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LC Paper No. CB(1)143/09-10

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Panel on Financial Affairs
Meeting on 2 November 2009

Background Brief on
The roles and operation of the Hong Kong Mortgage Corporation Limited

Purpose

This paper provides information on the roles and operation of the Hong Kong Mortgage Corporation Limited (HKMC) and a Member's concerns raised at a recent meeting of the Panel on Financial Affairs (FA Panel).

Background

2. HKMC, established in March 1997 under the Companies Ordinance (Cap. 32), is wholly owned by the Hong Kong Special Administrative Region Government through the Exchange Fund. The Financial Secretary (FS) beneficially owns all the shares of the Corporation in his capacity as Controller of the Exchange Fund. The core missions of HKMC are:

- (a) to enhance the stability of the banking sector through the offering of a reliable source of liquidity, thereby reducing the concentration and liquidity risks of mortgage lending of the banks;
- (b) to promote wider home ownership in Hong Kong; and
- (c) to facilitate the growth and development of the debt securities and mortgage-backed securities markets in Hong Kong.

3. HKMC is governed by a Board of Directors (the Board) chaired by FS, with the Chief Executive of the Hong Kong Monetary Authority as the Deputy Chairman. Directors of HKMC include officials from the Government and regulatory bodies, and representatives from the political parties, financial services sectors, accounting and also legal professions and the Consumer Council. A list of the Board of Directors with effect from 1 October 2009 is at the **Appendix**.

4. The Board meets at least once every quarter for setting the strategic direction, defining business objectives and operational guidelines, approving financial targets and monitoring the performance of HKMC on an on-going basis. The Chief Executive Officer is accountable to the Board, and is responsible for implementing the Board's decisions.

5. The principal activities of HKMC include:

- (a) purchasing of portfolios of mortgages or loans secured on properties or other collateral situated in Hong Kong or elsewhere, to acquire rights, interest and benefits under hire purchase or leasing arrangements made in respect of motor vehicles and other assets, or other debentures, receivables, financial assets and choses in action of all kinds from their originators, issuers, owners or vendors;
- (b) acquisition of, by purchase or otherwise, any assets from government bodies and agencies and related organizations, statutory bodies and public bodies and to hold, sell, transfer, dispose of and deal in any such assets so purchased or acquired;
- (c) securitization of mortgage portfolios through special purpose entities by way of issuing mortgage-backed securities to investors; and
- (d) provision of mortgage insurance cover to Authorized Institutions in respect of mortgage loans originated by such Authorized Institutions and secured by residential properties.

Concerns raised at the meeting of the Panel on Financial Affairs

6. At the special meeting of the Panel held on 21 May 2009, Hon Mrs Regina IP expressed concern about media reports of significant investment losses incurred from high-risk investments undertaken by HKMC, and asked whether such investments had gone far beyond the objectives of the establishment of HKMC. She doubted whether HKMC had searched for higher-return investments in order to pay the high remuneration of its staff.

7. In her letter dated 1 June 2009 to the Chairman of the FA Panel, Mrs IP set out in greater details her queries about the propriety of HKMC's investments in high-risk overseas assets (such as providing "bridging financial guarantees" for secondary property market transactions in Shenzhen, purchasing Korean residential mortgage loans in the form of mortgage-backed securities, and developing mortgage guarantee business in Malaysia). Mrs IP

questioned whether HKMC had been engaging in anti-competitive practices in its investments, given that HKMC had been provided with a \$30 billion Revolving Credit Facility by the Exchange Fund. She was also concerned that the remuneration system for HKMC staff, which was tied to profitability of the organization, might have driven HKMC to pursue benefits outside its original scope of business at the expense of the private sector.

8. The Administration has provided a written response to Hon Mrs Regina IP's letter. The correspondence on the matter has been circulated to Panel members on 26 June 2009 (LC Paper No. CB(1)2055/08-09).

Recent developments

9. Hon Mrs Regina IP has raised further queries on the matter in her letter dated 2 September 2009 to the Chairman of FA Panel. Mrs IP's letter and HKMC's response have been circulated to Panel members on 22 October 2009 (LC Paper No. CB(1)122/09-10(02)). At the request of Mrs IP, the Panel agreed to discuss the subject matter at the regular Panel meeting on 2 November 2009.

References

10. The relevant papers are available at the following links:

Minutes of FA Panel meeting on 21 May 2009 (paragraphs 12 to 13)
<http://www.legco.gov.hk/yr08-09/english/panels/fa/minutes/fa20090521.pdf>

Minutes of FA Panel meeting on 1 June 2009 (paragraphs 7 and 8)
<http://www.legco.gov.hk/yr08-09/english/panels/fa/minutes/fa20090601.pdf>

Hon Mrs Regina IP's letter dated 1 June 2009 on the operation of HKMC (English version only)
<http://www.legco.gov.hk/yr08-09/english/panels/fa/papers/fa0521cb1-2055-1-e.pdf>

The Administration's response to Hon Mrs Regina IP's letter dated 1 June 2009
<http://www.legco.gov.hk/yr08-09/english/panels/fa/papers/fa0521cb1-2055-2-e.pdf>

Hon Mrs Regina IP's letter dated 2 September 2009 on operation of the HKMC (English version only)

<http://www.legco.gov.hk/yr09-10/english/panels/fa/papers/facb1-122-1-e.pdf>

HKMC's response to Hon Mrs Regina IP's letter dated 2 September 2009

<http://www.legco.gov.hk/yr09-10/english/panels/fa/papers/facb1-122-2-e.pdf>

HKMC's Annual Report 2008

<http://www.legco.gov.hk/yr08-09/english/panels/fa/papers/facb1-1890-e.pdf>

Council Business Division 1
Legislative Council Secretariat
28 October 2009

THE HONG KONG MORTGAGE CORPORATION LIMITED

Board of Directors (effective from 1 October 2009)

The Hon John TSANG Chun-wah, JP (Chairman)	Financial Secretary
Mr Norman CHAN Tak-lam, SBS, JP (Deputy Chairman)	Chief Executive Hong Kong Monetary Authority
Mr Peter PANG Sing-tong, JP (Executive Director)	Deputy Chief Executive Hong Kong Monetary Authority
Mr Eddie YUE Wai-man, JP (Executive Director)	Deputy Chief Executive Hong Kong Monetary Authority
Professor the Hon K C CHAN, SBS, JP	Secretary for Financial Services and the Treasury
The Hon CHAN Kin-por, JP	Legislative Councillor Chief Executive Munich Reinsurance Company Hong Kong Branch
The Hon Tanya CHAN	Legislative Councillor
Ms Louisa CHEANG	Regional Director, Personal Financial Services Asia-Pacific The Hongkong and Shanghai Banking Corporation Limited
The Hon Ms Eva CHENG, JP	Secretary for Transport and Housing
Professor the Hon Anthony CHEUNG Bing-leung, GBS, BBS, JP	Member of Executive Council Chairman, Consumer Council
Mr Eddy FONG Ching, GBS, JP	Chairman Securities and Futures Commission

Mr Lester Garson HUANG, JP	Partner, P. C. Woo & Co.
The Hon Starry LEE Wai-king	Legislative Councillor
The Hon Andrew LEUNG Kwan-yuen, SBS, JP	Legislative Councillor Chairman, Sun Hing Knitting Factory Limited
Dr the Hon David LI Kwok-po, GBM, GBS, LLD (Cantab), JP	Legislative Councillor Chairman and Chief Executive The Bank of East Asia, Limited
Mr Geoffrey Jay MANSFIELD	Chairman The DTC Association
The Hon Abraham SHEK Lai-him, SBS, JP	Legislative Councillor
Mr Eddie TAN Cheng-soo	Regional Treasurer, Asia Pacific Citibank, N.A.