

立法會
Legislative Council

LC Paper No. CB(1)1227/11-12
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by the Administration)

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Panel on Financial Affairs

Minutes of meeting
held on Thursday, 15 December 2011 at 4:30 pm
in Conference Room 1 of the Legislative Council Complex

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
Hon James TO Kun-sun
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 Ronny TONG Ka-wah, SC
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-ye, GBS, JP

Members absent : Dr Hon David LI Kwok-po, GBM, GBS, JP
Dr Hon Philip WONG Yu-hong, GBS
Hon LEE Wing-tat

Public officers attending : Agenda Item IV

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 V

Miss Salina YAN, JP
Deputy Secretary for Financial Services and the
Treasury (Financial Services)¹

Ms Sandra LAM
Principal Assistant Secretary for Financial Services and
the Treasury (Financial Services) Mainland Affairs

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

Staff in attendance : Mr Noel SUNG
Senior Council Secretary (1)5

Ms Haley CHEUNG
Legislative Assistant (1)5

I Confirmation of minutes of meeting and matters arising

(LC Paper No. CB(1)499/11-12 — Minutes of the special meeting on 14 October 2011

LC Paper No. CB(1)615/11-12 — Minutes of the meeting on 7 November 2011)

The minutes of the meetings held on 14 October 2011 and 7 November 2011 were confirmed.

II Information papers issued since the last meeting

(LC Paper No. CB(1)507/11-12 — The Second Quarterly Report of the Securities and Futures Commission (July to September 2011)

LC Paper No. CB(1)564/11-12(01) — Referral from the Complaints Division of the Legislative Council Secretariat regarding a complaint from a member of the public dated 22 November 2011 on Octave Notes (Restricted to members only))

2. Members noted the information papers issued since the last regular meeting held on 7 November 2011.

III Date of next meeting and items for discussion

(LC Paper No. CB(1)588/11-12(01) — List of outstanding items for discussion

LC Paper No. CB(1)588/11-12(02) — List of follow-up actions)

Meeting in January 2012

3. Members agreed to discuss the item on "Proposal of the Securities and Futures Commission for a short position reporting regime" as proposed by the Administration at the next regular meeting scheduled for 6 January 2012.

IV Briefing on the work of Hong Kong Monetary Authority

(LC Paper No. CB(1)588/11-12(03) — Paper provided by the Hong Kong Monetary Authority)

Presentation

4. At the invitation of the Chairman, the Chief Executive, Hong Kong Monetary Authority (CE/HKMA), the Deputy Chief Executive (Development)/HKMA (DCE(D)/HKMA), the Deputy Chief Executive (Banking)/HKMA (DCE(B)/HKMA) and the Deputy Chief Executive (Monetary)/HKMA (DCE(M)/HKMA) gave a Powerpoint presentation on the work of HKMA, covering the latest financial and economic conditions of Hong Kong, currency stability, banking stability, financial infrastructure, Hong Kong as an international financial centre, as well as performance of the Exchange Fund.

(Post-meeting note: The notes of the Powerpoint presentation were issued to members vide Lotus Notes e-mail on 3 January 2012.)

Discussion

Property market

5. Mr Ronny TONG enquired why the situations of the property market as presented in LC Paper No. CB(1)588/11-12(03) and in the Powerpoint presentation at the meeting were not the same. Pointing out that the number of property transactions and outstanding mortgage loans had increased significantly from 2009 to mid-2011, Mr TONG said that the recent reduction in property transactions and prices was relatively minimal despite the anti-speculative measures introduced by the Government and HKMA. Mr TONG doubted whether it was the opportune time, as claimed by some parties, that the Government and HKMA should withhold or even withdraw the anti-speculative measures.

6. CE/HKMA remarked that in line with past practice, HKMA provided the most updated materials on the major aspects of the work of HKMA in the Powerpoint presentation at the meeting, in addition to the comprehensive paper provided to the Panel before the meeting. In response to the specific enquiry from Mr Ronny Tong, he further clarified that for slide 31 of LC Paper No. CB(1)588/11-12(03), the transaction volume was shown in the blue area at the bottom of the chart while for slide 33, the red line indicated the change in outstanding mortgage loans over the preceding year. CE/HKMA remarked that

since the introduction of the four rounds of prudential measures on banks' mortgage business, property transactions had decreased, and average property prices had dropped by about 3.5% in October 2011 as compared to that in July 2011. HKMA would keep a close watch on the market situation and would introduce appropriate countercyclical measures to safeguard banking stability as and when necessary.

7. Mr KAM Nai-wai enquired, given the recent confusing messages from the Government regarding the measures to dampen speculative activities in the property market, whether the undertaking of HKMA to regularly review the measures regarding the loan-to-value ratio on mortgage loans was only a standard statement or a substantive response to the market situation.

8. CE/HKMA responded that the cyclical changes of the property market were the result of a host of external and internal factors and were difficult to predict. He said that the reviews by HKMA from time to time on appropriate macro-prudential measures to ensure banking stability were a substantive response.

Small and medium-sized enterprises

9. Mr Andrew LEUNG enquired about the measures to be introduced to assist the small and medium-sized enterprises (SMEs) in obtaining loans, in face of the weak economic situation in Hong Kong's major export markets, including the United States (US) and the European countries, and the tighter controls imposed by their regulators on the business of banks. Mr LEUNG further enquired about the opportunities for SMEs to make use of the Renminbi credit facilities for investments in the Mainland, as a result of the measures announced by Vice Premier Mr LI Keqiang to strengthen and support Hong Kong's economic development.

10. CE/HKMA responded that the loan guarantee schemes introduced by the Government since the global financial crisis in 2008 had helped the SMEs to tide over the credit crunch of the time, and contributed to the speedy economic recovery of Hong Kong after the crisis. In 2011, the Hong Kong Mortgage Corporation (HKMC) launched the Small and Medium-sized Enterprises Financing Guarantee Scheme (SMEFGS) which guaranteed up to 70% of loans made by SMEs based on commercial principles. If necessary, HKMC would consider further refining the arrangements of the Scheme to meet the needs of SMEs. Regarding the question of whether SMEs could be allowed to raise loans in Renminbi in Hong Kong in order to fund their operations in the Mainland, CE/HKMA said that HKMA would liaise with the relevant Mainland authorities on this suggestion.

11. Noting that as at mid-November 2011, 218 applications had been received by HKMC under the SMEFGS for an aggregate loan amount of around \$750 million, Ms Emily LAU enquired whether further refinement of the Scheme would be made in order to assist SMEs to meet the challenges of the sluggish economic situation in the major overseas export markets.

12. CE/HKMA pointed out that the SMEFGS had only been launched for a year. Many SMEs were still in the course of repaying the loans, with an aggregate outstanding of about \$80 billion, made under the Government's Special Loan Guarantee Scheme. The number of applications for the SMEFGS was expected to increase over time.

Banking sector

13. Given the European sovereign debt crisis and the sluggish economic recovery in the US, Mr Jeffrey LAM enquired whether HKMA had assessed the extent of the impact of the economic situation in Europe and the US on Hong Kong's economy, especially when branch offices of international banks in Hong Kong had to transfer large amounts of funds out of Hong Kong to meet the demand of their head offices.

14. CE/HKMA responded that branch offices of overseas banks in Hong Kong had been requested to secure tenor matched funding for their lending activities in Hong Kong, thereby lowering the risk of a credit crunch even in the event of a financial crisis. Currently the consolidated capital adequacy ratio of Authorized Institutions (AIs) remained sound, and HKMA would provide support to the banking sector if the situation so warranted.

15. Ms Starry LEE was concerned that several banks, including the Hong Kong and Shanghai Banking Corporation, Citibank, UBS and the China Construction Bank, had announced plans to lay off a large number of staff. Ms LEE enquired whether HKMA had liaised with the banks concerned and assessed the impact of the lay-off plans on their manpower situation and operations.

16. DCE(B)/HKMA responded that one of the basic principles for financial regulators was to avoid intervention into the commercial operations of financial institutions, and the deployment of manpower resources was basically a commercial decision on the part of AIs. Nevertheless, HKMA would seek to ensure that the operational stability, risk management arrangements, internal controls and data security of the AIs concerned would not be affected by major staff retrenchment programmes.

European sovereign debts

17. Mr CHIM Pui-chung opined that the European sovereign debt crisis was a problem which had existed for a long time. He enquired what measures would be taken to meet the challenges of the crisis.

18. CE/HKMA responded that the wide extent of the European sovereign debt crisis could hardly be forecast a year ago. In order to meet the challenges of the crisis, Hong Kong had to avoid the mistakes made by some European countries in raising excessive loans to meet expenses. HKMA would ensure that the Hong Kong banking sector remained sound and robust with high capital adequacy, sufficient liquidity and robust risk management standards.

19. Noting that after the restructuring of debts, the Greek government debt would still amount to 120% of its GDP in 2020, the Deputy Chairman was concerned about the European sovereign debt situation and its impact on Hong Kong's economy.

20. CE/HKMA responded that the sovereign debt situation in Greece was serious and could only be resolved with the help of other European Union (EU) countries. He added that the Greek economy was relatively small compared with other economies in the EU.

Exchange Fund

21. Mr KAM Nai-wai was gravely concerned that the Exchange Fund had suffered losses in investments in equities and foreign exchanges. Mr KAM enquired why, in view of the volatility of the stock and foreign exchange markets, HKMA did not adjust its investment strategy and/or the investment portfolios in order to ensure reasonable returns from the investments.

22. CE/HKMA responded that the investment strategy and the composition of the investment portfolios of the Exchange Fund were drawn up based on years of investment experience, analyses and the latest development of the financial markets, and with regard to the statutory objectives of the Exchange Fund. He said that there were criticisms in the past that HKMA had not been aggressive enough to take on more risks in the pursuit of higher return, but doing so could have resulted in significant investment losses earlier this year. CE/HKMA stressed that investment return was not the only consideration in the portfolio building of the Exchange Fund. Indeed, a prudent balance had to be maintained, having regard to the statutory goal of the Exchange Fund to support Hong Kong's monetary and financial stability.

23. Mrs Regina IP remarked that she was alarmed that the returns from the investments of the Exchange Fund were extremely low. She was very disappointed that the investment income was only \$5.6 billion for the first nine months of 2011, and after discounting the inflation factor, the rate of return was unsatisfactory. Mrs IP enquired whether consideration would be given to assigning part of the Exchange Fund for investment by a separate fund management organization, so as to diversify the investments and achieve higher return from the investments. Mrs IP enquired about the purpose of HKMA setting up a subsidiary fund management company, namely the Eight Finance Investment Company Limited (Eight Finance Ltd). Ir Dr Raymond HO echoed Mrs IP's view and requested that HKMA should make a proposal to the Government to make use of part of the Exchange Fund to set up a separate fund for investment in financial products other than equities, bonds and foreign exchange. Ms Emily LAU shared Mrs IP and Ir Dr HO's concern and requested that efforts be made to improve the investment return of the Exchange Fund.

24. CE/HKMA responded that seeking a potential higher return would mean taking on higher risk. Investment of the Exchange Fund had to comply with the statutory functions of the fund under the Exchange Fund Ordinance (Cap. 66), and a longer term view should be taken when evaluating the investment performance of the Exchange Fund. CE/HKMA remarked that he would relay Dr Ir HO's view to the Financial Secretary for consideration.

25. DCE(M)/HKMA supplemented that the investment market had been unusually volatile during the third quarter of 2011. For instance, the Hang Seng Index had dropped by about 22% in the third quarter, whereas the stock markets in Germany and France had dropped by about 25%. Many other investment funds in overseas countries recorded losses in their investments during the first nine months of 2011, e.g. government funds in Norway, New Zealand, Alaska and Canada recorded a loss of 6.7%, 5%, 3.6% and 0.3% respectively. Because of the prudent and balanced investment strategy of HKMA, the Exchange Fund recorded a positive income during the first nine months of 2011. DCE(M)/HKMA remarked that Eight Finance Ltd was set up to diversify the investments of the Exchange Fund, such as investing in private equity funds.

26. Ms Starry LEE enquired whether, as had been proposed by some Members, HKMA would consider using part of Exchange Fund to set up a separate investment vehicle to invest in individual projects, such as real estate projects in other countries, in order to obtain higher returns from the investments. Ms LEE pointed out that other governments, such as Singapore, had set up sovereign wealth funds to invest in different local and overseas projects.

27. CE/HKMA responded that for the purpose of diversification of the investments of the Exchange Fund in order to achieve higher returns in the medium and long term, HKMA had already apportioned part of the Exchange Fund for investment in items such as emerging market equities, private equity and overseas investment properties.

28. The Deputy Chairman enquired whether the investments of the Exchange Fund would be adversely affected by the European sovereign debt crisis.

29. DCE(M)/HKMA responded that HKMA exercised prudent risk management in its investments of the Exchange Fund. He pointed out that the impact of the European sovereign debt problem on the Exchange Fund was minimal. He remarked that the bond investment of the Exchange Fund involved mainly sovereign bonds issued by the US, France and Germany governments.

Linked exchange rate system

30. Mr CHIM Pui-chung was concerned that given the volatile economic situation in the US, the Government still maintained that any comments on or proposals to change the Linked Exchange Rate system would not be considered.

31. CE/HKMA responded that the Linked Exchange Rate system had proved to be effective in maintaining the stability of Hong Kong's economy. He noted that the Government's commitment to maintain the Link would remain unchanged.

Inflation

32. In view that Hong Kong imported a large amount of goods from the Mainland, Ir Dr Raymond HO enquired about the impact of rising inflation in the Mainland on Hong Kong.

33. CE/HKMA responded that the Mainland authorities had introduced measures to control inflation, which was expected to decline in the coming months, relieving the inflationary pressure in Hong Kong.

Reverse Mortgage Programme

34. Ms Emily LAU expressed concern that the Reverse Mortgage Programme (RMP) did not attract a large number of applications.

35. CE/HKMA responded that as the RMP was a new programme, the elderly would need to take time to fully understand the programme. CE/HKMA pointed out that although so far there were about 130 applications, HKMA had received more than 1 000 enquiries, and the initial response to the programme had been very encouraging. Given that the RMP involved a major decision of elders on their financial arrangements, all applicants were required to seek compulsory counselling from qualified lawyers as regards the details of the programme. HKMA would continue to promote the programme.

Analysis made by the former CE/HKMA

36. Mr CHIM Pui-chung was concerned that during the global financial tsunami in 2008, the former CE/HKMA had predicted that a second and/or third wave of the tsunami might hit the world, but the prediction did not materialize. Mr CHIM opined that the comments made by the former CE/HKMA had led to very tight credit policy on the part of the AIs which had indirectly aggravated the credit crunch faced by SMEs. Mr CHIM asked whether CE/HKMA would apologize on behalf of his predecessor to the public for the misleading statement made by the latter.

37. CE/HKMA responded that given the complexity of the global markets, the analyses/forecasts by any economists and financial analysts could not always be entirely accurate. It was indeed normal for financial analyses/forecasts to be reviewed from time to time.

General

38. The Chairman asked whether CE/HKMA had any advice for the general public about the investment environment. CE/HKMA remarked that in drawing up their investment strategy, investors should assess their own financial situation and exercise prudent risk management in their investments. They should avoid raising excessive loans under an extremely volatile market situation.

V Creation of a supernumerary directorate post in the Financial Services Branch of the Financial Services and the Treasury Bureau to coordinate the implementation of Central Government's new measures to support the economic and social development in Hong Kong

(LC Paper No. CB(1)588/11-12(04) — Paper provided by the Administration

LC Paper No. CB(1)632/11-12(01) — Extract of the draft minutes of

special meeting on 31 August 2011 (Restricted to Members only))

Briefing by the Administration

39. The Deputy Secretary for Financial Services and the Treasury (Financial Services)1 (DS(FS)1) briefed members on the staffing proposal, by highlighting the salient points in the paper.

Discussion

40. While supporting the staffing proposal in principle, Ms Emily LAU enquired whether the office bearer of the proposed post would take up any responsibilities, directly and/or indirectly, related to investor protection.

41. DS(FS)1 responded that investor protection was one of the main responsibilities of the Financial Services and the Treasury Bureau (FSTB). In dealing with financial policy matters relating to securities, authorized institutions, insurance and the Mandatory Provident Fund System, the Financial Services Branch (FSB) of FSTB would take into account the need to protect the interests of investors. As far as the measures announced by Mr LI Keqiang, Vice Premier of the State Council, to support the economic and social development in Hong Kong were concerned, FSTB and the relevant financial regulators would ensure that the interests of investors would be protected in implementing the measures, which included the development of Renminbi business in Hong Kong and introduction of any new financial products. An Administrative Officer Staff Grade C (AOSGC) officer in FSB had also been designated to specifically handle matters relating to the establishment of an Investor Education Council which formed part of the proposed legislation on the codification of the price sensitive information disclosure requirements which was being studied in a Bills Committee of the Legislative Council.

42. Ms Emily LAU enquired how the development of the financial sector would benefit different sectors of the community, and whether the benefits could be shown in quantifiable terms.

43. DS(FS)1 responded that the financial sector contributed to more than 15% of the overall Gross Domestic Product (GDP) of Hong Kong, and more than 200 000 workers were employed in the relevant fields. The development of the financial sector would not only create high level jobs but also jobs of the middle and lower ranks. The growth of the financial sector would also benefit other sectors such as accountants, lawyers and other ancillary services.

44. At the request of Ms Emily LAU, DS(FS)1 agreed to provide the following information in the submission of the staffing proposal to the Establishment Subcommittee and the Finance Committee:

- (a) whether the office bearer of the proposed post would take up any responsibilities, directly and/or indirectly, related to investor protection; and
- (b) how the development of the financial sector would benefit different sectors of the community, in quantifiable terms.

(Post-meeting note: The Administration has provided the relevant information in the submission to the Establishment Subcommittee (EC(2011-12)17).)

45. The Chairman made a concluding remark that members supported the creation of a supernumerary AOSGC post in the FSB of FSTB for two years as proposed by the Administration.

VI Any other business

46. There being no other business, the meeting ended at 6:25 pm.

Council Business Division 1
Legislative Council Secretariat
5 March 2012