

# **Special Meetings of the Finance Committee of the Legislative Council to Examine the Estimates of Expenditure 2014-15**

(from 4:50 pm to 6:00 pm on 31 March 2014)

## **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 2014-15.

### **Estimates of Expenditure**

2. For 2014-15, I have allocated about \$1 billion from my operating expenditure envelope to the Financial Services Branch and departments under its purview. The amount represents an increase of \$120 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 amidst an uncertain international market, and protecting investors.

#### **(I) Developing Offshore Renminbi Business in Hong Kong and Enhancing Financial Co-operation with the Mainland**

4. To further strengthen Hong Kong's offshore Renminbi (RMB) business, we will continue our dialogue with the relevant Mainland authorities to deepen the circulation of RMB funds between the two places, complementing the country's target in realising the convertibility of the RMB capital account. We are also actively strengthening our RMB business links with overseas markets, promoting RMB business between Hong Kong banks and international financial institutions and corporates, and providing RMB services to overseas financial institutions and corporates at the wholesale level.

5. Furthermore, we will continue to negotiate for more access opportunities for Hong Kong's financial institutions and professionals under the Mainland and Hong Kong Closer Economic Partnership Arrangement and regional platforms, which will bring mutual benefits to both places.

## **(II) Promoting Market Development**

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

### (i) Fund and Asset Management Business

7. We are developing Hong Kong into a full-fledged fund service centre proactively. We have just launched a public consultation on a proposal to introduce an open-ended fund company structure to cater for the establishment of fund vehicles in corporate form. Our objective is to create a more flexible business environment for attracting more mutual funds and private funds to domicile in Hong Kong. We will brief Members on the proposal at the Panel on Financial Affairs of the Legislative Council (LegCo) in April.

8. Meanwhile, we are also preparing legislation to extend the tax exemption for offshore funds to private equity funds.

9. We have set up a task force to review the requirements under the Inland Revenue Ordinance for interest deductions in the taxation of corporate treasury activities. It is expected that concrete proposals will be put forward to the Financial Secretary within one year.

10. The trust law reform, which came into effect last December, has enhanced the competitiveness of Hong Kong's trust services industry. We will continue to work with the industry to promote Hong Kong's strengths in this respect.

### (ii) Bond Market

11. We plan to launch a further issuance of inflation-linked retail bonds (iBond) worth not more than \$10 billion with a maturity of three years. Moreover, the Loans (Amendment) Ordinance 2014 was just enacted by the LegCo last week. We will consider issuing sukuk under the Government Bond Programme in the light of prevailing market conditions and needs.

### (iii) Captive Insurers

12. The Bill for providing tax concession for captive insurers was passed on 19 March. We will step up our promotion efforts to attract more enterprises to form captive insurers in Hong Kong.

#### (iv) Implementing the New Companies Ordinance

13. The new Companies Ordinance came into operation on 3 March. We will closely monitor its implementation and continue with our publicity campaign to enhance public awareness of the new ordinance.

#### (v) Improving Corporate Insolvency Law

14. We have commenced the corporate insolvency law improvement exercise to facilitate more efficient administration of the winding-up process and enhance protection for creditors. A public consultation on a package of legislative proposals was completed in July last year, with an overwhelming majority of respondents supporting the proposals. Our plan is to introduce relevant amendments into the LegCo in the next legislative session. We also plan to seek further views from stakeholders on the specific proposals of the statutory corporate rescue procedures in the coming months.

#### (vi) Waiving Stamp Duty for the Trading of All Exchange Traded Funds

15. The exchange traded funds (ETF) market has seen rapid development in recent years. In the face of keen competition in the region, we must make every effort to stay in the lead. We propose to waive the stamp duty for the trading of all ETFs to lower the transaction costs of all ETFs tracking indices that comprise Hong Kong stocks. We plan to introduce the legislative amendments into the LegCo in the next legislative session.

### **(III) Investor Protection**

16. 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

17. On the Mandatory Provident Fund (MPF) System, together with the Mandatory Provident Fund Schemes Authority, we are actively pursuing different measures with a view to achieving a substantial reduction in MPF fees and enhancing the system. Our focus includes consulting the public later this year on the proposal of including in each MPF scheme a core fund as the default fund.

(ii) Establishing an independent Insurance Authority

18. We will introduce a bill for establishing an independent Insurance Authority (IIA) into the LegCo in the second quarter with a view to passing the Bill within 2015.

(iii) Uncertificated Securities Market

19. Regarding the introduction of an uncertificated securities market regime, we plan to introduce a Bill into the LegCo in the second quarter of this year for establishing a broad regulatory framework for enabling the introduction of the regime. Greatly in support of this market enhancement measure, the Securities and Futures Commission (SFC), the Hong Kong Exchanges and Clearing Limited and the Federation of Share Registrars Limited have been working closely to study the operational model of the proposed regime. The next steps will be for the SFC and stakeholders to work out the operational details and prepare the relevant subsidiary legislation and Rules of the Exchange for public consultations.

(iv) Regulating Stored Value Facilities and Retail Payment Systems

20. We seek to introduce the Clearing and Settlement Systems (Amendment) Bill into the LegCo in the next legislative session to regulate stored value facilities and retail payment systems. We will also brief Members on the proposal at the meeting of the LegCo Panel on Financial Affairs in April.

(v) Manpower training

21. In response to the aspiration of the industry, we will first carry out studies in talent training for the insurance and asset/wealth management sectors, and will maintain close liaison with the industry during the process. Our aim is to complete the studies and submit our recommendations to the Financial Secretary within a year. Meanwhile, the SFC has made a provision of \$20 million in its 2014-15 budget for talent training for intermediaries in the securities sector, particularly the small and medium-sized firms.

**(IV) International regulatory requirements**

22. To take forward international regulatory requirements, we will focus on three priorities in the coming year.

(i) Basel III

23. To align with international regulatory standards for banks, we will introduce into the LegCo the relevant subsidiary legislation on the liquidity and capital buffer requirements under Basel III this year.

(ii) Establishing an Effective Cross-sectoral Resolution Regime for Financial Institutions

24. To address the risks posed by the failure of systemically important financial institutions and to ensure the continuity of systemically important financial services and clearing and settlement systems, the Government, in conjunction with the financial regulators, launched on 7 January the first stage of a three-month public consultation on establishing an effective resolution regime for financial institutions. We plan to conduct the second stage of the public consultation with more specific details of the resolution regime later this year.

(iii) Auditor Regulatory Reform

25. In view of the international trend that the oversight of the regulation of auditors is to be independent of the profession itself, we are discussing with the Financial Reporting Council and the Hong Kong Institute of Certified Public Accountants to explore how to enhance the independence of Hong Kong's regulatory regime for auditors of listed entities. We plan to conduct a public consultation on the reform proposals in the middle of the year.

26. 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 above-mentioned working plans. Chairman, my colleagues and I are happy to answer any enquires from Members.

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