

**Special Meetings of the Finance Committee of the Legislative Council
to Examine the Estimates of Expenditure 2013-14**

(from 4:40 pm to 6 pm on 8 April 2013)

Speaking Notes by the Secretary for Financial Services and the Treasury

Chairman,

I will briefly introduce the estimates of expenditure for financial services and our key initiatives in 2013-14.

Estimates of Expenditure

2. For 2013-14, I have allocated about \$880 million from my operating expenditure envelope to the Financial Services Branch and departments under its purview. The amount represents an increase of some \$30 million over last year.

Key Areas of Work in the Coming Year

3. We will focus our work in respect of financial services in the coming year on leveraging our competitive advantages to reinforce Hong Kong's status as an international financial centre, managing market systemic risks in view of a volatile international market, and protecting investors.

(I) Enhancing Financial Co-operation between Hong Kong and the Mainland

4. Benefiting from the strong support of the Central Government and the relevant Mainland authorities, the offshore Renminbi (RMB) business in Hong Kong has seen rapid development, with notable growth in RMB cross-border trade settlement, RMB bond issuance and RMB investment products. On 6 March 2013, the China Securities Regulatory Commission (CSRC) announced that the RMB Qualified Foreign Institutional Investors (RQFII) pilot scheme would be further expanded. The types of institutions eligible for applying for RQFII qualification have been enlarged to cover Hong Kong subsidiaries of Mainland commercial banks and insurance companies or financial institutions which are registered and have major operations in Hong Kong. Meanwhile, the investment restrictions of RQFII funds have also been relaxed to allow institutions to design the types of products in accordance with market conditions. In addition, the Securities and Futures Commission (SFC) is working with the CSRC to study the mutual recognition of funds between Hong

Kong and the Mainland. All these measures will be conducive to the launch of more innovative and diversified RMB investment products in Hong Kong.

(II) Promoting Market Development

5. On promoting market development, I would like to give a brief account of our priorities.

(i) Fund and Asset Management Business

6. Hong Kong is now a premier asset management hub in Asia. To seize new opportunities, we plan to extend the profits tax exemption for offshore funds to include transactions in private companies which are incorporated or registered outside Hong Kong and do not hold any Hong Kong properties nor carry out any business in Hong Kong. This will allow private equity funds to enjoy the same tax exemption as offshore funds. To attract more funds to domicile in Hong Kong, we are considering legislative amendments to introduce the Open-ended Investment Company such that overseas fund management companies will have one more choice for establishing funds in Hong Kong. These measures will not only benefit the fund industry and related financial service industries, but also stimulate a wide range of economic activities and create more jobs.

7. We have introduced two bills into the Legislative Council (LegCo) recently for improving the Islamic finance platform and reforming the trust law respectively, with a view to creating a favourable environment for the asset management industry.

8. To promote the development of the private wealth management industry, the Hong Kong Monetary Authority (HKMA) is encouraging the industry to establish a trade organisation, implement an enhanced competency framework and the work on training for practitioners. The SFC is also willing to provide assistance to manpower training for the asset and wealth management sectors.

(ii) Bond Market

9. To promote the sustainable development of our bond market, we propose to expand the size of the Government Bond Programme from the current \$100 billion to \$200 billion. We also plan to launch a further issuance of inflation-linked retail bonds (iBond) worth not more than \$10 billion with a maturity of three years.

(iii) Captive Insurance Companies

10. We will reduce the profits tax on the offshore insurance business of captive insurance companies to attract more enterprises to set up captive insurance companies in Hong Kong. This will promote the development of reinsurance business, making our risk management services more diversified.

(iv) Financial Services Development Council

11. Since its establishment in January this year, the Financial Services Development Council (FSDC) has convened two meetings. The committees established under the FSDC have also held meetings to discuss the work directions and plans in various areas. As a high-level and cross-sectoral advisory body, the FSDC will assist the Government in facilitating the diversified and sustainable development of the financial services industry.

(v) Implementation of the new Companies Ordinance

12. The Companies Bill was passed by LegCo in July last year. The new Companies Ordinance will help strengthen Hong Kong's competitiveness as an international commercial and financial centre. We are according priority to the necessary work for bringing the new Ordinance into operation in the first quarter of 2014.

(vi) Improvement to Corporate Insolvency Law

13. We are continuing our work in improving the corporate insolvency law, and will launch a public consultation on relevant legislative proposals this quarter. Effective corporate insolvency procedures will enhance protection for creditors and foster financial and commercial development.

(III) Investor Protection

14. The third key area of work is to enhance investor protection. I would like to highlight some major initiatives.

(i) Enhancing the Mandatory Provident Fund System

15. On the Mandatory Provident Fund (MPF) System, we and the Mandatory Provident Fund Schemes Authority (MPFA) are pursuing a basket of measures, with a view to achieving a substantial reduction in MPF fees. The MPFA is implementing the recommendations of its Consultancy Study on MPF Trustees' Administration Costs within the existing legislative

framework. At the request of the Administration, the MPFA is following up on other more fundamental measures in parallel, including developing proposals for the introduction of Default Fund, and for the implementation of a cap on MPF fees that will be introduced in case of market failure for consultation within this year.

(ii) Establishment of an independent Insurance Authority

16. Establishing an independent Insurance Authority (IIA) will help provide better protection for insurance policyholders. We seek to introduce an amendment bill into LegCo in 2013 with a view to setting up the IIA in 2015.

(iii) Establishment of a Policyholders' Protection Fund

17. We plan to introduce a bill on the establishment of a Policyholders' Protection Fund into LegCo next year for providing a safety net for policyholders.

(iv) Regulatory Regime of Initial Public Offering Sponsors

18. To maintain market quality, the SFC has consulted market participants on a package of proposals to enhance the regulatory regime of initial public offering sponsors. We are following up with the SFC on one of the proposals which is to introduce legislative amendments to clarify the legal liability of sponsors.

(v) Scripless Securities Market

19. We are working with the SFC, the Hong Kong Exchanges and Clearing Limited and the industry to develop a legal framework for the implementation of a scripless securities market in Hong Kong. Our target is to introduce the relevant bill into LegCo within this year.

(vi) Regulatory Regime for Stored Value Facilities and Retail Payment Systems

20. We will study possible legislative amendments this year to put in place a legal framework for establishing a regulatory regime for stored value facilities and retail payment systems. The HKMA will consult the public on this issue.

(vii) Investor Education

21. Apart from market regulation, enhancing investor education to help investors make informed decisions and providing an effective avenue for resolving monetary disputes as they arise are also considered important measures for investor protection. For this purpose, the

cross-sectoral Investor Education Centre came into operation in November last year while the Financial Dispute Resolution Centre was established last June.

(IV) International Regulatory Requirements

22. To comply with international regulatory requirements, we will focus on two priorities.

(i) Regulation of the Over-the-Counter Derivative Market

23. For the purpose of implementing the Group of Twenty commitments, we will introduce a regulatory regime for the Over-the-Counter derivative market. We briefed the LegCo Panel on Financial Affairs on the legislative proposals in March 2013, and plan to introduce the relevant bill into LegCo this quarter.

(ii) Basel III

24. In accordance with the international banking supervisory standards, the HKMA will introduce the Banking (Disclosure) (Amendment) Rules 2013 and the Banking (Capital) (Amendment) Rules 2013 into LegCo this month to tie in with the implementation of Basel III capital standards in Hong Kong. The HKMA will ensure that such requirements not only take local market situations into account, but also help promote the stability of the banking system.

25. To conclude, we will continue to keep a close watch on market developments and the trend of market regulation at the international level. We will work closely with the regulators and the industry to implement the abovementioned working plans, and foster the sustained development of the financial services of Hong Kong. Chairman, my colleagues and I are happy to answer any inquiries from Members.
