

A. Introduction

The Audit Commission ("Audit") conducted a review of the Hong Kong Export Credit Insurance Corporation ("ECIC").

2. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses to its enquiries.

B. Governance structure of the ECIC

3. As stated in paragraph 1.2 of the Director of Audit's Report ("Audit Report"), the ECIC was established in 1966 under the ECIC Ordinance (Cap. 1115). According to paragraphs 2.2 and 2.3, an Advisory Board was established under the ECIC Ordinance to advise the ECIC in the conduct of its business. The Advisory Board is not a governing board of the ECIC and under the ECIC Ordinance, the ECIC shall not be bound by the advice of the Board.

4. To ascertain whether the governance structure of the ECIC, including the role of the Advisory Board, was in line with overseas practice nowadays, the Committee enquired about the governance structure of comparable organisations in overseas countries which performed functions similar to those of the ECIC.

5. In his letter of 12 May 2011 (in *Appendix 15*), the **Secretary for Commerce and Economic Development** provided a table comparing the products and services offered by the ECIC and other export credit agencies ("ECAs") in 10 different countries in the Asia Pacific, Europe and North America, and a description of their governance structure. He also stated that:

- all of the ECAs listed in the table, except for the one in Singapore which had been privatised in 2003, were 100% owned by the respective Governments and were members of the Berne Union which was the leading international organisation of public and private sector providers of export credit and investment insurance;
- the listed ECAs were established in different forms, e.g. as government departments, public corporations, banks or as a publicly listed company. However, none of them had functions which were identical to the ECIC.

All of them offered wider range of products and services (including loans, project financing, investment insurance and banks guarantees) than those of the ECIC;

- the ECA in New Zealand, which performed functions most similar to the ECIC, had an advisory board structure; and
- in view of the more focused services offered by the ECIC, the Commerce and Economic Development Bureau ("CEDB") considered that the present governance structure of the ECIC was appropriate.

6. Notwithstanding the CEDB's view that the ECIC's present governance structure was appropriate, the Committee noted Audit's recommendations in paragraph 2.7 of the Audit Report that there was a need for the Government to regularly review the ECIC's governance and the CEDB's monitoring mechanism. The Committee therefore asked the CEDB:

- how the ECIC's present governance structure could address the issues raised by Audit in paragraph 2.6 of the Audit Report; and
- how the CEDB would proceed with the review of the governance and monitoring mechanism over the ECIC's work and performance, as undertaken by the Secretary for Commerce and Economic Development in paragraph 2.8(a) of the Audit Report.

7. In his letter of 23 May 2011 (in *Appendix 16*), the **Secretary for Commerce and Economic Development** informed the Committee of the actions that had already been taken or were being implemented by the ECIC and the CEDB regarding the issues raised by Audit, based on the existing governance structure of the ECIC, as follows:

Rapid business expansion

- both the CEDB and the Advisory Board of the ECIC would continue to monitor closely the growth of the ECIC's insured business and ensure that the Government's guarantee would remain sufficient for it to carry out its statutory duties effectively. The CEDB noted that with the gradual recovery of the global economy, the increase in demand for the ECIC's services had slowed down significantly;

Role of Advisory Board

- the ECIC was reviewing its guidelines for determining the types of issues (and the timeframe) which should be submitted to the Advisory Board and its committees for advice and would seek the Advisory Board's endorsement on these guidelines upon the completion of the review. Meanwhile, the Advisory Board discussed and agreed at its meeting held on 23 March 2011 on the issues to be submitted to the Advisory Board for information and advice for all meetings scheduled in 2011-2012;

Role of the CEDB

- while the present mechanism already enabled the ECIC to incorporate the Government's views into its annual corporate plan/budget through discussions at the Advisory Board, the CEDB had asked the ECIC to submit its annual corporate plan/budget to the Secretary for Commerce and Economic Development for formal approval from this year onwards after seeking the endorsement of the Advisory Board;

Scope of the ECIC's services under the ECIC Ordinance

- in response to the recommendation in paragraph 4.58 of the Audit Report, the CEDB had sought legal advice which reconfirmed that the services provided by the ECIC were consistent with the true intent, meaning and spirit of section 9(3) of the ECIC Ordinance;

Monitoring of the ECIC's work and performance

- while the CEDB currently did not micro-manage the daily operations of the ECIC, it had recently reviewed the situation and had further stepped up its monitoring by requiring the ECIC to submit the ECIC's annual corporate plan/budget to the Secretary for Commerce and Economic Development for formal approval from this year onwards, after seeking the endorsement of the Advisory Board. As regards the half-yearly housekeeping meeting between the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) and the ECIC, in addition to its business and financial performance, the ECIC also reported regularly on its management and operational matters including internal audit, human resource management, reinsurance arrangement and development plans for new services. The CEDB

would continue to assess through the annual corporate plan/budget and its regular liaison and housekeeping meetings with the ECIC on how effectively the ECIC discharged its public mission; and

Administrative irregularities identified

- in 2009, the ECIC commissioned a consultancy study on the internal control procedures of the ECIC on a number of areas including tendering and disbursement of IT development and consultancy projects. A number of administrative irregularities had been identified. All of the consultant's recommendations to address the irregularities had been implemented in the same year before Audit commenced its audit review on the ECIC. Since then, the ECIC had regularly reviewed its internal control. An internal audit unit was set up in 2010 to audit the work of each division of the ECIC and its plan was to complete a full internal audit within three years. It would submit a report on each division to the Audit Committee (under the Advisory Board) which would, in turn, put forward its recommendations to the full Board for consideration.

8. Regarding his response given in paragraph 2.8(a) of the Audit Report, the **Secretary for Commerce and Economic Development** stated in his letter of 23 May 2011 that the findings on the governance structure and operation of overseas ECAs, which were provided to the Committee in his previous letter, were based on information in websites and documents available to the public. To get a better understanding of the governance and operations of those ECAs, the CEDB would ask the ECIC to write to those ECAs for more information. Upon receipt of additional data from the organisations, the CEDB would further review the governance of the ECIC and report back to the Legislative Council Panel on Commerce and Industry ("CI Panel") on the outcome of the review.

9. In response to the Committee's enquiry about the timetable for completing the review and reporting to the CI Panel, the **Secretary for Commerce and Economic Development** advised, in his letter of 26 May 2011 (in *Appendix 17*), that the CEDB planned to report the outcome of the review of the governance of the ECIC to the CI Panel before the end of 2011.

C. Conclusions and recommendations

10. The Committee notes the above replies of the Secretary for Commerce and Economic Development. Given that the ECIC was established in 1966, the Committee is concerned that its governance structure, as prescribed by the ECIC Ordinance, may not be in line with modern-day practices and requirements. As the CEDB does not micro-manage the daily operations of the ECIC, the Committee considers it all the more important for the Advisory Board to play the role of a governing board to monitor the work and performance of the ECIC as well as oversee its governance. The Committee recommends that the Secretary for Commerce and Economic Development should expeditiously conduct the review of the governance of the ECIC, taking into account the Committee's concerns, and report the outcome to the CI Panel before the end of 2011.

11. The Committee also wishes to be kept informed of the progress and outcome of the review, as well as the progress made in implementing the various recommendations made by Audit.

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12 May 2011

Ms Miranda Hon
Clerk to the Public Accounts Committee
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8 Jackson Road, Central
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Dear Ms Hon,

**The Director of Audit's Report on the
results of value for money audits (Report No. 56)
Hong Kong Export Credit Insurance Corporation (ECIC)**

Thank you for your letter dated 19 April 2011.

Based on the information available from relevant websites and documents accessible to the public, we have examined the operations of export credit agencies (ECAs) in 10 different countries in the Asia Pacific, Europe and North America. All of these ECAs, except for the one in Singapore which has been privatized in 2003, are 100% owned by the respective governments and are members of the Berne Union which is the leading international organisation of public and private sector providers of export credit and investment insurance.

The listed ECAs are established in different forms, e.g. as government departments, public corporations, banks or as a publicly listed company. However, none of them have functions which are identical to the ECIC. All offer products and services (including loans, project financing, investment insurance and banks guarantees) wider than the

ECIC. A table comparing the products and services offered by the ECIC and the other ECAs, and a description of their governance structure is at **Annex**. It is noted that the ECA in New Zealand which performs functions most similar to the ECIC has an advisory board structure.

In view of the more focused services offered by the ECIC, we consider that the present governance structure of the ECIC is appropriate.

A Chinese translation of our response is attached as requested. Soft copies have been sent to you separately. If you have any enquires, please feel free to contact the undersigned or Mr Cyril Leung at 2918 7473.

Yours sincerely,



(Mrs Candy Yeung)

for Secretary for Commerce and Economic Development

c.c. Commissioner, Hong Kong Export Credit Insurance Corporation
(fax no. 2311 8446)
Secretary for Financial Services and the Treasury (fax no. 2147 5239)
Director of Audit (fax no. 2583 9063)

ECIC and 10 Overseas Export Credit Agencies (ECA)

Name of Economy/Country Name of ECA		Governance Structure	Products and Services Offered											
			A ¹	B ²	C ³	D ⁴	E ⁵	F ⁶	G ⁷	H ⁸	I ⁹	J ¹⁰	K ¹¹	
1.	Hong Kong Hong Kong Export Credit Insurance Corporation (ECIC)	Advisory Board of a Statutory Body <ul style="list-style-type: none"> Set up under the ECIC Ordinance, to advise the ECIC in the conduct of its business since 1966. The Advisory Board consists of nine members from different industries such as manufacturing, banking, insurance, services, import and export, an official from CEDB and ex-officio representing Trade Development Council and the office of the Commissioner of Insurance. 	✓	✓										
2.	New Zealand New Zealand Export Credit Office (NZECO)	Advisory Board of a Government Department <ul style="list-style-type: none"> Founded in 2001, the NZECO Advisory Board consists of three members from the business sector. It advises New Zealand's Secretary to the Treasury on issues such as the operation and performance of the NZECO, the effectiveness of risk management strategies and auditing and reporting requirements. All transactions are assessed by NZECO's underwriters and then recommendations are made to the NZECO Advisory Board. If a transaction is accepted by the NZECO Advisory Board, a recommendation is made to the Secretary to the Treasury (or delegate) to approve a transaction. 	✓	✓					✓					

Name of Economy/Country Name of ECA		Governance Structure	Products and Services Offered										
			A ¹	B ²	C ³	D ⁴	E ⁵	F ⁶	G ⁷	H ⁸	I ⁹	J ¹⁰	K ¹¹
3.	United Kingdom Export Credits Guarantee Department (ECGD)	<p>Management Board of a Government Department</p> <ul style="list-style-type: none"> Founded in 1919, the ECGD is a separate department of the UK Government, responsible to the Secretary of State for Business, Innovation & Skills. The Board is made up of a non-executive chairman, five non-executive directors and five executive directors including the Chief Executive of the ECGD. While the ECGD Management Board advises and supports the Chief Executive in operating the ECGD, it is accountable to the Secretary of State for Business, Innovation & Skills for overseeing the work of the Chief Executive and the senior management team. 	✓	✓	✓			✓				✓	
4.	Australia Export Finance and Insurance Corporation (EFIC)	<p>Board of Directors of a Public Corporation</p> <ul style="list-style-type: none"> Founded in 1957, the EFIC is governed by a Board of nine members. Apart from the Managing Director, who is a full time employee appointed by the Board after consulting the Minister for Trade, all Board members are non-executives appointed by the Minister. The majority of the Board members is from the private sector, with the Secretary of the Department of Foreign Affairs and Trade representing the Australian Government. The Board is responsible for the corporate 	✓	✓	✓	✓	✓	✓					✓

Name of Economy/Country		Governance Structure	Products and Services Offered										
			A ¹	B ²	C ³	D ⁴	E ⁵	F ⁶	G ⁷	H ⁸	I ⁹	J ¹⁰	K ¹¹
		governance of the EFIC and oversees its operations, which include formulating strategies, defining risk appetite, monitoring performance, making decisions on capital usage and making dividend recommendations to the Government.											
5.	Canada Export Development Canada (EDC)	Board of Directors of a Public Corporation <ul style="list-style-type: none"> Founded in 1944, the Board is responsible for the strategy and management of the EDC. It oversees the EDC's strategic direction, as outlined in its Corporate Plan, to ensure that it meets its public policy objectives in the most effective manner. The Board reports to Parliament through the Minister for International Trade. The Board has 12 members who are appointed by the Government of Canada, mainly comprising representatives from the private sector. All Board members other than the CEO are non-executives. The allocation of responsibilities between the Board and management is reviewed on a regular basis. 	✓	✓	✓	✓		✓					✓
6.	Denmark Eksport Kredit Fonden (EKF)	Board of Directors of a Public Corporation <ul style="list-style-type: none"> Founded in 1996, the EKF's Board of Directors consists of eight members appointed by the Minister for Economic and Business Affairs. Most of the members of the Board of Directors are from the business sector, selected on the 	✓	✓	✓			✓	✓			✓	

Name of Economy/Country		Governance Structure	Products and Services Offered											
			A ¹	B ²	C ³	D ⁴	E ⁵	F ⁶	G ⁷	H ⁸	I ⁹	J ¹⁰	K ¹¹	
		basis of their professional background and knowledge of the market in which the EKF operates. In order to ensure that business and trade policy interests are promoted, the Ministry of Economic and Business Affairs, the Ministry of Finance and the Ministry of Foreign Affairs are represented on the Board.												
7.	India Export Credit Guarantee Corporation of India Ltd (ECGC)	Board of Directors of a Public Corporation <ul style="list-style-type: none"> Founded in 1957, the Board is responsible for the strategy and operation of the ECGC. The Board is presided over by a full time Chairman-cum-Managing Director. The other directors on the Board are non-executives. All appointments to the Board, including that of the Chairman-cum-Managing Director are made by the Government. 	✓	✓	✓	✓				✓	✓			
8.	Japan Nippon Export and Investment Insurance (NEXI)	Board of Directors of a Public Corporation <ul style="list-style-type: none"> Established in April 2001, NEXI is an incorporated administrative agency and is managed by a Board of Directors of four members, all of whom are the executive officers of NEXI, including the Chairman and CEO, two Vice-Chairman, and one Corporate Auditor. 	✓	✓	✓			✓				✓		

Name of Economy/Country Name of ECA		Governance Structure	Products and Services Offered										
			A ¹	B ²	C ³	D ⁴	E ⁵	F ⁶	G ⁷	H ⁸	I ⁹	J ¹⁰	K ¹¹
9.	Malaysia Export-Import Bank of Malaysia Berhad (EXIM Malaysia)	Board of Directors of a Bank <ul style="list-style-type: none"> Founded in 1977, the Board of Directors is responsible for policy and strategic issues, the review of financial performance and credit operations. The Board has seven members from the business sector and the government. 	✓	✓	✓	✓		✓					✓
10.	USA Export Import Bank of the United States (US EXIM)	Board of Directors of a Bank <ul style="list-style-type: none"> Founded in 1934, the Board of Directors adopts, and may from time to time amend, such bylaws as are necessary for the proper management and functioning of the Bank, and through the bylaws, designates the vice presidents and other officers of the Bank and prescribes their duties. The Board consists of seven members including the President of the Bank as the Chairman of the Board and two ex-officio (Secretary of Commerce and US Trade Representative). Some Board members are appointed by the President of the United States with the advice and consent of the Senate. 	✓	✓		✓			✓				✓
11.	Singapore ECICS Limited (ECICS)	An ex-ECA: Board of Directors of a Publicly Listed Company <ul style="list-style-type: none"> The ECICS was originally a public body. Founded in 2003, the ECICS is a privately 	✓	✓			✓	✓		✓			

Name of Economy/Country		Governance Structure	Products and Services Offered										
Name of ECA			A ¹	B ²	C ³	D ⁴	E ⁵	F ⁶	G ⁷	H ⁸	I ⁹	J ¹⁰	K ¹¹
		owned company which provides a broad range of credit insurance and, bonds and guarantees services. Its shares are 100% owned by publicly-listed IFS Capital Limited, a recognized financial institution which specializes in short and long-term financing services. The operation of the ECICS is governed by the Insurance Act Chapter 142 and the Insurance Regulations and the Government has no involvement in its insurance business.											

Note

1. Export credit insurance protecting exporters against risks of nonpayment for or refusal of shipments by customers overseas due to commercial or political events.
2. Guarantees on payment of a debt or performance of some obligations if the performer primarily liable fails to perform.
3. Investment insurance covering a number of long-term political risks, potentially affecting the value or performance of an overseas investment. The insurance programmes may differ in different countries but are generally based on the same principle to cover the investor against the political risks in connection with their overseas investment.
4. Financing services including direct loans and financing for projects.
5. Bonds similar to a bank guarantee.
6. Bond insurance protecting the exporter against the risk of unfair calling under a contract guarantee issued in favor of the buyer. The unfair calling cover under the insurance protects the exporter should the buyer's demand in itself be unfair due to political events in that country.
7. Export loans to help export companies when foreign buyers are unable to secure credit facilities from banks for purchasing the exporters' products and services.
8. Domestic credit insurance covering a wide range of commercial risks including, such as refusal of a customer to pay or accept goods, bankruptcy, insolvency and contract cancellation.
9. Export factoring, a form of short term finance where a finance company (the factor) purchases the seller's receivables and assumes the credit risk, either with or without recourse to the seller.
10. Project finance insurance, a guarantee solution which may be offered to project suppliers, and their international customers, covering limited recourse lending.
11. Project finance in the form of loan disbursements, generally made directly to suppliers and contractors, to support investors and contractors undertaking usually overseas projects in areas such as infrastructure, manufacturing and other developmental projects.

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23 May 2011

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Dear Ms Hon,

**The Director of Audit's Report on the
results of value for money audits (Report No. 56)**

**Hong Kong Export Credit Insurance Corporation ("ECIC")
(Chapter 6)**

Thank you for your letter dated 18 May 2011.

Regarding the issues raised by the Audit Commission in paragraph 2.6 of the Audit Report, we would like to set out below the actions which have already been taken or are being implemented by the ECIC and the Commerce and Economic Development Bureau ("CEDB") based on the existing governance structure of the ECIC.

Rapid Business Expansion

Both CEDB and the Advisory Board of the ECIC will continue to monitor closely the growth of the ECIC's insured business and

ensure that the Government's guarantee remains sufficient for it to carry its statutory duties effectively. It is noted that with the gradual recovery of the global economy, the increase in demand for the ECIC's services has slowed down significantly.

Role of Advisory Board

As stated in its response to para 2.21(a) of the Audit Report, the ECIC is reviewing its guidelines for determining the types of issues (and the timeframe) which should be submitted to the Advisory Board and its Committees for advice and will seek the Advisory Board's endorsement on these guidelines upon the completion of the review. Meanwhile, the Advisory Board discussed and agreed at its meeting held on 23 March 2011 on the issues to be submitted to the Advisory Board for information and advice for all meetings scheduled in 2011-12.

Role of CEDB

While the present mechanism already enables the ECIC to incorporate the Government's views into its annual corporate plan/budget through discussions at the Advisory Board, we have asked the ECIC to submit its annual corporate plan/budget to SCED for formal approval from this year onwards after seeking the endorsement of the Advisory Board.

Scope of ECIC's Services under the ECIC Ordinance

In response to the recommendation in para 4.58 of the Audit Report, CEDB has sought legal advice which reconfirmed that the services provided by the ECIC are consistent with the true intent, meaning and spirit of section 9(3) of the ECIC Ordinance (Cap. 1115).

Monitoring of the ECIC's Work and Performance

While CEDB currently does not micro-manage the daily operations of the ECIC, we have recently reviewed the situation and have further stepped up our monitoring by requiring the ECIC to submit its annual corporate plan/budget to SCED for formal approval from this year onwards, after seeking the endorsement of the Advisory Board. As regards

the half-yearly housekeeping meeting between the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) and the ECIC, in addition to its business and financial performance, the ECIC also reports regularly on its management and operational matters including internal audit, human resource management, reinsurance arrangement and development plans for new services. We will continue to assess through the annual corporate plan/budget and our regular liaison and housekeeping meetings with the ECIC how effectively the ECIC discharges its public mission.

Administration Irregularities Identified

In 2009, the ECIC commissioned a consultancy study on the internal control procedures of the ECIC on a number of areas including tendering and disbursement of IT development and consultancy projects. A number of administration irregularities were identified. All of the consultant's recommendations to address the irregularities had been implemented in the same year before the Director of Audit commenced its value for money audit on the ECIC. Since then, the ECIC has regularly reviewed its internal control. An internal audit unit was set up in 2010 to audit the work of each division of the ECIC and its plan is to complete a full internal audit within three years. It will submit a report on each division to the Audit Committee (under the Advisory Board) which will, in turn, put forward its recommendations to the full Board for consideration.

The Administration's response in Para 2.8(a) of the Audit Report

As stated in our letter to the Public Accounts Committee on 12 May 2011, the findings on the governance structure and operation of overseas export credit agencies (ECAs) are based on information in websites and documents available to the public. To get a better understanding of the governance and operations of these ECAs, we will ask the ECIC to write to these ECAs for more information. Upon receipt of additional data from these organizations, we will further review the governance of the ECIC and report back to the Panel on Commerce and Industry of the Legislative Council on the outcome of the review.

I hope the above will address the concerns of the Public Accounts Committee.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Candy', written in a cursive style.

(Mrs Candy Yeung)
for Secretary for Commerce and Economic Development

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26 May 2011

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Dear Ms Hon,

**The Director of Audit's Report on the
results of value for money audits (Report No. 56)**

**Hong Kong Export Credit Insurance Corporation ("ECIC")
(Chapter 6)**

Thank you for your letter dated 25 May 2011.

The Administration plans to report the outcome of the review of the governance of the ECIC to the Panel on Commerce and Industry of the Legislation Council before end 2011.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Candy'.

(Mrs Candy Yeung)

for Secretary for Commerce and Economic Development

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