

**立法會**  
**Legislative Council**

LC Paper No. CB(1)324/11-12  
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by the Administration)

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**Panel on Financial Affairs**

**Minutes of meeting**  
**held on Monday, 4 July 2011 at 10:45 am**  
**in Conference Room A of the Legislative Council Building**

**Members present** : Hon CHAN Kam-lam, SBS, JP (Chairman)  
Hon CHAN Kin-por, JP (Deputy Chairman)  
Hon Albert HO Chun-yan  
Ir Dr Hon Raymond HO Chung-tai, SBS, S.B..St.J., JP  
Dr Hon David LI Kwok-po, GBM, GBS, JP  
Hon James TO Kun-sun  
Dr Hon Philip WONG Yu-hong, GBS  
Hon Emily LAU Wai-hing, JP  
Hon Abraham SHEK Lai-him, SBS, JP  
Hon Jeffrey LAM Kin-fung, GBS, JP  
Hon Andrew LEUNG Kwan-yuen, GBS, JP  
Hon WONG Ting-kwong, BBS, JP  
Hon CHIM Pui-chung  
Hon KAM Nai-wai, MH  
Hon Starry LEE Wai-king, JP  
Hon Paul CHAN Mo-po, MH, JP  
Hon Mrs Regina IP LAU Suk-yea, GBS, JP

**Member attending** : Hon IP Wai-ming, MH

**Members absent** : Hon Vincent FANG kang, SBS, JP  
Hon LEE Wing-tat  
Hon Ronny TONG Ka-wah, SC  
Dr Hon LAM Tai-fai, BBS, JP

**Public officers attending** : Agenda Item III

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

Miss AU King-chi, JP  
Permanent Secretary for Financial Services and the Treasury (Financial Services)

Mr Patrick HO, JP  
Deputy Secretary for Financial Services and the Treasury (Financial Services) 2

Ms Annie CHOI, JP  
Commissioner of Insurance

Agenda item IV

Mr Maurice LOO  
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)

Agenda item V

Miss Mandy WONG  
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)

**Attendance by invitation** : Agenda item IV

Ms Winnie CHEUNG  
Chief Executive and Registrar  
The Hong Kong Institute of Certified Public Accountants

Mr Johnny CHAN  
General Counsel  
The Hong Kong Institute of Certified Public Accountants

Mr Patrick TAM  
Director of Member and Corporate Services  
The Hong Kong Institute of Certified Public Accountants

Ms Jessie NG  
Deputy Director of Compliance  
The Hong Kong Institute of Certified Public Accountants

Ms Tracy WONG  
Head of Admission  
The Hong Kong Institute of Certified Public Accountants

Agenda item V

Mr Keith LUI  
Executive Director, Supervision of Markets Division  
Securities and Futures Commission

Mr Rico LEUNG  
Senior Director, Supervision of Markets Division  
Securities and Futures Commission

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

**Staff in attendance** : Mr Timothy TSO  
Assistant Legal Adviser 2

Mr Noel SUNG  
Senior Council Secretary (1)5

Ms Haley CHEUNG  
Legislative Assistant (1)5

Action

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**I Confirmation of minutes and endorsement of the draft report of the Panel for submission to the Legislative Council**

(LC Paper No. CB(1)2478/10-11 — Minutes of special meeting on 28 March 2011

LC Paper No. CB(1)2556/10-11 — Minutes of meeting on 9 May 2011

LC Paper No. CB(1)2602/10-11 — Draft report of the Panel for submission to the Council)

The minutes of the meetings held on 28 March and 9 May 2011 were confirmed.

2. The draft report of the Panel for submission to the Council was endorsed. Members agreed that the Chairman be given the discretion to amend the draft report to include the main points of the discussions at this meeting.

## **II Information papers issued since the last meeting**

(LC Paper No. CB(1)2506/10-11(01) — Referrals from the Complaints and (02) Division regarding repurchase offers by Standard Chartered Bank (Hong Kong) to eligible customers holding outstanding equity linked notes issued and guaranteed by Lehman Brothers (Restricted to members only)

LC Paper No. CB(1)2535/10-11 — Referral from the Complaints Division — Policy issues relating to suspension of trading and subsequent buyback of four derivative warrants linked to the Nikkei 225 Index issued by Goldman Sachs Structured Products (Asia) Limited (Restricted to members only)

LC Paper No. CB(1)2558/10-11(01) — Hong Kong Mortgage Corporation Limited 2010 Annual Report

LC Paper No. CB(1)2571/10-11(01) — Submission from a member of the public dated 20 June 2011 regarding repurchase offers made by Standard Chartered Bank (Hong Kong) to eligible customers holding outstanding equity linked notes issued and guaranteed

by Lehman Brothers  
(Restricted to members only)

LC Paper No. CB(1)2585/10-11(01) — Administration's paper on review of notification and appeal system for disclosure of information under comprehensive avoidance of double taxation agreements)

3. Members noted the information papers issued since the last regular meeting on 9 June 2011.

### **III Detailed proposals for the establishment of an independent Insurance Authority**

(LC Paper No. CB(1)2590/10-11(01) — Administration's paper on "Consultation conclusions and detailed proposals on the proposed establishment of an Independent Insurance Authority"

LC Paper No. CB(1)2600/10-11 — Background brief on proposed establishment of an Independent Insurance Authority prepared by the Legislative Council Secretariat)

#### Briefing by Administration

4. At the invitation of the Chairman, the Secretary for Financial Services and the Treasury (SFST) gave a Powerpoint presentation on the consultation feedback and conclusions on the proposed independent Insurance Authority (IIA), and the detailed proposals, including the functions, powers, funding mechanism, governance and organization of the proposed IIA.

*(Post-meeting note: The presentation notes (LC Paper No. CB(1)2645/10-11(01)) were issued to Members by a Lotus Notes e-mail on 4 July 2011.)*

#### Discussion

*Consultation*

5. The Deputy Chairman said that he was delighted to note that the Government had accepted many of the views and suggestions from the insurance industry, and had clarified under the detailed proposals that the IIA would be the primary and lead regulator of all insurance intermediaries, addressing the concern about the involvement of both the IIA and the Hong Kong Monetary Authority (HKMA) regarding the regulation of insurance intermediary activities of banks. The Deputy Chairman remarked that since there were still areas of concern which needed to be addressed, the Government should further consult the insurance industry and related sectors regarding the detailed arrangements of the IIA before the final legislative proposals were introduced into the Legislative Council (LegCo).

6. SFST responded that a three-month public consultation on the broad framework of proposals for the establishment of an IIA had been conducted in July-October 2010. The Government had embarked on the next phase of engagement with the insurance industry and relevant stakeholders regarding the detailed proposals of the IIA. The draft key legislative provisions would be drawn up in the first half of 2012 for further consultation with the insurance industry and relevant stakeholders.

7. While supporting in principle the establishment of the IIA, Ms Emily LAU remarked that she had met representatives of certain insurance industry bodies on 22 June 2011 and noted that they held strong reservation on the consultation proposals, especially the arrangement relating to the involvement of HKMA and the IIA in the regulation of insurance intermediary activities of banks. Ms LAU said that the Government should take into account the views of the industry and work out acceptable arrangements for setting up the IIA. Ms LAU remarked that HKMA and the Hong Kong Association of Banks should be invited to join the discussion with the insurance industry and related sectors regarding the arrangement for regulating insurance intermediary activities of banks.

8. SFST reiterated that the Government had maintained discussions with the insurance industry and relevant stakeholders since the issuance of the consultation paper in July 2010, and was fully aware of their concerns. The detailed proposals had taken into account many of the comments and suggestions put forth by relevant stakeholders and were aimed to address their concerns such as the transitional arrangements, the formation of the Disciplinary Committee and the levy payments.

*Regulation of insurance intermediary activities of banks*

9. Ms Emily LAU remarked that lessons should be learnt from the undesirable situation in the regulation of the sale of structured financial products in the Lehman Brothers Minibonds Incident. She noted that the arrangements for regulation of insurance intermediary activities of banks as described in the Administration's paper were rather complicated and sought explanation on the proposed arrangements.

10. SFST responded that the detailed proposals had addressed the concerns about the regulation of insurance intermediary activities of banks. He pointed out that the IIA would be the primary and lead regulator for all insurance intermediary activities. It would set the standards and requirements and be responsible for the licensing of insurers and insurance intermediaries, including banks and the intermediaries engaged by the banks. The IIA would also be vested with the powers to investigate complaints and take disciplinary actions against insurers and insurance intermediaries. In view that HKMA was the primary and lead regulator of banks, and that retail banks generally provided integrated financial services, it would be necessary for the IIA to work closely with HKMA on the regulation of the insurance intermediary activities of banks, so as to avoid duplication of regulatory efforts.

11. The Commissioner of Insurance (C of I) explained that there were practical needs for the IIA and HKMA to join hands in the inspections and investigations of complaints relating to insurance intermediary activities of banks. Also the IIA could not access non-insurance information and needed to be complemented by the participation of HKMA. Ms Emily LAU opined that if necessary, the relevant legislation could be amended to enable the IIA to carry out inspections and investigate complaints relating to insurance intermediary activities of banks on its own, and to ensure IIA personnel would not breach the relevant privacy and confidentiality legislation and regulations in collecting information from banks.

12. While supporting the establishment of an IIA to regulate the insurance industry, Mr KAM Nai-wai opined that instead of empowering HKMA to investigate complaints relating to insurance intermediary activities of banks, the IIA should be responsible for investigating such cases. Otherwise, the confusion arising from one industry being regulated by two regulatory bodies as in the case of the Lehman Brothers Minibonds Incident would recur. He considered that if necessary, HKMA might delegate certain powers to IIA to enable the latter to access the insurance information of banks.

13. SFST remarked that he could not agree to Mr KAM's point of view. He pointed out that retail banks operated as an integrated business. HKMA as the statutory authority to regulate banks had to maintain an overview of their operation and thus had been carrying out inspections of banks and investigating

into complaints of malpractices in banks, noting that an irregularity did not necessarily only relate to a particular product or an individual staff. In future, IIA would work jointly with HKMA in the inspections of banks, and HKMA would provide all investigation reports to IIA in respect of complaints about insurance intermediary activities of banks.

14. The Permanent Secretary for Financial Services and the Treasury (Financial Services) (PS(FS)) supplemented that there were secrecy provisions in the relevant legislations governing the collection and exchange of confidential information by the regulatory bodies concerned. The financial regulatory bodies might, through the mechanisms provided in the relevant legislation and/or Memoranda of Understanding, exchange confidential information for enforcement purposes. Given that HKMA had the expertise and the responsibility to inspect banks, it would be more efficient for the IIA to carry out joint inspections with HKMA on the insurance intermediary activities of banks and for the two regulators to exchange information regarding the investigation of complaints. This could also avoid duplication of efforts between HKMA and IIA. PS(FS) further clarified that under the current proposal, the legislation would stipulate that all powers to regulate insurance intermediary activities, whether of banks or otherwise, were to be vested with the IIA. As such, there would be no question of the IIA requiring any delegated powers for obtaining insurance information of banks. C of I added that the IIA and HKMA would carry out joint inspections and where considered necessary, IIA might send staff to participate in HKMA's investigation regarding insurance intermediary activities of banks. The IIA would be vested with the powers to take disciplinary actions for any breach of the regulatory requirements.

15. Ms Starry LEE said that she welcomed the proposed changes to the arrangements regarding the regulation of insurance intermediary activities of banks. She noted that in order to address the concern of members and the stakeholders regarding the regulation of insurance intermediary activities of banks by two regulatory bodies, namely the IIA and HKMA, the Administration had made arrangements so that the IIA would be the primary and lead regulator for all insurance intermediary activities, including those of banks.

16. Mr IP Wai-ming said he was pleased to note that the Government, in developing the detailed proposals, had taken into account the views raised by the Hong Kong Insurance Practitioners General Union. Mr IP opined that the Administration should provide more detailed information about how the IIA and HKMA would jointly regulate the insurance intermediary activities of banks in order to fully allay the concern that the insurance industry would be subject to supervision by two regulatory bodies. Mr IP remarked that



provisions should be made in the proposed legislation to enable the IIA to investigate complaints and collect information relating to insurance intermediary activities of banks.

17. SFST reiterated that the Government had carefully considered the concerns raised by the industry and relevant stakeholders. He stressed that the IIA would be the primary and lead regulator for all insurance intermediary activities, including those of banks. It would be necessary for HKMA to play an active role in IIA's enforcement actions relating to insurance intermediary activities of banks, based on the standards and guidelines set by the IIA. The Government would continue to explain to the industry and relevant stakeholders the detailed proposals and engage them in working out the implementation arrangements. Given the development of the insurance market and new insurance products, it would be necessary to ensure that all participants in the insurance market would comply with the same set of standards and code of conduct.

#### *Disciplinary process*

18. Noting that IIA would have the authority to take disciplinary actions against members of the insurance industry, the Deputy Chairman remarked that steps should be taken to ensure that the IIA would exercise its disciplinary powers in a fair and impartial manner, as any sanction against an insurer or an intermediary could have profound implications on the business or career of the company/person concerned. The Deputy Chairman expressed concern that the IIA would rely on the support of a Disciplinary Committee in exercising its disciplinary powers. Noting that an Expert Panel would be set up in the IIA, the Deputy Chairman remarked that arrangements should be made to tap the past experience gained in the self-regulatory regime, e.g. by including in the Disciplinary Committee professionals in the insurance industry and related sectors such as lawyers, accountants and representatives of the Consumer council who had experience in enforcing disciplinary sanctions under the self-regulatory regime. The Deputy Chairman was of the view that for all substantiated complaint cases, the Expert Panel should be requested to give comments on the cases before disciplinary actions were considered. The Deputy Chairman opined that the senior management officers of insurance companies should be allowed to be appointed as members of the IIA Governing Board, as the expertise of these personnel who were still working in the insurance industry would be instrumental to the effective operation of the IIA.

19. SFST responded that the credibility of the disciplinary system of the IIA would be of paramount importance. The Government would take note of the Deputy Chairman's view. PS(FS) supplemented that similar to the arrangements of other statutory regulatory bodies, the subject of a disciplinary case would be given an opportunity to be heard before the authority had come

to a disciplinary decision. Given the rapid development of the insurance industry and insurance products, the IIA would set up an Expert Panel comprising professionals of the insurance and related sectors (e.g. consumer interests) amongst others to provide expert advice to the IIA as necessary during the disciplinary process. There would be transparency in the disciplinary process. When the IIA had exercised its disciplinary powers against an insurer/insurance intermediary, it would be required to disclose to the public details of its decision, including information about the case and reasons for the disciplinary actions. The appeal mechanism would be modernised by establishing an independent statutory Insurance Appeals Tribunal to handle appeals from insurers and insurance intermediaries against regulatory decisions. C of I added that in straightforward and simple disciplinary cases, such as failure to register in time for a licence, the Disciplinary Committee would not need to seek assistance from the Expert Panel. In the more complicated cases which required knowledge of a particular type of insurance service/product, the IIA might invite the Expert Panel to provide expert advice such as the nature of a specific product or related industry practices, or experiences in handling cases of similar nature.

20. Mr KAM Nai-wai opined that the IIA should be given the authority to order compensation, in addition to the power to impose sanctions on the insurers and insurance intermediaries who breached the relevant legislation/regulations.

21. SFST responded that currently, the Insurance Claims Complaints Bureau dealt with insurance claims complaints arising from personal insurance policies. The coverage of the Financial Disputes Resolution Centre, which would be established in the near future, would be reviewed over time in consultation with the industry.

*Uniform definition of terms and clauses in insurance policies*

22. Given that one of the functions of the IIA was to consider and propose reforms relating to insurance business, Ms Starry LEE enquired whether there could be a uniform definition for certain terms and/or clauses commonly used in insurance policies, in view that there had been arguments regarding the interpretation of the terms and conditions for compensation in insurance policies, such as in the case of the Philippines hostage incident.

23. C of I explained that it would be difficult to provide a uniform definition for the terms and clauses used in insurance policies, as the protection provided in individual insurance policies by different insurers would vary. Factors such as the policy premium, the commercial considerations of the insurers concerned and the different needs of clients might affect the scope and level of

protection provided in insurance policies. Emphasis was therefore put on enhancing transparency regarding the terms and clauses in insurance policies and educating consumers, in order to ensure that policyholders fully understand the protection rendered in the relevant insurance policies. For instance, intermediaries of investment-linked insurance products were required to provide their clients with a pamphlet on "Questions you need to ask before buying an ILAS product" so as to draw the latter's attention to the key aspects of the product when they bought such a policy. In fact, under the current proposal, one of new functions of the IIA would be public education with a view to raising literacy amongst potential and existing insurance policyholders regarding features and risks of insurance products, thereby facilitating informed decision-making.

#### *Funding arrangements*

24. Mr IP Wai-ming queried the justification for the proposed levy of 0.1% on insurance premiums for all insurance policies and opined that the levy should not be borne by policyholders. Mr KAM Nai-wai echoed Mr IP's view and remarked that the imposition of the 0.1% levy could only be justified if the IIA was empowered to order compensations from the insurers and insurance intermediaries.

25. SFST responded that the funding proposal was based on the "user-pay" principle and the levy was set at a relatively low level of 0.1% on insurance premiums. The feedback from the respondents to the public consultation showed that the public generally accepted the proposed levy in order to finance the operation of the IIA for the better protection of policyholders' interests. SFST stressed that in accordance with regulatory principle, it was important for the IIA to be financially independent to perform its statutory regulatory functions in an equitable and impartial manner. He further clarified that the purpose of collecting the levy was different from that of a compensation fund.

#### IV Professional Accountants (Amendment) Bill 2011

(LC Paper No. CB(1)2601/10-11(01) — Paper on "The Hong Kong Institute of Certified Public Accountants' Proposed Member's Bill to amend the Professional Accountants Ordinance (Cap. 50)" provided by Hon Paul CHAN's office)

##### Briefing by Mr Paul CHAN

26. At the invitation of the Chairman, Mr Paul CHAN briefed members on the proposed Member's Bill to amend the Professional Accountants Ordinance (Cap. 50) (PAO), by highlighting the salient points in the paper.

##### Discussion

##### *Prohibition on use of name*

27. Ms Emily LAU said that Dr David LI had earlier invited her and other legislators and representatives of the Hong Kong Institute of Certified Public Accountants (HKICPA) to lunch to discuss the proposed Member's Bill. Ms LAU enquired about the number of cases where the name "certified public accountant" or "CPA" or the characters "會計師" had been misused in the name of companies intended to cause people to believe that they were certified public accountant practices. Ms LAU further enquired about the action taken by the Police after receiving reports from the HKICPA, and whether the HKICPA had carried out any work to educate the public regarding the use of the aforementioned names/initials/characters.

28. The Chief Executive and Registrar, the Hong Kong Institute of Certified Public Accountants (CE&R/HKICPA) responded that in the first half of 2011, 32 companies or businesses, not being CPA practices registered with the HKICPA under the PAO, had represented or advertised themselves as qualified to practise as a certified public accountant (practising), some of which had been registered with the Companies Registry or Business Registration Office using the description "certified public accountant", the initials "CPA" or the characters "會計師" in their company or business names. As section 42(1)(ha) of PAO did not explicitly prohibit companies from using the description "certified public accountant", the initials "CPA" or the characters "會計師" in their names, companies might be able to use such description/initials/characters with the intention of causing people to believe that they were practice units.

CE&R/HKICPA remarked that while the HKICPA had reported the cases to the Police, in most cases the Police had difficulty in locating the responsible persons of the companies. In some cases, the companies concerned only provided accounting services in the Mainland, and advertised such services in Hong Kong. CE&R/HKICPA pointed out that the HKICPA had embarked on a publicity campaign regarding the use of names by practice units registered with the HKICPA. An advertisement would be placed in newspapers listing the names of companies containing the description "certified public accountants", the initials "CPA" or the characters "會計師", and pointing out that they were not CPA corporate practices registered with the HKICPA. The HKICPA would discuss with the Companies Registry and the Business Registration Office of the Inland Revenue Department about possible administrative arrangements to plug the loophole.

29. Ms Emily LAU enquired whether the phenomenon was caused by the insufficient supply of certified public accountants, leading to some customers engaging companies not registered with the HKICPA under the PAO to provide accounting services at lower fees. She also asked how those customers' interests would be affected if the present situation was allowed to continue.

30. CE&R/HKICPA responded that the registration system under the PAO aimed at ensuring the standard of public accountancy services provided by certified public accountants, and protecting the interest of the public. Companies which were not CPA corporate practices registered with the HKICPA would not be subject to the regulation of the HKICPA and might provide sub-standard services. CE&R/HKICPA pointed out that the problem was not a result of inadequate supply of certified public accountants, as there were 32 000 certified public accountants, out of whom about 10 000 were CPAs working in public practice.

31. Mr Paul CHAN supplemented that there were about 10 000 certified public accountants working in some 1 500 CPA firms and corporate practices registered with the HKICPA. Some people were even of the view that there was an over-supply of certified public accountants. Mr CHAN pointed out that as some of the companies registered under the name of "certified public accountant"/"CPA"/"會計師" operated in the Mainland and provided services at unreasonably low prices, cases involving the misuse of "certified public accountant"/"CPA"/"會計師" were identified only when problems were detected from the accountancy services provided by these companies. The proposed amendment to the relevant provision in the PAO aimed to plug the loophole.

32. Mr KAM Nai-wai enquired whether it was appropriate to prohibit the use of the term "CPA", which might stand for other meanings.

33. CE&R/HKICPA responded that it was recognized internationally that the term "CPA" stood for "certified public accountant", and the existing section 42 of the PAO already prohibited any person who was not a certified public accountant from using the initials "CPA". In order to make it clear that "any person" in section 42 of the PAO also covered companies, amendment to that section was proposed to reflect the same.

34. In response to Ms Emily LAU's enquiry about the legislative timetable, Mr Paul CHAN remarked that HKICPA was in the process of obtaining the Law Draftsman's certificate as required under Rule 51(2) of the Rules of Procedure of LegCo. Arrangement would be made in due course to obtain the written consent of the Chief Executive under Rule 51(4) of the LegCo Rules of Procedure if the President of LegCo ruled that the Bill was related to government policy. The Bill was expected to be introduced into LegCo in the next legislative session.

## **V Proposal of the Securities and Futures Commission for a Short Position Reporting Regime**

(LC Paper No. CB(1)2601/10-11(02) — Administration's paper on "Proposal of the Securities and Futures Commission for a Short Position Reporting Regime")

### Briefing by the Administration and the Securities and Futures Commission

35. At the invitation of the Chairman, the Principal Assistant Secretary for Financial Services and the Treasury (Financial Services) (PAS(FS)) and the Executive Director, Supervision of Markets Division, Securities and Futures Commission (ED(SMD)/SFC) briefed members on the proposal for the establishment of a short position reporting regime. PAS(FS) indicated that the Administration supported the proposal.

### Discussion

36. Mr Albert HO enquired about the practice of short position reporting in other financial markets, such as in the United States (US) and United Kingdom (UK).

37. ED(SMD)/SFC responded that at present, short selling orders were required to be "marked" on the transaction records of individual shares, so that

short selling transactions were traceable. The proposed short position reporting regime would enable SFC and market participants to have a better picture of the overall short selling activities in the Hong Kong market. After the global financial crisis, the International Organization of Securities Commissions (IOSCO) published a report entitled "Regulation of Short Selling" which recommended, among other things, that short selling should be subject to a reporting regime providing timely information to the market or to market authorities. ED(SMD)/SFC pointed out that the stock market in Australia had introduced a short position reporting regime in 2010. While the stock market in the UK had introduced a short position reporting regime during the global financial crisis, the European Union was in the process of formulating a standard short position reporting mechanism for compliance by all member countries. The proposed short position reporting regime was in line with the global trend of enhancing transparency of short selling activities.

38. Mr WONG Ting-kwong remarked that there was concern that the proposed threshold for short position reporting was relatively low. Mr WONG enquired about the relevant international standard in this regard.

39. ED(SMD)/SFC responded that there was not an international standard for setting the threshold for short position reporting, as each stock market had to take into account the characteristics of its own market in devising its short position reporting regime. In Australia, the threshold for short position reporting was set at 0.01% of the issued share capital of that particular listed company or A\$100,000, whichever was lower. In the UK stock market, the threshold for short position reporting was 0.25% of the issued share capital of the listed company, covering derivatives and shares of the company. The names of the persons holding the reportable short positions were also published in the short position reports on the Internet. Given the relatively high threshold in the UK, on average only 20-40 short position reports were made each month. ED(SMD)/SFC remarked that the threshold for the short position reporting regime was proposed having regard to the characteristics of the Hong Kong stock market, e.g. the great difference of the capital size between the large and small listed companies, the transaction volume of the shares of individual listed companies, etc.

40. Mr Paul CHAN enquired about the progress of the development of the regulatory regime for over-the-counter (OTC) derivatives, and the legislative timetable for the proposed regulatory regime.

41. ED(SMD)/SFC responded that the Panel had been briefed in January 2011 on the proposal of setting up a regulatory regime for the OTC derivatives market, which would include (a) the reporting of OTC derivatives transactions, particularly those which were relevant to the Hong Kong market, to a local

trade repository to be created by HKMA, and (b) the clearing of standardised OTC derivatives transactions through an authorized central counterparty. The current plan was to introduce the relevant legislative proposals into LegCo in October/November 2011 if a timeslot was available.

**VI Any other business**

42. There being no other business, the meeting ended at 12:15 pm.

Council Business Division 1  
Legislative Council Secretariat  
11 November 2011