立法會
Legislative Council

LC Paper No. CB(1)2695/09-10
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Panel on Financial Affairs

Minutes of special meeting
held on Thursday, 20 May 2010 at 2:30 pm
in the Chamber of the Legislative Council Building

Members present :	Hon CHAN Kam-lam, SBS, JP (Chairman) Hon Albert HO Chun-yan Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP Hon James TO Kun-sun Dr Hon Philip WONG Yu-hong, GBS Hon Abraham SHEK Lai-him, SBS, JP Hon Vincent FANG kang, SBS, JP Hon Jeffrey LAM Kin-fung, SBS, JP Hon Andrew LEUNG Kwan-yuen, SBS, JP Hon WONG Ting-kwong, BBS, JP Hon CHIM Pui-chung Hon KAM Nai-wai, MH Hon Starry LEE Wai-king Dr Hon LAM Tai-fai, BBS, JP Hon Paul CHAN Mo-po, MH, JP Hon CHAN Kin-por, JP Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Members attending :	Dr Hon Margaret NG Hon Mrs Sophie LEUNG LAU Yau-fun, GBS, JP Hon LEE Wing-tat
Members absent :	Hon Ronny TONG Ka-wah, SC (Deputy Chairman) Dr Hon David LI Kwok-po, GBM, GBS, JP Hon Emily LAU Wai-hing, JP

Public officers attending : Agenda Item I

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

Mr Peter PANG, JP
Deputy Chief Executive (Development)
Hong Kong Monetary Authority

Mr Eddie YUE, JP
Deputy Chief Executive (Monetary)
Hong Kong Monetary Authority

Mr Arthur YUEN, JP
Deputy Chief Executive (Banking)
Hong Kong Monetary Authority

Agenda Item II

Prof K C CHAN, SBS, JP
Secretary for Financial Services and the Treasury

Ms Julia LEUNG, JP
Under Secretary for Financial Services and the Treasury

Ms Annie CHOI, JP
Commissioner of Insurance
Office of the Commissioner of Insurance

Miss Carmen CHU
Executive Director (External)
Hong Kong Monetary Authority

Attendance by invitation : Agenda Item II

Ms Alice LAW
Senior Director
China, Policy and Investment Products Division
Securities and Futures Commission

Clerk in attendance: Ms Anita SIT
Chief Council Secretary (1)5

Staff in attendance : Mr KAU Kin-wah
Assistant Legal Adviser 6

Mr Noel SUNG
Senior Council Secretary (1)4

Mr Fred PANG
Council Secretary (1)5

Ms Haley CHEUNG
Legislative Assistant (1)8

Action

I Briefing on the work of the Hong Kong Monetary Authority

(LC Paper No. CB(1)1947/09-10(01) — The Hong Kong Monetary Authority (HKMA)'s paper in response to Hon Mrs Regina IP's concern regarding the establishment of subsidiary company under the Exchange Fund.

LC Paper No. CB(1)1905/09-10(01) — The HKMA's paper on its work

LC Paper No. CB(1)1779/09-10(01) — The HKMA's Annual Report 2009)

At the invitation of the Chairman, the Chief Executive, HKMA (CE/HKMA) gave a PowerPoint presentation on global and Hong Kong financial and economic conditions and the work of the HKMA.

Financial and economic conditions

Sovereign debt problems in Europe and Asia

2. Mr Chan Kin-por enquired about the HKMA's views on the development of the European debt crisis and what would happen in its worst case scenario. Mr CHAN noted that Japan's sovereign debt was nearly 200% of its annual gross domestic product (GDP) and enquired whether the market should be cautious about the debt problem in Japan.

3. CE/HKMA advised that Japan was different from other countries because only 5% of its sovereign debt was held by foreign investors. There was a close relationship between the proportion of a country's sovereign debt held by foreign investors and the risk of a financial crisis in the country. Financial markets were keeping a close watch on whether the measures put forward by the European

countries with high sovereign debts were sufficient to cut their deficits within the coming six to 12 months.

4. Mr Andrew LEUNG opined that there was market concern about the risk of financial crisis in the United Kingdom although its sovereign debt level and the proportion of sovereign debt held by foreign investors were not very high. He was concerned whether the European debt crisis would initiate a second wave of global financial tsunami. CE/HKMA said that the European Union and the European Central Bank had drawn up plans involving injecting hundreds of billions of Euro to deal with the sovereign debt crisis. The authorities in Ireland, Portugal, Spain and the United Kingdom had drawn up fiscal measures to cut their fiscal deficits. These governments delivered a positive message to the market by showing their determination to deal with the crisis. Market confidence depended on how far the peoples of these countries supported these measures and whether they were ready to sustain the pains.

5. The Chairman observed that the sovereign debt of Japan was almost two times its annual GDP and was increasing at a fast pace. Japan's fiscal deficit was 5 to 7% higher than its annual GDP. Taking into account the experience in 1997 when the economy of Hong Kong was affected by capital outflow during Japan's economic slump and the close economic relationships between Japan and other Asian economies, he enquired whether the HKMA had any contingency measure to prepare for an economic crisis in Japan. In light of the recent political instability in Thailand, he enquired whether the HKMA had assessed the risk of a recurrence of financial crisis in Thailand similar to the one in 1997.

6. CE/HKMA agreed that the fiscal deficit problem in Japan was serious. He also remarked that there was general expectation that Japan's economy would grow by more than 2% in 2010. The International Monetary Fund and the market in general expected that the Japanese authorities would formulate plans to cut its deficit. The recent political crisis in Thailand had caused a serious blow to its tourist industry. However, economic growth and external trade of Thailand in the first quarter of 2010 was not bad. It was too early to make a precise assessment of the impact of the political crisis in Thailand on its economy. Unlike the situation in 1997, there had been greater economic integration between the Mainland and Hong Kong, and the Mainland economy was developing rapidly. It was important for Hong Kong to keep strengthening its financial and banking systems to meet the challenges of an economic crisis. The Chairman suggested that the HKMA should conduct more researches and analyses and alert the market to the risks when appropriate.

Capital flows

7. Mr CHAN Kin-por noted that there had been no additional capital inflow to Hong Kong in the first quarter of 2010. He enquired how the HKMA would assess the impacts of nil capital inflow or capital outflows on Hong Kong's economy.

CE/HKMA advised that while a moderate extent of capital outflows might have short-term effects on asset prices, it would help restore Hong Kong's monetary conditions to a normal state in the long run. An increase in US interest rates would encourage interest arbitrage activities and capital outflows from Hong Kong.

Banking services

Pre-payment for services

8. Ms Starry LEE said that two yoga centres had been closed recently. The customers who had made pre-payments for services in the form of credit card instalment payments had requested the banks concerned to allow them to stop the instalment payments. Some banks agreed to consider their requests on a case-by-case basis while other banks did not. Ms LEE asked whether the HKMA would direct banks to allow their customers to stop the credit card instalment payments.

9. Mr KAM Nai-wai opined that the Lehman Brothers Minibonds incident and the recent closure of two yoga centres had reflected the HKMA's incapability in supervising banks. The victims in the yoga centres incident had not been approached by banks but by the yoga centres to sign up documents involving credit card instalment payments. Not until the yoga centres had closed did they know that they had actually signed up loan agreements with banks. The yoga centres had never made disclosure to the victims about the risks involved. Mr KAM queried whether the HKMA would stop the banks from requiring the victims to make any further credit card instalment payment and pay interest for late payments.

10. The Deputy Chief Executive (Banking), HKMA (DCE(B)/HKMA) advised that pre-paying for goods and services by entering into loan agreements with banks was not a new concept and was adopted by a wide variety of merchants in Hong Kong. In the yoga centres incident, some banks had withheld part of the payments to the yoga centres, and these monies could be used to offset part of the customers' claims. The HKMA had urged the banks to adopt a reasonable and flexible approach to handle their customers' complaints or requests. The HKMA would also continue to liaise with the banks involved to ensure that merchants would disclose to their customers the essential details of loan agreements between the customers and the banks.

Security of ATMs

11. Mr Jeffrey LAM enquired whether the HKMA had worked out security measures with banks to protect customers against the automatic teller machine (ATM) frauds, and the progress of installing keypad covers for ATMs. He also asked whether the HKMA had conducted any study on how the smart chip technology could be applied to ATM cards to enhance the security of ATM services. DCE(B)/HKMA advised that the Code of Banking Practice required ATM card

issuers to bear the full loss incurred by their customers caused by ATM frauds. In other words, bank customers affected by ATM frauds would not suffer any monetary loss. Over 90% of ATMs in Hong Kong had been installed with keypad covers and the installation for all ATMs would be completed by the end of May 2010. The HKMA had been studying with banks the smart chip technology since 2009. The technology has been widely applied to credit cards but not ATM cards because most ATMs outside Hong Kong still did not support chip technology. In reply to Mr Jeffrey LAM's further enquiry, DCE(B)/HKMA advised that he did not see any big obstacle to the application of the smart chip technology to ATM cards in Hong Kong in future.

Request for information from Australian tax authorities

12. Mr Paul CHAN said that the Australian Tax Office required financial institutions in Australia to disclose information about the offshore accounts held by their Australian clients in subsidiary branches of the financial institutions. He expressed concern whether the HKMA was aware of the matter and how the financial institutions in Hong Kong had responded to the request. Mr CHAN asked how the HKMA would safeguard depositors in Hong Kong from illegitimate disclosure of their personal information to overseas authorities.

13. DCE(B)/HKMA advised that the HKMA had been informed by its counterparts in Australia about the new requirements of the Australian tax authority. The HKMA was liaising with the authorized institutions (AIs) concerned to understand their responses to the requirements, and in parallel, with the Office of the Privacy Commissioner for Personal Data to find out whether the requirement was in conflict with the principles related to personal data privacy protection. Mr Paul CHAN opined that the Australian authorities were not in the position to obtain such information because they had not entered into any bilateral agreement with Hong Kong in respect of exchange of such information. He urged the HKMA to take a firm stance in handling the issue. DCE(B)/HKMA advised that the HKMA was fully aware of the sensitivity of the issue and would handle the issue appropriately.

Reverse mortgage

14. Ms Starry LEE opined that reverse mortgage was available in some overseas countries for elderly people to release some of the equity in their properties in exchange for cash income. She said that the Democratic Alliance for the Betterment and Progress of Hong Kong had suggested the Administration to consider the idea of reverse mortgage and the Hong Kong Mortgage Corporation (HKMC) was studying the level of local acceptance of the idea. Ms LEE enquired about the HKMA's views on the idea and its assessment of the time required for reverse mortgage to be introduced in Hong Kong. CE/HKMA advised that reverse mortgage was a good idea because elderly homeowners who did not have much retirement income or savings could receive additional income through the arrangement. But he cautioned

that the implementation of the arrangements in some countries has produced mixed results. The HKMC had preliminarily studied the subject of reverse mortgage in 2004 and conducted a further study on it recently. He expected that the public would be consulted on concrete proposals in due course.

Property market and mortgage loans

15. Dr Philips WONG enquired whether the HKMA would issue guidelines to banks to reduce or raise the loan-to-value ratio when property prices increased or decreased to certain levels. Mr LEE wing-tat noted that, according to the HKMA's briefing paper, the average mortgage repayment-to-income ratio in the mass property market was 47% and would increase to 61% upon a 300-basis-point increase in the mortgage interest rates from their prevailing level. Mr LEE said that the average monthly mortgage repayment was equivalent to 70% to 80% of household income in 1997 and many families had difficulties in affording daily expenses and ran into the problem of negative equity when property prices dropped. Mr LEE enquired whether the HKMA had discussed with AIs the need to assess mortgagors' repayment ability more prudently. Mr LEE further enquired whether the HKMA would liaise with AIs to work out special arrangements in approving mortgage loans to speculators who purchased and sold properties within a short time having no intention to keep the properties for use.

16. CE/HKMA advised that adjusting the loan-to-value ratio was one of the means to manage the credit risk of mortgage loans. For example, the loan-to-value ratio for luxurious properties had been lowered from 70% to 60% since October 2009. But there was limited flexibility in making such adjustment. Giving adequate consideration to a mortgagor's repayment ability was another important means to manage the risk. The HKMA required the AIs to assess the impact on the mortgagor's repayment ability of changes in the interest rates and property prices before approving any mortgage loan. DCE(B)/HKMA supplemented that the debt-servicing ratio of mortgage borrowers should not normally exceed 50%. While 50% appeared to be higher than similar ratios in other places, it was actually more prudent than the real level adopted in those jurisdictions, taking into account the lower disposable income of the mortgage borrowers in those countries as a result of their higher income tax rates. Furthermore, the HKMA required AIs to assess a mortgagor's repayment ability using the "Prime minus" cap instead of the "HIBOR plus" basis in the case of HIBOR-based mortgages. AIs were also required to apply stress tests to assess the impact on borrowers' repayment ability in the event that the Prime Rates increased by 1 to 2%. According to the on-site examinations conducted recently by the HKMA, AIs was generally prudent in assessing mortgagors' repayment ability. AIs were particularly cautious in considering mortgage loans to speculators.

Cooling-off period in relation to sales of non-listed derivative products to retail customers

17. Mr Jeffrey LAM enquired how the pre-investment cooling-off period (PICOP) arrangement put forth by the HKMA was different from that proposed by the Securities and Futures Commission (SFC). CE/HKMA advised that the two proposals complemented each other. Under SFC's proposal, investors of unlisted structured investment products would enjoy a cooling-off period after an investment was executed. During the cooling-off period, investors were entitled to a right to withdraw from the investment, but they had to bear the administrative cost involved and any loss caused by downward adjustment of the market value of the investment products during the cooling-off period. The PICOP arrangement put forth by the HKMA applied to the sales of unlisted derivative investment products to retail customers before the execution of an investment transaction. The customer would be allowed at least two calendar days to consider whether to execute their investment. Since the transaction price would only be fixed on the day of execution, price fluctuations during the cooling-off period would not cause any investment losses to the investor.

18. Mr Phillips WONG enquired whether, under the cooling-off period arrangement put forth by the HKMA, investors could choose to execute the order instruction before the end of the cooling-off period. DCE(B)/HKMA advised that according to the HKMA's proposal, it would be a mandatory requirement for AIs to apply the arrangement to elderly customers. An elderly customer was allowed to opt out from the arrangement if the customer was not a first-time buyer of that type of investment product concerned and the customer's asset concentration on that product was below 20%. For non-elderly customers, it would not be necessary for AIs to apply the arrangement unless the customer's asset concentration on the investment product concerned was 20% or more and the customer was a first-time buyer of that type of product. In reply to the Chairman's enquiry, DCE(B)/HKMA advised that AIs were required to explain the arrangement to their customers if applicable.

Lehman Brothers- related complaints

19. Mr KAM Nai-wai opined that it was misleading for the HKMA to state that over 99% of the Lehman Brothers-related complaints had been handled or resolved by end March 2010, given disciplinary actions had only been taken in respect of two complaints. The fact that 46% of the complaints had been substantiated reflected that the HKMA had not been performing its bank supervisory role satisfactorily. He asked how long it would take to complete the 2 783 cases that were under the disciplinary process, and whether the HKMA would arrange any more repurchase scheme. Mr Paul CHAN also enquired whether the complainants involved in the 2 783 cases had rejected any repurchase offers and why there were 196 cases still being investigated.

20. DCE(B)/HKMA advised that the HKMA was required to go through a set of disciplinary procedures in processing the Lehman Brothers-related cases. It was therefore impossible to provide an accurate timetable for completing the disciplinary process of all the cases. The HKMA encouraged the resolution of cases through repurchase arrangements but no further information could be provided at the current stage. Most of the 2 783 complaints were not related to minibonds. Only a few hundred complainants of the minibond cases had rejected the repurchase offers. As regards the 196 cases still under investigation, the HKMA faced difficulties in getting in touch with the complainants or the cases involved multiple investment products requiring more investigative efforts.

21. Mr Albert HO enquired whether the HKMA would further consider extending the scope of the Lehman-Brothers Minibonds Repurchase Scheme to cover experienced investors. Structured financial products including Constellation Structured Retail Notes and Octave Notes involving collateralized debt obligations or credit default swaps were complicated investment products for most investors. Mr HO enquired whether there was room for the HKMA to work out some arrangements to help these investors. Mrs Regina IP opined that the HKMA should also resolve the cases involving equity-linked notes and private placements.

22. DCE(B)/HKMA said that the Lehman-Brothers Minibonds Repurchase Scheme was an agreement reached between SFC and the distributing banks under section 201 of the Securities and Futures Ordinance (Cap. 571) (SFO). The HKMA did not have the authority to make such agreement and was not in the position to advise whether a repurchase scheme would be in place for Constellation Structured Retail Notes or Octave Notes. The enhanced complaint handling procedures implemented by the banks could help handle cases not covered by the Repurchase Scheme. The HKMA supported any proposal that was beneficial to the investors.

Regulation of sales practices in financial services

23. Mr Albert HO referred to the public consultation recently launched by the Administration on proposals to tackle commonly seen unfair trade practices, and pointed out that the regulatory measures proposed in the consultation did not cover property and financial services. He considered that some basic regulatory principles should apply to all services including financial services. The function of the HKMA should not be limited to issuing the Code of Banking Practice or warnings to banks. He sought the views of CE/HKMA on the possibility of the HKMA assuming the responsibility for performing enforcement functions in respect of malpractices by banks.

24. CE/HKMA advised that section 107 of the SFO specified which types of sales practices would constitute a criminal offence. Some cases involving prosecutions under that section were in progress. In other words, legislation was already in place for regulating the sales of financial products. The existing arrangement that the Police being the law enforcement body for criminal offences under the SFO should

not change. The HKMA would ensure that the banks continue to follow the Code of Banking Practice and co-operate with SFC.

Development of financial services

Development of Renminbi-related business

25. Mr Andrew LEUNG enquired whether the depreciation of Euro would reduce pressure on Renminbi (RMB) to appreciate. In light of the steady growth of the RMB trade settlement business and RMB deposits in Hong Kong, Mr LEUNG enquired about the HKMA's views on the future development of offshore RMB business in Hong Kong and the time required for developing Hong Kong into a regional RMB settlement centre.

26. CE/HKMA advised that the commencement of the pilot scheme for cross-border trade settlements in RMB in July 2009, together with the HKMA's subsequent elucidation on the supervisory principles and operational arrangements regarding the development of RMB business, had increased the scope and business opportunities for the AIs in Hong Kong to further develop their RMB business. The HKMA was optimistic about the development of Hong Kong as a regional RMB settlement centre, although considerable efforts were required to develop the market infrastructure. An appreciation of RMB could help correct global trade imbalances such as the trade imbalance between China and the United States. The depreciation of Euro would increase the competitive advantage of Europe's exports including those to China and the United States and thus would help reduce global trade imbalances.

Issue of retail government bonds

27. Mr Paul Chan enquired when the retail government bonds would be launched. The Deputy Chief Executive (Monetary), HKMA (DCE(M)/HKMA) advised that, as mentioned in the briefing paper, the HKMA had completed the preparation work for the issuance. The HKMA would launch the retail government bonds when market conditions were favourable.

Exchange Fund

28. Dr Philip WONG enquired about the mission and operational details of Eight Finance Investments Company Limited (EFIC), which had been recently established by the HKMA, and whether its investment returns would be made known to the public. Mrs Regina IP also enquired whether EFIC would invest in higher-risk items such as private equity and hedge funds. DCE(M)/HKMA advised that EFIC was a wholly-owned subsidiary of the Exchange Fund. It was an investment holding company for holding part of the investments of the Exchange Fund to provide safeguards to limit the Exchange Fund's potential liabilities arising from investment management activities. The company was overseen and operated by HKMA staff.

Its holdings were consolidated in the Exchange Fund's group financial statements. EFIC's current investment commitment amounted to HK$9.35 billion. The Exchange Fund had provided a loan of HK$2.8 billion to the company to facilitate its investment activities. The Exchange Fund's primary investment objectives were capital preservation and liquidity, and subject to these objectives, the HKMA was prepared to enhance long-term investment yield of the Fund. On this basis, a small portion of the Exchange Fund was invested in assets such as private equity, and bonds and equities in emerging markets. Mrs Regina IP requested the HKMA to provide more detailed information about the investment strategy, portfolio and return of EFIC.

(*Post-meeting note*: A written reply provided by the HKMA was issued to members vide LC Paper No. CB(1)2254/09-10(01) on 15 June 2010.)

29. Mrs Regina IP opined that the investment performance of the Exchange Fund in the first quarter of 2010 was not satisfactory. Taking into account that the stock markets of Hong Kong and the United States had performed well before the outbreak of the European debt crisis, and according to the HKMA's annual report, about 80% of the Exchange Fund was directly managed by HKMA staff, Mrs IP asked if the dissatisfactory performance had been due to wrong investment decisions and whether any HKMA staff should be held responsible. CE/HKMA responded that any direct comparison between the performance of the Exchange Fund and other funds would not be appropriate, since the investment objectives and acceptable levels of risk were different. The Exchange Fund was not a typical investment fund and its investment performance should be assessed on a medium- or long-term basis.

30. Mr Paul Chan opined that to facilitate Members' comprehension of the investment performance of the Exchange Fund for the first quarter of 2010, the HKMA should provide information about the investment income of the Exchange Fund for the first quarters of the past few years. The HKMA should also include in its future regular briefings to the Panel the itemized information as per pages 59 and 60 of the HKMA's briefing paper for the same quarters of the previous three years. .

(*Post-meeting note*: A written reply provided by the HKMA was issued to Members vide LC Paper No. CB(1)2254/09-10(01) on 15 June 2010.)

31. Mr Paul CHAN enquired whether there were any separate financial statements for the HKMA apart from those of the Exchange Fund. Mr CHAN opined that compared with the annual report issued by the relevant Singaporean authority about the management of its sovereign fund, the information in the HKMA's annual report regarding the Exchange Fund might not be comprehensive enough for the general public and Legislative Council Members to understand how the HKMA had been doing its work. CE/HKMA advised that the HKMA's annual report included not only the financial statements on the Exchange Fund but also information on the administrative expenditure of the HKMA. Since the HKMA was

funded by the Exchange Fund, the financial statements on the Exchange Fund also covered the financial affairs of the HKMA.

Budget of the HKMA

32. Mrs Regina IP said that the HKMA was financed by public funds and was responsible for exercising various statutory functions. She queried why the HKMA did not present its budget to the Panel. CE/HKMA advised that the HKMA was committed to operating under a high level of transparency. The established arrangements were effective. The HKMA was prepared to answer Members' queries about the HKMA's work and other related matters during the regular briefings to the Panel, including the one in May each year following the publication of the HKMA's annual report.

II Financial affairs matters under the Framework Agreement on Hong Kong/Guangdong Co-operation

(LC Paper No. CB(1)1905/09-10(02)	—	Administration's paper on Framework Agreement on Hong Kong/Guangdong Co-operation and policy measures relating to financial services
LC Paper No. CB(1)1559/09-10(01)	—	Administration's information paper on Framework Agreement on Hong Kong/Guangdong Co-operation
LC Paper No. FS24/09-10	—	Fact sheet on a summary of local press reports on the views of the financial sector on the "Framework Agreement on Hong Kong/Guangdong Co-operation" from 7 April to 18 May 2010 prepared by the Research and Library Services Division of the Legislative Council Secretariat (Chinese version only)
LC Paper No. FS22/09-10	—	Fact sheet on "Current Development on Framework Agreement on Hong Kong/Guangdong Co-operation" prepared by the Research and Library Services Division of the

Legislative Council Secretariat (Chinese version only))

Briefing by the Administration

33. The Secretary for Financial Services and the Treasury (SFST) briefed members on the content of the Framework Agreement on Hong Kong/Guangdong Co-operation (the Framework Agreement) related to financial services and the Government's relevant policy measures by highlighting the salient points in the paper.

Insurance business

34. Pointing out that the greatest hurdle for Hong Kong insurance companies to enter the Mainland market was the very high asset requirement of $5 billion, Mr CHAN kin-por enquired about the progress of the discussion between the Office of the Commissioner of Insurance and the China Insurance Regulatory Commission on the proposal of lowering the threshold for Hong Kong insurance companies to enter the Guangdong insurance market, and the timetable for implementing the proposal. The Chairman shared Mr CHAN's concern and said that the Administration should maintain communication with the insurance industry so that sufficient lead time could be given to the industry to prepare for entering the Guangdong market.

35. SFST responded that the Framework Agreement provided a platform for discussion with the relevant Guangdong authorities regarding co-operation in, among other things, insurance business between Hong Kong and Guangdong, including measures to facilitate Hong Kong insurance companies to operate in Guangdong. The Commissioner of Insurance (C of I) supplemented that discussion with the relevant Guangdong authorities had already begun. One of the issues being examined was the threshold for Hong Kong insurance companies to operate in Guangdong on a pilot basis.

36. Mr CHAN Kin-por requested the Administration to report the progress of the discussion with the Chinese Insurance Regulatory Commission on lowering the
Admin threshold for Hong Kong insurance companies to enter the Guangdong market as soon as possible, and on a half-yearly basis.

37. Mr CHAN Kin-por was concerned about the development of the Renminbi insurance policies market in Hong Kong, and enquired whether under the Framework Agreement, arrangements would be made to allow Hong Kong insurance companies to make Renminbi (RMB) investments in Guangdong based on the "early and pilot implementation" approach.

38. In response, the Under Secretary for Financial Services and the Treasury (USFST) said that the Administration and the Hong Kong Monetary Authority (HKMA) had been discussing with relevant Mainland authorities, including the People's Bank of China, on the further development of the RMB financial products market and RMB trade settlement business in Hong Kong. Given the complexity of the issues involved, the initiatives would take time to materialize. As regards the provision of RMB financial products in Hong Kong, the Framework Agreement supported qualified Guangdong financial institutions and enterprises to issue RMB bonds in Hong Kong. This initiative would help develop Hong Kong's RMB bond market, and provide RMB investment opportunities for the insurance industry. USFST said that the Government would reflect the insurance sector's view about making RMB investments in Guangdong.

Securities business

39. Noting that the Framework Agreement encouraged more Guangdong financial institutions and enterprises to be listed on the Stock Exchange of Hong Kong and to raise capital in Hong Kong, Mr Albert HO expressed concern about the extra-territorial enforcement of Hong Kong's legislation, such as the legislation on insider dealing and misconduct of company directors, in regulating the corporate governance and operation of Guangdong companies, especially private-owned enterprises, listed in Hong Kong. Mr HO was concerned whether enforcement actions could be taken against persons who breached the relevant legislation or the Listing Rules outside Hong Kong. Mr HO enquired whether the Securities and Futures Commission (SFC) had signed Memoranda of Understanding (MOU) with Mainland and overseas regulatory bodies regarding the enforcement of the relevant legislation/Listing Rules.

40. SFST responded that all companies listed in the Stock Exchange of Hong Kong were governed by the Securities and Futures Ordinance (SFO) (Cap. 571) and the Listing Rules, and enforcement actions would be taken against any breaches of the SFO and/or the Listing Rules, including insider dealing. While declining to comment on individual scenarios/cases, SFST pointed out that recent prosecution cases showed that SFC had the determination and capability to enforce the insider dealing legislation effectively. SFST added that SFC had signed MOU with relevant Mainland and overseas regulatory authorities regarding the enforcement of SFO. Mr Albert HO requested the Administration to provide supplementary information regarding the arrangements between the Hong Kong regulatory bodies and relevant Mainland/overseas authorities in investigation of insider dealing activities undertaken outside Hong Kong in relation to securities listed in the Stock Exchange of Hong Kong.

Admin

41. Noting that measures would be taken to allow qualified Hong Kong securities companies and Mainland securities companies to set up joint venture securities investment consultancies in Guangdong, the Chairman enquired whether measures

would be taken to allow Hong Kong securities companies to set up joint venture companies with Mainland securities companies to deal with securities trading in Guangdong. Given the different regulatory regimes for securities business in the Mainland and in Hong Kong, the Chairman also enquired whether consideration would be given to aligning the two regulatory regimes.

42. SFST responded that under Supplement VI to Closer Economic Partnership Arrangement (CEPA), Hong Kong securities companies could only set up joint venture companies with Mainland securities companies to provide securities investment consultancy service in the Mainland. The Government would reflect to the relevant Mainland authorities the securities sector's view regarding the proposed expansion of the scope of business activities for the joint venture companies to cover trading of securities. Given the different background and business environment in the Mainland and Hong Kong, Hong Kong securities companies operating in the Mainland had to comply with the regulatory requirements in the Mainland.

43. Noting that Supplement VI to CEPA specified measures to actively study the introduction of exchange-traded funds (ETF) on Hong Kong stocks in the Mainland, the Chairman enquired whether consideration would be given to allowing trading of ETF in RMB. The Chairman further enquired whether discussion would be held with the Mainland authorities on the possibility of allowing Hong Kong residents to trade on Shenzhen stocks and Guangdong residents to trade on Hong Kong stocks.

44. SFST responded that the Administration was discussing with the Mainland authorities concerned regarding the introduction of ETF on Hong Kong stocks in the Mainland market(s), and trading of ETF on Hong Kong stocks in RMB would be considered. SFST pointed out that while cross-border interflow of capital was a rather sensitive issue, the introduction of ETF on Hong Kong stocks would to a certain extent enable people in the Mainland to invest in Hong Kong stocks in a highly transparent and controllable manner. The Government would aim to promote cross- border investments and trading of securities through various means such as the Qualified Domestic Institutional Investors (QDII) arrangement.

III Any other business

45. There being no other business, the meeting ended at 4:27 pm.

Council Business Division 1
Legislative Council Secretariat
5 August 2010