立法會
Legislative Council

LC Paper No. CB(1)2574/11-12
(These minutes have been seen by the Administration)

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Panel on Financial Affairs

Minutes of meeting
held on Monday, 4 June 2012 at 9:00 am
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 Dr Hon David LI Kwok-po, GBM, GBS, JP Hon James TO Kun-sun Hon Emily LAU Wai-hing, JP Hon Abraham SHEK Lai-him, SBS, JP Hon LEE Wing-tat 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-yee, GBS, JP
Members absent	**:**	Dr Hon Philip WONG Yu-hong, GBS
Public officers attending	**:**	Agenda Item III Mr John TSANG, GBM, JP Financial Secretary

Mrs Helen CHAN, JP
Government Economist

Mr Arthur AU
Administrative Assistant to Financial Secretary

Agenda Item IV

Mr Jackie LIU
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)

Ms Karen KEMP, JP
Executive Director (Banking Policy)
Hong Kong Monetary Authority

Ms Rita YEUNG
Head (Banking Policy)
Hong Kong Monetary Authority

Mr Richard CHU
Head (Banking Policy)
Hong Kong Monetary Authority

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

Action

I Confirmation of minutes of meetings and matters arising

(LC Paper No. CB(1)2028/11-12 — Minutes of the meeting on 2 April 2012)

The minutes of the meeting held on 2 April 2012 were confirmed.

II Date of next meeting and items for discussion

(LC Paper No. CB(1)2035/11-12(01) — List of outstanding items for discussion

LC Paper No. CB(1)2035/11-12(02) — List of follow-up actions)

Meeting in July 2012

2. Members noted that the Administration had not proposed any item for discussion at the next regular meeting scheduled for 6 July 2012.

Hong Kong Mortgage Corporation

3. Mrs Regina IP remarked that since its incorporation in 1997, the Hong Kong Mortgage Corporation (HKMC) had progressively diversified its business portfolio offering a variety of new financial services which were outside the original business scope stated in HKMC's Memorandum and Article of Association. Recently the HKMC launched a number of new programmes such as the SME Financing Guarantee Scheme and reverse mortgages for the elderly. Mrs IP opined that after a steady evolution of the roles and services of the HKMC over 15 years, the Government should conduct a comprehensive review of HKMC's objects and scope of business. The Government and HKMC should be invited to discuss the subject with the Panel.

4. Mrs Regina IP remarked that she had received an anonymous complaint which alleged that the Chief Executive Officer (CEO) of HKMC had abused his office. Mrs IP said that she would forward the letter to the Chairman for onward transmission to the Hong Kong Monetary Authority (HKMA) for investigation. Mrs IP opined that HKMA should conduct an independent investigation into the complaint.

> (*Post-meeting Note*: As instructed by the Chairman, the complaint letter was forwarded to the HKMA on 7 June 2012 for follow-up action. HKMA's response was circulated to members vide LC Paper Nos. CB(1)2328/11-12 (01) and (02) on 9 July 2012.)

Briefing by the Fourth Term Government

5. Mr Jeffrey LAM remarked that as the external economic environment was extremely volatile, and in particular the eurozone sovereign debt crisis had become critical, affecting Hong Kong's economy, the Financial Secretary and the principal officials of the next-term Government dealing with financial affairs should be invited to brief the Panel at the next meeting on the strategies

the Government would adopt to assist different sectors to meet the challenges of the economic situation. Mr LAM said that representatives of the HKMA should also be invited to give the briefing jointly with the Government. Mr LAM remarked that the Government and HKMA should provide the relevant statistics, analyses and forecasts at the briefing. Ms Emily LAU expressed support for Mr LAM's suggestion, and remarked that relevant officials of the next-term Government should be invited to attend the meetings of the various Panels of the Legislative Council and give a briefing on the relevant policy areas.

(*Post-meeting Note*: The Financial Secretary (FS) and the Principal Officials concerned gave a briefing to the Panel on 10 July 2012.)

After-hours futures trading

6. The Chairman remarked that Mr WONG Kwok-hing had sent in a letter expressing concern about the proposed extended trading session for futures after the close of the stock market. Mr WONG requested that the item be discussed at the next Panel meeting and officers from the Government, the Securities and Futures Commission (SFC) and the Hong Kong Exchanges and Clearing Limited (HKEx) should be invited to attend the meeting to answer members' questions. Members agreed to discuss the issue raised by Mr WONG at the next meeting.

III Briefing by the Financial Secretary on Hong Kong's latest overall economic situation

(LC Paper No. CB(1)2035/11-12(03) — Administration's paper on Hong Kong's recent economic situation and near-term outlook)

7. At the invitation of the Chairman, FS briefed members on the latest economic situation by highlighting the following -

(a) Owing to the lingering eurozone sovereign debt crisis, Hong Kong economy slowed further in the first quarter of 2012, with real Gross Domestic Product ((GDP) posting a slight year-on-year growth of 0.4%, after a 3.0% expansion in the fourth quarter of 2011. The 0.4% growth rate was the lowest since the third quarter of 2009. On a seasonally adjusted quarter-to-quarter basis, real GDP also grew slightly by 0.4% in the first quarter, similar to that in the preceding quarter.

(b) The EU economy was stagnant lately amidst the eurozone sovereign debt crisis, and some eurozone countries had even stepped into recession. The pace of economic growth in the US in the first quarter of 2012 was still slow. The sluggish demand in Europe and the US had adversely affected the export of Asian countries. In the first quarter of 2012, Hong Kong's total export of goods dipped by 5.7% in real terms over a year earlier. It was the biggest drop since the third quarter of 2009 and led to the weak performance of the overall economy in the first quarter of 2012. Export of services moderated but still grew by 3.6% year-on-year in real terms in the first quarter of 2012 with the strong cushion rendered by thriving inbound tourism. Although there was a slight rebound in exports in April 2012, the overall export momentum, like that of other Asian economies, remained sluggish.

(c) Domestic demand held up well on the back of the much improved labour income, active machinery and equipment acquisition and hectic public sector infrastructure works. Retail sales volume in April 2012 increased by 7.6% over a year earlier, reflecting the resilient local consumption market.

(d) Buttressed by strong domestic demand, the labour market remained close to full employment, with the seasonally adjusted unemployment rate staying relatively low at 3.3%. Against this background and with the additional boost from the implementation of statutory minimum wage since May 2011, both wages and earnings saw notable increases over the past year. The median household income rose by 9.5% in the first quarter in nominal terms over a year earlier, or by 4.1% in real terms after netting off inflation, to a record high of $20,800. Over the same period, average employment earnings for the lowest decile of full-time employees rose even more by 13.4% in nominal terms or by 8.4% in real terms.

(e) The global economy had shown signs of improvement earlier in the year, mainly because of the better-than-expected performance of the US economy, and the stabilisation of the eurozone sovereign debt crisis. The International Monetary Fund had adjusted upward the forecast for the global economic growth rate to 3.5% in April 2012, but it was still lower than the growth rate of 3.9% in 2011. In recent weeks, the eurozone sovereign debt crisis worsened again. The political situation in some eurozone countries also added to the uncertainties of the crisis. With both Spain and Italy stepping into recession, the situation in the eurozone was worrying. It was difficult to predict the precise impact on the global economy if Greece were to exit the eurozone. It was certain that any significant setback in the eurozone would trigger profound volatility in the global financial markets including Hong Kong. Despite the slight improvement in export orders in recent months, Hong Kong's export outlook would continue to face notable downside risks in the rest of the year, mainly as a result of the lingering eurozone sovereign debt crisis and the slow growth in the US economy. Given the sound fundamentals and the relatively ample scope of policy manoeuvring of the Asian economies, including the Mainland, they would remain the major stabilizing force in global economy this year.

(f) The domestic sector was expected to stay relatively resilient. Private consumption expenditure had thus far sustained solid growth. The vibrant inbound tourism and further growth of infrastructure spending would continue to render impetus to domestic demand. The Government had also introduced in the 2012-13 Budget various measures to boost the economy. Barring any abrupt deterioration of the global economy, the forecast GDP growth of 1% to 3% for 2012 as a whole should be attainable.

(g) As regards the trend of commodity prices, underlying consumer price inflation, after an almost uninterrupted acceleration since late 2010, eased back to 5.9% in the first quarter of 2012, from 6.4% in the fourth quarter of 2011. The price pressures from the external sources had generally softened, following the retreat in global food and commodity prices and receding inflation in the Mainland. The increase in fresh-letting rentals had also tapered. With both imported inflation and domestic cost pressures easing back progressively in tandem with a slowing global and local economy, Hong Kong's inflation was expected to taper further in the coming quarters. The forecast rates of headline and underlying consumer price inflation for 2012 as a whole remained at 3.5% and 4% respectively.

(h) On property market, although the global and local economy still faced acute challenges, property transactions had rebounded considerably since February 2012, backed by the low interest rate and ample liquidity. The number of sale and purchase agreements for residential properties registered with the Land Registry amounted to 11 400 in March 2012, the highest since November 2011. The average number of sale and purchase agreements in April and May 2012 was over 8 200 per month. Residential property prices rose by 8% in the first four months of 2012, surpassing the level in June 2011 by 4%, and the peak in 1997 by 13%. The mortgage payment to median household income ratio had risen to 46%. The ratio would rise to 60% if the mortgage loan interest rate increased by 3%, surpassing the long term average ratio of 50%. In case of a sharp downturn in the global economy or increase in interest rates, the property market would face enormous pressure for adjustment which would hamper the local financial market and economy. The upcoming trend of the property market was difficult to predict as it was facing two conflicting forces, namely the relatively weak external economy and the extremely low interest rates. But the heated property market had shown signs of cooling down lately in the wake of the worsening of the eurozone sovereign debt crisis and the volatility of the global securities market. In order to ensure the healthy and stable development of the property market, since 2010, the Government had implemented measures along four directions, namely (i) increasing land supply, (ii) curbing speculative activities, (iii) enhancing the transparency of property transactions and (iv) preventing excessive expansion in mortgage lending. The measures had proved to be effective. In the past two years, the Government had introduced short, medium and long term measures to increase land supply. Medium-term flat supply had risen from 52 000 units at end-September 2009 to 64 000 at end-March 2012. The Government had been putting up sites for tender in the second and third quarters of 2012. The sites tendered in the second and third quarters of 2012 (including the property development projects along West Rail) would provide 1,400 and 5,000 residential units respectively. The Hong Kong Monetary Authority (HKMA) had also introduced four rounds of counter-cyclical prudential measures to tighten up the loan-to-value ratios for different types of properties, in order to mitigate the systemic risk of the financial system. The healthy development of the property market would directly affect the livelihood and well-being of thousands of households. The Government would remain vigilant of the property market situation, and would introduce appropriate measures when necessary to ensure the healthy and stable development of the property market. Members of the public should also carefully assess their financial capability and the risks involved in deciding whether to acquire a property.

(i) Given the resilience of Hong Kong's economy and the contingency measures launched by the Government, Hong Kong had rapidly recovered from the global financial crisis in 2008. The unemployment rate had remained at a relatively low level and the fiscal position remained sound and robust. The Government had the experience and the ability to meet the challenges arising from external risks. Noting that the eurozone sovereign debt crisis would cast a shadow over the global economy for a prolonged period of time, the Government would maintain a high level of vigilance to the evolving changes in the global economic situation, and draw up appropriate strategies to address such challenges where necessary.

8. The Government Economist (GE) gave a Powerpoint presentation on the latest developments in the Hong Kong economy, the importance of the US and European Union vis-à-vis the Mainland to the Hong Kong economy, the updated economic forecasts for 2012, and the latest situation of low-income households.

(*Post-meeting note*: The notes of the Powerpoint presentation (LC Paper No. CB(1)2094/11-12(01)) were issued to members vide Lotus Notes e-mail on 4 June 2012.)

Discussion

European sovereign debt

9. Mr Jeffrey LAM expressed deep concern about the extremely volatile external economic situation, the impact of the eurozone sovereign debt crisis, the critical economic situation in Greece, and the drop in Hong Kong's exports. Mr LAM enquired what measures would be taken to assist local trades and industries to meet the challenges in the unfavourable economic environment.

10. FS said that the Government had remained highly vigilant about the impact of the volatile external economic environment on the Hong Kong economy. The changes in the political situation in some eurozone countries had added the uncertainties of the eurozone sovereign debt crisis. Under such circumstances, it would be difficult for the Government to evaluate, in quantifiable terms, the precise impact of the crisis on Hong Kong. The direct impact of the eurozone sovereign debt crisis on Hong Kong, however, was envisaged to be limited, as only slightly over 0.4% of the exposure of local banks were related to the five crisis-stricken eurozone countries which had an acute sovereign debt problem. The Government continued to keep a close

watch on the indirect impact of the crisis, such as a possible credit crunch arising from the liquidity problem faced by some European banks in the crisis. The SME Financing Guarantee Scheme had been already introduced to assist local trades and industries. The Government would consider introducing further measures to support the economy as and when necessary.

11. Mr Jeffrey LAM enquired about the impact on Hong Kong's economy if Greece left the eurozone, and/or there was an influx or outflow of large amount of capital in or out of Hong Kong. Mr Andrew LEUNG shared Mr LAM's concern. Mr LEUNG enquired whether, in view of the political and economic situation in Greece, the Government had made any assessment about the impact on Hong Kong's economy if Greece left the eurozone, and the measures that would be taken to meet the challenges. Mr LEUNG opined that the problem of Greece might not be resolved within the next two to three years. Mr LEUNG pointed out that the tourist industry was one of the four pillar industries of Hong Kong and over 70% of the visitors came from the Mainland. Mr LEUNG opined that the Government should draw up measures to attract Mainland visitors to continue visiting and shopping in Hong Kong, or the Mainland visitors might turn to countries like France for purchase of high quality products.

12. FS concurred with Andrew's observation that the sovereign debt problem of Greece might not be resolved in the near future. There were indications that the level of bank deposits in Greece had dropped significantly and there was an outflow of capital from Greece to other economies leading to lower interest rates for the US and Germany government bonds. While regulators had conducted stress tests for different financial institutions, it would be difficult to assess, in quantifiable terms, the impact of the eurozone sovereign debt crisis on Hong Kong, given the extremely volatile financial markets and the fluidity of the situation. FS said that if Greece were to leave the eurozone and the European Central Bank decided to discontinue granting loans to Greece, it might lead to bank runs in Greece. The Greek government might be forced to nationalize some enterprises, and banks in Germany and France might need to write off loans granted to Greece.

13. Mr Ronny TONG enquired whether the Government would take the opportunity of the eurozone sovereign debt crisis and consider further measures to boost the bond market in Hong Kong.

14. FS agreed that Hong Kong should further develop its bond market and the Government had launched two tranches of inflation-linked iBonds to help develop the bond market in Hong Kong.

Property market

15. Mr Ronny TONG was concerned that despite the four-pronged measures introduced by the Government to counteract speculative activities in the property market, property prices continued to soar, by about 8% in the first four months of the year. Mr TONG opined that while many people worried about the formation and possible burst of a property market bubble, FS did not seem to share the sense of crisis in the property market. Mr TONG enquired whether the escalation of property prices was a result of ineffective and/or misdirected anti-speculation measures introduced by the Government.

16. FS responded that the Government's four-pronged strategy had helped ensure the healthy and stable development of the property market. A Bill had been introduced into the Legislative Council to strengthen the regulation of the sales of first-hand private residential properties. The introduction of the Special Stamp Duty (SSD) had been effective in curbing speculation activities in the property market. To ensure adequate supply of land, the Government provided sites for development of some 1 400 and 5 000 residential units in the second and third quarter of 2012 respectively. The HKMA had also introduced four rounds of countercyclical measures for the property market in the past few years, in order to maintain the stability of the banking sector. The Government was careful to minimize the effects of the measures on first-time buyers. Moreover, given the increased downside risks to the global economic outlook, the property market turned somewhat quieter of late.

17. Mrs Regina IP pointed out that the statistics provided by the Administration at the meeting regarding the provision of 64 000 residential units in the March 2012 included flats under construction but not yet sold, and flats on disposed sites where construction had yet to commence. Mrs IP opined that in future, the Government should only provide statistics on flats ready for sale in the market. The Deputy Chairman echoed Mrs IP's concern and remarked that while the statistics on medium-term flat supply were useful reference, the figures on flats on disposed sites where construction had yet to commence should be excluded. Mrs IP enquired about the actual number of flats which would be available for sale in 2012. Noting that the mortgage payment to income ratio had risen to around 46%, Mrs IP was concerned that the downturn of economy and the rise in unemployment might lead to a sharp fall in property prices.

18. GE explained that the statistics on medium-term flat supply were provided by the Transport and Housing Bureau. Based on the statistics of the Rating and Valuation Department, the total number of flats to be completed in 2012 would be around 12 000. GE took note of Members' views and said that these statistics on annual flat completions would be included in future presentations to supplement the statistics on medium-term flat supply in the

property market. GE further pointed out that the number of flats with consent to commence works in the first quarter of 2012 was around 8 650 units, which was already equivalent to over 70% of the forecast flat production in 2012. With the increased supply of land by the Government, the number of new flat production would increase notably in the years to come. FS added that the mortgage payment to income ratio of 46% was close to the average ratio of 50% in the past 20 years. FS pointed out that the ratio would shoot up to around 60% if the interest rates were to increase by 3 percentage points. FS remarked that the Government would keep a close watch on the impact of an economic downturn and a rise-back in unemployment rate on the property market, which might arise as a result of the abrupt deterioration of the eurozone debt crisis. The Government would introduce appropriate measures to tackle the challenges if and when necessary.

19. Noting that the mortgage payment to income ratio would rise to around 60% if the interest rates for mortgage loans were to increase by 3 percentage points, the Deputy Chairman remarked that between 1989 and 1997, the mortgage payment to income ratio also stayed at 60% or above. The US government had also indicated that the low interest rate situation would continue until end of 2014, and therefore the impact of the interest rate situation on the current property market might not be significant.

20. FS remarked that the situation between 1989 and 1997 was different from now in that the interest rates at that time were relatively high whereas the current rates were extremely low and hence would only go up in the future. FS pointed out that despite the US government's policy of maintaining a low interest rate until end of 2014, residential property investments were normally of a long term nature and hence potential buyers should assess their financial capability taking into account the trend of interest rates in the longer term.

21. Mr Albert HO expressed grave concern that property prices and the number of transactions of flats continued to soar despite the measures introduced by the Government and HKMA. For instance, property prices had surged upward by about 8% in the first four months of 2012. The mortgage payment to income ratio had reached a dangerously high level. The demand for flats in Hong Kong of people from the Mainland continued to grow. Mr HO enquired whether consideration would be given to demarcating certain flats for sale to local people only. The Deputy Chairman shared Mr HO's view and said that the demarcation could be based on the value or the size of flats.

22. FS remarked that it was a challenging task to strike a balance in drawing up policy to ensure the healthy and stable development of the property market. On the one hand, the external economic environment was unfavourable, on the other the interest rates were low and investment opportunities were keenly

sought after by investors. FS stressed that the measures introduced by the Government to curb speculation activities had been effective. There was an increase in land supply and the medium-term flat supply had picked up noticeably. There were signs that the heated property market had begun to cool down recently. The Government would keep a close watch on the situation, and members' views would be taken into consideration if and when further measures needed to be introduced.

23. Mr LEE Wing-tat was deeply concerned that property prices continued to escalate in spite of the anti-speculation measures taken by the Government. In order to prevent the risk of a property market bubble and to enable the genuine users to acquire property, Mr LEE opined that the Government should consider increasing the supply of flats to about 25 000 to 30 000 units a year, and designating about 50% of the sites put up for sale by the Government for development of flats solely for sale to Hong Kong residents. In addition, the Government should increase the supply of Home Ownership Scheme flats to about 5 000 to 6 000 units a year.

24. FS remarked that the Government would not rule out any measures to prevent a property market bubble and ensure the healthy and stable development of the property market. FS said that he would relay Mr LEE's suggestions to the relevant officials of the next-term Government for consideration. FS pointed out that for the existing owners of properties, an abrupt drop in property prices was undesirable.

25. The Chairman remarked that while the Government should deal with the high property price situation which was a cause for wide public concern, it should be careful in drawing up relevant policies/measures in order to avoid impacting adversely the development of the economy.

26. Mr James TO was concerned that with the introduction of the SSD, speculators might turn to buy properties which were not subject to SSD, e.g. shops and industrial premises, as this would lead to an upsurge of the prices of such properties and increase the operating costs of the tenants.

27. premises represented about 10% of the transaction volume of residential units. Since the vacancy rate of shops and office premises was relatively low, the price or rental level should be acceptable to the tenants. The Government would monitor the market situation of such properties.

28. At the request of Mr James TO, the Administration agreed to provide information relating to properties which were not subject to the payment of SSD, including statistics on the vacancy rates, number of transactions, and the price trends of the properties.

> (*Post-meeting note*: The information provided by the Administration was circulated to members vide LC Paper No. CB(1)2278/11-12 on 29 June 2012.)

Analysis relating to the middle class

29. Noting that the Government's presentation had included an analysis of the situation of the low-income households, Ms Starry LEE enquired whether the Government had conducted any analysis of the situation of the "marginal middle class", for example those earning less than $50,000 per month, who were not eligible for public housing and yet could not afford to buy private flats. Ms LEE was concerned that there might be a downturn of social mobility for such group of "marginal middle class" as the increase in their income had fallen behind the rise in inflation. Ms LEE enquired whether the Government would include in future briefings an analysis of the situation of the "marginal middle class" and asked what measures would be taken to assist the "marginal middle class" group of people to improve their standard of living.

30. FS stated that a precise analysis of the situation of "marginal middle class" was difficult to gauge, because of the lack of a clear definition of such "marginal middle class". FS pointed out that in overall terms, the income of many people had improved in the past year, while at the same time the inflation rate had stabilised lately along with the drop in food prices globally. FS added that the Government aimed to maintain steady economic growth so that every stratum of the society would benefit and improve their standard of living. FS further remarked that the increase in median household income in 2011 was the highest since the mid-1990s. The Government had also introduced an array of relief measures to relieve the inflation pressure on different groups of people.

Hong Kong Exchanges and clearing Limited

31. Mr CHIM Pui-chung expressed grave concern about the planned acquisition of the London Metal Exchange (LME) by the Hong Kong Exchanges and Clearing Limited (HKEx). He opined that the acquisition was

not in the best interest of the public and HKEx should concentrate on its stock exchange business. Mr CHIM pointed out that a similar acquisition in the United States by the Hong Kong Banking Corporation had resulted in losses. He enquired about the Government's stance on the acquisition and which parties would benefit from the acquisition.

32. FS remarked that since the HKEx was a listed company, the Chairman or Chief Executive Officer of HKEx should be in the position to reply and he would not comment on the issue.

33. Mr CHIM said that the Government being a major shareholder of HKEx should have a stance on the acquisition, and he requested the Administration to give a written response to his queries. Given Mr CHIM's concern on the acquisition of the LME by the HKEx, the Chairman requested the Administration to liaise with the HKEx to provide information on the justifications and implications of the acquisition on HKEx's business prospects, etc.

> (*Post-meeting note*: The information provided by the Administration was circulated to members vide LC Paper No. CB(1)2264/11-12 on 27 June 2012.)

iBonds

34. Mr James TO opined that in order to further develop the bond market in Hong Kong, and facilitate the middle class to protect the value of their assets, the Government should consider making the issue of iBonds as a standing practice, so far as it was financially feasible for the Government to issue such bonds.

35. FS stated that the issue of iBonds was based on commercial considerations, with a view to further developing the bond market in Hong Kong. The Government would take into account the prevailing financial market situation in deciding the Government's bond programme.

IV Briefing on development in implementing the regulatory requirements in Hong Kong under the Basel framework

(LC Paper No. CB(1)2035/11-12(04) — Administration's paper on "Progress in Implementation of Basel III Standards in Hong Kong"

LC Paper No. CB(1)2034/11-12 — Background brief on implementation of Basel regulatory requirements in Hong Kong prepared by the Legislative Council Secretariat)

36. At the invitation of the Chairman, the Principal Assistant Secretary for Financial Services and the Treasury (PAS(FS)) and the Executive Director (Banking Policy), HKMA (ED(BP)/HKMA) briefed members, through a Powerpoint presentation, on the progress of the implementation of Basel III standards in Hong Kong.

(*Post-meeting note*: The notes of the Powerpoint presentation (LC Paper No. CB(1)2094/11-12(02)) were issued to members vide Lotus Notes e-mail on 4 June 2012.)

Discussion

37. Mr Ronny TONG enquired about the additional costs that the Authorized Institutions (AIs) would have to incur in order to comply with the Basel III requirements, in comparison with the costs for meeting the Basel I and II standards.

38. ED(BP)/HKMA responded that the cost implications for compliance with the Basel III standards varied for different AIs, as some AIs might already hold high quality liquid assets and/or high level of capital which met the requirements of Basel III. For instance, the capital adequacy ratio of banks in Hong Kong was much higher than many banks in overseas jurisdictions. Based on an assessment made by the Basel Committee on Banking Supervision (BCBS), an increase of 1% in the capital adequacy ratio would result in a 0.19% decline in the level of the Gross Domestic Product of an economy. It would be very difficult to work out the overall cost implications in the implementation of the Basel III standards in Hong Kong, as the cost factor for different AIs varied, because of their different business mix and profit base. PAS(FS) supplemented that the capital adequacy ratio for banks in Hong Kong had been maintained at a very high level, standing at 15.8% at the end of 2011 which well exceeded the statutory requirement of 8%. Given the high capital adequacy ratio, banks in Hong Kong should have no difficulty in complying with the capital requirement of the Basel III standards. Strong capital adequacy might also help reduce their cost for raising additional capital.

39. Mr Paul CHAN was concerned whether the small and medium-sized AIs had difficulty in complying with the Basel III standards. Mr CHAN also enquired about the progress of implementing the Basel III standards in Hong Kong in comparison with the pace of implementation in overseas jurisdictions.

40. ED(BP)/HKMA remarked that the findings of the bi-annual Quantitative Impact Studies conducted by HKMA on banks showed that the small and medium-sized banks in Hong Kong had no difficulty in complying with the Basel III requirements. PAS(FS) added that Annex D of the paper had provided a comparison of the situation in Hong Kong and overseas jurisdictions in implementing the Basel III capital standards. Hong Kong would follow the timeframe set by the BCBS in implementing the Basel III requirements, and aimed to enforce the capital standards starting from 1 January 2013. PAS(FS) pointed out that it was a statutory requirement for HKMA to consult the relevant banking and deposit-taking company associations in introducing the subsidiary legislation for implementation of the Basel III standards. HKMA had been engaging the industry, including small and medium-sized banks, since the beginning of 2011, regarding the new subsidiary legislation that needed to be enacted for implementation of the Basel III requirements.

V Any other business

41. There being no other business, the meeting ended at 11:47 am.

Council Business Division 1
Legislative Council Secretariat
13 September 2012