# 立法會
# *Legislative Council*

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**Panel on Financial Affairs**

**Minutes of special meeting on**
**Wednesday, 29 January 2014, at 10:45 am**
**in Conference Room 1 of Legislative Council Complex**

**Members present** : Hon Starry LEE Wai-king, JP (Chairman)
Hon Christopher CHEUNG Wah-fung, JP (Deputy Chairman)
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 Andrew LEUNG Kwan-yuen, GBS, JP
Hon WONG Ting-kwong, SBS, JP
Hon CHAN Kin-por, BBS, JP
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Hon NG Leung-sing, SBS, JP
Hon Kenneth LEUNG
Hon Dennis KWOK
Hon SIN Chung-kai, SBS, JP

**Members attending** : Hon LEE Cheuk-yan
Dr Hon LAM Tai-fai, SBS, JP
Hon CHAN Yuen-han, SBS, JP

**Members absent** : Hon Albert HO Chun-yan
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon Ronny TONG Ka-wah, SC
Hon James TIEN Pei-chun, GBS, JP

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| **Public officers attending** | **:** | Prof K C CHAN, GBS, JP<br>Secretary for Financial Services and the Treasury<br><br>Miss AU King-chi, JP<br>Permanent Secretary for Financial Services and the Treasury (Financial Services)<br><br>Ms Elizabeth TSE, JP<br>Permanent Secretary for Financial Services and the Treasury (Treasury)<br><br>Mr James LAU, JP<br>Under Secretary for Financial Services and the Treasury<br><br>Miss Salina YAN, JP<br>Deputy Secretary for Financial Services and the Treasury (Financial Services)1<br><br>Mr Eddie CHEUNG<br>Deputy Secretary for Financial Services and the Treasury (Financial Services)2<br><br>Mr Patrick HO, JP<br>Deputy Secretary for Financial Services and the Treasury (Financial Services)3<br><br>Mr Howard LEE, JP<br>Executive Director (Monetary Management)<br>Hong Kong Monetary Authority |
| **Clerk in attendance** | **:** | Ms Connie SZETO<br>Chief Council Secretary (1)4 |
| **Staff in attendance** | **:** | Ms Angel SHEK<br>Senior Council Secretary (1)4<br><br>Ms Sharon CHAN<br>Legislative Assistant (1)4 |

Action

**I Briefing by the Secretary for Financial Services and the Treasury on the relevant policy initiatives in the Chief Executive's 2014 Policy Address**

(LC Paper No. CB(1)733/13-14(01) — Administration's paper on 2014 Policy Address - Policy Initiatives of the Financial Services and the Treasury Bureau

*issued on 15 January 2014* — Address by the Chief Executive at the Legislative Council meeting on 15 January 2014)

Other relevant paper

(LC Paper No. CB(1)768/13-14(01) — Administration's information paper on "Recent Appearance of 2003 Series $1,000 Counterfeit Notes")

Briefing by the Administration

The Secretary for Financial Services and the Treasury ("SFST") briefed Members on the policy initiatives of the Financial Services and the Treasury Bureau ("FSTB") featured in the Chief Executive ("CE")'s 2014 Policy Address by highlighting the following areas of work set out in the Administration's paper (LC Paper No. CB(1)733/13-14(01)):

(a) organization of Asia-Pacific Economic Cooperation Finance Ministers' Meeting 2014;

(b) enhancing the independence of the regulatory regime for auditors in respect of listed entities;

(c) advancing financial cooperation with the Mainland and developing offshore Renminbi ("RMB") business;

(d) consolidating Hong Kong's position as the premier asset management centre in the Asia-Pacific region, including introducing Open-ended Investment Companies ("OEICs") and private equity funds taxation arrangement;

(e) development of an effective cross-sectoral resolution regime for financial institutions and improving the corporate insolvency laws;

(f) establishment of an independent Insurance Authority and a Policyholders' Protection Fund;

(g) introduction of legislation to enable the introduction of an uncertificated securities regime and to provide for the regulation of the over-the-counter derivative market respectively;

(h) introducing a regulatory regime for electronic payment instruments and retail payment systems;

(i) implementation of new Basel requirements;

(j) enhancing the Mandatory Provident Fund ("MPF") System;

(k) bringing the new Companies Ordinance (Cap. 622) ("new CO") into operation and monitoring the implementation of the Trust Law (Amendment) Ordinance 2013; and

(l) expansion of Hong Kong's network of comprehensive avoidance of double taxation agreements and negotiations with a number of jurisdictions to enter into tax information exchange agreements ("TIEAs").

2. The Chairman informed members that the Administration had provided an information paper on "Recent Appearance of 2003 Series $1,000 Counterfeit Notes" (LC Paper No. CB(1)768/13-14(01)) to address concerns raised by Panel members on related issues at the regular meeting on 6 January 2014. She said that members might follow up with the Administration on the subject at the meeting.

Declaration of interests

3. Mr NG Leung-sing declared that he was a member of the Bank of China (Hong Kong) Limited which was the sole clearing bank of RMB business in Hong Kong.

Discussion

*Financial cooperation with the Mainland and expanding offshore RMB business*

4. Mr Andrew LEUNG observed that Hong Kong had the world's largest offshore pool of RMB liquidity, with RMB deposits exceeding RMB800 billion at present. He enquired about the Administration's measures to make use of the huge RMB liquidity for broadening and deepening the offshore RMB business in Hong Kong in an orderly and strategic manner. In particular, he considered that Hong Kong should diversify its RMB products to provide more choices for investors.

5. Mr CHAN Kam-lam observed that the Administration had put substantial efforts in developing the local financial services industry and enhancing regulation of the market in the past year. He considered that there was still much room in the diversification of RMB products and opening up RMB business opportunities in Hong Kong. Mr NG Leung-sing remarked that Hong Kong should continue to ride on its unique advantages in developing offshore RMB business, which would offer mutual benefits to the Hong Kong market and that of the Mainland.

6. SFST said that, as at end of November 2013, RMB deposits and outstanding RMB certificates of deposit altogether had reached over RMB1,000 billion and were expected to increase steadily in the years ahead, which reflected a keen market demand for RMB in trading and investment. To further promote RMB business, the Administration was actively strengthening links with overseas markets in this area and promoting the RMB business between banks in Hong Kong and international financial institutions and corporates. At the same time, the Administration would continue to ensure a smooth cross-border circulation of RMB for lending and financing activities as well as attracting foreign direct investment. SFST added that the RMB Qualified Foreign Institutional Investors ("RQFII") scheme had been further expanded to allow financial institutions which were registered and had major operations in Hong Kong to apply for RQFII qualifications with relaxed investment restriction of RQFII funds.

7. Mr WONG Kwok-hing enquired about the timeframe for abolition of the daily conversion limit of RMB20,000 per person. In view of the more favourable interest rates for RMB deposits vis-à-vis Hong Kong dollar deposits, he opined that lifting the daily limit in question would facilitate the

public to place RMB deposits for enhancing personal savings. While expressing support for relaxing the daily conversion limit of RMB, Mr NG Leung-sing stressed the need to implement the proposal progressively to avoid causing drastic fluctuations of the currency.

8. SFST said that the Administration, the Hong Kong Monetary Authority ("HKMA") and the banking industry saw the need and advantage to abolish the daily conversion limit to enhance RMB deposits and RMB circulation in Hong Kong to help expand and diversify offshore RMB business and services. To this end, the Administration and HKMA had put forward the proposal to the Central People's Government and discussed the matter with the People's Bank of China ("PBoC") on a number of occasions. The detailed proposal was under active consideration by PBoC.

9. Mr Andrew LEUNG enquired whether and how Hong Kong would cooperate with the Guangdong Province in the development of a Guangdong-Hong Kong-Macao Free Trade Zone ("FTZ"). Mr CHAN Kin-por remarked that the Administration should capitalize on the development of the Shanghai FTZ to open up business opportunities for Hong Kong and achieve a win-win situation for the two cities.

10. SFST responded that establishment of the Shanghai FTZ was an important milestone in the further liberalization of the Mainland market. He assured members that the Administration would leverage on the development to enable more Hong Kong enterprises to expand their businesses in the Mainland. The Administration would also consider how Hong Kong could cooperate with the Guangdong Province in the potential development of a Guangdong FTZ and the Guangdong-Hong Kong-Macao FTZ.

11. Mr Christopher CHEUNG expressed support for the policy direction to reinforce financial cooperation with the Mainland, with a view to striving for greater market access for the local financial services industry. However, he expressed concern that little progress was made under the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA"), which had been signed for some 10 years, towards market liberalization for the local financial services industry by the Mainland, in particular in respect of the entry of small and medium-sized enterprises ("SMEs") securities firms into the Mainland market.

12. SFST said that the initiatives to enhance economic and trade cooperation and exchanges between Hong Kong and the Mainland had been broadened and enriched progressively under each Supplement to CEPA in selected services sectors, in tandem with the timeframe of market liberalization by the Central People's Government. For instance, Supplement X to CEPA had, amongst other initiatives, relaxed market access conditions for Hong Kong-funded securities companies, including allowing these institutions which satisfied the requirements for establishing foreign-invested securities companies to set up one full-licensed joint venture securities company each in Shanghai, Guangdong Province and Shenzhen in accordance with relevant Mainland requirements. The Administration would continue to communicate with the trades concerned to reflect their views and suggestions, including those of SMEs, to the Mainland authorities as appropriate, with a view to seeking further liberalization of the market for Hong Kong enterprises by the Mainland.

*Financial Services Development Council*

13. Mr CHAN Kin-por urged that the Administration should implement the recommendations put forward in the Financial Services Development Council ("FSDC")'s research reports released in November 2013 as soon as possible so as to promote the development of the local financial services industry. Mr NG Leung-sing sought information on the timeframe for implementing the recommendations as well as the deployment of resources for undertaking related initiatives. The Chairman recalled that, during the briefing on the work of FSDC at the Panel meeting on 6 January 2014, members had requested the Administration to update the Panel within one month on the Government's response to FSDC's recommendations. Mr Christopher CHEUNG opined that it might not be adequate for the Administration to make reference only to FSDC's recommendations as they appeared to have overlooked the needs of SMEs.

14. SFST responded that, as a government advisory body, FSDC could decide on the matters for undertaking research studies and consultation with the industry. In formulating policies in respect of financial services matters, the Administration would take into account a host of perspectives and strategies other than the recommendations of FSDC, and would gauge views from the relevant parties including Legislative Council ("LegCo") Members. SFST supplemented that the Administration and related regulators had been following up FSDC's recommendations closely. For instance, the Securities and Futures Commission ("SFC") had commenced a public consultation on 27 January 2014 on the proposals to amend the Code on Real Estate

Investment Trusts ("REITs") to introduce flexibility in the investment scope of REITs. The Administration and SFC would also launch in the first quarter of 2014 a public consultation exercise on the legislative proposals on the necessary regulatory framework to facilitate the introduction of OEICs. SFST assured members that the Administration would consult the Panel on individual initiative pertaining to FSDC's recommendations when ready.

*Development of headquarters economy and the local bond market*

15. Mr CHAN Kin-por emphasized the strategic importance and long-term economic benefits for Hong Kong in the development of headquarters economy, such as opening up more business opportunities, job creations and exposure of the younger working force to the international arena and diversification in the career prospects. Mr CHAN pointed out that, compared to the some 26 000 multinational companies currently making investment in Singapore, there were only 7 749 overseas companies with regional headquarters or branches set up in Hong Kong. He considered that the Administration should make reference to the government of Singapore and step up its efforts, including providing more tax concessions and other incentives, to attract multinational companies to invest in Hong Kong.

16. SFST said that the Administration had strived to attract more overseas companies to invest in Hong Kong, which was the ongoing initiatives of the InvestHK and other relevant departments. As a result of the continued efforts, more multinationals had been attracted to set up office or regional headquarters in Hong Kong for their businesses in the Mainland or Asian region. As regards the granting of tax concessions to particular sectors or companies, SFST said that the suggestion warranted careful consideration as they might jeopardize a fair tax regime and further narrow the tax base of Hong Kong.

17. Mr Kenneth LEUNG enquired about the initiatives to promote the development of the retail bond market, apart from offering inflation-linked retail bonds under the Government Bond Programme, with a view to enhancing the investment options for retail investors. SFST said that the Administration would continue its efforts to promote the development of the local bond market, including diversifying the retail bond products. Nevertheless, due to the low interest rate environment at present, he observed that retail bonds might not be an attractive investment option for investors.

*Improving the corporate insolvency laws and implementation of the new CO*

18. Ms CHAN Yuen-han noted that the Administration had rolled out an exercise to improve the corporate insolvency laws, with a view to increasing protection for creditors, amongst other objectives. She suggested that the Administration should advance the priority of employees in the list of creditors. The Deputy Secretary for Financial Services and the Treasury (Financial Services)3 said that, compared to some other jurisdictions, employees were accorded the highest priority amongst unsecured creditors in the Hong Kong insolvency regime, and they were entitled to preferential payments from liquidated assets after discounting liquidator's charges and liquidation expenses. The Administration would continue to enhance protection for creditors including employees under the legislative framework.

19. In reply to Mr Kenneth LEUNG's enquiry about merger provisions in the new CO, the Administration agreed to provide information, including (a) application of the provisions to mergers of (i) companies within the same company group only, (ii) companies which were unrelated entities, and (iii) a bank merger or transfer of banking business, and whether the provisions could replace private legislation with the approval of LegCo in effecting a bank merger; and (b) whether the provisions could give legal effect to mergers by universal succession as in the continental law, which provided for artificial continuance of an entity by another, and the rights, assets and liabilities of the former entity were automatically transferred to and vested in the new/surviving entity.

(*Post-meeting Note*: The Administration's written response was issued to members vide LC Paper No. CB(1)1022/13-14(02) on 3 March 2014.)

*Mandatory Provident Fund system*

20. Ms CHAN Yuen-han expressed concern that, while CE had pledged in his Election Manifesto to progressively reduce the proportion of employers' contributions to MPF that could be used to offset severance payment or long service payment to employees ("SP/LSP offsetting arrangement"), there were no follow-up measures in this regard in the 2013 and 2014 Policy Agenda. She pointed out that the community at large considered the SP/LSP offsetting arrangement unfair to employees by reducing their savings for retirement. In particular, the SP offsetting arrangement would adversely affect the interests of employees during the

winding up of insolvent companies as these employees would need more savings to meet their financial needs. Ms CHAN added that abolition of the SP/LSP offsetting arrangement would also facilitate the future implementation of MPF Full Portability.

21. Mr LEE Cheuk-yan pointed out that in the past some 10 years, as much as $20 billion of MPF accrued benefits had been withdrawn from scheme members' accounts for offsetting SP or LSP. He expressed grave dissatisfaction that both the Labour and Welfare Bureau ("LWB") and FSTB had shirked responsibility by repeatedly claiming that the relevant issues were being studied. In his view, issues relating to the SP/LSP offsetting arrangement could not be resolved unless the Administration adopted a stance decisively. Mr LEE and Ms CHAN Yuen-han urged that LWB and FSTB must make concerted efforts to follow up the matter jointly by working out a concrete work plan and a timetable for implementation. Mr WONG Ting-kwong observed that there were diverse views between employers (especially the SMEs) and employees on the issue of SP/LSP offsetting arrangement. The Chairman sought clarification whether the SP/LSP offsetting arrangement was a policy area under the purview of FSTB or LWB.

22. SFST advised that the SP/LSP offsetting arrangement was a complicated and controversial matter that straddled policy areas across bureaux and involved interests of different sectors. It was necessary to consider the relevant issues and different proposals thoroughly and carefully in view of the diverse views between employers and employees. In parallel, the Administration would continue to work with the Mandatory Provident Fund Schemes Authority ("MPFA") to enhance the MPF system, reduce MPF fees and make preparation for implementing MPF Full Portability.

23. Mr WONG Ting-kwong enquired about the progress in implementing the Employee Choice Arrangement ("ECA") of the MPF system, and the timeframe for implementing Full Portability, in particular whether it would hinge on the abolition of the SP/LSP offsetting arrangement.

24. SFST said that abolition of the SP/LSP offsetting arrangement was not a prerequisite to achieve MPF Full Portability. MPFA was studying the cost and effectiveness of various proposals to facilitate implementation of MPF Full Portability. The Permanent Secretary for Financial Services and the Treasury (Financial Services) ("PS(FS)") added that ECA, an arrangement which enabled employees to transfer accrued benefits derived from their mandatory contributions to other MPF schemes, was implemented

with the aim to give employees greater autonomy and choice in handling their MPF investments, and further enhance market competition in terms of MPF fees and product/service quality. In the period from the commencement of ECA on 1 November 2012 to 31 December 2013, there were some 96 000 cases of ECA transfer, and the fees of about one-third of the existing MPF funds had been reduced by up to 80 basis points. Upon examining the ECA statistics with MPFA, it was noted that MPF scheme members had exercised caution, having regard to their investment needs, investment environment and other factors, before applying for ECA transfers. This might be explained by the effectiveness of MPF investment education initiatives of MPFA which reminded scheme members not to switch MPF trustee/scheme simply for the sake of switching. PS(FS) further said that MPFA was working with HKMA to launch an electronic platform in around mid 2014 to further accelerate the process of ECA transfer between trustees.

25. Mr WONG Kwok-hing said that some MPF scheme members had suggested placing their MPF contributions with the Exchange Fund for investment by HKMA, with a view to lowering MPF fees and gaining higher investment returns. Mr CHAN Kin-por considered it more essential to streamline and automate MPF administrative procedures for driving down MPF costs. The Chairman enquired about the progress of the review of the MPF system undertaken by the Administration, including whether the review would study the feasibility for HKMA to take up the role of a public trustee in the MPF system. She also enquired whether and how far the setting up of electronic platform for processing transfer of employees' portion of accrued benefits between trustees would help drive down MPF fees.

26. SFST said that, as the relatively high costs of the MPF System were mainly due to the established administrative process, it was important to streamline the relevant procedures in order to achieve substantial reduction in costs and thus MPF fees in the long run. The current focus of the MPF system review was on the feasibility of providing a core fund as a default fund, designed with a long-term investment perspective and fee control to enhance the choice of fund for MPF scheme members.

*Financial regulation and stability*

27. Mr NG Leung-sing observed that advanced economies and international regulatory organizations had rolled out various financial reforms over the past few years in order to address the systemic problems

exposed by the 2008 financial crisis. Noting that the Administration would strive to keep Hong Kong regulatory framework up-to-date in a timely manner and on par with international standards, Mr NG cautioned that the pace and extent of the relevant regulatory reforms, including sanctions for new offences, should be reasonable so that a proper balance would be maintained between financial regulation and healthy development of the financial market in Hong Kong.

28. SFST responded that, as an international financial centre, Hong Kong was obliged to keep its financial regulation up to international requirements, such as compliance with the new Basel requirements and regulatory measures on the over-the-counter derivative market. The Administration would take into account the needs and interests of the financial services industry when taking forward the relevant reforms.

29. Mr Kenneth LEUNG expressed support for the Administration's new initiative to enhance the independence of the auditor regulatory regime. He enquired whether the reform would target at enabling Hong Kong to meet both the qualification requirements for membership of the International Forum of Independent Audit Regulators ("IFIAR") as well as attain regulatory equivalence status with the European Union ("EU").

30. SFST pointed out that the reform target was to at least meet IFIAR requirement, but it was the direction of the reform exercise to align Hong Kong's regulatory regime for auditors of listed entities with the relevant international standards, by making reference to those standards applied by IFIAR and EU, with a view to enhancing the global recognition of Hong Kong auditors and expanding their business opportunities overseas. The Administration would continue to discuss with the Financial Reporting Council and the Hong Kong Institute of Certified Public Accountants to formulate a package of reform proposals. As regards the issue of professional liability reform raised by Mr LEUNG, SFST observed that the reform touched upon difficult issues affecting different sectors, and the Administration would continue to listen to the views of the relevant sectors on the matter.

31. Referring to the recent arrest of two Bitcoin dealers in the United States ("US") charged with money-laundering through Bitcoin exchange, Mr CHAN Kam-lam remarked that the Administration should be cautious about the development of market activities involving trading of paper gold, Bitcoin and other virtual currencies, which were currently unregulated in

Hong Kong, in view of their higher risks of association with financial crimes.

32. SFST said that Bitcoin was not a financial product or electronic money, and hence was not subject to the existing financial regulation in Hong Kong. Nevertheless, the Administration would continue to monitor the development to determine if it was necessary to take further measures, especially on the front of anti-money laundering. The Executive Director (Monetary Management), HKMA ("ED(MM)HKMA") supplemented that HKMA had issued a circular to all authorized institutions on 9 January 2014 reminding them of the risks of money-laundering and counter-terrorist financing associated with virtual commodities including Bitcoin, and requesting them to ensure an escalated level of vigilance and due diligence of customers who were operators of schemes related to virtual commodities. SFC had also issued a circular on 16 January 2014 to remind licensed corporations to take similar measures.

33. In response to Mr WONG Ting-kwong's enquiry about the Administration's strategy in dealing with the impact of reversal of capital flows and return of market turbulence on the local financial services market arising from the tapering of asset purchase by US, SFST said that, while the currencies of some emerging economies had depreciated after the US Federal Reserve's announcement of cutting back asset purchase, the effects of US's exit from quantitative easing would only be fully reflected over a longer period of time. Given the uncertainty of the external environment, the Administration would closely monitor the latest development, and act swiftly as and when necessary to maintain the financial stability of Hong Kong.

*Measures to address the recent appearance of $1,000 counterfeit notes*

34. In view of the recent appearance of $1,000 counterfeit banknotes and incidents of retailers refusing to accept $1,000 banknotes in their transactions with customers, the Chairman suggested that banks should ensure adequate supply of $500 banknotes via automatic teller machines ("ATMs") to minimize inconvenience caused to the public. ED(MM)HKMA said that HKMA and the Police had jointly organized in the recent period some 30 banknote security feature seminars for around 7 000 participants, mainly from the banking sector and major retail and catering chains. As observed, retailers had gained from the seminars a better understanding of how to identify counterfeit $1,000 banknotes and became more confident in accepting $1,000 banknotes from their customers. HKMA

had also uploaded a recording of banknote security feature seminar onto its website and Youtube. ED(MM)HKMA further said that HKMA had worked with banks to ensure that they had adequate manpower and banknotes of other denominations ($500 banknotes in particular) in place at ATMs to cater for the demand of the public. Some ATMs might continue to supply $1,000 banknotes as there was customer demand for high denomination notes at some locations.

*Budget of the Securities and Futures Commission*

35. Mr James TO said that he welcomed SFC's proposal to reduce its levy rate for transactions of securities and futures/options contracts by 10% with effect from 1 October 2014 tentatively. He stressed that SFC should continue to review the levy rate and consider further reduction in the levy for 2015-2016 if SFC's reserves continued to exceed twice its estimated operating expenses for a financial year in accordance with the requirement in section 396 of the Securities and Futures Ordinance (Cap. 571). In considering the matter, SFC should also take into account the actual market turnover and levy income in 2014-2015. Noting that SFC had planned to increase its headcounts and staff cost substantially in the proposed 2014-2015 budget, Mr TO said that he would study the proposal in detail. Mr TO also expressed concern whether SFC had any plans to acquire permanent office premises of its own in order to drive down the level of reserves, notwithstanding that SFC had entered into a five-year lease for its current offices in the Cheung Kong Centre for just more than a year. In view of the high office prices at present, Mr TO considered that it was not a suitable timing for SFC to pursue the proposal to purchase its own office premises.

36. SFST said that financial stability and autonomy were important for SFC to maintain an independent role as a regulator. At the same time, SFC was expected to exercise stringent control of its expenditure and ensure cost-effective use of resources, while maintaining sufficient reserves for longer-term planning. As regards SFC's acquisition of permanent office premises, SFST observed that this was a long-term plan of SFC.

*Tax information exchange arrangements*

37. Mr Kenneth LEUNG expressed concern about the slow progress in the Administration's negotiations with US and a few Nordic jurisdictions on TIEAs since commencement of the relevant discussions. SFST said that, after enactment of the Inland Revenue (Amendment) (No.2) Ordinance 2013

in July 2013 which enabled Hong Kong to enter into standalone TIEAs, the Administration had been actively discussing with its trading and investment partners which were not interested in signing comprehensive agreements for avoidance of double taxation for entering into TIEAs with Hong Kong. While the timeframe of rounding up the discussion with US was uncertain at this stage, good progress had been achieved in the relevant discussions with the Nordic jurisdictions towards the signing of TIEAs.

*Recurrent expenditures on initiatives relating to "Poverty Alleviation, Care for the Elderly and Support for the Disadvantaged" under the 2014 Policy Address*

38. Mr SIN Chung-kai expressed concern about the heavy commitment in government recurrent expenditures for implementing the various initiatives relating to "Poverty Alleviation, Care for the Elderly and Support for the Disadvantaged" features in the 2014 Policy Address (e.g. the proposed Low-income Working Family Allowance, increasing the value of elderly health care vouchers, extending the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities). He enquired whether the heavy commitment would divert resources from implementing measures to assist the middle class in the 2014-2015 Budget. He urged that the Government should strike a balance between poverty alleviation and supporting the middle class when considering budgetary measures, and suggested granting salaries tax concessions or rebates to reduce the financial burden on middle-income taxpayers, for instance, by increasing the basic allowance under the salaries tax which had not been adjusted for some years, and revising the tax bands to exclude more taxpayers at the lower end of the middle income group from the salaries tax net. Mr CHAN Kin-por expressed concern whether the pace of economic growth would catch up with the abrupt and substantial increase in the government recurrent expenditure on poverty alleviation in the years to come.

39. SFST said that the Administration had reviewed the tax rates and allowances each year and offered various tax concessions in the past Budgets as appropriate, including increasing dependent parent allowances and child allowances, and reducing salaries tax and tax under personal assessment. As in previous years, the Administration would take into account the views and suggestions from the public and LegCo Members when drawing up the 2014-2015 Budget.

40. Mr SIN Chung-kai requested the Administration to provide information on the estimated recurrent expenditure on the said initiatives relating to "Poverty Alleviation, Care for the Elderly and Support for the Disadvantaged". The Permanent Secretary for Financial Services and the Treasury (Treasury) advised that the Administration was still in the process of preparing the 2014-2015 Budget, which required inputs from the various bureaux/departments after their consideration of, amongst others, the timing and duration of implementing individual measures. The information requested by Mr SIN would be made available in the annual expenditure proposals to be released when the Financial Secretary delivered his Budget Speech in late February 2014.

41. Mr SIN Chung-kai and Mr James TO considered that the Administration should provide at least the rough financial estimates for the initiatives in question, say rounded to the nearest hundred million dollars, as the Policy Address had already been released for some time. At the request of Mr SIN and Mr TO, the Administration undertook to provide the relevant information before the motion debate on the 2014 Policy Address at the Council meeting of 12 February 2014.

> (*Post-meeting Note*: The Administration's written response was issued to members vide LC Paper No. CB(1)874/13-14(02) on 12 February 2014.)

## II Any other business

42. There being no other business, the meeting ended at 12:10 pm.

Council Business Division 1
Legislative Council Secretariat
13 May 2014