

立法會
Legislative Council

LC Paper No. CB(1)981/13-14

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Panel on Financial Affairs

Minutes of meeting

**held on Monday, 2 December 2013 at 9:00 am
in Conference Room 1 of the Legislative Council Complex**

Members present : Hon Starry LEE Wai-king, JP (Chairman)
Hon Christopher CHEUNG Wah-fung, JP (Deputy Chairman)
Hon Albert HO Chun-yan
Hon James TO Kun-sun
Hon CHAN Kam-lam, SBS, JP
Hon Abraham SHEK Lai-him, GBS, JP
Hon WONG Kwok-hing, BBS, MH
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 CHAN Kin-por, BBS, JP
Hon James TIEN Pei-chun, GBS, JP
Hon NG Leung-sing, SBS, JP
Hon Dennis KWOK
Hon SIN Chung-kai, SBS, JP

Members attending : Hon Cyd HO Sau-lan
Dr Hon LAM Tai-fai, SBS, JP
Hon Gary FAN Kwok-wai
Hon CHAN Chi-chuen
Dr Hon Fernando CHEUNG Chiu-hung
Hon IP Kin-yuen

Members absent : Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Hon Kenneth LEUNG

Public officers attending : Agenda Items III and IV

Mr John TSANG, GBM, JP
Financial Secretary

Mr Arthur AU
Administrative Assistant to Financial Secretary

Agenda Item III

Mrs Helen CHAN, JP
Government Economist

Agenda Item IV

Prof K C CHAN, GBS, JP
Secretary for Financial Services and the Treasury

Ms Elizabeth TSE, JP
Permanent Secretary for Financial Services and the Treasury (Treasury)

Agenda Item V

Mr Jackie LIU
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)⁵

Mr Howard LEE, JP
Executive Director (Monetary Management)
Hong Kong Monetary Authority

Mr Daryl HO
Head (Market Development)
Hong Kong Monetary Authority

Ms Carrie CHAN
Senior Manager (Market Development)¹
Hong Kong Monetary Authority

Agenda Item VI

Miss Emmy WONG
Principal Assistant Secretary for Financial Services
and the Treasury (Financial Services)

Mrs Lily OU-YANG, JP
Commissioner for Census and Statistics

Mr John LAM
Assistant Commissioner for Census and Statistics
(Acting)

Clerk in attendance: Ms Connie SZETO
Chief Council Secretary (1)4

Staff in attendance : Miss Winnie LO
Assistant Legal Adviser 7

Ms Angel SHEK
Senior Council Secretary (1)4

Ms Sharon CHAN
Legislative Assistant (1)4

Action

I Information papers issued since the last meeting

- (LC Paper No. CB(1)201/13-14(01) — 2012-2013 Annual Report of the Process Review Panel for the Securities and Futures Commission
- LC Paper No. CB(1)336/13-14(01) — Third Quarter Economic Report 2013 and the press release
- LC Paper No. CB(1)356/13-14(01) — Hong Kong Exchanges and Clearing Limited's paper on extension of trading hours in the securities markets)

Members noted the information papers issued since the regular meeting held on 4 November 2013.

II Date of next meeting and items for discussion

(LC Paper No. CB(1)390/13-14(01) — List of outstanding items for discussion

LC Paper No. CB(1)390/13-14(02) — List of follow-up actions)

2. The Chairman said that the Administration had proposed the following six items for discussion at the next regular meeting scheduled for 6 January 2014:

- (a) Briefing on the work of the Financial Services Development Council ("FSDC");
- (b) Briefing on the legislative proposal to provide an enabling environment for the introduction of an uncertificated securities regime;
- (c) Proposed retention of supernumerary directorate posts in Financial Services Branch of the Financial Services and the Treasury Bureau;
- (d) Proposed retention of a supernumerary directorate post in the Office of the Commissioner of Insurance for enforcing the anti-money laundering regime and regulating relevant mandatory provident fund ("MPF") intermediaries;
- (e) Legislative proposals to enhance the efficiency of the existing tax appeal mechanism; and
- (f) Development of Dutiable Commodities System in the Customs and Excise Department.

3. Mr James TIEN and Mr SIN Chung-kai expressed concern about the heavy agenda for the regular meeting on 6 January 2014. Mr TIEN doubted if there would be sufficient time for thorough discussion on all six items, and considered that the Administration should ensure an even distribution of items for each regular meeting. Mr SIN stressed that adequate time had to be provided for members to deliberate on each item, and unfinished discussion items could be deferred to a future meeting.

4. The Chairman pointed out that five of the six proposed items involved legislative, staffing or financial proposals for which the Administration had to consult the Panel in time to meet target timetables for introducing the relevant legislative proposals into the Legislative Council ("LegCo") or seeking funding approval from the Finance Committee ("FC"). As regards the item on briefing by FSDC, she considered that it would be timely for the Panel to be updated on the work of FSDC, in particular FSDC had released six research reports in November 2013. The Chairman said that, as in past meetings, she would allow sufficient time for discussion of each item. Where necessary, she would extend the meeting or defer unfinished items to a future meeting.

5. Members agreed to discuss the six items proposed by the Administration at the regular meeting on 6 January 2014, and that the meeting would start at 9:00 am to allow sufficient time for discussion of the items.

III Briefing by the Financial Secretary on Hong Kong's latest overall economic situation

(LC Paper No. CB(1)336/13-14(01) — Third Quarter Economic Report 2013 and the press release

LC Paper No. CB(1)390/13-14(03) — Administration's paper on Hong Kong's recent economic situation and near-term outlook)

Briefing by the Administration

6. At the invitation of the Chairman, the Financial Secretary ("FS") briefed members on Hong Kong's latest overall economic situation.

(Post-meeting note: The press release containing the speaking note of FS (Chinese version only) was issued to members vide LC Paper No. CB(1)451/13-14 on 3 December 2013.)

7. The Government Economist ("GE") gave a powerpoint presentation on the latest developments in the Hong Kong economy, updated economic forecasts for 2013, latest situations in the residential property market, and the economic outlook for the local and global economy for 2014.

(*Post-meeting note:* The notes of the powerpoint presentation (LC Paper No. CB(1)453/13-14(01)) were issued to members vide Lotus Notes e-mail on 2 December 2013.)

Discussion

Assisting small and medium-sized enterprises

8. Mr Jeffrey LAM said that the Government should remain vigilant of the impact of unstable external environment in 2014 on the Hong Kong economy. He was concerned that due to weak export markets and rising operating costs, Hong Kong enterprises would face increasingly difficult business environment. He urged the Government to implement measure to assist the small and medium-sized enterprises ("SMEs"), such as extending the special concessionary measures under the SME Financing Guarantee Scheme.

9. Mr Christopher CHEUNG remarked that the Government had paid no heed to the needs and interests of SME securities firms in developing the financial services sector. For instance, the Government had not addressed the industry's repeated urges for lowering the fees levied by the Hong Kong Exchanges and Clearing Limited on its Basic Market Prices Service and electronic trading system for securities. Mr CHEUNG called on the Government to help SME securities firms in overcoming the increasingly difficult operating environment.

10. FS said that, as a small and open economy, it was inevitable that Hong Kong would continue to be susceptible to developments in the external environment. Due to the weak economic fundamentals of the European Union ("EU"), Hong Kong's merchandise exports to the EU declined for nine consecutive quarters before showing a mild year-on-year growth of 2.7% in volume terms in the third quarter of 2013. Exports to Japan, despite the aggressive fiscal and monetary policies introduced there, registered a further year-on-year decline of 8.3% in the third quarter. Looking forward, there would still be many challenges facing Hong Kong's external sector in 2014. As regards SMEs, FS said that the Government recognized their contributions to the Hong Kong economy and they were a major driving force of economic development and employed about half of the local workforce. The Government had always been mindful of the SMEs' needs and, as in previous years, would put forward appropriate measures under the 2014-2015 Budget to promote economic development and support enterprises, taking into account suggestions and views made by Members and the public during the consultation.

Enhancing Hong Kong's competitiveness and attracting foreign investment

11. Mr CHAN Kin-por noted that according to the findings of the Hong Kong General Chamber of Commerce ("HKGCC")'s 2013 Annual Business Prospects Survey released in November 2013, majority of HKGCC members responding to the Survey considered that Hong Kong's overall competitiveness had declined. Mr CHAN saw the need for the Government to enhance Hong Kong's competitiveness on various fronts and restore the confidence of enterprises in investing in Hong Kong. He enquired whether the Administration would make reference to measures implemented by the Government of Singapore in this regard. Mr CHAN Kam-lam pointed out that Hong Kong's Gross Domestic Products ("GDP") growth of 3% had lagged behind that of 6% to 7.5% of major Mainland cities and Asian economies. He urged the Government to explore new opportunities for economic development and identify areas for making improvement.

12. The Chairman said that, although Hong Kong's economic outlook for the near term remained positive, there were criticisms that the local economy lacked diversification and remained reliant on a few sectors including financial services, real estate and tourism. She called on the Government to play a proactive role in addressing the situation, and consider measures under the 2014-2015 Budget to support the development of new industries, in particular in the innovation and technology sector.

13. Mr Andrew LEUNG suggested that the Government should capitalize on its proximity to the Mainland and its central location in Asia to expand business and promote Hong Kong brands. For instance, in tapping the vast online shopping market of the Mainland, the Government should consider making investments in developing alternative internet payment system at lower fees than existing systems such as PayPal.

14. ES said that he did not agree with comments that Hong Kong's competitiveness was falling behind other Asian economies. In fact, findings of some surveys revealed that Hong Kong's competitiveness stayed on par with major international financial centres. Nevertheless, the Government would not be complacent and would continue to build a more solid and diversified economic base. While the four pillar industries in Hong Kong had shown established strengths and had been the major driving forces of local economic activities and sources of employment, the Government would keep looking for further growth opportunities and sharpening their competitiveness. Examples included developing Islamic finance and high value-added logistics services, and opening up opportunities for the local services industries to tap the Mainland market. In parallel, the Government would continue to support the development of new industries. To this end, the Government had provided

subventions to six local universities through the Innovation and Technology Fund to support their work of facilitating technology transfers and commercializing research and development ("R&D") results.

15. Turning to the economic growth situation, FS said that Hong Kong's economic growth had been below trend in the past nine quarters because of the setback in global economy. The GDP growth for 2013 was expected to be 3% which was already higher than quite a number of Asian economies. As an important part of Hong Kong's growth strategy, the Government would continue to strengthen the domestic sector and maintain a favourable business environment, so as to mitigate the impact caused by the weak external environment. As regards the Government's role in promoting economic development, FS said that the Government should minimize its intervention in Hong Kong's free market, unless in times of market failures.

16. Mr James TIEN expressed concern about threats of withdrawal of investment by large enterprises amid voices of protectionism emerging in the community. Moreover, the high business costs and living expenses had deterred large foreign corporations from making investment in Hong Kong. Mr TIEN opined that the Government should consider appropriate measures to retain and attract foreign investment, such as tackling shortage of office space and high rentals. Dr LAM Tai-fai remarked that the latest demand-side management measures to address the overheated property market had dampened investment sentiment and forced some companies to contemplate withdrawing investment from Hong Kong.

17. FS said that investment was essentially a personal/commercial decision of investors/companies taking into account their individual circumstances, which the Government could hardly intervene. He reiterated that the Government's role was to provide a favourable business environment, maintain a sound legal system, and ensure fair competition with a view to attracting more foreign investment. Given the advantages of a free and open economy, the Government would not shift towards protectionism.

18. Mr CHAN Kin-por enquired whether the Government had explored with relevant authorities of Shanghai on areas of cooperation following the establishment of the Shanghai Free Trade Zone. As Guangdong Province was seeking approval from the Central Government for setting up a free trade zone, Mr CHAN asked whether the Government would consider collaborating with Guangdong in pursuing the initiative. FS pointed out that further liberalization of the Mainland economy would certainly benefit Hong Kong, especially in offering more business opportunities for Hong Kong companies operating in the Mainland. He believed that Hong Kong's business sector would capitalize

on new markets and investment opportunities created by the establishment of free trade zones.

19. Referring to the escalating anti-government protests and political instability in Thailand, Mr WONG Kwok-hing cautioned that the Government should assess possible risks on the local economy and the political front arising from activities organized by the "Occupy Central" movement, and devise measures to minimize the potential adverse impact on the economy. He considered that the Government should urge members of the public not to engage in unlawful acts of protest and disrupt public order. Mr CHAN Kam-lam said that the Government should be vigilant of possible dire consequences of political activities on the Hong Kong economy. He cautioned that if the "Occupy Central" movement did not end up peacefully, the local economy might be at stake.

20. FS said that it would be difficult to compare the "Occupy Central" movement in Hong Kong with the recent political turmoil in Thailand. On the possible impact of the "Occupy Central" movement on Hong Kong's economy, the Government envisaged that it would adversely affect economic activities in Central and vicinity areas in the short term, and might dampen investment confidence in Hong Kong and its status as an international financial centre over the longer term. He supplemented that the Government respected the public's right to freedom of speech but people should comply with the law when exercising such right.

Labour market

21. Mr CHAN Kam-lam considered that the Government should address the labour shortage problem occurred in some sectors, otherwise their development would be hindered. FS said that it was the Government's principle to give priority to local workers in employment opportunities. Nonetheless, the Government was aware that if labour shortage problem in some trades/sectors persisted, it would risk pushing up inflation and dampening economic growth. He said that related issues, including labour importation, to address labour shortage problem in some trades/sectors warranted thorough consideration in order to strike a proper balance between the interests of both employers and employees.

22. Mr Albert HO noted that due to surge in number of Mainland tourists in Hong Kong in recent years and public concern about Hong Kong's capability in coping with the growth, there were voices in the community urging the Government to consider setting a limit on the number of tourists travelling under the Individual Visit Scheme ("IVS"). Mr HO sought the Government's

views on the impacts of the suggestion on Hong Kong's economy and labour market.

23. FS said that the buoyant local consumption and growth in inbound tourism in recent years were conducive to economic growth, in particular in the retail trade and food and beverage services sectors. Visitors from the Mainland accounted for about 70% of the 50 million total visitor arrivals in Hong Kong, and among them about 70% travelled under IVS. To enhance Hong Kong's capability in receiving inbound tourists, the Government would continue to step up its efforts in developing tourism infrastructure, including tourist accommodation and attractions.

24. In reply to Mr Albert HO, GE said that according to the latest survey conducted by the Census and Statistics Department ("C&SD"), about 170 000 Hong Kong residents were working in the Mainland. FS supplemented that, the Government did not maintain statistics on Mainlanders working in Hong Kong but believed that the number was smaller than the number of Hong Kong people working in the Mainland.

The residential property market

25. Dr LAM Tai-fai observed that the property market had become stagnant after implementation of the demand-side management measures to address the overheated property market since late 2012. He cautioned that the measures had only suppressed flats demand temporarily resulting in decline in number of property transactions and decelerated increase in prices. He expressed grave concern that the huge accumulated housing demand would push up flat prices even more in due course, and this in turn would cause more damage to the property market. Dr LAM called on the Government to consider the timing for withdrawing the demand-side management measures early and focus its efforts to accelerate flat supply. Mr SIN Chung-kai enquired about the objective indicators the Government would adopt to determine the timing to exit from the measures.

26. FS advised that since implementation of the latest round of demand-side management measures, the residential property market had turned quiet. Flat prices had risen only slightly since February 2013 and speculative activities were curbed effectively. However, given that the extremely low interest rate environment and excessive liquidity remained, the risks of an overheated property market had not subsided and the Government considered it necessary to maintain the measures. As the two bills on the demand-side management measures were still under scrutiny by the relevant Bills Committees of LegCo, FS appealed to LegCo Members to pass the bills as early as possible. On the timing of exit from the measures, he said that the

Government would take into account a basket of factors, including the conditions in the external environment, interest rate movement, directions of fund flows, affordability of Hong Kong people, etc. He assured Members that increasing flat supply remained the Government's top priority in ensuring healthy and stable development in the property market. As a result of the Government's sustained efforts, total flat supply in the coming few years had increased further to 72 000 units as estimated at end of September 2013, which was the highest since September 2006.

(The Chairman directed a five-minute break at 10:19 am and the meeting was resumed at 10:25 am.)

IV 2014-2015 Budget consultation

(LC Paper No. CB(1)390/13-14(04) — Information pack for the Financial Secretary's consultations on the 2014-2015 Budget)

Briefing by the Administration

27. FS said that, despite modest growth in the Hong Kong economy in the first half of 2013, the global economic outlook remained uncertain. When drawing up the 2014-2015 Budget, he would make available resources for the policy initiatives announced in the Chief Executive's Policy Address, as well as giving due regard to maintaining the resilience of Hong Kong economy to withstand economic adversities and to tackle new challenges, in particular the fiscal pressure arising from an ageing population. As in last year, the Policy Address and Budget consultations were conducted concurrently in order to improve the coordination between policy formulation and budgetary planning. The Government would carefully consider the views from Members and the public.

(Post-meeting note: The press release containing the speaking note of FS (Chinese version only) was issued to members vide LC Paper No. CB(1)451/13-14 on 3 December 2013.)

28. With the aid of a powerpoint presentation, the Permanent Secretary for Financial Services and the Treasury (Treasury) ("PS(Tsy)") briefed members on the economic situation, estimated government expenditure and revenue for 2014-2015, as well as the fiscal reserves and challenges ahead.

(*Post-meeting note:* The information pack for the 2014-2015 Budget consultation (LC Paper No. CB(1)390/13-14(04)) was tabled at the meeting and issued to members vide LC Paper No. CB(1)451/13-14 on 3 December 2013.)

Discussion

Assisting the vulnerable and low-income groups

29. Mr James TIEN criticized that the Government was obsessive about the principle in the Basic Law of keeping expenditure within the limits of revenues and had failed to utilize the huge fiscal reserves in assisting the vulnerable groups in the society. He considered that the huge fiscal reserves of \$700 billion accumulated at present, coupled with stable revenues since 2007, including those from stamp duties, investment income, profits tax, salaries tax, etc., could well afford the Government to spend more on welfare programmes so as to enhance social harmony. Moreover, the Government could consider deploying the investment return from the Exchange Fund ("EF") to make available even more resources.

30. Mr CHAN Kam-lam queried whether Government was indeed adhering to the principles of fiscal sustainability enshrined in the Basic Law as while the economy had been growing in a fast pace and there were substantial increases in Government revenue and fiscal reserves over the years, government expenditure had not been commensurate with economic growth. Mr CHAN further expressed concern about the unhealthy situation of narrow tax base as evidenced by the fact that about 80% of the total salaries tax in the 2011-2012 year of assessment was paid by 12% of the taxpayers.

31. Dr Fernando CHEUNG pointed out that, despite increase in Government recurrent expenditure in recent years, there was little improvement in the quality of life of the general public and the poverty problem had even worsened. While it was understandable that the Government should make preparation to cope with fiscal challenges ahead, he opined that it was equally important for the Government to increase resources to address existing problems, such as long waiting time for various public services, including subsidized residential care places for persons with disabilities, medical services at general out-patient clinics, and pre-school rehabilitation services for children with special educational needs, etc. Dr CHEUNG considered that FS must take the opportunity to discuss related issues with relevant Directors of Bureaux in planning the Budget.

32. Mr Albert HO commented that the Government was too conservative in the management of public finance, over-adhered to fiscal discipline, and had frequently over-estimated the deficit but under-estimated the surplus. The Government had failed to utilize the huge fiscal reserves to implement measures to address the needs of society in the long run, such as accelerating the provision of subsidized elderly residential care places and public niches. As regards the subsidy scheme to alleviate the problem of working poverty, Mr HO expressed support for the scheme and enquired about the resources to be allocated to the scheme in 2014-2015.

33. The Chairman saw the need for the Government to explain clearly to LegCo Members and the public how it would utilize the abundant fiscal reserves for implementing measures in different policy areas to meet public aspirations and address public concern, such as to cope with the ageing population and meet unfunded commitments.

34. FS stressed that fiscal reserves were buffer for economic downturn and were not inexhaustible. It was incumbent upon the Government to exercise prudence in controlling recurrent expenditures with due regard to the narrow tax base and the need to achieve fiscal balance and sustainability in the long run. As observed, less than 1% of corporations in Hong Kong paid as much as over 60% of the profits tax. While there were calls from the society for widening the tax base, it would be necessary to reach a consensus on the feasible measures through discussion with the public and stakeholders. On the other hand, the recurrent expenditure of \$291.3 billion for 2013-2014 had almost doubled that of 1997-1998 (i.e. a growth by 95%). Government expenditure on social welfare, health and education had increased by 179%, 88% and 69% respectively in the same period. This had demonstrated the Government's long-term commitment to improving people's livelihood. He assured Members that the Government would make available resources for implementing policies and measures put forth by various bureaux as necessary and appropriate in addressing the needs of different social groups. He would also take on board the suggestion for the Government to enhance public's understanding of the roles and functions of fiscal reserves.

Tackling fiscal challenge posed by ageing population

35. Mr WONG Kwok-hing noted that the ageing population would have profound implications on the sustainability of Government revenue and public expenditure in the next 20 to 30 years. To enhance retirement protection for the working population, he suggested that the Government should consider placing MPF contribution with EF for making investment so that scheme members would gain better investment return and enjoy lower administrative fees. To further enhance the MPF system, Mr WONG suggested that the Government

should progressively reduce the proportion of accrued benefits attributed to employers' contribution in the MPF account that could be applied by the employers to offset Severance Payment or Long Service Payment ("the SP/LSP offsetting arrangement").

36. In view of the large number of MPF accounts and the substantial administrative work and costs involved, FS said that it would be impracticable for the Hong Kong Monetary Authority ("HKMA") to take up the role as a public trustee in the MPF system. The Mandatory Provident Fund Schemes Authority was exploring the feasibility of providing a core fund with fee control so as to enhance the choice of fund for MPF scheme members. As regards abolition of the SP/LSP offsetting arrangement, FS said that the matter involved interests of both employers and employees which could not be resolved unilaterally. It would be necessary to reach a consensus among the relevant stakeholders before the suggestion could be taken forward.

37. Mr SIN Chung-kai considered that the Government should not resort to "handing out candies" strategies by implementing one-off relief measures as in past budgets in utilizing budget surpluses. He was disappointed that while the Government was fully aware of the implications of the ageing population on Government revenue and expenditure, no concrete and long-term measures had been devised to meet the challenge. Dr LAM Tai-fai suggested that the Government should explore with the Mainland in setting age restrictions for new arrivals under the one-way permit scheme, with a view to alleviating the fiscal pressure arising from the ageing population.

38. FS said that the Government was making preparation to cope with the problem of an ageing population, including pursuing re-development projects for existing hospitals. He stressed that the Government would commit resources for measures which had policy support and were ready for implementation. As regards the suggestion in respect of the one-way permit scheme, FS said that it would be referred to the Security Bureau for consideration.

Recurrent expenditure on education

39. Mr IP Kin-yuen criticized that there had only been modest growth in the recurrent expenditure on education in the past, and the Government had failed to conduct thorough consultation before implementation of certain education measures, for instance, the proposal in the 2013-14 Budget to inject \$480 million into the Government Scholarship Fund for providing subsidies to local students for studying degree courses or teaching training programmes in prestigious universities outside Hong Kong. Mr IP considered that in formulating education policies and measures, the Government must listen more

to the views of the education sector and LegCo Member of the relevant functional constituency.

40. FS advised that the recurrent expenditure on education for 2013-2014 had reached \$63 billion, representing an impressive increase of 69% compared with that for 1997-1998, and a year-on-year growth of about 4%. FS stressed that, as in previous years, the Government would carefully consider the views collected from LegCo Members and the public during the budget consultation period before mapping out the measures.

41. Referring to the Secretary for Education ("SED")'s assurance that provision of 15-year free education and quality kindergarten education was among the top priorities of the current-term Government, Dr LAM Tai-fai enquired whether SED had discussed such initiative with FS on relevant resources allocation in the 2014-2015 Budget. FS said that a Committee on Free Kindergarten Education had been set up to take forward the initiative and would make recommendations to the Education Bureau. SED would discuss with him on the required resources upon formulation of the programme and the implementation details.

Expenditure on capital works projects

42. Mr NG Leung-sing noted that the 2013-2014 estimated expenditure on public works projects reached \$70.1 billion, which was the highest since 1997-1998. He considered that the Government should ensure an even distribution of public works projects across the years and avoid great fluctuations, otherwise there would be adverse implications on construction cost and the labour market. The Chairman enquired whether the rapid growth in expenditure on capital works was due to substantial increase in the number of projects or a surge in the construction cost. She also expressed concern whether the Government had accorded priority in implementing major infrastructural projects which had accounted for most of the capital works expenditure, thus impeding the progress of minor works projects implemented in the districts.

43. FS said that as far as practicable the Government would strive to achieve an even distribution of capital works expenditure across the years. The task was not easy taking into account the different timeframes and duration of capital works. With construction of various major infrastructural projects in full swing, it was expected that expenditure on capital works projects would stay at the current high level for the next few years. Regarding minor works, FS said that funding was reserved for undertaking such projects. However, implementation of minor works projects at district level often hinged on the progress of consultation with the local communities and their support. PS(Tsy)

supplemented that, out of the \$480 billion capital works expenditures in the five financial years from 2008-2009 to 2012-2013, 60% (or about \$289.5 billion) were accounted by minor works projects. In 2013-2014 legislative session, 44 capital works projects at a total estimated cost of about \$68 billion, of which only four were major infrastructure projects totalling around \$7 billion, would be submitted to LegCo for approval.

Revenue from stamp duties

44. Dr LAM Tai-fai asked if the Administration had assessed the impact on government revenue of the reduced number of property transactions with the implementation of demand-side management measures to address the overheated property market. FS said that it was inevitable that decline in the number of property transactions in the recent period would result in decrease in Government revenue from stamp duties. Nevertheless, stamp duties were not the largest source of operating revenue of the Government. The estimated revenue from stamp duties for 2013-2014 was only some \$40 billion (or 9.2% of the total Government revenue estimates).

Pension liabilities for civil servants

45. Mr NG Leung-sing opined that the Government should assess whether Government revenue could meet the pension expenses for retired civil servants in the long run, and review the arrangement to consider providing funding to meet pension liabilities. FS explained that the Civil Service Pension Scheme was a closed scheme and civil servants offered appointment on or after 1 June 2000 were no longer covered under the Scheme. The pension liabilities were basically unfunded and payments of all pension benefits were charged to the General Revenue Account in the fiscal year when the civil servants concerned retired. Accordingly, funds were set aside every year from the General Revenue Account for pension payments.

V Briefing on proposed legislation to enable the issuance of Islamic Bond under the Government Bond Programme

(LC Paper No. CB(1)390/13-14(05) — Administration's paper on "Implementation of the Government Bond Programme: (a) legislative proposal to enhance the issuance of Islamic bond; and (b) liquidity enhancement measures"

- LC Paper No. CB(1)390/13-14(06) — Background brief on implementation of the Government Bond Programme: (a) legislative proposal to enhance the issuance of Islamic bond; and (b) liquidity enhancement measures prepared by the Legislative Council Secretariat
- LC Paper No. IN03/13-14 — Information note on facilitation measures for the development of Islamic bond market in selected places prepared by the Legislative Council Secretariat)

Briefing by the Administration

46. At the invitation of the Chairman, the Principal Assistant Secretary for Financial Services and the Treasury(Financial Services)⁵ ("PAS(FS)5") briefed members on the two initiatives in relation to the implementation of the Government Bond Programme ("GBP"): (a) a legislative proposal to amend the Loans Ordinance (Cap. 61)("LO") to enable the raising of funds by the Government under the GBP via the issuance of Islamic bonds ("sukuk"); and (b) relevant measures to enhance the liquidity of Government bonds ("GBs") issued under the institutional part of the GBP. PAS(FS)5 said that it was the Administration's plan to introduce the relevant Bill to amend LO into LegCo for implementing the proposal in (a) in the first quarter of 2014.

Discussion

The issuance of sukuk under the GBP

47. Mr SIN Chung-kai enquired about the revenue and expenditure situation of the GBP, and the financial impact on the GBP arising from the proposal to issue sukuk under the GBP. Mr James TO also enquired whether allowing issuance of sukuk under the GBP would bring positive impact on the GBP and whether the cost incurred for issuance of sukuk would be higher than that of conventional bonds.

48. The Executive Director (Monetary Management), HKMA ("ED(MM)/HKMA") explained that the Bond Fund ("BF") had been established to manage the sums raised under the GBP. Proceeds from bond issuances under the GBP were credited to the BF, which was placed with the EF for investment. The BF had registered net surpluses (i.e. investment income less interest payments and other issuance-related expenses) in all years since its launch in 2009, and a net surplus of around HK\$700 million was recorded in 2010-2011. He pointed out that Mr SIN Chung-kai would raise a written question on "iBonds issued by the Government" at the Council meeting of 11 December 2013 and the Administration would provide relevant information in the reply to the question. On the costs for issuing sukuk and conventional bonds, ED(MM)/HKMA said that there was no significant difference on the pricing of both kind of bonds. While it would be difficult to make accurate forecast on the pricing of sukuk to be issued under the GBP, it was envisaged that the issuance of sukuk under the GBP would have little impact on the sustainability of the BF.

49. Mr SIN Chung-kai and Mr Christopher CHEUNG enquired about the target investors of sukuk issued under the GBP and the issuance size. Given that sukuk were complex financial instruments involving several transactions of underlying assets, Mr CHEUNG asked whether the Administration had assessed the relevant risks.

50. ED(MM)/HKMA responded that, in view of the relatively complex structure of sukuk, it was envisaged that the target investors of the sukuk would be institutional investors. Indeed, the major players in the global sukuk market were institutional investors. The Government believed that issuing sukuk under the GBP would set an example to the market and encourage more local and international issuers from the public and private sector to issue sukuk, thus conducive to the development of the local sukuk market and benefiting the financial services sector. On the issuance size of sukuk, ED(MM)/HKMA said that this would be determined with regard to the prevailing market conditions and market appetite. PAS(FS)5 supplemented that the total outstanding GBs stood at HK\$90 billion in mid November 2013. The Administration would be prudent in determining the issuance size of sukuk under the GBP. It was envisaged that the initiative would not have significant impact on the issuance of other types of bonds under the GBP.

51. Mr James TO enquired whether institutional investors purchasing sukuk issued under the GBP could split the sukuk for sale to retail investors subsequently and whether such activity was prohibited by laws or the resolutions setting up the GBP.

52. ED(MM)/HKMA responded that it was unlikely for the institutional investors purchasing sukuk issued under the GBP to split the sukuk for subsequent sale to retail investors. In fact, individual investors like Muslims living in Hong Kong could approach banks in Hong Kong which had set up Islamic windows if they would like to invest in Islamic financial products. The Head (Market Development)/HKMA supplemented that in general, there were no additional restrictions imposed on sukuk investors in relation to secondary trading. The trading practices of sukuk were similar to those of conventional bonds.

53. Noting that Islamic law ("Shariah") differed from Hong Kong laws, Mr WONG Kwok-hing enquired how legal disputes relating to sukuk would be handled.

54. PAS(FS)5 responded that Hong Kong could make reference to experience of other jurisdictions in handling sukuk-related disputes. The prevailing international practice was to resolve disputes between issuers and sukuk holders in accordance with the terms and conditions stipulated in the contracts entered between the parties. In issuing sukuk under the GBP, the Administration would ensure that the sukuk were structured in a Shariah-compliant manner. The offering documents of the sukuk would specify the proper jurisdiction (i.e. a Hong Kong court or otherwise which would be the appropriate forum to adjudicate a dispute) and the governing law for adjudicating the disputes.

Development of the local sukuk market

55. Mr NG Leung-sing supported the proposal. He highlighted the importance to ensure protection for sukuk investors in view of the complex nature of these financial instruments, and enquired how the Administration would strengthen investor education in this area. On the development of the local sukuk market, Mr NG enquired about the forecasted number of international Islamic financial institutions that would establish business in Hong Kong with implementation of the initiative, and the jurisdictions the Administration could make reference to in developing Islamic finance.

56. ED(MM)/HKMA responded that at present there were two banks in Hong Kong which had set up Islamic windows. He said that the sukuk market in Malaysia was well developed and currently about 60%-70% sukuk in the global market were issued out of Malaysia. The Administration was maintaining close liaison with Malaysia on the development of Islamic finance. For instance, Hong Kong and Malaysia would hold the first meeting of the Joint Forum on Islamic Finance on 3 December 2013 in Hong Kong to discuss how to advance the development of Islamic finance in Hong Kong.

57. Mr Abraham SHEK opined that jurisdictions including Malaysia and Singapore had succeeded in developing Islamic finance because their governments had implemented support measures and maintained strong ties with the Islamic community. In the absence of a close linkage with the Islamic community and given that individual Muslims would not purchase sukuk issued under the GBP, Mr SHEK queried whether the Government had put in place sufficient support measures for the development of Islamic finance.

58. PAS(FS)5 responded that Hong Kong enjoyed certain edges in the development of Islamic finance. Firstly, the well-established market infrastructure in Hong Kong was able to support the issuance and listing of different types of bonds. Besides, the Inland Revenue and Stamp Duty Legislation (Alternative Bond Schemes) (Amendment) Ordinance 2013 enacted by LegCo in July 2013 had removed a major impediment to the development of a sukuk market by providing a comparable taxation framework for sukuk vis-à-vis conventional bonds. The Administration would also encourage local and foreign bond issuers to issue sukuk in Hong Kong. The legislative proposal enabling the issuance of sukuk under the GBP could demonstrate that Hong Kong possessed well established market infrastructure, including sound legal, regulatory and taxation frameworks accommodating issuance of sukuk. PAS(FS)5 further pointed out that some non-Muslim countries like the United Kingdom were contemplating to issue sovereign sukuk. ED(MM)/HKMA supplemented that a number of Islamic finance seminars had been organized in Hong Kong in collaboration with international organizations such as the Islamic Financial Services Board to boost the knowledge and awareness of market practitioners on sukuk.

Conclusion

59. The Chairman concluded that Panel members had no objection to the Administration introducing the relevant Bill into LegCo in the first quarter of 2014.

VI Plan for 2016 Population By-census

(LC Paper No. CB(1)390/13-14(07) — Administration's paper on "Plan for the 2016 Population By-census"

LC Paper No. CB(1)390/13-14(08) — Background brief on the plan for 2016 Population By-census prepared by the Legislative Council Secretariat)

Briefing by the Administration

60. With the aid of powerpoint presentation, the Assistant Commissioner for Census and Statistics (Acting) ("AC for C&S") briefed members on the background and details of the 2016 Population By-census ("16BC"), including sampling scheme, means of data collection, data collection period, data topics and related computer equipment and services. Members noted that the Administration planned to seek funding approval from FC for the costs of the information technology equipment and services for 16BC in February 2014.

(*Post-meeting note:* The notes of the powerpoint presentation (LC Paper No. CB(1)453/13-14(02)) were issued to members vide Lotus Notes e-mail on 2 December 2013.)

Discussion

Data quality assurance

61. Referring to allegation in media reports in January 2013 about C&SD's frontline field officers fabricating responses in the General Household Survey and some other C&SD surveys in order to boost their output rates, Mr WONG Kwok-hing enquired about measures to ensure the authenticity of statistical data to be collected in 16BC. The Commissioner for Census and Statistics ("C for C&S") said that the Administration had put in place measures to enhance data quality. Comprehensive checking and verification measures of the completed questionnaires would be implemented in the 16BC. For instance, under the existing data quality assurance mechanism of C&SD, supervisors would provide guidance to the enumerators and perform checking on the work of each enumerator to ensure proper completion of their enumeration. Independent checkers would also revisit a sample of households with returned questionnaires to verify the key information recorded on the questionnaires and whether enumerators had visited the households. C&SD would further strengthen these measures in the 16BC.

Data topics for 16BC

62. Mr WONG Kwok-hing pointed out that the findings of the Survey on Subdivided Units in Hong Kong ("the Report"), which was conducted by an external consultant commissioned by the Long Term Housing Strategy Steering Committee ("LTHSSC") and published in May 2013, indicated that there were about 66 900 sub-divided units ("SDU") in Hong Kong. He expressed reservation about accuracy and reliability of the data as it was derived from random sampling and ratio estimation method. He suggested that C&SD should include a data topic on SDU in 16BC. Sharing the suggestion, the Chairman opined that C&SD could provide training to field workers on the necessary skills and knowledge to identify quarters with SDU. She strongly requested that 16BC should cover information on the area of quarters in addition to information on household size so the Administration could better understand the housing conditions of the visited households.

63. C for C&S advised that the survey commissioned by LTHSSC was monitored by a task force composed of representatives from the Buildings Department, C&SD, Rating and Valuation Department, and Transport and Housing Bureau; and quality control measures were put in place to ensure the quality of the collected data. The survey would be conducted again in 2014. She said that enumerators with more technical interviewing skills and knowledge were required to collect statistical data on SDU. As the enumerators recruited for the population censuses/by-censuses were temporary staff and mostly students, they might have difficulty in acquiring the required interviewing skills from basic training.

64. Regarding the size of quarters, C for C&S said that the current approach was to collect information on the number of rooms in the quarters (including living/dining rooms, bedrooms, other rooms, kitchens, bathrooms/toilets). It might be difficult to obtain quality data on the floor area of quarters since the respondents might not be able to provide accurate information. The Chairman did not subscribe to the Administration's views and considered that problem in the quality of data might happen in other topics like household income as such information was also provided by the respondents without verification by C&SD. She queried the usefulness of information on the number of rooms in a residence as an SDU and a normal unit of quarters might have the same number of rooms but varied widely in their respective areas.

65. Given that households living in rented premises might move their homes more frequently, Mr Gary FAN suggested collecting information in 16BC on the respondents' place of residence one to two years before, instead of the proposed five years, which should be more useful for formulation of

housing policies (e.g. measures on rent control). C for C&S advised that the five-years period was commonly adopted by other countries for collecting data on internal migration in their population censuses.

66. Mr WONG Kwok-hing suggested that the Administration should collect information on persons with disabilities ("PwDs") in 16BC to facilitate consideration of welfare measures for such persons. C for C&S said that, given the sensitivity of the topic and the demand for interviewing skills, it was more appropriate to conduct thematic surveys on PwDs. A report on the findings of a thematic survey on PwDs and chronic diseases was published in December 2008. C&SD had conducted another round of survey on the topics in 2013 and the findings of the survey would be released in 2014.

67. Mr WONG Kwok-hing asked whether information on children born in Hong Kong to Mainland parents would be collected in 16BC. Mr IP Kin-yuen criticized that the Government for not keeping updated and accurate information on the respective number of children born in Hong Kong whose parents were Mainlanders or either one of them was, and on whether and when these children would reside/study in Hong Kong. He emphasized that these were essential information for planning class structures, establishment of teaching staff, as well as provision of schools and classrooms. Mr Gary FAN shared similar concerns and pointed out that the lack of information on children born in Hong Kong to Mainland parents had given rise to problems in the allocation of kindergarten and primary one school places, in particular in the North District. He suggested that C&SD should consider conducting face-to-face interviews with a certain sample of the Mainland parents of children born in Hong Kong. Mr SIN Chung-kai however considered that it should be more feasible to collect information on children born in Hong Kong to Mainland parents through computer-assisted interviewing method or e-Questionnaires via the Internet. The Chairman stressed that the Administration should maintain regular contacts with the Mainland parents in question to keep track of the movement of their children born in Hong Kong.

68. C for C&S advised that C&SD had conducted six rounds of survey on babies born in Hong Kong to Mainland women (with the first round of the survey conducted in 2007) through interviewing the parents of these babies at the Births Registries to gather information on their plans for the newborns to reside and/or study in Hong Kong. As revealed by the surveys, about half of the children would stay in Hong Kong for living ultimately. If these children stayed in Hong Kong for living, they would be categorized as Hong Kong residents for statistical purpose in the population censuses/by-censuses. As regards the suggestion to conduct survey at the place of residence in the Mainland, C for C&S said that it would require further discussion and collaboration between the relevant bureaux/departments and the Mainland

authorities including the National Bureau of Statistics. For instance, the feasibility of enumeration by postal return of questionnaires could be explored if the correspondence address of the Mainland parents in question were available from the health/vaccination records of their newborns or other public records. AC for C&S added that C&SD had undertaken studies on the information on the plan of the Mainland parents to bring back their children to Hong Kong based on the survey data collected at the Births Registries by comparing them with the actual number of these children ultimately residing in Hong Kong. So far, it was observed that the intention of the Mainland parents were broadly consistent with the actual return patterns of these babies.

69. As regards the suggestion of the Chairman and Mr SIN Chung-kai to gather information on Hong Kong residents residing or working in the Mainland or elderly Hong Kong residents staying in the Mainland, C for C&S said that people who usually resided outside Hong Kong would be categorized as non-Hong Kong residents for statistical purpose and hence would not be covered in 16BC. AC for C&S added that it would be more appropriate to collect such information through thematic surveys.

(At this juncture, the Chairman directed that the meeting be extended by 15 minutes to 12:45 pm)

70. Noting that C&SD was considering the feasibility of refining the classification for the data topics on "Sex" and "Marital status" for 16BC, Mr CHAN Chi-chuen enquired about the timeframe for drawing up the refined classification. Given the Government's policy to promote equal opportunities for people of different sexual orientations, Mr CHAN strongly requested C&SD to include a data topic on sexual orientations in 16BC. He stressed that marital status could not reflect sexual orientations at all as individuals with different sexual orientations might not choose to have marriage or co-habitation.

71. Ms Cyd HO echoed the view that the refined classification under consideration for "Marital status" would not help gauge information from people with different sexual orientations who had not married or would not disclose such orientations in public due to social pressure or concern about discrimination, in particular in the presence of other members of their households at the time of survey. Referring to the film-cylinder random sampling survey adopted in the past for sensitive data topics which gauged inaccurate statistical information, Ms HO suggested that C&SD should discuss with relevant concern groups and academic institutions to develop appropriate data collection methods and interviewing skills to identify the population sub-group with different sexual orientations before it could take forward any thematic surveys on them.

72. C for C&S said that C&SD was studying the feasibility of refining the classification of "Sex" to take into account transgender and transsexual persons, and the classification of "Marital status" to include co-habitation, same-sex relationship, etc, with reference to similar developments in overseas practices (e.g. Australia and Canada). In connection with this, C&SD would consult stakeholders and conduct testing, if necessary, to gauge respondents' reactions to data topics with the refined classifications, and other issues of concerns. C for C&S indicated that data topic on sexual orientation was not included in population censuses of other economies and it was considered more appropriate to collect data on sexual orientation via thematic surveys. C&SD had no plan at this stage to include this data topic in 16BC. As regards respondents' concern about being overheard by their family members when responding to sensitive questions, C for C&S said that C&SD would take various measures to protect data privacy throughout the process, from data collection to subsequent processing and disposal of the information collected.

73. At the request of Ms Cyd HO, the Administration agreed to provide information on measures to protect data privacy of respondents to population censuses/by-censuses, in particular for data given on sensitive topics, including how to address concern where the respondents might be unwilling to disclose sensitive information to the enumerator despite they had legal obligation to provide accurate and complete information under the Census and Statistics Ordinance (Cap. 316).

(Post-meeting note: The Administration's written response was circulated to members vide LC Paper No. CB(1)624/13-14(02) on 27 December 2013.)

Conclusion

74. Concluding the discussion, the Chairman said that members did not oppose the Administration to submit the funding proposal related to 16BC for FC's consideration.

VII Any other business

75. There being no other business, the meeting ended at 1:00 pm.