立法會
Legislative Council

LC Paper No. CB(1)2636/11-12
(These minutes have been seen by the Administration)

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Panel on Financial Affairs

Minutes of meeting
held on Tuesday, 10 July 2012 at 8:30 am
in Conference Room 1 of the Legislative Council Complex

Members present :	Hon CHAN Kam-lam, SBS, JP (Chairman) Hon CHAN Kin-por, BBS, JP (Deputy Chairman) Hon Albert HO Chun-yan 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 Jeffrey LAM Kin-fung, GBS, JP Hon Andrew LEUNG Kwan-yuen, GBS, JP Hon WONG Ting-kwong, SBS, JP Hon Ronny TONG Ka-wah, SC Hon KAM Nai-wai, MH Hon Starry LEE Wai-king, JP
Member attending :	Hon WONG Kwok-hing, MH
Members absent :	Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP Dr Hon Philip WONG Yu-hong, GBS Hon LEE Wing-tat Hon CHIM Pui-chung Hon Paul CHAN Mo-po, MH, JP Hon Mrs Regina IP LAU Suk-yee, GBS, JP

Public officers attending	**:**	Agenda Item III Mr John TSANG, GBM, JP Financial Secretary Prof K C CHAN, GBS, JP Secretary for Financial Services and the Treasury Mrs Helen CHAN, JP Government Economist Mr Norman CHAN, GBS, JP Chief Executive Hong Kong Monetary Authority Mr Arthur AU Administrative Assistant to Financial Secretary Agenda Item IV Mr Peter PANG, JP Deputy Chief Executive Hong Kong Monetary Authority Agenda Item V Mr Anthony LI Principal Assistant Secretary for Financial Services and the Treasury (Financial Services) 2
Attendance by invitation	:	Agenda Item III Mrs Alexa LAM, JP Acting Chief Executive Officer Securities and Futures Commission Ms Annie CHOI, JP Commissioner of Insurance Mrs Diana CHAN, JP Managing Director Mandatory Provident Fund Schemes Authority

Agenda Item IV

Mr James H LAU Jr, JP
Chief Executive Officer
Hong Kong Mortgage Corporation

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

Mr Gerald D GREINER
Chief Operating Officer
Hong Kong Exchanges and Clearing Limited

Mr P C WONG
Vice President, Trading Division
Hong Kong Exchanges and Clearing Limited

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)2267/11-12 — Minutes of the meeting on 21 May 2012)

The minutes of the meeting held on 21 May 2012 were confirmed.

II Information papers issued since the last meeting

(LC Paper No. CB(1)2144/11-12(01) — Hong Kong Mortgage Corporation Limited 2011 Annual Report

LC Paper No. CB(1)2211/11-12(01) — Hong Kong Institute of Certified Public Accountants' response to Subcommittee on Professional Accountants (Amendment) Bylaw 2011

LC Paper No. CB(1)2324/11-12(01) — Administration's letter dated 6 July 2012 regarding Departmental Interpretation and Practice Notes compiled pursuant to provisions of the Inland Revenue (Amendment) (No. 3) Ordinance 2011

LC Paper Nos. CB(1)2328/11-12(01) to (02) — Complaint relating to the Hong Kong Mortgage Corporation Limited (Restricted to members only)

LC Paper No. CB(1)2339/11-12(01) — Administration on "Establishment of the Financial Dispute Resolution Centre")

2. Members noted the information papers issued since the last regular meeting held on 4 June 2012.

III Briefing by the Financial Secretary on the latest economic situation

(LC Paper No. CB(1)2323/11-12(01) — Administration's paper on Hong Kong's recent economic situation and outlook)

3. The Chairman welcomed the Financial Secretary (FS) and other officials of the new term Government responsible for financial affairs to the meeting. At the invitation of the Chairman, FS briefed members on the latest economic situation and the Government's strategies and measures to get Hong Kong well

prepared for the challenges of a volatile economic situation, by highlighting the following salient points:

(a) Fostering economic development and maintaining the stability of the financial systems were the most important duties of both the previous term and the current term Government. The current team of officials responsible for economic and financial affairs had served in the previous term Government. They possessed professional expertise and were conversant with operations of the financial markets. Given the extremely volatile external environment, the team would continue to work closely together in order to maintain the stability of the financial system;

(b) The prime concern of the global financial market at the moment was the eurozone sovereign debt crisis. While leaders of the eurozone countries had agreed to introduce measures to help solve the problem at the summit held in late June, e.g. the rescue funds could directly be injected into banks of the member countries, the market was still doubtful about the effectiveness of these measures. Market participants were also concerned as to whether Greece would eventually exit the eurozone, and whether the economic situation in Spain and Italy would continue to deteriorate. The eurozone sovereign debt crisis would linger on for a period of time. While a number of eurozone countries had already slipped into recession, economic recovery in the United States (US) had showed signs of weakening and the fiscal position might tighten sharply in 2013. Growth momentum of the Mainland economy and other emerging economies had also slowed down. As a small and open economy, Hong Kong would inevitably be affected.

(c) Exports of goods in April and May 2012 were still sluggish. New export orders received by small and medium sized enterprises (SMEs) were declining, and business sentiments turned more cautious. Alongside a worsening external environment, machinery and equipment acquisition also slowed down. On the other hand, other domestic segments had held up well and helped to buttress the overall economic performance. Retail sale volume grew by 6.7% year-on-year in April and May 2012 combined, which showed that the local consumption market was largely stable despite some moderation. The number of visitors maintained double-digit growth in April and May 2012.

(d) The labour market remained in a state of full employment. The latest unemployment rate was 3.2% and the underemployment rate was 1.4%. The stable labour market should continue to provide support to local consumption. Infrastructure works would also render additional impetus to domestic demand. The relief measures introduced in the 2012-2013 Budget helped to counteract the downturn risks faced by the Hong Kong economy. However, amid the austere external economic environment, the unemployment situation might deteriorate if there was an abrupt downturn of the global economy.

(e) The performance of the Hong Kong economy for the rest of 2012 would depend mainly on the development of the eurozone sovereign debt crisis. Meanwhile, the US economic recovery was still unsteady, thereby fuelling uncertainties to the global economic outlook. While Asian economies had also shown signs of moderation, they had sound fundamentals and larger scope for policy maneuvering. Moreover, as the Mainland government introduced measures to sustain economic growth, the Mainland economy was expected to regain momentum in the second half of 2012, and would provide an important stabilising force for the global economy. Barring any abrupt deterioration of the global economy, the real GDP growth forecast of 1% to 3% for 2012 as a whole should be broadly attainable. In view of a highly uncertain external economic environment, the Government would not rule out the possibility of adjusting the economic forecasts. The updated growth forecasts would be released together with the GDP figures for the second quarter of 2012 in August.

(*Post-meeting note*: The real GDP growth forecast for 2012 as a whole was revised to 1% to 2% on 10 August 2012.)

(f) Inflation displayed an easing trend in the first five months of 2012. Headline consumer price inflation went down from 5.2% in the first quarter of 2012 to 4.7% in April 2012 and further to 4.3% in May 2012. Underlying consumer price inflation likewise receded from 5.9% in the first quarter of 2012 to 5.6% in April 2012, and further to 5.1% in May 2012. The headline and underlying consumer price inflations for the whole year of 2012 were forecast to be 3.5% and 4% respectively. Given the recent volatility in global food and commodity prices and the abundant global liquidity, the Government would stay vigilant to the upside risks of inflation.

(g) With the deterioration of the eurozone sovereign debt crisis and the cyclical adjustment of the global securities market, the rise in property prices had slowed down. The month-to-month increase in overall property prices in May 2012 was only around 1%, and the number of sale and purchase agreements registered with the Land Registry decreased by 30% to around 5 890 in June. While it was difficult to predict the future direction of the property market, the bubble risk still existed amid the low interest rate environment. Since 2010, the Government had implemented measures along four directions to counteract the heated property market, namely (i) increasing land supply; (ii) curbing speculative activities; (iii) enhancing transparency of property transactions and (iv) preventing excessive expansion in mortgage lending. Members of the public should carefully assess their financial capability and the risks involved when deciding whether to acquire a property.

(h) Given the resilience of the Hong Kong economy and the experience of the Government in coping with financial crises, Hong Kong should be able to tide over any challenges posed by global financial shocks. As in the past, the Government would work closely with relevant financial regulators to ensure the stability of the financial system, and introduce timely measures to enhance Hong Kong's competitiveness and turn the crises into opportunities;

(i) Relevant financial regulators had already stepped up their measures in order to tackle systemic risks. Stress tests were conducted to ensure that the markets would operate in an orderly manner even under an extremely volatile situation. Reforms of the financial regulatory regime were also carried out to ensure that the local regulatory regime was on par with international standards, e.g. a new short-selling regulatory reporting regime was introduced on 18 June 2012. During the meeting of the Financial Stability Board held in Hong Kong in May 2012, the Government had reported to the G20 members Hong Kong's progress in regulatory reforms, implementation of Basel III requirements, reform on regulation of over-the-counter derivatives transactions, and the measures to tackle shadow banks. These measures were of paramount importance in meeting the challenges of a global financial crisis. The Government would continue to work closely with financial regulators in order to keep a close watch on the global economic developments, in particular the eruozone sovereign debt crisis, with a view to addressing relevant issues as and when necessary.

4. The Government Economist (GE) gave a Powerpoint presentation on the latest developments of the economies in Europe, US, Asia, the Mainland and Hong Kong.

(*Post-meeting note*: The notes of the Powerpoint presentation (LC Paper No. CB(1)2347/11-12(01)) were issued to members vide Lotus Notes e-mail on 10 July 2012.)

5. The Secretary for Financial Services and the Treasury (SFST) said that a four-pronged approach had been adopted to tackle the challenges of the volatile economic situation; namely to maintain the stability of the monetary system, to strengthen regulation and risk management, to enhance protection for investors and to promote the long term development and competitiveness of the financial sectors. To ensure that the financial institutions, such as banks, the securities market and the insurance industry, continued to operate in an orderly manner, the Government had worked closely with the relevant regulatory bodies to closely monitor the market situation through cross-regulator platforms. For example, the Council of Financial Regulators and the Financial Stability Committee led by FS and SFST respectively regularly met to exchange information on the market and discuss issues relating to market risks. The existing regulatory regime had proved to be effective in regulating the financial market. Amidst the eurozone sovereign debt crisis, liquidity in the capital market in Hong Kong remained healthy, and the exchange and interest rates of the Hong Kong currency were stable. SFST pointed out that only slightly over 0.4% of the exposure of local banks was related to the five crisis stricken eurozone countries which had an acute sovereign debt problem. The amounts of loans and deposits of European banks in Hong Kong (excluding British banks) constituted about 7.5% and 4.7% respectively of the overall amounts for banks in Hong Kong. In view of increased risks of financial products related to the ratings of European markets and counterparty risks of European financial institutions, the Securities and Futures Commission (SFC) had taken steps to address the risks. To enable SFC to collect more market information so as to strengthen its market surveillance ability, SFC introduced the new short position reporting regime through legislation in June 2012, requiring those who held short positions in specific shares to report to the SFC. Starting from 7 September 2012, SFC would publish the aggregate short positions of each stock in an anonymous manner three business days after they received the reports. Starting in 2013, the Basel III requirements would be implemented by phases in Hong Kong, in compliance with the timetable set by the Basel Committee on Banking Supervision, which would ensure that the capital and liquidity level of Authorized Institutions (AIs) in Hong Kong was on par with

international standard. The Government and the relevant regulators were working on the regulatory regime of over-the-counter (OTC) derivatives which sought to enable regulators to assess, mitigate and manage systemic risks in the OTC derivatives market in a more effective manner. The legislative proposal would be introduced to LegCo in the next legislative session. To enhance the protection of the interests of investors, the Financial Dispute Resolution Centre came into operation on 19 June 2012. A cross-sector Investor Education Council would review and conduct investor education holistically so as to enhance the public's understanding of investment risks and financial management knowledge. The Government would continue to work closely with the relevant regulators and maintain close liaison with the industries concerned and the stakeholders in order to supervise the financial market and introduce regulatory measures as and when necessary.

6. The Chief Executive, Hong Kong Monetary Authority (CE/HKMA) briefed members on the measures taken by HKMA in respect of the current global economic situation and the impact of the eurozone sovereign debt crisis on the financial system of Hong Kong, by highlighting the following salient points:

(a) the stability of the banking system was of pivotal importance to the overall financial stability of Hong Kong;

(b) HKMA had been taking forward-looking macro-prudential measures in face of the challenges brought by a possible financial crisis. The ability to combat financial instability depended heavily on the availability of liquidity in the banking system among other things. In the past two to three years, HKMA had been paying particular attention to AIs' management of their credit, liquidity and operation risks. The banking system remained robust and resilient as the AIs maintained a liquidity ratio of over 40% in May 2012 which was higher than the statutory minimum requirement of 25%, and the capital adequacy ratio of locally incorporated AIs remained high at around 16% in March 2012, against the international standard of 8%;

(c) As regards risk management of loans, HKMA had introduced four rounds of countercyclical measures since October 2009 to ensure banks would have suitable safeguard against a possible downturn of the property market. In April 2011, the positive mortgage loan data sharing arrangement was introduced to enhance risk management of mortgage loans. In view of the rapid growth in granting of loans since 2010, in particular loans relating to the Mainland enterprises, HKMA had stepped up regulatory inspections to ensure that banks would not relax their credit standards and maintain adequate liquidity support. With the collaboration of HKMA and AIs, the annualised growth rate of loans had reduced from about 30% in 2010 and in the first half of 2011 to about 11% in the second half of 2011. In the first five months of 2012, the growth rate of loans had been maintained at a moderate level of 8%. AIs were also required to increase their regulatory reserve, from 0.85% in 2010 to 1.4% of their overall loan amounts in 2011, in order to forestall the possible deterioration of their assets stemming from a financial crisis;

(d) HKMA had reminded AIs of the need to enhance liquidity management in case of a serious liquidity problem arising from an extremely volatile global financial market. In order to cater for a contingency situation, HKMA had an established mechanism to provide support to the AIs on liquidity, including the repurchase (repo) arrangement through the Discount Window of the HKMA for AIs to borrow overnight funding using eligible securities including Exchange Fund bills and notes as collaterals; to provide liquidity to AIs through foreign exchange swaps and/or term repo for a period of up to three months; and based on the Renminbi liquidity arrangement introduced since 14 June 2012, to provide short-term (one week) Renminbi liquidity to AIs by accepting qualified securities as collaterals (including Exchange Fund bills and notes, Government bonds and/or Mainland sovereign debts); and

(e) HKMA was confident that the banking sector was robust and resilient to tide over any challenges posed by a possible deterioration of the eurozone sovereign debt crisis.

7. The Chief Executive Officer (Acting), Securities and Futures Commission (CEO/SFC(Atg)) remarked that SFC had been closely monitoring the development of the securities and futures market, and would take appropriate actions to deal with the changing global market situations. In view of the volatile global financial market, SFC had closely liaised with the Government and other relevant regulatory bodies regarding information on the financial market, and strengthened the regulation of securities and futures trading activities. SFC had established contingency procedures to deal with situations which might affect the securities and futures market, including situations of extreme fluctuation of market prices, the insolvency of financial institutions, disruptions to the orderly operation of the stock exchange and/or settlement organizations. CEO/SFC (Atg) said that SFC, the Hong Kong exchange companies, the Financial Services and the Treasury Bureau and the

relevant regulatory bodies regularly carried out emergency drills in order to test and ensure that all parties concerned were capable of coping with any emergency situations in the securities and futures market. As regards the regulation of intermediaries, CEO/SFC (Atg) remarked that SFC had been reforming the requirements on capital source and handling of clients' securities, and enhancing the financial and risk management of the intermediaries. SFC had regularly reminded the intermediaries through different channels on prudent risk management. For instance, on 15 September 2011, SFC issued a circular to all registered entities regarding the importance of prudent risk management and effective internal monitoring system, the responsibilities of the high level management in the management of their financial institutions, etc. At a meeting with the trade associations of the intermediaries in February 2012, SFC reminded the intermediaries of the need to exercise vigilant and prudent risk management in face of a volatile financial market. SFC also carried out stress test on the capital situation of intermediaries, and conducted on-site examinations to closely monitor the higher risk intermediaries with a view to improving their management. Given that recently some investment products sold in Hong Kong were related to the eurozone sovereign debt crisis and the counterparty risk of related financial institutions, SFC had introduced specific measures to deal with the situation, including the monitoring of the financial products concerned in relation to the international financial institutions, the requirement for comprehensive provision of collateral for local exchange-traded funds, close liaison with the issuers/intermediaries and the relevant local and overseas regulators of the financial products in order to provide SFC with timely information concerning the financial products. CEO/SFC (Atg) stated that one of the main responsibilities of SFC was to provide investor education. In this regard, SFC aimed to enable investors to take appropriate actions in response to changing market situations, encourage investors to make prudent decisions in investments, and familiarize investors with relevant information on investment products and the financial market. SFC also actively handled enquiries and complaints from people in need, so as to understand the needs for investor education, clarify misunderstanding and prevent deception. Investors were reminded of their rights in the process of purchasing investment products. SFC was prepared to assist market participants in meeting the challenges of a volatile external economic environment.

8. The Commissioner of Insurance (C of I) remarked that amidst the uncertainties in the current European as well as global financial markets, the Office of the Commissioner of Insurance (OCI) had been vigilantly monitoring the financial conditions of insurance companies, closely monitoring the impact of possible changes in the market on the financial conditions of insurance companies, and had required insurance companies to carry out stress tests and other risk management measures, in order to ensure that the companies would

be capable of coping with possible changes in the market. OCI would take appropriate supervisory measures to safeguard the interests of policyholders as and when necessary..

9. The Managing Director of the Mandatory Provident Fund Schemes Authority (MD/MPFA) briefed members on the possible impact of a global financial crisis on the MPF System and the investments of MPF schemes. MD/MPFA stressed that the MPF System was robust and resilient in withstanding the impact of a global financial crisis, as in accordance with the statutory requirements, trustees were required to hold its assets under MPF schemes in the form of a trust, and such assets should be separated from the assets of the trustees. Trustees were also required to comply with the capital adequacy requirements and stringent investment regulations to diversify MPF investments. The investments of MPF were made mainly on a long term basis and therefore the impact of a global financial crisis on the trust funds should be minimal. Since the outbreak of the eurozone sovereign debt crisis in 2010, MPFA had regularly reminded the trustees of the need to remain vigilant on the development of the crisis and to draw up contingency measures to tackle the challenges of the crisis. MPFA would keep a close watch on the relevant development and introduce measures to deal with the situation as appropriate.

Discussion

10. Mr Andrew LEUNG remarked that as the same team of officials responsible for financial affairs would continue to serve in the new term Government, it would help maintain the stability of the financial market. Mr LEUNG enquired whether and how the new term Government would consider making use of the fiscal reserves to make investments and foster the development of different trades and industries.

11. FS said that while respecting the functions of a market economy, the Government would play a bigger role when market forces failed to operate properly. The Government would continue to take steps to foster further development of the four pillar industries and the six emerging industries, and would introduce measures to sustain the development of different trades and industries. FS pointed out that under the diversification arrangement, part of the Exchange Fund had already been invested in high return asset classes such as private equity funds and overseas real estates.

12. Mr Andrew LEUNG expressed concern about the regulation of short-selling activities in Hong Kong as some US funds had made use of the short-selling arrangements to make huge profits in short-selling a number of local and Mainland stocks listed in Hong Kong.

13. FS remarked that Hong Kong had established a robust regulatory regime for short-selling activities in the stock market. Naked short-selling was not allowed in Hong Kong and a new reporting system had been set up to enhance the disclosure of short-selling activities in Hong Kong.

14. Mr Jeffrey LAM was concerned that the SME Financing Guarantee Scheme operated by the Hong Kong Mortgage Corporation (HKMC) was time limited. Given the uncertain external economic situation, Mr LAM requested that the Government should consider extending the period of the SME Financing Guarantee Scheme and further enhancing the Scheme in order to assist the small and medium sized enterprises (SMEs) to tide over the challenges of the uncertain economic situation. Mr LAM also enquired what measures the Government would take to assist the trades and industries if the external economic situation worsened. Mr LAM opined that the Government should continue to solicit views from the trades and industries and the financial and banking sectors regarding its economic policies, in addition to conducting public forums to hear the views of the public on Government policies.

15. FS said that responses from SMEs to the SME Financing Guarantee Scheme had been very encouraging, and the Government would consider in due course whether the Scheme should be extended upon its expiry. FS remarked that as described in the speeches given by Government officials and regulators earlier at the meeting, the Government had a comprehensive strategy to address the challenges posed by the uncertain external economic situation, particularly the impact of the eurozone sovereign debt crisis. For instance, HKMA had stepped up measures to ensure prudent risk management by banks. FS reiterated that the Government had always paid close attention to the views of the trades and industries and the financial and banking sectors, and would continue to do so in order to further improve the business environment.

16. Mr Jeffrey LAM was concerned that given the volatile external economic situation, there might be another large influx of capital which might lead to asset price bubbles. Mr LAM enquired whether the Government would consider reviewing the Linked Exchange Rate system in order to tackle the asset price bubble issue.

17. FS responded that over the past decades the Government had reviewed the Linked Exchange Rate system, and had concluded that the existing system was the best arrangement for Hong Kong.

18. In view of the extremely volatile external economic situation, Ms Emily LAU enquired about the impact on Hong Kong's economy if the US government introduced the third round of "quantitative easing" measures (QE).

19. FS responded that there were comments that the second round of QE measures (QE2) had only helped the financial sectors rather than the general public in the US, and QE2 measures had rendered limited effect in boosting the global economy. While the directions and details of the third round of QE (QE3), if implemented, had yet to be revealed, the Government was prepared and capable to meet the challenges of QE3. CE/HKMA supplemented that introduction of the first round of QE measures (QE1) in March 2009 had a significant impact on Hong Kong's economy, in particular the financial sector, as the influx of an unprecedentedly large amount of capital had led to extremely low interest rates. It had also considerably increased the risk of asset price bubbles. The impact of QE2 on Hong Kong was less notable as there was no further influx of capital, although interest rates remained low mainly because the capital flowed into the Hong Kong asset market during QE1 continued to stay. CE/HKMA pointed out that it was difficult to predict as to whether and when the US government would introduce QE3. The impact of QE3, if ever implemented, on Hong Kong would be relatively mild as the current interest rate levels were already very low. The current environment was also different from that of 2009/2010 when QE1 was introduced, as the pressure on asset prices and inflation had generally eased. CE/HKMA said that while the Government would not attempt to predict whether there would be another round of QE in the US or other countries, it would ensure that appropriate measures would be in place should the global macro economic situation change.

20. Noting that the eurozone sovereign debt crisis would linger for an extended period of time and would not be resolved in the near future, the Deputy Chairman enquired what medium and long term measures the Government would take to address the challenges stemming from the eurozone sovereign debt crisis.

21. GE responded that since the European Union was the largest economic entity in the world, the eurozone sovereign debt crisis remained a major cause for concern as its deterioration would increase the downside risks to the global economy. Hong Kong's import/export trade and related sectors, including the logistics industry, had already been adversely affected by the crisis. As a result, the Hong Kong economy was facing increased downside risks and would likely attain only a modest and below-trend growth in 2012. Hong Kong's economic outlook for 2013 and beyond would also be undermined if the eurozone sovereign debt crisis were to linger for a prolonged period. Under the circumstances, the external economic situation would remain extremely volatile. The Government, together with relevant regulators, would continue to keep a close watch on the situation and take steps when needed to ensure the systemic stability of the financial sectors.

22. The Deputy Chairman was concerned that in face of the eurozone sovereign debt crisis, the uncertain external economic situation and the extremely low interest rates, the insurance companies faced great difficulties in operating their business, such as the liquidity problem. The Deputy Chairman enquired what measures the Government would take to assist the insurance industry under the current economic situation.

23. C of I remarked that unlike some other financial markets, life insurance policies with guaranteed returns constituted only a small percentage of insurance business in Hong Kong. Hence, while the extremely low interest rate situation might affect the profitability of the insurance industry, the impact on liquidity was relatively minor. The current supervisory measure adopted by OCI was considered adequate to monitor the current market situation.

24. Mr WONG Kwok-hing remarked that while the external economic situation was uncertain, the Central People's Government had recently introduced a number of measures to support the development of Hong Kong's economy. Mr WONG enquired how the Government would make use of those measures to foster the development of different trades and industries in Hong Kong, in order to create more job opportunities for Hong Kong people.

25. FS responded that the measures to foster closer economic cooperation between Hong Kong and the Mainland would bring mutual benefits to both places. The measures would help foster the further development of different trades and industries in Hong Kong, in particular the financial sector such as developing Renminbi businesses. Support would also be provided to the pillar industries such as logistics, transportation and tourism industries, and the six emerging industries. The relevant Government Bureaux and departments were taking follow-up actions on the new initiatives. FS pointed out that the close cooperation between the Hong Kong and the Mainland had helped protect employment and create job opportunities in Hong Kong, which was reflected in the current low unemployment rate of 3.2%.

26. Mr WONG Kwok-hing enquired about the contingency measures to be adopted in case the proposal for re-structuring the Government Secretariat, including the proposed creation of a Deputy Financial Secretary post, was not passed in the current legislative session. FS said that irrespective of whether the proposal could be passed or not in the current legislative session, the existing bureaux would continue to foster the further development of different trades and industries and strive for closer economic co-operation with the relevant authorities in the Mainland.

IV The role and functions of the Hong Kong Mortgage Corporation Limited

(LC Paper No. CB(1)1461/11-12(01) — Letter dated 28 March 2012 from Hon Mrs Regina IP LAU Suk-yee on Hong Kong Mortgage Corporation Limited (English version only)

LC Paper No. CB(1)1870/11-12(01) — Administration's written response to Hon Mrs Regina IP's letter regarding Hong Kong Mortgage Corporation Limited

LC Paper No. CB(1)2284/11-12 — Background brief on the role and functions of the Hong Kong Mortgage Corporation Limited prepared by the Legislative Council Secretariat)

27. At the invitation of the Chairman, the Deputy Chief Executive, Hong Kong Monetary Authority (DCE/HKMA) briefed members, with the aid of Powerpoint materials, the role and functions of the Hong Kong Mortgage Corporation (HKMC).

(*Post-meeting note*: The notes of the Powerpoint presentation (LC Paper No. CB(1)2347/11-12(02)) were issued to members vide Lotus Notes e-mail on 10 July 2012.)

Discussion

28. Mr Jeffrey LAM enquired whether, in engaging in mortgage loan business outside Hong Kong, such as in Korea, Malaysia and Shenzhen, HKMC aimed to divert its core business to mortgage loan business outside Hong Kong, or to increase its investment returns through such overseas activities, without affecting the corporation's business in Hong Kong. DCE/HKMA responded that the HKMC had maintained its core business in Hong Kong and had developed new initiatives in recent years such as the reverse mortgage scheme, the SME Financing Guarantee Scheme and the Microfinance Scheme. The HKMC had purchased Korean loans in 2007 to 2009 for investment purpose and had generated a positive return of about

$400 million for the HKMC. The formation of the joint ventures in Malaysia and Shenzhen was in the context of regional central bank cooperation in Asia. The central banks in these partner economies considered HKMC's Mortgage Insurance Programme highly successful and would like to attain technology transfer through the joint ventures. Reflecting this purpose, the investments of the HKMC in these joint ventures were relatively small, only about $50 million Malaysian ringgit and about RMB90 million yuan respectively. The daily operations of the joint ventures were taken care of by their respective management.

29. In response to Mr Jeffrey LAM's enquiry as to whether the HKMC would offer assistance to Hong Kong residents who purchased properties in places like Korea, Malaysia and Shenzhen, DCE/HKMA said that HKMC would consider whether it would provide mortgage loan guarantee services in such cases.

V Proposal of the Hong Kong Exchanges and Clearing Limited to introduce after-hours futures trading

(LC Paper No. CB(1)2098/11-12(01) — Letter dated 1 June 2012 from Hon WONG Kwok-hing (Chinese version only)

LC Paper No. CB(1)2286/11-12(01) — Administration's paper on "Proposal of the Hong Kong Exchanges and Clearing Limited to introduce after-hours futures trading"

LC Paper No. CB(1)2285/11-12 — Background brief on proposal of the Hong Kong Exchanges and Clearing Limited to introduce after-hours futures trading prepared by the Legislative Council Secretariat

LC Paper No. CB(1)2330/11-12(01) Submission from Hong Kong Securities and Futures Professionals Association relating to proposal of the

Hong Kong Exchanges and Clearing Limited to introduce after-hours futures trading (Chinese version only))

Briefing by the Securities and Futures Commission

30. At the invitation of the Chairman, the Executive Director, Supervision of Markets Division, Securities and Futures Commission (ED(SM)/SFC) briefed members on the proposal of the Hong Kong Exchanges and Clearing Limited (HKEx) to introduce after-hours futures trading (AHFT).

Discussion

31. Mr WONG Kwok-hing remarked that the Hong Kong Securities and Futures Professionals Association (HKSFPA) had made a submission to the Panel expressing objection to the introduction of AHFT. HKSFPA, which had some 2 900 members, pointed out that the Association had expressed grave concerns on HKEx's proposal and yet HKEx treated their submission as only one objection to the proposal. HKSFPA requested that before SFC considered HKEx's finalized proposal, the Panel should hold a public hearing to hear the views of the industry and the public on the proposal. HKSFPA was concerned that as the current term of the Legislative Council would end in July 2012 and the next term Legislative Council would not convene until September/October this year, SFC might approve HKEx's proposal without further consulting the Legislative Council.

32. The Chairman remarked that as the next term Legislative Council would not meet until September/October this year, HKSFPA's request would be passed to the Panel of the next term for consideration. The Chairman enquired whether the Administration/HKEx had received the views as expressed by HKSFPA and other parties during the public consultation on AHFT, and whether these concerns had been addressed in the latest proposal. The Chairman cautioned that a precedent should not be set making it obligatory for SFC to consult the Panel on all market regulatory initiatives in response to market changes before such initiatives could be implemented.

33. ED(SM)/SFC remarked that AHFT had been practised in most futures markets in the world, though not in Hong Kong, Taiwan and the Mainland. As AHFT was a new initiative in Hong Kong, HKEx would make efforts to explain the details of the proposal to the parties concerned, and where appropriate refine the arrangements. SFC and HKEx would also review the arrangements after AHFT had been implemented. The Chief Operating Officer, HKEx ((COO)/HKEx) remarked that HKEx planned to submit the

relevant proposal to SFC in the fourth quarter of 2012, and implement AHFT in the first quarter of 2013.

34. Mr WONG Kwok-hing requested that SFC undertake to present the finalized proposal of HKEx to the Panel before granting approval to the proposal, so that the Panel and SFC could hear the views of the industry and the public, including the HKSFPA, on the proposal.

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35. The Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)2 (PAS(FS)2) said that HKEx had conducted public consultation on its AHFT proposal in May 2011, and HKEx had considered the views of market participants in revising the proposed arrangements. In view of the concern expressed by Mr WONG Kwok-hing, he suggested that the Administration provide an information paper to the relevant Panel after commencement of the next term Legislative Council and before the introduction of the proposed AHFT in 2013, e.g. in around November 2012, detailing the finalized arrangements proposed by HKEx regarding AHFT. The Panel could then decide whether and how to follow-up the issue.

36. Mr James TO enquired whether, based on HKEx's and SFC's assessments, under all circumstances investors would benefit from the proposed AHFT, and under no circumstance would the risk to investors increase as a result of the introduction of AHFT in Hong Kong's stock market.

37. PAS(FS)2 remarked that with the introduction of AHFT in Hong Kong's stock market, investors could manage their HKEx's index futures positions during Hong Kong night time at real time against any major market news and movement in the European or the US markets. With the introduction of the AHFT session, some of the futures trading and hedging needs in response to the overnight news and events would be satisfied in the AHFT session. As such, overnight buying and selling pressures in the futures market would not be concentrated in the futures market opening period in the next morning and the volatility and magnitude of the futures market price movement at the opening could be reduced. ED(SM)/SFC supplemented that on risk management, brokerage firms participating in AHFT had to follow capital-based position limit. HKEx also proposed to make reference to the practice of other major markets to impose a 5% price limit, i.e. no sell order of price below 95% and no buy order of price above 105% of the last traded price of the spot month contract in the regular trading session would be allowed to be placed.

38. Mr James TO remarked that there might be situations where the introduction of AHFT might increase the risk to investors. For instance, there might be major market news and movements in the European and US markets after the close of the Hong Kong futures market, and the futures price level

might return to normal when the Hong Kong market opened in the following day, in which case the investors in Hong Kong did not have to manage their position during the night. Instead, with the introduction of the after-hours trading session, investors might have to hedge their position, or if they could not raise capital to hedge their position during the after-hours trading session, they might be forced to close out their futures contracts and they might suffer losses.

39. ED(SM)/SFC responded that given that risks always existed in the futures market and the prices of futures contracts fluctuated, the purpose of introducing the AHFT was to enable investors to manage their HKEx's index futures positions during Hong Kong night time at real time against any major market news and movement in the European and US markets.

40. Mr WONG Kwok-hing reiterated his grave concern about the consultation with the industry on the proposal to introduce AHFT. Mr WONG was concerned whether the Administration or HKEx had fully considered the views expressed by the industry, e.g. the absence of bank services during the AHFT session which might increase the risk of close-out of the futures contracts concerned and loss on the part of investors, and the proposed 5% price capping on the futures transactions during AHFT.

41. PAS(FS)2 responded that in the relevant consultation paper, HKEx had given details of the arrangements for the proposed AHFT session, including the financial products covered, the advantages of the proposed trading session, the impact on the market participants concerned, the trading and settlements arrangements etc. In the consultation conclusion paper, HKEx had also listed, among other things, the details of respondents such as individuals, market participants and organizations. HKEx had included in its consultation papers and conclusions regarding the risk management arrangements during the after-hours trading session, e.g. the payments of margins for transactions during the after-hours trading session would be based on the prices of the contracts listed during the auction time of the next trading day and settled when the futures market opened in the following day. PAS(FS)2 pointed out that the 5% price cap was proposed in response to the industry's concern on risk management, and the arrangement was in line with that of major overseas futures markets. COO/HKEx added that in response to the industry's request for setting an absolute trading limit during the AHFT session, HKEx had proposed a 5% trading limit, similar to the arrangement in the US futures market.

VI Any other business

42. There being no other business, the meeting ended at 10:35 am.

Council Business Division 1
Legislative Council Secretariat
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