

**Progress Report on the
Motion on “Supporting the Development of the Securities Industry”
Moved by Hon Christopher CHEUNG
at the Council Meeting of 5 December 2012**

Purpose

The Legislative Council has passed the motion on “Supporting the Development of the Securities Industry” at the Legislative Council meeting of 5 December 2012. This report informs Members on the Administration’s follow-up actions on the matter.

The importance of the securities industry and policy objectives

2. The financial industry accounts for one-sixth of our GDP. Not only it is one of our important economic pillars, it is also one of industries in which Hong Kong possesses global competitiveness. The financial industry contributes to more than 220 000 jobs directly, comprising staff that were awarded with higher technical and academic qualifications. Talents from different backgrounds and levels of education also serve in various positions of the service supply chain.

3. The securities industry constitutes an important part of the financial sector and the Administration attaches great importance to the development of the securities industry. When we consider and formulate policies relevant to the securities industry, the Administration has been adopting the policy objectives to maintain and promote the efficiency, competitiveness, transparency and fairness of the securities industry. At the same time, we are committed to promoting the development of the market and improve the overall quality of the market, seizing the opportunities arising from the speedy economic growth in the Mainland, so as to strengthening Hong Kong's position as a major international financial centre.

Market Development

(1) Tapping the Mainland Market

4. With the support from the Central Government and driven by market force, Hong Kong has seized the business opportunities arising from the wider use of RMB outside the Mainland and developed into the largest and most competitive global hub for offshore RMB business. Hong Kong currently hosts the largest offshore RMB liquidity pool and is a place outside the Mainland where international investors can invest in RMB bonds and other RMB-denominated financial products. As at end 2012, the cumulative total value of RMB dim-sum bond issuance amounted to almost RMB 300 billion. In addition, various RMB investment products have been launched, including four RQFII A-share Exchange-traded Funds (ETFs), RMB currency futures, shares and derivative warrants traded in both RMB and HKD. In 2012, the amount of RMB trade settlement handled by banks in Hong Kong exceeded RMB 2,300 billion, representing a year-on-year growth of 37%.

5. With its offshore RMB business maturing and deepening, Hong Kong is moving towards the further development of its RMB financial intermediation activities. We will endeavour to develop innovative and diversified RMB investment products so as to expand the use and circulation of RMB funds. In the year ahead, we will actively explore with the Mainland authorities on further measures to strengthen financial cooperation between the two sides, for example, expanding the range of eligible financial institutions under the RQFII Scheme, lowering the requirements for small and medium-sized Mainland enterprises to be listed in Hong Kong, launching the individual RQFII and QDII (i.e. Qualified Domestic Individual Investors), and carrying out preparatory work for fund passporting.

6. Apart from offshore RMB business, Hong Kong will continue to co-operate closely with the Mainland authorities in various financial areas to promote mutual development. At the national level, the introduction of various liberalisation measures under the CEPA framework greatly facilitates the entry of Hong Kong financial institutions into the Mainland market. At the regional level, we have all along maintained close contacts with various Mainland provinces and municipalities, and the two sides have worked collaboratively on a number of financial projects conducive to the development of our financial sector.

(2) Developing the Bond Market

7. The Administration continues to promote the further development of the local bond market, including on-going implementation of the Government Bond Programme, enhancements to financial infrastructures, and promotion of the local bond market to overseas and Mainland investors.

8. Regarding the enhancements to financial infrastructure, the Administration is always supportive of enlarging the platform and network for bond trading and increasing its trading channels. Currently in Hong Kong, many securities firms offer investors access to bond trading in the secondary market through the Hong Kong Securities Clearing Company Limited of the Hong Kong Exchanges and Clearing Limited (“The Exchange”). In addition, the Central Moneymarkets Unit (CMU) will continue to provide effective depository and settlement of bonds to the market, and maintain the Bond Price Bulletin to enhance market transparency.

(3) Strengthen Hong Kong’s position as an asset management centre

Foster collaboration between Hong Kong and the Mainland on asset management business

9. The Administration has always endeavoured to foster Hong Kong’s position as an asset management centre, and has adopted a multi-pronged approach, including establishing a network of comprehensive agreements for the avoidance of double taxation (CDTAs) with trading and investment partners; developing Islamic finance; modernizing trust law; promoting the development of offshore Renminbi business; and strengthening the promotion on Hong Kong’s strategic position in respect of asset management business in the Mainland of China and overseas.

10. As regards the mutual recognition of funds between Hong Kong and the Mainland, Securities and Futures Commission (“SFC”) has commenced preliminary discussions with its relevant Mainland counterparts.

Improving market quality Enhancing existing regulatory regime

11. Following the enactment of the Securities and Futures (Amendment) Ordinance 2012 in May 2012, the statutory regime for disclosure of inside information came into operation on 1 January 2013. Listed corporations are required to disclose inside information to the public in a timely manner. This regime will help promote a continuous disclosure culture among listed corporations to enhance market transparency and quality. Besides, the regime will bring our regulatory regime for listed corporations more in line with other international financial centres and enhance Hong Kong's strength as a premier capital formation platform.

12. Passed in July last year, the new Companies Ordinance (CO) will provide a modernised framework for the operation of over one million companies in Hong Kong. The new Ordinance will help enhance corporate governance. For example, it contains a provision which clarifies the directors' duty of care, skill and diligence. We are carrying out preparatory work on various fronts to pave way for the implementation of the new Ordinance.

13. To promote good corporate governance, the Exchange had reviewed and amended the Corporate Governance Code and the relevant Listing Rules which came into effect on 1 April 2012. The relevant measures include requirements on strengthening communications with shareholders to improve transparency; and enhancing the functions of independent non-executive directors in the board of directors. The Exchange will constantly review the corporate governance practices disclosures in listed companies' annual reports.

14. To promote board diversity at the listed issuers, the Exchange published a consultation paper on 7 September 2012 on its proposed amendments to the Corporate Governance Code stipulating that the issuer should have a policy concerning diversity in the board and should disclose the policy in its corporate governance report. General support for the proposal was received from the market. The Exchange published the consultation conclusion in December 2012 and finalised the implementation arrangement for the new measures. The amendments to the Code will come into effect on 1 September 2013.

15. SFC consulted the market in May 2012 to July 2012 on proposals to foster market confidence and measures to promote the quality of work provided by sponsors of initial public offerings and issued the consultation conclusions in December 2012. SFC expects that the new requirements, which will apply to listing applications submitted on or after 1 October 2013, will improve market quality. The Administration is now working with SFC on its recommendation of amending the relevant legislation to clarify the duties sponsors.

Enhancing the Exchange Platform and its regulation

16. The Exchange will review the current arrangements and operation models from time to time, with a view to build a platform that is conducive to the development of the industry. The Exchange will also continue to prudently manage risks that are related to its business and operation and uphold the principle of safeguarding public interests, especially taking into account the investing public's interest. SFC will also continue to monitor the operation of the Exchange and the market pursuant to the SFO. We have already reflected to SFC that there is a need to review reform measures introduced by the Exchange from time to time, taking into account the actual operation and effectiveness, so as to take follow-up actions as appropriate and fulfill the needs of market development.

17. When the Exchange introduces any new measures, it will assess the impact of the measure on the market and conduct market consultation. It will also maintain close communication with SFC. When SFC considers the Exchange's proposals for new measures, it will follow the prevailing practice to assess the impact of such measures on the competitiveness and risk management, etc., for the financial market in Hong Kong, including the impact on different stakeholders.

Conclusion

18. The Administration has been supporting the development of the securities sector through various means. Generally speaking, we are of the view that the best way to support local small and medium sized brokers is to provide a fair and conducive business environment to all market participants, raising the market quality and the quality of the securities sector. We will continue to maintain close communication with the industry, with a view to create better business environment, so as to promote the sustainable development of the trade.

Financial Services and the Treasury Bureau
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