立法會
Legislative Council

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Report of the Panel on Financial Affairs
for submission to the Legislative Council

Purpose

This report gives an account of the work of the Panel on Financial Affairs for the 2011-2012 legislative session. It will be tabled at the meeting of the Legislative Council (LegCo) on 11 July 2012 in accordance with Rule 77(14) of the Rules of Procedure of LegCo.

The Panel

2. The Panel was formed by a resolution passed by the Council on 8 July 1998 and as amended on 20 December 2000, 9 October 2002, 11 July 2007 and 2 July 2008 for the purposes of monitoring and examining government policies and issues of public concern relating to financial and finance matters. The terms of reference of the Panel are set out in **Appendix I.**

3. For the 2011-2012 session, the Panel comprised 19 members, with Hon CHAN Kam-lam and Hon CHAN Kin-por elected as Chairman and Deputy Chairman respectively. The membership list of the Panel is in **Appendix II**.

Major work

Macro economy

4. During the 2011-2012 session, the Panel continued to provide a forum for LegCo Members to exchange views with the Financial Secretary (FS) on matters relating to Hong Kong's macro-economic situation. The Panel noted at the meeting on 4 June 2012 that the economy was poised for a real growth of 1-3% for 2012 as a whole. The downside risk in the external economic

environment remained notable, due mainly to the lingering eurozone sovereign debt crisis. The fragile fundamentals and fiscal restraints of the advanced economies, particularly the eurozone, would continue to weigh on their economic growth, with spillovers to the Asian countries. Yet the Mainland economy was expected to stay firm, thereby rendering an important stabilizing force in the region. Also, the US economy had performed better than earlier expected. Such positive developments, if continued, would provide some support to Hong Kong's exports going forward.

Property market

5. Members noted with grave concern that notwithstanding the introduction of the Special Stamp Duty in November 2010 and the measures taken by the Hong Kong Monetary Authority (HKMA) to tighten mortgage lending, flat prices had continued to increase. The overall flat prices rose by 8% in the first four months of 2012, surpassing the 1997 peak by 13%, and the mortgage payment to income ratio rose to around 46%. Members therefore urged FS to carefully monitor the risk of a property bubble and formulate appropriate measures to ensure stable and healthy development of the property market. Members made various suggestions such as increasing land supply for residential uses, increasing the provision of Home Purchase Scheme units, and imposing restrictions on the purchase of certain types of residential properties by non-Hong Kong residents etc.

6. FS advised that the Government had adopted measures along four directions to mitigate the property market bubble risks, namely to increase the transparency of the property market, to curb speculation activities, to raise flat supply through increasing land supply and to prevent excessive growth of mortgage lending. The medium-term flat supply had increased from 52 000 units in September 2009 to 64 000 in March 2012. The Government, together with the property development projects at railway lines, had been putting up sites for tender in the second and third quarters of 2012, on which some 1 400 and 5 000 residential units would be developed respectively. Besides, since 2009, the HKMA had introduced four rounds of countercyclical measures to tighten up the mortgage loan ratios for different types of properties, in order to prevent a systemic risk to the stability of the financial sectors.

7. FS also advised that an abrupt and sharp decline in property prices would bring instability to Hong Kong's economy, and a "soft landing" of the property market was a more desirable development. The measures introduced by the Government to combat speculation activities in the past two years had proved to be very effective. The Government would keep close watch on the property market, including the inflow and outflow of capital, and would

continue to implement appropriate measures to ensure the stability and long term healthy development of the property market.

Inflation and rentals

8. Another major concern of Members was the inflation pressure faced by local households. Members were particularly concerned about the rising food prices and the sharp increase in the rentals of commercial premises, especially retail shops. FS advised that 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 local 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 at 3.5% and 4% respectively were maintained.

9. As regards the rentals of commercial premises, FS advised that the robust increase in shop rentals was mainly driven by the strong growth in the business of the retail sector. With the expected slowdown in economic growth, the pace of increase in office and shop rentals was also looked set to ease off in the course of time. In 2011, the Government had put up six commercial sites for auction, which together would provide about 300 000 square metres of commercial premises. The development of Kowloon East as a Central Business District would also help to meet the demand for commercial premises. The Government would continue to monitor the situation, and take steps to ensure adequate supply of commercial premises.

Impact of sovereign debt crisis in Europe

10. Some members were deeply concerned about the extremely volatile external economic situation and the impact of the Eurozone sovereign debt crisis on Hong Kong's economy. They urged the Administration to take timely measures to assist local trades and industries to meet the challenges in the unfavourable economic environment. FS advised that the Government had remained highly vigilant about the impact of the volatile external economic environment on Hong Kong's economy. The direct impact of the Eurozone sovereign debt crisis on Hong Kong was envisaged to be limited, as local banks had limited exposure to the sovereign debts of the Eurozone countries having an acute sovereign debt problem. The Government maintained close watch on the

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

Monetary affairs

11. The Panel continued to receive regular briefings by the Chief Executive of HKMA and his colleagues on the work of HKMA. At these briefings, HKMA provided information on the global/regional/local financial and economic conditions, assessment of risk to Hong Kong's financial stability, banking supervision, performance of the Exchange Fund, development of financial infrastructure and the work of the Hong Kong Mortgage Corporation.

The Exchange Fund

12. The Panel continued to monitor the management of the Exchange Fund, and noted that the investment income of the Exchange Fund for 2011 (excluding valuation charges in the Strategic Portfolio) amounted to $27.1 billion, and the investment income for the first quarter of 2012 was $43.8 billion. The Accumulated Surplus decreased by $23.6 billion in 2011 to $567.9 billion as at 31 December 2011, and increased by $31 billion in the first quarter of 2012. The fixed rate for calculating the payment to the fiscal reserve for 2011 was 6%, based on which the Exchange Fund paid $37 billion to the fiscal reserves in 2011.

13. Some members expressed concern that the investment returns of the Exchange Fund had continued to decline over the years, from an average of 5.6% since 1994 to 3.2% in the past five years. HKMA responded that the primary purpose of the Exchange Fund was to maintain the stability of the exchange value of the Hong Kong currency, and given the specific statutory objectives of the Exchange Fund, its investments should concentrate on financial products with a high level of liquidity, such as quality US Treasury securities of relatively short maturity. A direct comparison between the investment returns of the Exchange Fund and other trust funds would not be appropriate.

14. Some members opined that similar to the practice of some other jurisdictions, part of the Exchange Fund should be used for setting up a separate investment fund, e.g. a City Wealth Fund, so that a more flexible investment strategy could be adopted. HKMA advised that under the diversification arrangement, part of the Exchange Fund had been invested into private equity

funds, real estate and emerging markets equities and bonds. As the diversification arrangement had effectively achieved part of the purpose of establishing a separate investment fund, FS did not consider it necessary to set up a separate investment fund. On members' concern about the transparency of the diversification arrangement for the investment of the Exchange Fund, HKMA undertook to disclose on an annual basis details of the investments under the diversification arrangement.

Banking supervision

15. In view of the sovereign debt problem in Europe, members expressed concern on whether HKMA had taken and would take appropriate measures to ensure the stability of the banking sector in order to meet the challenges of a possible financial crisis. HKMA advised that banking stability was underpinned by prudent credit risk management and liquidity management of Authorized Institutions (AIs), which the HKMA had been closely monitoring. The experience of the global financial crisis in 2008 and the subsequent credit crunch revealed that a region's ability to combat financial instability depended heavily on the availability of liquidity in the banking system amongst other things. As Hong Kong had sound and robust financial and banking systems, the AIs in Hong Kong were able to tide over the crisis. 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. HKMA would continue to take every necessary step to ensure that the AIs exercised prudent risk management to overcome challenges of any possible financial shocks.

16. The Panel noted that since October 2009, HKMA had introduced four rounds of prudential measures on banks' mortgage business, aiming at dampening the cyclical effects of the property market and upholding the stability of the banking sector. As the local property market remained exuberant, some members enquired what indicators were adopted by HKMA in determining the need to implement countercyclical measures in respect of the property market. HKMA advised that it would take into consideration a host of factors, including the level of property prices, transaction volume and the credit assessment standards adopted by banks, etc. On members' concern about the influx of capital from the Mainland into the local property market, HKMA advised that in view of the higher risk involved in granting mortgage loans to persons who earned their incomes outside Hong Kong and whose assets and liabilities were difficult to ascertain, the AIs were required, since June 2011, to grant mortgage loans to such persons at a rate of 10% lower than that for Hong Kong residents. Based on the statistics provided by the AIs, only about 3% to 4% of the newly granted mortgage loans in the primary and secondary

markets taken together were related to persons who earned their incomes outside Hong Kong.

Lehman Brothers-related structured products

17. On members' concern about the progress of the investigations into the complaints against banks for mis-selling of Lehman Brothers-related structured products, HKMA advised that with efforts from HKMA and relevant parties, a significant proportion of the Lehman-Brothers-related complaint cases received had been resolved through settlement. HKMA published on a weekly basis progress of handling of the Lehman-Brothers-related complaints. As of March 2012, out of some 21,000 complaints received, more than 18,000 cases, i.e. about 87%, had reached settlement with the bank concerned. About 10% of the complaints received were not substantiated and had been closed. HKMA continued its work on some 500 complaints (about 2%) most of which were received only in 2011.

Review of market entry criteria for banks

18. The Administration and HKMA briefed the Panel on the review of the market entry criteria for banks on 2 March 2012. Members noted the proposed amendments to the Seventh Schedule to the Banking Ordinance (Cap. 155) (BO) to remove the market entry requirements on the asset size and three-year local operation experience of banks. On members' concern that the removal of the two requirements might lead to higher risk of banks becoming insolvent, HKMA advised that all major economies in the world, including Hong Kong, adopted the Basel standards for the market entry criteria for banks. The asset size and three-year operation requirements were not included in the market entry criteria in other international financial centres, nor in the Basel standards. The Administration assured members that the removal of the two requirements would not increase the risk of banks operating in Hong Kong, as Hong Kong had a sound and robust regulation regime for banks, which based mainly on other criteria such as the capital adequacy ratio.

Implementation of the Basel III standards

19. The Administration and HKMA briefed the Panel on 4 June 2012 on the progress in implementation of the Basel III standards for banks in Hong Kong. Some members expressed concern that if Hong Kong implemented the Basel III requirements faster than other jurisdictions, it might hamper the competitiveness of the banking sector and customers might turn to other places for banking services. HKMA advised that a subcommittee under the Basel

Committee on Banking Supervision (Basel Committee) had been conducting peer reviews to assess the implementation of the Basel III requirements in Europe, the United States and Japan with a view to ensuring that major financial markets would follow the implementation timetable set by the Basel Committee. Hong Kong would comply with the Basel Committee's implementation timeframe.

Modernization of corporate insolvency law

20. On 7 November 2011, the Administration briefed the Panel on the Administration's plan to modernize Hong Kong's corporate insolvency law. The Panel noted that the Administration planned to roll out a new exercise to modernise Hong Kong’s corporate insolvency law. In addition to conducting a review of the company winding-up and insolvency-related provisions in the existing Companies Ordinance (Cap. 32), the exercise would also take the opportunity to consider the need for formulating new provisions concerning the local corporate insolvency regime. The Administration aimed to substantially complete the modernization exercise within the 2012-2016 LegCo term.

21. Noting that the Administration planned to introduce the relevant Bill into LegCo in the second quarter of 2014, some members considered that the proposed timeframe was too long and urged the Administration to expedite the relevant processes. As the Administration had previously conducted a public consultation on the legislative proposals on corporate rescue procedure in 2009-2010, some members considered that the legislative proposals for a new statutory corporate rescue should be taken forward in the first place in light of the relevant developments in overseas jurisdictions. Some other members however expressed concern that the corporate rescue procedure proposals, in particular the part on insolvent trading, might place unfair responsibilities on the directors of corporations. The members were also concerned that only large corporations would benefit from the proposed corporate rescue regime as small and medium-sized enterprises (SMEs) would not be able to afford the high professional fees.

22. The Administration advised that while it had conducted preliminary study on streamlining and rationalizing the company winding-up procedures, discussions with the stakeholders/experts and public consultation on the legislative proposals would still need to be undertaken before finalising the proposals. The Administration considered it appropriate to take forward the legislative proposals on modernizing the company winding-up procedures and the new statutory corporate rescue procedure simultaneously as some of the proposals for the two sets of procedures were inter-related. The Government

had and would make every effort to take forward the proposals as soon as possible.

23. As regards the corporate rescue procedure proposals, the Administration advised that in the 2009-2010 public consultation exercise, all relevant parties, including SMEs, had been consulted on the legislative proposals. While sizable corporations were more likely to benefit from the rescue procedures, the legislative provisions would provide more protection to the employees and suppliers in case a corporate became insolvent. As far as the liabilities of directors were concerned, the Administration could explore the possibility of providing appropriate safe harbours in the proposed legislation to protect the interests of directors.

Trust law reform

24. On 2 April 2012, the Administration briefed the Panel on the legislative proposals to reform Hong Kong's trust law, pursuant to clarifying trustees' duties and powers, affording better protection of beneficiaries' interests, and modernizing Hong Kong's trust law.

25. Some members expressed concern that a trust might be used for tax evasion purpose if a settlor was allowed to decide the types and amounts of investments of the trust. The Administration explained that reference had been made to the trust statute in Singapore in drawing up the relevant proposed provisions for a settlor to retain certain powers in deciding the investments of his trust. The arrangement would not contravene the relevant principle under the common law, and according to the trust industry, would encourage more people to set up their trusts in Hong Kong and adopt Hon Kong laws. A settlor might face the risk of his trust being ruled as invalid in court if he controlled fully or to a significant extent the investments of the trust.

26. Some members were concerned about the transparency of charitable trusts, and asked whether the Administration would consider establishing a public register system to publicize the detailed information and financial reports of trusts. The Administration advised that the legislative proposals would cover all types of trusts, including charitable trusts. Given the special nature of charitable trusts, some specific requirements had been included in the legislative proposals for charitable trusts. Currently there was not a mandatory registration regime for trusts, and trustees had the discretion whether they preferred to be registered in the form of trust companies under the Trustee Ordinance (Cap. 29). Under a separate context, the Administration had liaised with the Law Reform Commission on the review of the legal and regulatory framework for charitable organizations. The Administration also pointed out

that the Hague Convention on the Law Applicable to Trusts and on their Recognition would govern the regulation of trusts in different jurisdictions.

27. Some members were concerned which party/parties, the trustees and/or the beneficiaries would be empowered to decide the types and scope of insurance to be taken out for the trusts concerned. The Administration advised that one of the objectives of the trust law reform was to offer protection and guidance to settlors, trustees and beneficiaries. As trustees had the responsibility to effectively manage the trusts, the trustees were empowered to decide the types and scope of insurance to be taken out for the trusts. In order to protect beneficiaries' interests, provisions were proposed to be made to subject the trustees to certain requirements.

28. The Panel also discussed other relevant issues including provisions against Forced Heirship Rules, channels for complaints about high management fees of trusts, and whether trustees should be required to take out professional indemnity insurance.

Regulation of the over-the-counter derivatives market

29. On 2 April 2012, the Administration, HKMA and the Securities and Futures Commission (SFC) briefed the Panel on the progress of developing a full-fledged regulatory regime for the over-the-counter (OTC) derivatives market and the proposed introduction of interim measures to facilitate voluntary clearing on OTC derivatives transactions.

30. The Panel noted that HKMA and SFC had completed the first round of joint public consultation on the proposed regulatory regime in November 2011 and would conduct another round of public consultation on the draft subsidiary legislation in the fourth quarter of 2012. Some members were concerned about the financial arrangements for the Central Counterparty (CCP) to be established by the Hong Kong Exchanges and Clearing Limited. SFC advised that the CCP would charge a fee on OTC derivatives transactions cleared at the CCP based on "the user pays" principle. When a public platform was required to be set up for trading OTC derivatives transactions, e.g. in the Stock Exchange of Hong Kong, the SFC would consider imposing a levy on transactions conducted by users of the platform. On the concern that the proposed regulatory regime would not cover foreign exchange derivatives, HKMA explained that since the majority of the foreign exchange derivatives involved short-term foreign exchange swaps whose risk was relatively low, these derivatives would not be covered in the initial stage of the proposed regulatory regime.

31. The Panel also discussed whether a compensation fund should be established for protection of investors in the OTC derivatives transactions, and the regulation of enterprises and insurance companies with holding large positions on OTC derivatives.

Proposed short position reporting regime

32. The Panel discussed the proposal of SFC for a short position reporting regime on 6 January 2012. On members' concern as to whether the proposed threshold for short position reporting was in line with the relevant international standard, SFC advised that there was no international standard for setting the threshold for short positing reporting, as each stock market had to take into account the characteristics of its own market in devising its short position reporting regime. The Australian stock market set the threshold at 0.01% of the issued share capital of the relevant listed company or A$100,000. Given the similarities of the stock markets in Hong Kong and Australia, and the significant variance of the issued share capitals of the constituent companies of the Hang Seng Index and Hang Seng China Enterprises Index, and having regard to the comments received during the relevant public consultation exercises, SFC proposed that the threshold for short position reporting be set at 0.02% of the issued share capital of the relevant listed company or $30 million, whichever was lower.

33. Some members expressed concern that short sellers might find means to circumvent the reporting requirements. For example, a person might short sell the same stock through multiple intermediaries or reduce the size of his short position to below the reporting threshold at the end of the last trading day of each week in order to evade reporting the short position. SFC advised that based on the proposal, if a person had a net short position at or above the proposed reporting threshold at the end of the last trading day of each week, the person was required to report his net short position, irrespective of whether he had traded the relevant shares through multiple intermediaries. Since short selling usually formed part of the overall investment strategy, a short seller would not deliberately change the short position at the end of the week in order to circumvent the short position reporting requirement.

34. The Panel noted the concern that the short selling system in Hong Kong only facilitated large overseas investment institutions/investors to manipulate the stock market in Hong Kong, and small investors were disadvantaged under the system. The Administration explained that short selling was a legitimate tool used by investors for risk management. Hong Kong had a robust regulatory framework for short selling. Under the Securities and Futures Ordinance (Cap. 571) (SFO), naked short selling was generally prohibited.

Under the proposal, SFC would be empowered to tighten the reporting requirements in contingency situations. The Administration also provided information on the benefits of short selling for the Hong Kong stock market and investors, and statistics on the short selling transactions handled by the three broad categories of stock exchange participant brokers.

Policyholders' Protection Fund

35. Following a three-month public consultation exercise conducted from March to June 2011 on the proposals for the establishment of a Policyholders' Protection Fund (PPF), the Administration briefed the Panel on 6 February 2012 on the consultation conclusions and the final proposals which would form the basis for preparing the enabling legislation. The Panel discussed the proposed coverage, levy rate, Government funding support and the administrative arrangements in relation to the PPF.

36. The Panel noted that under the Administration's final proposals, the PPF would comprise two independently operated schemes (i.e. the Life Scheme and the Non-Life Scheme). While the PPF would focus on individual Policyholders, it would include building owners’ corporations (OCs) on account of the mandatory requirement for OCs to procure third party risks insurance, and would cover SMEs as well. On members' concern as to whether the PPF would cover insurance policies taken out with overseas insurance companies, the Administration advised that the PPF would cover all insurance businesses conducted in Hong Kong by authorized insurance companies, including companies incorporated in overseas countries with branches in Hong Kong.

37. Noting that the initial levy rates for both the Life Scheme and the Non-Life Scheme would be 0.07% of the applicable premiums, members asked whether a mechanism was in place for future adjustment of the levy rate, and whether the Government would provide financial support should the PPF be insufficient to meet compensation claims. The Administration advised that based on the current market situation, the initial target fund size, i.e. HKD1.2 billion for the Life Scheme and HKD75 million for the Non-Life Scheme, was planned to be achieved in 15 years. The target fund size would be reviewed regularly after the PPF had commenced operation. The levy rate might be adjusted upward or downward based on the prevalent situation at the time. If the PPF was insufficient to meet the compensation payments to eligible policyholders in case of an insurer insolvency, the PPF Board could raise funds through loans from the Government or through commercial lending which the Government might act as guarantor, depending on the prevailing market situation. The Legislative Council would be consulted if the PPF Board needed to raise such loans in order to pay off any compensation.

38. On members' concern about the cost for administering the PPF, the Administration advised that the PPF Board would only employ a small team of professionals for administering the fund. The Board would be empowered to engage consultants and temporary professional staff to assist in the arrangements for disbursement of compensation in the event of an insurer becoming insolvent.

<u>Budget of the Securities and Futures Commission for the financial year of 2012-13</u>

39. The Panel discussed SFC's budget for the 2012-13 financial year on 2 February and 2 March 2012. The Panel noted that as at end December 2011, SFC had accumulated a reserve of $7.4 billion, which was about seven times the expenditure of SFC in 2011-12, but SFC did not propose any reduction in levy rates in 2012-13 having regard to the unstable global market, the uncertainty in local market turnover levels and the necessity to deploy resources to deal with regulatory reform and initiatives after the financial crisis. The Panel also noted that according to section 396 of the Securities and Futures Ordinance (Cap. 571) (SFO), SFC shall consult FS with a view to recommending to the Chief Executive in Council that the rate or amount of levy be reduced if the reserves of SFC are more than twice its operating expenses for that financial year. A number of members expressed the view that SFC should consider waiving or reducing the transaction levies and licence fees and seek FS's view in this regard. SFC subsequently proposed a two-year waiver of annual licence fees commencing on 1 April 2012, but maintained the view that the existing levy rates should remain unchanged.

40. Noting that the Board of SFC would review the deployment of the reserves, including the suitability of using part of the reserves to purchase offices for SFC, some members expressed the view that as a regulatory body, SFC should consider purchasing its own offices but the offices should not be luxurious. A member however expressed a different view, pointing out that SFC's reserves should be used on matters related to the securities market.

41. Noting that SFC budgeted a 34% increase in expenditure for 2012-13, the Panel sought justifications for the significant increase and queried whether there was adequate oversight in the budget preparation process. SFC explained that about 40% of the increase in estimated recurrent expenditure in 2012-13 was due to the increase in rental payment as a result of the expiration of existing leases. Another 40% increase in the estimated expenditure was for salary adjustment of existing staff and for recruitment of additional staff to meet the increased workload, whereas the remaining 20% increase was to cover the

additional office expenses. SFC assured members that the budget had gone through vigilant vetting by its Executive Committee, Budget Committee and finally by the Board of SFC. Only the expenses and manpower proposals which were fully justified were included in the budget. The Administration also advised that it had closely liaised with SFC to ensure that SFC would exercise prudent control on its expenses, and impressed upon SFC that the expenditure proposals in the budget should be fully justified.

Work of the Financial Reporting Council

42. The Panel received a briefing on the work of the Financial Reporting Council (FRC) on 2 April 2012. The Panel noted that FRC received seven pursuable complaints related to auditing and/or financial reporting irregularities in 2011, out of which four investigations were initiated. FRC screened 131 modified auditors' reports in 2011. The Panel also noted that under the risk-based financial statements review programme, FRC initiated the review of 70 sets of financial statements in 2011, representing approximately 5% of the Hong Kong listed entities.

43. Some members were concerned about the checking of the financial statements of Mainland and overseas companies listed in Hong Kong and companies newly listed in the stock exchange. FRC advised that the auditing standard adopted in the Mainland was on a par with international standard. FRC, the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Hong Kong Exchanges and Clearing Limited had shared the review of all four Hong Kong listed Mainland companies which opted to appoint Mainland auditors and prepare their financial statements in accordance with "China Accounting Standards for Business Enterprises". Based on the findings in the reviews, FRC had discussed with the Ministry of Finance regarding the areas of concern, and the Ministry of Finance would in turn discuss the relevant issues with the companies concerned. For the 2011 financial year, the number of such cases was 27. FRC also advised that the risk–based financial review programme covered the 24 overseas corporations listed in Hong Kong, and the review of the financial statements of newly listed companies was an integral part of the review programme.

44. As regards the enforcement actions taken by FRC, the Panel noted that FRC had completed the investigation of 12 cases relating to possible auditing or reporting irregularities. As FRC was not empowered to impose sanctions on the parties concerned, FRC had referred 11 cases to HKICPA for consideration of disciplinary actions. Out of the 11 referral cases, HKICPA had issued disapproval letter to the accounting firms concerned in two cases, and was considering the actions to be taken in the other cases. In cases (arising from

either complaints received or review of financial statements) involving potential non-compliance with accounting requirements which did not affect the fair presentation of the financial statements, FRC would issue letters of advice to the listed companies and/or their auditors outlining its findings and suggesting improvement measures. In 2011, FRC had issued 11 letters of advice to listed companies.

Other work

45. On 14 October 2011, the Panel received a briefing by the Secretary for Financial Services and the Treasury on the relevant policy initiatives in the Chief Executive's 2011-12 Policy Address.

46. On 21 November 2011, the Panel received a briefing by FS on the launch of the public consultation on the 2012-13 Budget.

47. During the 2011-2012 legislative session, the Panel has discussed the following subjects relating to legislative or funding proposals -

(a) Kai Tak Government Offices;

(b) write-off of a judgement debt;

(c) review of the Mandatory Provident Fund Schemes Compensation Fund;

(d) proposed creation of a supernumerary post of Assistant Commissioner of Insurance;

(e) proposal to abolish capital duty levied on Hong Kong companies; and

(f) electricity charge subsidy.

48. From October 2011 to June 2012, the Panel has held a total of 11 meetings.

Council Business Division 1
Legislative Council Secretariat
5 July 2012

Appendix I

Legislative Council

Panel on Financial Affairs

Terms of Reference

1. To monitor and examine Government policies and issues of public concern relating to financial and finance matters.

2. To provide a forum for the exchange and dissemination of views on the above policy matters.

3. To receive briefings and to formulate views on any major legislative or financial proposals in respect of the above policy areas prior to their formal introduction to the Council or Finance Committee.

4. To monitor and examine, to the extent it considers necessary, the above policy matters referred to it by a member of the Panel or by the House Committee.

5. To make reports to the Council or to the House Committee as required by the Rules of Procedure.

Appendix II

Legislative Council
Panel on Financial Affairs

Membership list for 2011 - 2012 session

Chairman	Hon CHAN Kam-lam, SBS, JP
Deputy Chairman	Hon CHAN Kin-por, BBS, JP
Members	Hon Albert HO Chun-yan Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP Dr Hon David LI Kwok-po, GBM, GBS, JP Hon James TO Kun-sun Dr Hon Philip WONG Yu-hong, GBS Hon Emily LAU Wai-hing, JP Hon Abraham SHEK Lai-him, SBS, JP Hon LEE Wing-tat 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 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
	(Total ： 19 members)
Clerk	Ms Anita SIT
Legal Adviser	Ms Clara TAM