion, and two abstained from voting. The Chairman declared that the suggestion was endorsed by the Panel. He directed the Clerk to follow up accordingly.

> (*Post-meeting note*: Mr Paul CHENG's written response (LC Paper No. CB(1)2182/05-06(02)) and the Administration's written response (LC Paper No. CB(1)2228/05-06(02)) were issued to members on 11 September and 19 September 2006 respectively.)

II. Information paper issued since the last meeting

14. Members noted that no information paper had been issued since the last regular meeting held on 5 June 2006.

III. Impact of branch closure of banks on the public

(LC Paper No. CB(1)1848/05-06(03) — Paper provided by The Hong Kong Association of Banks

LC Paper No. CB(1)1848/05-06(04) — Paper provided by the Consumer Council

LC Paper No. CB(1)1848/05-06(05) — Paper provided by the Administration

LC Paper No. CB(1)1848/05-06(06) — Background brief prepared by the Legislative Council Secretariat)

15. The Chairman pointed out that given the closure of a number of bank branches in recent years, the impact of branch closure had become an issue of public concern. Hence, the Panel invited Hong Kong Association of Banks (HKAB), Consumer Council (CC) and the Administration to this meeting to discuss the subject. The Chairman welcomed the representatives attending the meeting.

Presentation of views by HKAB

16. At the invitation of the Chairman, Mr Peter WONG, Chairman of HKAB, presented the views of HKAB. His presentation was summarized as follows:

(a) Development of the banking industry in Hong Kong

(i) Before the mid-80's, bank branches were in abundance in Hong Kong since banking services were mainly delivered through local bank branches. However, at the end of the 80's, the introduction of new technology, such as Instant Passbook Update machines, 24-hour automatic teller machine (ATM) facilities, Instant Balance machines, Phonebanking, Integrated Account and Self-service Banking Centres, had led to consolidation of bank branches. In response to the growing popularity of on-line banking services, banks had rationalized their branch networks.

(ii) In the 90's, due to the rise in labour costs and property rentals, banks had to identify measures to reduce their operational costs, including the reduction in unprofitable branches. Such decisions were made on commercial considerations.

(iii) In the end of the 90's, when HKMA decided to adopt a two-phase programme to deregulate the interest rate rules (IRRs), it had pointed out that "competitive pressure is likely to increase with deregulation and consequently, there will be demands on banks to preserve their profit margins by other means. Experience of deregulation elsewhere shows that banks will try to generate additional revenue through charging fees and introducing tiering of interest rates. They will also review their existing cost structures and streamline unprofitable services and branches."

(b) Impact of deregulation of IRRs on banking industry

(i) In order to maintain their competitiveness in a deregulated environment, banks had to adjust their branch networks.

(ii) Since 2001, the banking industry had introduced measures like tiering of interest rates and low-balance account charges to mitigate part of the operational cost increases. However, a majority of banks had put in place a mechanism to waive the relevant fees and charges for the elderly and less privileged groups.

(c) Keen competition in the banking industry

(i) Competition in the banking industry had intensified following the full deregulation of IRRs. The net interest margin of banks contracted from 2.03% in 2001 to 1.68% in 2005.

(ii) To facilitate the provision of one-to-one service to clients on financial management issues, smaller branches were consolidated into bigger ones to provide comprehensive banking services.

(d) Distribution of banking networks

(i) The bank branches and ATMs penetration in Hong Kong compared favourably with other countries. A majority of bank clients in Hong Kong were able to have access to banking services within walking distance.

(ii) HKAB had set up the Task Force on Financial Service Delivery Channels (Task Force) in early 2006 to recommend alternative options to satisfy the key banking needs of customers, including those living in public housing estates without manned bank branches and/or ATMs within their vicinity.

(iii) Over the past few months, the Task Force had been in dialogue with the relevant public and private sector entities to identify alternative options to satisfy the key banking needs of customers. The entities included Health, Welfare and Food Bureau, Hongkong Post (HKP), HA, The Link, Octopus, etc. Based on the discussions with these entities, the Task Force had found that some of them were subject to either inherited or emerging technical issues and policy constraints rendering any solutions involving them either not effective or challenging.

(iv) The Task Force had made the following recommendations:

- Member banks to simplify the operating procedures and screens of ATMs for cash withdrawal and balance inquiry to increase their user friendliness.
- An HKAB-led industry working group under the Task Force to develop community-wide programmes to promote and

provide training on the use of ATMs and self-service banking centres.

- To encourage member banks to, as far as possible, give priority to setting up ATMs and/or self-service banking centres in those public housing estates where the establishment of a manned bank branch was not feasible.

(e) <u>How to strike a balance between commercial principles and corporate social responsibility</u>
In an open and competitive market like Hong Kong, banks had to operate according to commercial principles. Nevertheless, banks had been fulfilling corporate social responsibility by actively participating in community activities, such as charitable donations.

(*Post-meeting note*: The speaking notes of Mr Peter WONG were issued to members vide LC Paper No. CB(1)1921/05-06(02) (Chinese version only) on 6 July 2006.)

<u>Presentation of views by CC</u>

17. At the invitation of the Chairman, <u>Mrs CHAN WONG Shui, Chief Executive of CC</u>, presented the views of CC. Her presentation was summarized as follows:

(a) <u>Reduction in bank branches</u>

(i) Due to intense growing competition in the banking industry following the deregulation of IRRs in 2001, banks might have closed branches to achieve optimum economic efficiency. On the other hand, market liberalization had brought benefits to consumers due to a narrowing of the interest rate spread as interest rates for depositors went up and rates for debtors came down. That said, the impact of branch closure of banks on the public needed to be examined.

(ii) In May 2006, CC conducted a survey on 23 banks in Hong Kong in relation to changes in banks' fees and charges, as well as the closure of bank branches. The survey showed a progressive phase out of bank branches over the years from 1 463 in 2001 to 1 209 in May 2006, representing an overall reduction of 254 branches or 17%.

(iii) Against this background of fewer bank branches had emerged an impressive growth in the number of ATMs, and online banking transactions. According to HKMA, the number of personal online banking accounts had grown from 1.1 million in 2001 to 3.3 million in 2005.

(b) Taking a district perspective

(i) As set out in Table 2 of the Appendix to CC's submission, there did not seem to be an overall relationship between branch number and population or income but suffice it to say that branch distribution was spatially uneven. Granted that there were a number of factors underlying a bank's decision for its geographical network, e.g. the bank's business strategy, customer profile, business opportunity presented, etc., it took a more detailed field study at the district level to gauge the accessibility of banking services to the average consumer and to specific pockets of population. CC considered it a worthwhile exercise for local non-governmental organizations (NGOs) and concerned parties to undertake such a study.

(ii) Reduction in bank branches would affect those who, for one reason or another, would not be able to use online banking or effect transactions through ATMs. ATM machines presented great problem to some senior citizens because of the latter's slow motion and inability to remember pin numbers. People with motion disabilities would also suffer from closure of a nearby branch. For the economically disadvantaged, computers were not easily accessible to them for online banking.

(c) Access to banking services

(i) In an advanced economy and an international financial centre such as Hong Kong, banking service had become a basic need in the daily lives of people. Hence, the issue of physical access of banking service for those who were not using electronic transactions needed to be addressed by the banking industry and by the community as a whole.

(ii) Apart from the recommendations of the Task Force, CC suggested that individual banks might also look into the feasibility of using other methods of personal identification, e.g. retinal or finger prints to facilitate the use of ATM banking by senior citizens with minimized risk.

(iii) Accessibility was not just about location of bank branches or availability of services via different means. Affordability also posed barrier to access to banking service. The CC survey conducted in May 2006 also found that in comparison with 2001, more banks required account opening deposit; 18 of 23 banks had begun to reduce interest rate payment on low balance, with 12 of them adopting zero interest rate policy on such accounts; more banks (two in 2001 to 18 in 2006) imposed low-balance account service charge per month. However, in the latter case, 16 banks offered to waive such a charge to the elderly and disadvantaged groups. With the relief measures offered by some banks, the issue of financial exclusion did not appear to be a big problem generally as yet. Still this was an issue to be closely monitored.

(d) Experiences in other economies

(i) In advanced economies such as Canada, United Kingdom and the United States (US), there were provisions to ensure consumers' access to basic banking service. For example, banks must provide a basic account which attracted no keeping fee and provided limited free transaction services per month. In Canada and the US, closure of bank branches must follow a set procedure.

(ii) In the case of the US, in its evaluation of a bank's performance and the assignment of ratings, the regulator would consider, among other factors, the bank's record of opening and closing branches, the effect of those openings and closures on the communities in which the branches were located, and public comments received on branch closures.

Discussion

Number and location of bank branches

18. Mr WONG Kwok-hing considered that the recommendations of the Task Force failed to address the needs of the less privileged groups for banking services. Referring to the submission from his office and the Federation of Trade Unions District Service Office, which was tabled at the meeting, Mr WONG pointed out that the three note-issuing banks (NIBs) in Hong Kong had closed down 200 branches over the past five years, causing great inconvenience to members of the public in particular those who lived in new towns and the less privileged groups. He also pointed out that there was not even a NIB branch in Tung Chung, a new town with a population of nearly 100 000. Mr LEE Cheuk-yan shared Mr WONG's concerns. Mr WONG considered that the three NIBs should fulfill their corporate social responsibility and coordinate their efforts in planning for branch offices in new towns (such as Tung Chung and Tin Sui Wai) so that at least one bank branch was set up in each new town. In this connection, he asked whether the Government would consider granting NIB status to one more bank with the requirement that the bank would open branches in new towns to serve the needs of the residents.

(*Post-meeting note*: The submission tabled at the meeting was issued to members vide LC Paper No. CB(1)1921/05-06(01) (Chinese version only) on 4 July 2006.)

19. The Division Head of the Banking Development Department, Hong Kong Monetary Authority (DHBDD/HKMA) pointed out that in order to issue banknotes in Hong Kong, NIBs were required under the existing mechanism to place with the Exchange Fund an equivalent amount of US dollars at the rate of US$1:HK$7.8, which was not interest-earning. Given that the existing mechanism had been operating

smoothly, there was no obvious need to introduce any changes or impose any additional requirements on NIBs. He however undertook to reflect Mr WONG's views to the relevant officers within the Administration for reference.

HKMA

20. Mr Peter WONG, Chairman of HKAB, advised that in order to meet the keen competition in the banking industry, individual banks made their own decisions on the opening and closure of branches based on commercial considerations. It would go against the principle of free economy if banks were required to open a certain number of branches at certain locations. Mr WONG stressed that HKAB would continue to collaborate with the relevant government departments and other organizations in identifying options to address the public concerns on the subject, and that banks alone could not address all the concerns.

21. Dr Fernando CHEUNG and Mr Albert CHENG considered that while it was the commercial decision of individual banks to decide on the number and location of their branches, banks had the corporate social responsibility to ensure that the basic need of the public for banking services was catered for. Mr CHENG also considered that as banks were regulated by the Government, the Government should ensure that banks had fulfilled such corporate social responsibility. Dr CHEUNG urged the Administration and HKAB to make reference to overseas practices in ensuring public access to basic banking service. For example, in evaluating a bank's performance and the assignment of ratings, the regulator was required to take into account whether the bank had taken actions to show concern for the community, such as its record of opening and closing branches. Dr CHEUNG stressed that the setting up of ATMs was no substitute to person-to-person service. In this connection, he urged HKAB to explore with its member banks the feasibility of setting up a small bank office (e.g. manned by one or two staff) in the premises of supermarkets to provide basic banking services. To encourage banks to open branches in public housing estates, the Administration should also explore with HA the feasibility of providing banks with lower rents.

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22. In response, Mr Peter WONG, Chairman of HKAB, said that as a matter of fact, the number of bank branches in other countries had also been reduced. Hence, it might be necessary to conduct a comprehensive study on the subject before making reference to the practices in other countries. To address the need of the elderly for person-to-person banking service, HKAB was exploring the feasibility of enabling cash withdrawals on a limited scope basis at selected chain retailers with EPS payment facilities. A further consultation process would be required with such retailers on the feasibility of this option. The Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)5 (PAS/FST(FS)5) supplemented that while HA's commercial premises were let at market rent by open tendering, the Link Management had already exercised flexibility in offering rental packages to banks for them to set up branch offices in public housing estates.

23. Dr Fernando CHEUNG considered that banks should give adequate advance notice to customers before the closure of branches so as to minimize the inconvenience caused to customers. DHBDD/HKMA advised that banks normally gave advance notice to customers on branch closure (for example, a few months before the branch closure) and might continue to explore how the transparency of such decisions could be further enhanced.

24. Miss TAM Heung-man expressed concern about the impact of branch closure of banks on the public, in particular the elderly who had difficulties in gaining access to electronic banking services on the Internet. Referring to the statistics set out in Table 2 of CC's submission, Miss TAM pointed out that there were higher percentages of elderly residents in some districts like Sham Shui Po (16.1%), Kwun Tong (15.5%) and Wong Tai Sin (15.5%). However, the number of bank branches in those districts was relatively lower than other districts. She considered that in making decisions on branch closure and/or location of new branches, banks should take into account the impact of such decisions on the public and the need for banking service in districts with higher percentage of elderly residents. In this connection, she urged the Administration and HKAB to explore with banks the need to open new branches or re-open closed branches in districts with higher percentage of elderly residents.

HKAB

25. PAS/FST(FS)5 said that as far as she knew, the Task Force had explored options with HA to make establishing bank branches at their retail facilities more economically viable. HA would identify suitable locations in some public housing estates, e.g. those with higher percentage of elderly residents, for banks to provide banking facilities. She undertook to reflect Miss TAM's views to HA for its consideration.

Admin

26. Ms Emily LAU pointed out that the reduction in bank branches had significant impact on the elderly and the less privileged groups, in particular those who had difficulties in using ATMs or those who did not have access to electronic banking services on the Internet. She urged HKAB, CC, HKMA and the Administration to explore measures to cater for their need for banking services. Mr Peter WONG, Chairman of HKAB, reiterated that the Task Force had been in dialogue with the relevant public and private sector entities on the subject. In response to Ms LAU's further enquiry, Mr WONG said that it was difficult for HKAB to set the criteria for determining whether a bank was within "walking distance" as people of different age groups might have different walking pace.

Provision of banking services through alternative modes

27. Miss Mandy TAM and Ms Emily LAU suggested that HKAB should urge its member banks to arrange at least in-situ provision of ATMs or set up a self-service banking centre as a replacement after the closure of a branch. Mr Peter WONG, Chairman of HKAB, agreed to consider their suggestion. However, he pointed out that due to security constraints such as the thickness of the wall, the technical viability

for setting up closed-circuit television and the structure of the facilities, some locations were not suitable for ATM installations.

28. Mr Jeffrey LAM appreciated banks' contribution to the development of Hong Kong economy all through the years. With the advancement of technology, it was common for banks to deliver their services through various modes, including electronic banking services. While it was understandable that some elderly people preferred counter service than ATMs because they wished to have someone to talk to, maintaining unprofitable bank branches would increase the operational costs of banks and the costs would be transferred to other customers ultimately. In this connection, Mr LAM considered that banks should strike a balance between commercial considerations and the needs of the public.

29. Mr Ronny TONG pointed out that banking services had become an integral part of the daily lives of the general public. As more and more people had moved to new towns, the Government should make an effort to urge banks to work out measures to ensure the provision of basic banking services in those areas. To meet the public demand for banking services, Mr TONG and Mr WONG Ting-kwong considered that the Administration should explore with HKAB and HA the provision of ATMs in premises including HA offices in public housing estates, premises let to NGOs, offices of LegCo Members, public libraries, community halls, and premises of rural committees. PAS/FST(FS)5 advised that the Task Force had been liaising with HA on the proposal to set up ATMs in HA offices at public housing estates but HA found the
Admin proposal not feasible. She undertook to reflect members' views to HA.

30. Mr LEE Cheuk-yan and Mr WONG Ting-kwong considered that the Administration should explore measures to provide deposit and withdrawal services to the public through other channels, including the provision of such services through post offices and credit unions. DHBDD/HKMA responded that at the request of the Task Force, HKP had provided information on the feasibility of banks providing deposit and withdrawal services in post offices. The service scope of HKP was bound by the Post Office Ordinance (Cap. 98) and the Trading Funds Ordinance (Cap. 430). Under the existing legislation, HKP could not provide deposit and withdrawal services on behalf of banks. Also, the setup of individual post offices (such as security arrangements, floor area, facilities and information technology systems) and human resources were designed primarily to serve the needs of postal services, and the resources of the majority of post offices were already heavily utilized. Having carefully considered the potential implications on the quality of postal services, security and other technical factors, HKP had reservations about providing deposit and withdrawal services in post offices. As regards the feasibility of HKP running its own deposit and withdrawal services, given that the network of post offices were not widespread in Hong Kong, it might not be helpful to rely on post offices to cater for the needs of the public for basic banking services. However, HKAB could examine the
HKAB feasibility of providing deposit and withdrawal services to the public through credit unions. HKAB would also collaborate with EPS Company to explore the feasibility of enabling cash withdrawals on a limited scope basis, independent of any purchase of

goods, at selected chain retailers with EPS payment facilities.

Measures to facilitate the use of ATMs

31. To facilitate the use of ATMs by people with disabilities, Dr Fernando CHEUNG considered that banks should consider the physical accessibility of the location and design of ATMs and install suitable devices for ATMs, e.g. enlarged characters on the ATM screens, audible devices and Braille touch buttons for the visually impaired. Banks should also consider simplifying the operating procedures and screens of ATMs to increase their user-friendliness.

HKAB

32. To facilitate the use of ATMs by the elderly, Mr LEE Cheuk-yan invited HKAB to consider CC's suggestion that individual banks should look into the feasibility of using other methods of personal identification, e.g. retinal or finger prints. On the cost implications of introducing other methods of personal identification, Mr Jeffrey LAM enquired whether the Administration would provide support to the banking industry in this regard. Referring to incidents in which elderly customers were snatched when withdrawing cash from ATMs, Mr LAM considered it necessary for the Administration and banks to step up publicity and security measures for use of ATMs to protect the elderly from suffering losses.

HKAB

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HKAB

33. In response, Mr Peter WONG, Chairman of HKAB, stressed that the Task Force attached great importance to the security of using ATMs. Moreover, the HKAB-led industry working group was developing community-wide programmes to promote and provide training on the use of ATMs and self-service banking centres. DHBDD/HKMA added that since the elderly might have difficulties in remembering the six digits of a personal identification number (PIN), the Task Force was considering the option of providing a PIN with fewer digits and lower withdrawal limit for the elderly.

Way forward

34. To follow up the discussion at the meeting, members agreed that HKAB, the Administration and CC be invited to attend a meeting of the Panel to be held in December 2006. The scope of discussion in December would cover not only the impact of branch closure of banks on the public, but also the impact of banks charging fees for inactive accounts and low-balance accounts on the public.

HKAB
Admin

35. To facilitate the discussion at the meeting in December 2006, the Chairman invited HKAB to take follow-up actions in collaboration with the Administration and other parties concerned, and update the Panel in writing on the progress made. The Chairman also invited HKAB to provide relevant information about banks charging fees for inactive accounts and low-balance accounts.

(*Post-meeting note*: HKAB indicated in its interim reply dated 25 October 2006 that it needed more time to handle the relevant issues and requested the

Panel to defer the date for meeting with HKAB. The interim reply from HKAB was circulated to members vide LC Paper No. CB(1)181/06-07(01) on 27 October 2006.)

IV. Measures to avoid Hong Kong's financial market from being marginalized

(LC Paper No. CB(1)1848/05-06(07) — Paper provided by the Administration)

Briefing by the Administration

36. At the invitation of the Chairman, the Secretary for Financial Services and the Treasury (SFST) gave a power-point presentation on Hong Kong's current position as an IFC as compared with other financial centres, the opportunities and challenge Hong Kong was facing and what was being done to maintain and further enhance the position as an IFC. His presentation was summarized as follows:

(a) Over the past years, the financial services sector of Hong Kong had established solid foundation and made remarkable achievements. With steady expansion in the past decade, the Hong Kong stock market had achieved a market capitalization of US$1,055 billion in end of 2005 and ranked second in Asia, and had outperformed the stock markets in Singapore and the Mainland in terms of market turnover. The equity fund raising performance of the Hong Kong stock market exceeded that of Tokyo, being number one among Asian markets and the fifth among global markets. The strong international participation in the Hong Kong stock market, with overseas investors accounting for almost 40% of the trading, was conducive to its market expansion. On banking sector performance, the total assets of deposit-money banks amounted to about 450% of the Gross Domestic Product (GDP), showing very robust deposit and credit activities.

(b) There were nevertheless a number of challenges to be met. These included: competition from other exchanges; competition for overseas funds; financial reforms in the Mainland; and demand for talents. The financial services sector of Hong Kong had to maintain its competitiveness and its edge over competitors in other markets to meet the challenges.

(c) A number of opportunities were opened to the financial services sector of Hong Kong at the same time, such as the promising prospect of the Mainland economy; financial reforms in the Mainland; support from the Central People's Government for maintaining Hong Kong's position as an international financial centre (IFC); growing wealth in Asia and growing interest of other places in Hong Kong's financial markets.

37. In the light of the challenges and opportunities mentioned above, SFST pointed out that it would be necessary for the financial services sector of Hong Kong to strive for improvement. These might be done through making continuous improvement of the regulatory regime; maintaining the stability of the financial market; facilitating development of new financial products; enhancing liaison and cooperation with the Mainland; enhancing international cooperation; and training and pooling of talents.

Discussion

Training of talents

38. Mr Ronny TONG said that the achievements of Hong Kong's financial markets were supported by a number of favourable factors including the rule of law and a well-established regulatory framework. On measures to improve the competitiveness of Hong Kong's financial markets, Mr TONG opined that the Administration should allocate additional resources to education for nurturing top talents in the financial services and related professional sectors, such as legal and accounting. He enquired about the resources allocated for the training of talents and the concrete measures in place, such as programmes for training professionals arranged in cooperation with tertiary institutions.

39. SFST agreed with Mr Ronny TONG that talents were crucial to Hong Kong's success as an IFC. To maintain the competitiveness of Hong Kong, the Administration attached great importance to the training and nurturing of talents. In this connection, the Government had set up the Advisory Committee on Human Resources Development in the Financial Services Sector (the FinMan Committee) in 2000 to foster better coordination of efforts between the industry and academia on financial services manpower development. The FinMan Committee comprised representatives from the Government, the industry, regulators, professional bodies and training services providers. SFST advised that compared with ten years ago, the pool of talents in the financial services and related professional sectors had grown considerably. By way of illustration, the number of Chartered Financial Analysts in Hong Kong had increased from about 200 to more than 2 000. SFST also pointed out that the FinMan Committee had launched a series of events to facilitate industry/academia collaboration in nurturing talents, such as a forum in June 2006 for financial services professionals to share their experience with university students. At the request of Mr Ronny TONG, SFST undertook to provide written information on the Administration's strategy and efforts in training and nurturing talents in the financial services sector, including the work of the FinMan Committee and the series of events organized by the Committee in this respect.

40. Mr James TIEN noted that some foreign investment banks in Hong Kong had arranged short-term attachment (say, two months or so) to their overseas home offices for selected staff. Apart from experience sharing forums, Mr TIEN suggested that the Administration should arrange training programmes in collaboration with foreign investment banks through attachment of local university graduates or undergraduates to the offices of these banks so that the graduates or undergraduates could acquire practical experience and useful knowledge, including those on latest financial products.

41. In response, SFST said that the FinMan Committee comprised members from the banking industry, including a number of representatives of investment banks. He pointed out that the head of investment of a renowned investment bank participated in the forum jointly organized by the FinMan Committee and the University of Hong Kong in June 2006 to share his work experience with university students. Given the stringent manpower resources of investment banks and possible considerations on sharing of information about internal business operations, SFST opined that Mr James TIEN's suggestion of arranging attachment programmes for university graduates or undergraduates might encounter practical difficulties. Nevertheless, he assured members that the Administration would continue its efforts in facilitating collaboration between the industry and the academia in the training of talents.

Maintaining the competitiveness of the financial services sector of Hong Kong

42. Referring to Chart 2 of the power-point presentation material provided by the Administration, Mr James TIEN pointed out that more and more Mainland enterprises were listed in Hong Kong. He was concerned whether such a phenomenon, i.e. with market capitalization largely attributable to listing of enterprises from outside the local economy, existed in other major overseas stock markets. He was also concerned whether the reliance of Hong Kong's financial markets on Mainland enterprises, together with the fast development of the stock markets in other Mainland cities, would make Hong Kong's financial markets more vulnerable to being marginalized. Ms Emily LAU shared Mr TIEN's concerns. Given the reliance of Hong Kong's financial markets on Mainland enterprises and the on-going financial reforms in the Mainland, she was also concerned how the financial services sector of Hong Kong could maintain its competitiveness.

43. SFST said that the success of Hong Kong's financial markets had been built upon factors such as a sophisticated financial infrastructure and regulatory regime which was in line with international standards. While the number and scale of enterprises in Hong Kong could hardly be compared with those in the Mainland, it was a normal phenomenon for the financial services sector of Hong Kong to develop and expand their business through providing services to Mainland enterprises. Moreover, to meet the challenges of competition from financial markets in the Mainland and other jurisdictions, it was crucial for Hong Kong to develop its strengths and enhance its competitiveness in the global market so that enterprises from

the Mainland as well as other parts of the world would use the financial services offered by Hong Kong.

44. Mr Martin WHEATLEY, the Chief Executive Officer of the Securities and Futures Commission (SFC), pointed out that under the unique structure of "One Country, Two Systems", Hong Kong was different from most of the major economies in the world in terms of its economic exposure. Being the premier capital formation centre for Mainland enterprises, about 40% to 50% of Hong Kong's market capitalization was attributable to Mainland enterprises which had chosen Hong Kong for fund raising. However, the Hong Kong stock market was not different from other markets in terms of the source of earnings, which came from various places similar to the case of the London stock market in which earnings came from the US and other countries in Europe. Mr WHEATLEY pointed out that the financial markets in different jurisdictions were facing competition from other markets and the threat of being marginalized. For example, the US Senate had been debating the subject of whether the New York Stock Exchange had been marginalized given the fact that a number of large scale Initial Public Offering exercises had been done by other exchanges. In the case of London, there had been worries in the 1990s that the financial markets of London would lose its competitive edge with the introduction of EURO, a new currency for the European Union to be introduced together with a number of directives which appeared unfavourable to the markets of London. Nevertheless, the financial markets of London had succeeded in meeting the challenge with its strengths, such as the availability of talents needed by enterprises in setting up their offices. Mr WHEATLEY stressed that in the face of competition and challenges, Hong Kong's financial markets should focus on ways to develop the existing strengths (including the market regulatory regime) rather than worry about the paranoid of being marginalized.

45. Noting that the stock market of Hong Kong had achieved high rankings in terms of market turnover and total funds raised, Mr CHAN Kam-lam opined that the rapid development of the Hong Kong market was largely attributable to the robust economic growth of the Mainland in the recent years. To capture the business opportunities brought by the development of the Mainland economy, Mr CHAN urged the Administration and the relevant regulators, including SFC and the Hong Kong Exchanges and Clearing Limited (HKEx), to devote more efforts in promoting Hong Kong's financial services in the Mainland. In this connection, he sought information on the relevant promotional activities and the Administration's assessment of the effectiveness of various activities in attracting Mainland enterprises to use Hong Kong as their capital-raising and investment platform.

46. SFST advised that the Administration had arranged a number of activities to promote the financial services of Hong Kong in the Mainland. For example, he led a delegation comprising representatives from Hong Kong's financial services sector to visit Fujian Province in September 2005. The visit gave Hong Kong's financial services sector and entrepreneurs a better idea about the latest development and investment opportunities in Fujian. The visit also showcased Hong Kong's strengths

as an IFC. In March 2006, the Administration hosted the Pan-Pearl River Delta (PPRD) Region Financial Services Forum to highlight Hong Kong's role as the prime capital formation and global investment platform for the Mainland. The forum was attended by some 300 participants from the provincial governments and enterprises of the PPRD Region. In September 2006, SFST would lead another delegation to visit Hunan. Moreover, SFST pointed out that he would take every opportunity during his duty visits to Beijing to meet with the relevant Mainland authorities. SFST advised that in addition to the promotional activities organized by HKEx in different places in the Mainland, its senior officers visited Mainland enterprises frequently to provide latest information on the financial services available in Hong Kong. At the request of Mr CHAN Kam-lam, SFST undertook to provide information on the promotional activities organized by HKEx to the Panel after the meeting.

47. Mr Martin WHEATLEY said that as the market regulator, SFC did not play an active role in the promotion of financial services. Instead, SFC would bring the attention of Mainland enterprises to the high regulatory standard maintained in Hong Kong which was the solid foundation for Hong Kong to achieve its status as a premier capital formation and investment centre. SFC officers met regularly with their Mainland counterparts to exchange views and information on issues of common concern. He expected that Hong Kong would benefit from further development of the Mainland economy, playing a key role as the capital formation platform for Mainland enterprises. On the development prospect of the Mainland economy, Mr WHEATLEY advised that as a reference, the amount of market capitalization for overseas markets such as US and the United Kingdom was in the range of about 100% to 200% of the GDP of the countries concerned. As the existing amount of market capitalization only represented about 20% of the GDP of Mainland, a considerable extent of growth in the Mainland could be expected and it was important for Hong Kong to compete with other financial markets to get a larger share of the growth.

48. Mr CHAN Kam-lam considered that the Administration should formulate long-term measures to leverage on the advantages possessed by Hong Kong's financial markets. He pointed out that the Mainland looked to Hong Kong as its capital formation and global investment platform partly because of the status of Hong Kong as an IFC. Through listing in the Hong Kong markets, Mainland enterprises earned the credibility and quality in the standard of corporate governance recognized by global investors.

49. Mr Ronny TONG considered it important to strengthen the position of Hong Kong as the premier capital raising and investment centre so as to avoid Hong Kong's financial markets from being marginalized. Nevertheless, Mr TONG stressed that the promotion of Hong Kong's financial services to the Mainland enterprises should never be achieved at the expense of it valuable assets such as the rule of law, the market regulatory regime which was on a par with international standard and good corporate governance.

(*Post-meeting note*: The information provided by the Administration in response to members' requests mentioned in paragraphs 39 and 46 above was issued to members vide LC Paper No. CB(1)2087/05-06(02) on 4 August 2006.)

V. Review of the Mandatory Provident Fund Schemes Compensation Fund

(LC Paper No. CB(1)1848/05-06(08) — Paper provided by the Administration

Paper No. FCR(98-99)6 — Discussion paper for Finance Committee meeting on 3 April 1998

LC Paper No. CB(1)1848/05-06(09) — Extract from the minutes of Finance Committee meeting on 3 April 1998)

Briefing by the Mandatory Provident Fund Schemes Authority (MPFA)

50. At the invitation of the Chairman, Ms Hendena YU, the Chief Operating Officer, MPFA briefed members on the review of the Mandatory Provident Fund Schemes Compensation Fund (the Compensation Fund). Ms YU advised that the Compensation Fund was established under section 17(1) of the Mandatory Provident Fund Schemes Ordinance (Cap. 485) for the purpose of compensating scheme members for losses of accrued benefits that were attributable to misfeasance or illegal conduct committed by the approved trustees or by other persons concerned with the administration of the schemes. It covered losses in accrued benefits arising from both mandatory and voluntary contributions without any limit. The Compensation Fund was established in 1999 with a one-off grant of HK$600 million from the Government as seed money. The rate of the Compensation Fund levy was 0.03% of the net asset value of the scheme assets. On the basis of the projections at that time, it was envisaged that the Compensation Fund could cease to collect levies once the level of the accumulated reserve reached HK$900 million. The HK$900 million level was set arbitrarily, given that there were no statistics overseas that could be used to estimate the size of the Compensation Fund required.

51. Ms Hendena YU pointed out that while it was estimated in 1997 that it would take eight to ten years for the Compensation Fund to build up the proposed reserve of HK$900 million, the Fund reached this level on 30 June 2006. The major reason for this development was that the growth of MPF schemes assets had substantially exceeded the initial estimates. In this connection, MPFA had conducted a review of the Compensation Fund and the findings of the review were as follows:

(a) As MPF schemes assets had been growing at a significantly faster rate than initially projected, it would be prudent to keep a larger pool of reserves in the Compensation Fund for protection coverage.

(b) Having been implemented for only five years, the MPF System was still in a phase of rapid development. For example, some approved trustees had launched "special voluntary contribution" arrangements to attract more voluntary contributions into the System in the past year. It would take at least another three to five years to observe the development of the market as well as to refine and improve the System to a more mature stage.

(c) No claim had been made to the Compensation Fund so far. Without any claims experience, there was not sufficient information to build a suitable model to determine the optimum level of the Compensation Fund.

(d) The levy was still an insignificant amount on a per member basis, with an annual average impact of the levy on each enrolled scheme member at about HK$22 in 2006.

52. Ms Hendena YU advised that in the light of the findings of the review, MPFA considered it prudent to retain the current levy rate of 0.03% and proposed that the issue be reviewed again in 36 months' time.

Declaration of interest

53. Mr WONG Ting-kwong declared that he was a non-executive director of the MPFA Management Board.

Discussion

Justifications for the continued collection of levy

54. Given that the Compensation Fund had already reached the level of HK$900 million, Mr WONG Kwok-hing queried the justifications for MPFA to recommend the continued collection of the levy. He considered that the continued collection of levy was against the original undertaking made by MPFA.

55. Ms Hendena YU explained that the original plan of ceasing collection of levy when the level of the accumulated reserves of the Compensation Fund reached HK$900 million was made on the basis of the projection that the accumulated assets after the MPF System had been implemented for five years would reach HK$70 billion. However, as at end-May 2006, the aggregate net asset value of all MPF schemes amounted to over HK$167 billion, much more than the original

projection. Taking into account that the amount of HK$900 million would only formed about 0.5% of the total asset value of all MPF schemes and that the MPF System was in a phase of rapid development (with an annual growth of asset value of over HK$20 billion), the reserves level of the Compensation Fund as compared to the total asset value of the MPF schemes would drop rapidly if collection of levy would be discontinued.

56. Mr WONG Kwok-hing considered that if the reserves level of HK$900 million was considered inadequate for the Compensation Fund, the continued collection of levy for another 36 months might not be able to address the problem. MPFA should explore alternative measures for protection of scheme members, such as seeking insurance coverage on the assets of the various schemes.

57. Ms Hendena YU advised that under the current regulatory framework, approved trustees had to meet the requirements on capital adequacy and insurance coverage. She pointed out that the Compensation Fund was established for the purpose of compensating scheme members for losses of accrued benefits that were attributable to misfeasance or illegal conduct committed by the approved trustees or by other persons concerned with the administration of the schemes and determined by the Court of First Instance on the application of MPFA. It would be used as a last resort for compensating the losses of scheme members, i.e. when other sources for compensation, including insurance coverage, had been exhausted. The Chairman added that the insurance coverage taken out by approved trustees only covered losses of benefits that were attributable to misfeasance or illegal conduct committed by the approved trustees or other persons concerned but not all the assets of the schemes under their administration.

58. Responding to Mr LEE Cheuk-yan, Ms Hendena YU agreed that it was unlikely for the misfeasance or illegal conduct committed by any approved trustees or by other persons concerned to result in losses of benefits of all MPF scheme members. While it would not be necessary for the reserves of the Compensation Fund to cover the total asset value of all MPF schemes, the current level of about 0.5% of the aggregate net asset value of all MPF schemes was considered to be on the low side. The accumulated reserves of the Compensation Fund was expected to reach the level of about HK$1.2 billion if collection of levy at the rate of 0.03% would be continued for another 36 months as proposed.

59. Responding to Mr LEE Cheuk-yan's further enquiry, Ms YU confirmed that the current reserves of HK$900 million included the HK$600 million provided by the Government as seed money for the Compensation Fund, which was a one-off grant and would not be recovered by the Government.

Determination of an optimum level of the Compensation Fund

60. Mr SIN Chung-kai said that while Members of the Democratic Party did not object to the continued collection of levy, they considered that MPFA should address the crux of the problem, i.e. determination of an optimum level of the Compensation Fund, without delay. Mr SIN was of the view that MPFA should conduct a detailed study on the level of the Compensation Fund required to cover compensation on possible incidents of misfeasance or illegal conduct and work out a model/mechanism for determining the optimum level of the Fund.

61. Mr LEE Cheuk-yan considered that as the original reserves level of HK$900 million was set arbitrarily, it was necessary for MPFA to work out the optimum size of the Compensation Fund as soon as possible.

62. Mr CHAN Kam-lam, Mr WONG Kwok-hing and Mr WONG Ting-kwong also expressed similar concerns. Mr CHAN and Mr WONG Kwok-hing considered that despite the insignificant amount of levy to be paid by individual scheme members, it was unfair to them if they were required to pay the levy continuously without having a target level of reserves to be maintained for the Compensation Fund. Mr CHAN also pointed out that given the expected growth of the asset value of MPF schemes in the coming years alongside with the development of the MPF System, the size of the Compensation Fund would have to be increased if a certain percentage of the total asset value of all MPF schemes had to be maintained. Mr WONG Ting-kwong noted that asset value of MPF schemes grew by over HK$20 billion annually and would be accumulated to a considerably large sum in the coming ten to twenty years. He therefore urged MPFA to actively explore and identify objective means of determining the optimum level of the Compensation Fund, preferably with reference to relevant statistics, and to report the findings to the Panel in due course.

63. Miss TAM Heung-man suggested MPFA to consider pitching the reserves level of the Compensation Fund at a certain percentage, say 10%, of the total asset value of all MPF schemes. Referring to paragraph 6 of the paper provided by MPFA, Miss TAM was also concerned that as there were no statistics overseas that could be used to estimate the size of the Compensation Fund required, what other information would be used by MPFA for assessing the risks arising from claims and for estimating the size of the Fund required.

64. Ms Hendena YU pointed out that MPFA had examined overseas experience on claims but there were currently no statistics available for making a scientific computation on the optimum size of the Compensation Fund. She reiterated that the MPF System was still in a phase of rapid development and it would take a few more years for MPFA to observe the development of the market both in terms of the growth of assets and the risks involved, before making any determination on the optimum level of the Compensation Fund. In the light of the rapid growth of asset value of MPF schemes, Ms YU stressed that it would be prudent to continue building up the reserves of the Compensation Fund in the mean time. Otherwise, the reserves level of

the Compensation Fund as compared to the total asset value of the MPF schemes would drop at a fast pace. Nevertheless, Ms YU noted Miss TAM Heung-man's suggestion on pitching the reserves level of the Fund at a certain percentage of the total asset value of the MPF schemes and advised that MPFA would take this into consideration in the upcoming review.

MPFA

65. At the request of Mr SIN Chung-kai, Ms Hendena YU undertook to work out a model/mechanism for determining the optimum level of the Compensation Fund and

MPFA

provide a progress report to the Panel in 18 months' time. At the request of Miss TAM Heung-man, Ms YU agreed that the progress report would cover information on

MPFA

the assessment of the risks arising from claims, if any, to the Compensation Fund.

Investment of the Compensation Fund

66. Ms Emily LAU expressed concern about the investment strategy of the reserves of the Compensation Fund. Ms Hendena YU advised that the investment strategy followed a prudent principle with the objective of catching up with the rate of inflation. In brief, about 70% of the reserves were placed in fixed deposits, 10% in bonds and 5% in equities.

Measures to improve the provision of services to scheme members

67. Mr WONG Kwok-hing expressed concern about measures to improve the provision of services to members of MPF schemes, such as provision of a pass book for each scheme member for easy reference of his/her accumulated asset value under the schemes. Ms Hendena YU advised that the relevant issues had been raised by members of the Panel on Manpower and MPFA had undertaken to respond to that Panel in due course. Noting Mr WONG's concern, Ms YU undertook to explore

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other feasible measures to improve the provision of services to scheme members on an on-going basis.

VI. Any other business

68. There being no other business, the meeting ended at 12:25 pm.

Council Business Division 1
Legislative Council Secretariat
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