

**立法會**  
***Legislative Council***

LC Paper No. CB(1)1190/14-15  
(These minutes have been seen  
by the Administration)

Ref : CB1/PL/FA/1

**Panel on Financial Affairs**

**Minutes of meeting**  
**held on Monday, 1 June 2015 at 9:30 am**  
**in Conference Room 1 of the Legislative Council Complex**

- Members present :** Hon CHAN Kin-por, BBS, JP (Chairman)  
Hon Christopher CHEUNG Wah-fung, SBS, 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 Starry LEE Wai-king, JP  
Hon James TIEN Pei-chun, GBS, JP  
Hon NG Leung-sing, SBS, JP  
Hon Kenneth LEUNG  
Hon Dennis KWOK  
Hon SIN Chung-kai, SBS, JP
- Member attending :** Dr Hon LAM Tai-fai, SBS, JP
- Member absent :** Hon Mrs Regina IP LAU Suk-ye, GBS, JP

**Public officers attending** : Agenda item IV

Mr John TSANG, GBM, JP  
Financial Secretary

Mrs Helen CHAN, JP  
Government Economist

Mr Raymond WU  
Administrative Assistant to Financial Secretary

Agenda item V

Mr Andrew WONG  
Permanent Secretary for Financial Services and the  
Treasury (Financial Services)

Miss Salina YAN, JP  
Deputy Secretary for Financial Services and the  
Treasury (Financial Services) 1

Mr Eddie CHEUNG  
Deputy Secretary for Financial Services and the  
Treasury (Financial Services) 2

Agenda item VI

Miss Salina YAN, JP  
Deputy Secretary for Financial Services and the  
Treasury (Financial Services)1

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 CHIU Kwok-kit, JP  
Deputy Commissioner of Inland Revenue  
(Technical)

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

**Staff in attendance :** Mr Hugo CHIU  
Senior Council Secretary (1)4

Ms Sharon CHAN  
Legislative Assistant (1)4

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Action

**I. Confirmation of minutes of meeting and matters arising**

(LC Paper No. CB(1)844/14-15 — Minutes of the meeting on  
2 March 2015)

The minutes of the meeting held on 2 March 2015 were confirmed.

**II. Information papers issued since last meeting**

(LC Paper No. CB(1)821/14-15(01) — First quarterly report of 2015  
on "Employees  
Compensation Insurance —  
Reinsurance Coverage for  
Terrorism"

LC Paper No. CB(1)864/14-15(01) — First Quarter Economic  
Report 2015 and the press  
release

2. Members noted the information papers issued since the last regular meeting held on 4 May 2015.

**III. Date of next meeting and items for discussion**

(LC Paper No. CB(1)870/14-15(01) — List of outstanding items for  
discussion)

3. Members agreed to discuss the following items proposed by the Administration at the next regular meeting scheduled for 6 July 2015:

- (a) Bank of Communications (Hong Kong) Limited (Merger) Bill;
- (b) Consultation results and the way forward for Mandatory Provident Fund Core Fund;
- (c) Consultation results and way forward for the review of the adjustment mechanism for the Minimum and Maximum Levels of Relevant Income for Mandatory Provident Fund mandatory contributions;
- (d) Automatic exchange of financial account information in tax matters; and
- (e) Consultation conclusions of proposals to improve the regulatory regime for listed entity auditors.

4. Members further agreed that the meeting on 6 July 2015 would start at 9:00 am so as to allow sufficient time for discussion of the above five items.

#### **IV. Briefing by the Financial Secretary on Hong Kong's latest overall economic situation**

(LC Paper No. CB(1)864/14-15(01) — First Quarter Economic Report 2015 and the press release

LC Paper No. CB(1)870/14-15(02) — Administration's paper on "Hong Kong's Recent Economic Situation and Near-term Outlook")

#### Briefing by the Administration

5. 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)934/14-15(01) on 2 June 2015.)*

6. The Government Economist gave a powerpoint presentation on the latest developments in the Hong Kong economy, covering such areas as

external trade, domestic demand, the labour market, the local property market, inflation trends, as well as the economic outlook for the remaining of 2015.

*(Post-meeting note: The notes of the powerpoint presentation (LC Paper No. CB(1)931/14-15(01)) were issued to members vide Lotus Notes e-mail on 2 June 2015.)*

## Discussion

### *Macroeconomic conditions and the interest rate hikes in the United States*

7. Mr CHAN Kam-lam expressed concern that while the Hong Kong economy remained stable in recent months, the outlook was unclear as there were considerable uncertainties ahead. For instance, Hong Kong's Gross Domestic Product ("GDP") growth in the medium and long term would likely to be affected by the slow growth in the export sector, and the surge in local property prices which had exceeded the 1997 peak by 69% in March 2015 and the imminent interest rate hikes in the United States ("US") might result in significant correction in the property market. Mr CHAN enquired about how the Administration would counteract the various risks ahead, and what measures it would take to address the potential adverse impacts on the economy arising from political instabilities, such as rejection of the proposed constitutional reform for the Chief Executive Election in 2017 and the possible re-launch of the occupy movement, and filibustering in the Legislative Council ("LegCo") on funding proposals.

8. Dr LAM Tai-fai expressed concern about the lackluster performance of the Hong Kong economy. He called on the Administration to step up its efforts in developing the economy including formulating measures to tap opportunities brought by the rapid economic development in the Mainland, and tackling problems relating to people's livelihood.

9. FS responded that the Hong Kong's economic outlook was still overcast by considerable uncertainties. The sluggish external demand continued to weigh on Hong Kong's goods and services exports. Inbound tourism had concurrently weakened, which also impacted on retail sales business. As both the external and domestic sectors were expected to remain moderate, Government announced a range of one-off relief measures and new initiatives in the 2015-2016 Budget to alleviate imminent economic hardships of the community and promote sustainable economic development. Nevertheless, from a longer-term perspective, FS said that the Hong Kong economy had attained an average annual growth rate of 3.9% over the past decade, which was remarkable for a mature economy. The labour market remained in a state of full employment with the unemployment rate staying low

at 3.2% in recent period. Moreover, there was a total of 250 000 jobs created in the past four years. The Government had taken and would continue to take measures to consolidate the strengths of the existing pillar industries, develop new and promising industries, and explore new markets for Hong Kong's further economic development.

10. Responding to Mr SIN Chung-kai's enquiries about the impacts of the Greek debt problem and the prospective interest rate hikes in the US on the Hong Kong economy, FS advised that the default risk of Greece was on the rise and there were uncertainties as to whether Greece could reach new agreements with lenders and whether it might be forced to exit the European Union eventually. He added that the direct impacts of Greek debt problem on the Hong Kong economy might not be significant given the small exposure of Hong Kong's banks to Greece. However, the indirect impacts via financial market gyrations and their ensuing knock-on effects could be potential threats to the global economy. As regards the US interest rate hikes, FS said that the actual impacts on the Hong Kong economy would hinge on the timing and the pace of the eventual interest rate hikes, which were still uncertain at the moment. He said that the Government would continue to monitor the developments closely.

#### *Volatilities in the local stock market*

11. With increasing volatilities in the Hong Kong stock market with the launch of the Shanghai-Hong Kong Stock Connect ("SHK-SC") since late 2014 and the expected launch of the Shenzhen-Hong Kong Stock Connect ("SZHK-SC") in the near future, Mr Dennis KWOK enquired whether the Administration and the Securities and Futures Commission ("SFC") would consider enhancing regulation of the local stock market. He opined that SFC should strengthen its regulatory regime making reference to those of comparable markets including reviewing the need to introduce "circuit-breakers" during substantial price fluctuations in the market.

12. With continuous integration between the Hong Kong and the Mainland stock markets, Mr Christopher CHEUNG said that it would be inevitable that the Hong Kong market would become more volatile. He expressed concern about problem of market manipulation involving A-shares which might adversely affect investors' confidence in the Hong Kong market and the development of Hong Kong as an asset and wealth management centre. Moreover, he was concerned that SFC would encounter difficulties in undertaking investigations on misconduct committed by Mainland companies listed in Hong Kong given that the regulatory regimes of Hong Kong and the Mainland were different. He stressed the need for the relevant regulators of Hong Kong (including SFC) to step up co-operation with their Mainland

counterparts in information exchange and taking enforcement actions against non-compliances with a view to enhancing protection for investors.

13. FS shared members' observations of higher volatilities in the Hong Kong stock market recently. However, he pointed out that Hong Kong stock market was mature with a highly effective and transparent regulatory regime that met the international standards. He assured members that the Government and the relevant regulators would continue to ensure transparency, fairness and efficiency of the stock market, and would take enforcement actions against non-compliances as necessary. It was believed that the relevant regulators would review the regulatory regime in the light of operation of SHK-SC and SZHK-SC. As regards the suggestion of introducing "circuit-breakers" for the local stock market, FS said that the regulators had to consider the pros and cons of this kind of measure, including the possible impacts on market operations. On the co-operation with the Mainland regulators concerned, FS advised that SFC had been maintaining collaboration and discussion with the China Securities Regulatory Commission ("CSRC") on issues of mutual concern. SFC would work out the details with CSRC for the launch of SZHK-SC and mutual recognition of funds, as well as enhancements of SHK-SC. In fact, the smooth operation of SHK-SC was attributed to the effective liaison mechanism between Hong Kong and the Mainland. It was envisaged that such liaison work would further strengthen in future.

*Measures on the property market*

14. Given the persisting low interest rate environment and continuous inflow of funds and insufficient flat supply, Mr Albert HO expressed concern about effectiveness of the demand-side management measures and the Hong Kong Monetary Authority ("HKMA")'s countercyclical measures in cooling exuberance in the local property market. He enquired whether the Administration would consider introducing further measures on the property market, and sought information on the amount of buyer's stamp duty ("BSD") and special stamp duty ("SSD") collected so far.

15. Mr CHAN Kam-lam noted with concern the continuous rise in local property prices which were beyond the affordability of most households. As the demand-side management measures were gradually losing their effects, he called on the Administration to consider other measures to address the overheated property market. Mr CHAN enquired whether the Administration would consider tightening the regulation to tackle malpractice of some developers which deliberately put a small number of units in a property development project for sale with a view to impressing potential buyers that the project was over-subscribed. Mr WONG Kwok-hing also enquired

whether the Administration would consider launching new measures to address the overheated property market.

16. Dr LAM Tai-fai commented that the demand-side management measures only served to suppress demand without resolving the problem of inadequate flat supply at source. He urged that the Administration should step up its efforts in increasing land and housing supply and building more public rental housing and Home Ownership Scheme flats.

17. Noting that the estimated supply of flats in the coming few years would reach 78 000 units, Mr NG Leung-sing stressed the need for the Administration to highlight to the public the flat supply situation in the coming years and alert them of possible changes in property prices.

18. FS noted members' concerns about the elevated risks of the property market bubble. Increasing land and housing supply in the long run had been the top priority of the Government to ensure a stable and healthy development of the property market. With the anticipated increase in supply of flats in the coming years, it was envisaged that the tight demand-supply balance in the residential property market would ease in the future. Nonetheless, FS also pointed out that flat prices were influenced by a host of factors, and it would be inappropriate for the Government to set an "appropriate" level in this regard. The Government would continue to monitor the property market closely and introduce appropriate measures having regard to relevant factors, including the pace of increase in the US interest rates, the trend and movement in property prices, the demand and supply situations, affordability of home buyers and the extent of speculative activities. Moreover, the Government would stay vigilant to the developments in the global economy and the Hong Kong economy in considering whether and to what extent existing measures should be adjusted, and whether new measures should be introduced. HKMA would also launch countercyclical measures to safeguard resilience of the banking sector and maintain financial stability as appropriate. FS also reminded that it would be equally important for home buyers to take into account their affordability in making a decision on flat purchase, and stay vigilant to the potential impacts of external developments. As regards the effect of the demand-side management measures, FS said that most of the measures would not affect first-time home buyers, and the measures had been effective in curbing speculative activities as well as non-local demand. For instance, the proportion of property buyers who were non-local individuals or non-local companies declined from 4.5% before the introduction of BSD to 1.5% in the first quarter of 2015. Reflecting the effect of SSD, speculative activities also stayed subdued at around 1% in the first quarter of 2015. Regarding members' concern about developers' practices in selling residential properties, FS said



that the Government would keep an eye on the issue and take follow-up actions where necessary.

*Inbound tourism and retail sales*

19. Mr WONG Kwok-hing was concerned that the recent slowdown in inbound tourism and retail sales would have impacts on the labour market, and the possible launch of another round of occupy movement in near future might offset the benefits brought by the allocation of \$80 million to the Hong Kong Tourism Board for rebuilding the tourism industry as announced in the 2015-2016 Budget. He enquired how the Administration would tackle the issue.

20. Mr WONG Ting-kwong pointed out that the disturbances caused by some members of the public in the name of "shopping" in busy urban areas had dampened tourism and the retail sector. The situation might be aggravated by the recent reduction in the Mainland import duties on a number of consumer goods and the establishment of Free Trade Zones in the Mainland where goods were sold at prices competitive to Hong Kong. Mr WONG sought the Administration's views on the outlook of Hong Kong's retail sector and services industry.

21. FS said that the slowdown in retail sales was caused by a host of domestic and external factors. The external demand from tourists had weakened, and structural changes in inbound tourism were also taking place (like changes in visitors' shopping pattern with big-ticket items seeing notable declines). As regards the recent reduction in the Mainland import duties on consumer goods, it was envisaged that it would not have significant impact on Hong Kong's retail business because the measure only involved limited types of goods. Further, import duties were typically not a significant component of retail prices. Moreover, Mainland's liberalization measures could also benefit Hong Kong's trading sector in the long run. FS also pointed out that as long as Hong Kong could maintain competitive edges and quality in its services, it would continue to attract tourists worldwide.

22. Dr LAM Tai-fai was concerned that the replacement of the "multiple-entry" endorsement by the "one trip per week" endorsement for permanent residents of Shenzhen under the Individual Visit Scheme would have adverse impact on inbound tourism, the retail sector and local employment. He asked when the Administration would conduct a review on the measure.

23. FS responded that the new measure had been implemented for a short period only. The Government would continue to monitor the developments and consider the matter after some time.

#### *Forecast GDP growth*

24. Mr NG Leung-sing enquired about the wide range of 2% in the current forecast for GDP growth of 1-3% for 2015, and considered that the wide range could lead to very different economic situations.

25. FS responded that a spread of two percentage points in the current forecast for GDP growth reflected considerable uncertainties facing the small open economy like Hong Kong in the current external environment. The two percentage point spread had in fact been adopted in the GDP growth forecast in the recent years, in cognizance of the uneven and unsteady global economic recovery in the aftershocks of the 2008 global financial crisis. The GDP growth forecasts of other jurisdictions like Singapore also adopted a spread of two percentage points. FS said that the Government would closely monitor the economic situations and update the forecast in the next round of review by August 2015.

#### **V. Pilot programme to enhance talent training for the insurance sector and asset and wealth management sector**

(LC Paper No. CB(1)870/14-15(03) — Administration's paper on "Pilot programme to enhance talent training for the insurance sector and the asset and wealth management sector")

#### Briefing by the Administration

26. At the invitation of the Chairman, the Permanent Secretary for Financial Services and the Treasury (Financial Services) ("PS(FS)), the Deputy Secretary for Financial Services and the Treasury (Financial Services) 1 and the Deputy Secretary for Financial Services and the Treasury (Financial Services) 2 ("DS(FS)2") briefed members, with the aid of a powerpoint presentation, on the Administration's proposal to allocate \$100 million to implement a three-year pilot programme to enhance talent training for the insurance and the asset and wealth management sectors ("proposed pilot programme"). Members noted that the Administration planned to seek the funding approval of the Finance Committee ("FC") for the proposed pilot

programme in due course with a view to rolling out the programme in early 2016.

*(Post-meeting note: The notes of the powerpoint presentation (LC Paper No. CB(1)931/14-15(02)) were issued to members vide Lotus Notes e-mail on 2 June 2015.)*

27. The Chairman said that he was returned from the Insurance Functional Constituency and was a consultant of a reinsurance company.

### Discussion

#### *Rationale for the proposed pilot programme*

28. Mr Albert HO and Mr James TIEN commented that all industries in Hong Kong needed to attract new entrants and enhance the professionalism of their in-service practitioners. They enquired about the Administration's considerations in including the insurance and the asset and wealth management sectors rather than other industries or other sectors in the financial services industry under the proposed pilot programme. Mr HO asked if there was a mismatch in the demand and supply of manpower in the two sectors as it was observed that quite a number of university graduates were willing to take up the front line positions in the two sectors but few of them were interested in middle and back office positions. It was also observed that many university graduates encountered difficulties in seeking employment in the financial services industry and there was a view that the industry had the problems of unattractive starting salary and lack of promotion prospects. He queried the cost-effectiveness of the proposed pilot programme in achieving its target of enhancing talent training for the two sectors.

29. Mr CHAN Kam-lam shared the concerns about the unattractive starting salary and lack of promotion prospects. He stressed the need for the Administration to strengthen professional training for students in the relevant fields at the university level to better equip them with the skills required for working in the financial services industry.

30. PS(FS) said that according to the projection of the Labour and Welfare Bureau, the financial services industry was the fastest growing economic sector in terms of manpower requirements during the period from 2012 to 2022. Consultation with the industry revealed that there was broad consensus that manpower shortage was particularly acute in the insurance and the asset and wealth management sectors. Therefore, the Administration proposed to launch the proposed pilot programme to assist the two sectors to attract new entrants, enhance the professional competence of practitioners and, in particular, train up

more talent for middle and back office positions. PS(FS) agreed that in the long run, it would be the responsibilities of the two sectors to attract new entrants and enhance the professional competence of their in-service practitioners.

*Design of the pilot programme*

31. Mr Kenneth LEUNG expressed support for the proposed pilot programme in principle. He enquired about the reasons for spending an estimated \$25 million which was about half of the funding of \$46.3 million for the insurance sector on publicity and outreach works, as he considered that it should be the responsibility of the insurance sector to promote the sector in attracting new entrants. On the contrary, most of the funding of \$43.2 million for the asset and wealth management sector would be used for nurturing in-service practitioners through the financial incentive scheme for professional training. Mr WONG Kwok-hing indicated support for the proposed pilot programme on the grounds that it would promote employment in the two sectors. He concurred that the two sectors should take up responsibility to enhance their attractiveness to potential new entrants.

32. PS(FS) explained that the insurance sector had a perception problem in attracting talents due to a lack of understanding by the general public of insurance and the insurance industry. Therefore, the proposed public education programme aimed to promote the image of the insurance industry in general and enhance public awareness on the wide range of career opportunities available and the career prospects in the sector. On the other hand, feedback from the asset and wealth management sector indicated that there was a need to enhance the professional competency of industry practitioners and hence the proposal would allocate most of the funding for professional training.

33. Given that feedbacks from the insurance and asset and wealth management sectors had indicated the problem of low public awareness of the career opportunities and career prospects of middle and back office positions in the two sectors, Mr WONG Kwok-hing opined that it might be more cost effective to engage university freshmen to provide them with early exposure to opportunities offered by the two sectors. He added that financial institutions should be encouraged to provide internship programmes for university students so that students could gain a better understanding of and some practical experience in the operation of the two sectors. Mr Kenneth LEUNG further asked if the internship programmes for both sectors should include opportunities for students to work in financial institutions overseas in order to broaden the international perspective of undergraduates.

34. Mr NG Leung-sing expressed support for the proposed pilot programme. Noting that the research report on "Developing Hong Kong's Human Capital in Financial Services" issued by the Financial Services Development Council ("FSDC") in January 2015 had pointed to key skill deficiencies of the local personnel in the asset and wealth management sector, including language, presentation and communication skills, he enquired if the proposed financial incentive scheme for professional training for the asset and wealth management sector could cover courses targeted to address the above skill deficiencies. Mr NG further suggested that the Administration should consider extending the proposed pilot programme to other sectors to support the development of the Hong Kong economy.

35. The Chairman welcomed the proposed pilot programme to enhance talent training for the insurance and the asset and wealth management sectors as the two sectors were among the fastest growing sectors in the financial services industry of Hong Kong and strengthening the quality of practitioners in the industry would help reinforce the competitiveness of Hong Kong as an international financial centre. He also supported extending the proposed pilot programme to cover other sectors.

36. PS(FS) re-iterated that of the target audience of the proposed public education programmes included university students. The programmes aimed to enhance students' understanding of the range of career opportunities, the career paths and the skills required for different functional jobs, in particular middle and back office positions, in the two sectors. At the same time, the internship programmes offered university students an early exposure to the wide spectrum of career opportunities in the two sectors. Local financial institutions were supportive of the internship programmes and it was expected that the university students could join the internship programmes during the summer before their final year of study. As regards the proposed financial incentive scheme for professional training for the asset and wealth management sector, reference had been made to FSDC's recommendations in the research report on "Developing Hong Kong's Human Capital in Financial Services" when working out the training courses to be provided. The purpose was to enhance the competency and professionalism of the in-service practitioners.

37. Mr James TIEN doubted if the proposed maximum monthly honorarium of \$7,000 provided to university students participating in the internship programmes for the two sectors was adequate to attract students seeking summer internship. He asked whether the industry had been consulted on the proposed monthly honorarium.

38. PS(FS) advised that the proposed monthly honorarium was comparable to the present level of \$9,000 plus per month generally paid by the Government to a summer intern. Specifically for the insurance sector, the proposed pilot programme also included a work-and-learn programme for graduates under which a student-worker would attend classes at the Vocational Training Council ("VTC") and work at an insurance company for one day and four days a week respectively during a 16-month period. Participating insurers were required to pay each student-worker a monthly remuneration of \$10,000 and fully sponsor the student-workers' tuition fees. To enhance the attractiveness of the work-and-learn programme, the Government proposed to offer a training allowance of \$2,500 per month on top of the monthly remuneration paid by the employers. In response to Mr James TIEN's further enquiry about the expected number of intakes of the work-and-learn programme, PS(FS) advised that the target was to train 40 student-workers per year.

39. Mr SIN Chung-kai questioned the effectiveness of the proposed internship programmes for the two sectors as the durations, which ranged from four weeks to two months, were relatively short as compared with the usual duration of 10 weeks offered by comparable institutions in overseas jurisdictions. He opined that to allow university students to gain a better understanding of the operation of the financial services industry and to facilitate employers to assess the suitability of students for full time employment after graduation, a longer internship period should be provided.

40. PS(FS) replied that the Administration had consulted interested local financial institutions on the preferred duration of the programmes. It was proposed that the internship programme for the insurance sector would have a duration of two months whereas that for the asset and wealth management sector would have a duration of four weeks as some of the financial institutions of the asset and wealth management sector were smaller in scale and hence might not be feasible to provide a two-month internship programme. The Administration would further liaise with the potential participating financial institutions in the asset and wealth management sector to explore the possibility of extending the duration of the internship programmes.

41. Given that the work in the various sectors of the financial services industry were often inter-related and that practitioners would be expected to provide cross-sector services to their clients, Mr CHAN Kam-lam was of the view that the Administration should not restrict the eligibility of the proposed financial incentive scheme for professional training to practitioners or potential practitioners of the respective sectors only. He asked if secondary graduates would be eligible to apply for the courses under the proposed pilot programme.

42. PS(FS) advised that the proposed pilot programme aimed to train up more talent for middle and back offices of the two target sectors, in particular those functions that were technical and highly specialized. Hence, it would be necessary for participants to have certain professional knowledge and reach certain education level. For example, the target candidates of the work-and-learn programme offered by VTC were degree holders or Higher Diploma holders with more than one year working experience. That said, in-service practitioners, regardless of their education level, could enroll in professional training courses offered under the proposed pilot programme to enhance their competency and professional knowledge. In-service practitioners within the financial services industry could consider applying for subsidy provided under the financial incentive scheme for professional training in order to acquire the knowledge and skills required for entering into the asset and wealth management field.

43. Mr SIN Chung-kai noted that there was a lack of local professional qualification examinations for actuaries and asked if it was due to the lack of corresponding academic programmes offered by local tertiary institutions. DS(FS)2 advised that the University of Hong Kong, the Chinese University of Hong Kong, the Hong Kong Polytechnic University and the City University of Hong Kong offered programmes in actuarial studies. The subject was also available under the Mathematics programme provided by the Hong Kong University of Science and Technology. It was true that there was no local professional qualification examination for actuaries. Graduates of the aforementioned programmes would need to take the relevant professional qualification examinations administered by professional bodies in the United Kingdom, United States of America or Australia in order to obtain the relevant professional recognition as an actuary in Hong Kong.

### Conclusion

44. The Chairman said that members had no objection to the Administration's submission of the proposal to FC.

## **VI. Proposal to attract enterprises to establish corporate treasury centres in Hong Kong**

(LC Paper No. CB(1)870/14-15(04) — Administration's paper on "Proposal to attract enterprises to establish corporate treasury centres in Hong Kong"

### Briefing by the Administration

45. With the aid of a powerpoint presentation, the Deputy Secretary for Financial Services and the Treasury (Financial Services)1 ("DS(FS)1") briefed members on the proposal to attract enterprises to establish corporate treasury centres ("CTCs") in Hong Kong. Members noted that the Administration planned to introduce the relevant Bill into LegCo during the 2015-2016 legislative session.

*(Post-meeting note: The notes of the powerpoint presentation (LC Paper No. CB(1)931/14-15(03)) were issued to members vide Lotus Notes e-mail on 2 June 2015.)*

### Discussion

#### *Benefits and impacts of the proposal on Hong Kong*

46. Mr Christopher CHEUNG conveyed the industry's support for the proposal and considered that it could, in the light of the Central Government's initiatives on "One Road One Belt" and to establish the Asian Infrastructure Investment Bank, attract more Mainland enterprises to establish offices in Hong Kong. Mr NG Leung-sing supported the proposal and considered that it could strengthen Hong Kong's status as a premier offshore Renminbi ("RMB") centre. Sharing members' views above, Mr Jeffrey LAM also indicated support for the proposal. They enquired about the number of corporations that had established CTCs in Hong Kong and the anticipated benefits of the proposal for Hong Kong, including the number of enterprises expected to set up CTCs in Hong Kong and the impacts on the labour market.

47. DS(FS)1 responded that currently more than 7 500 multinational corporations had set up regional headquarters, regional offices, or local offices in Hong Kong, and among which around 100 to 200 were engaging in corporate treasury activities. There were a number of benefits associated with the proposal. Besides strengthening Hong Kong's position as the major platform for Mainland enterprises to "go global", the proposal would attract more multinational corporations and Mainland enterprises to set up regional headquarters in Hong Kong. The establishment of more CTCs (particularly those engaging in high value-added activities like risk management, lending and financing) in Hong Kong would generate demand for financial and professional services sectors, and contribute to the development of headquarters economy in Hong Kong.



48. Mr Christopher CHEUNG expressed concern that, with more CTCs attracted to Hong Kong, the shortage of Grade A offices might be aggravated. That might push up prices and rentals of commercial properties.

49. DS(FS)1 advised that, in order to increase the supply of commercial premises in Hong Kong, it was the initiative of the Government in the recent years to extend Hong Kong's commercial area to places beyond Central. A number of new commercial areas had been established in zones including Hong Kong East, Kowloon Bay and the Kai Tak Development Area.

50. Mr SIN Chung-kai was concerned that the proposal might depart from the existing policy in maintaining a simple taxation regime in Hong Kong. Noting the Administration's initiatives in recent years were to offer tax measures for certain areas of the financial services industry, Mr SIN enquired about the considerations in determining proposals on tax measures, and whether the Administration would consider providing tax measures to promote the establishment of other companies, such as research and development companies.

51. DS(FS)1 responded that it was the Government's policy to maintain a simple taxation regime in Hong Kong. She reiterated that the current proposal was to attract more enterprises to establish CTCs in Hong Kong, which in turn would help develop the headquarters economy in Hong Kong and drive the demand for financial and professional services sectors. There would be no restriction on the types of business to be engaged by multinational corporations which could set up CTCs in Hong Kong. The Government would make reference to similar measures introduced by comparable jurisdictions and the prevailing international practices in preparing the Bill. The Government would strike a balance between clarity and operational needs.

52. Responding to Mr NG Leung-sing's enquiry about Hong Kong's competitive edges in attracting corporations to set up CTCs, DS(FS)1 advised that, in comparison with other markets, Hong Kong's main strengths lied with the provision of relevant services and the pool of talent, and its low and simple tax regime. However, Hong Kong's profits tax regime was relatively not straight forward for CTC activities and operations. As reflected by some markets players and corporate treasurers, the interest deduction rules in the Inland Revenue Ordinance (Cap. 112) ("IRO") were relatively less favourable for multinational corporations to engage in the business of intra-group borrowing and lending of money carried on in Hong Kong. The purpose of the proposal was to address these issues.

*Government's initiatives in promoting corporate treasury activities and headquarters economy in Hong Kong*

53. Mr Jeffrey LAM sought details of the promotional activities engaged and planned by the Administration in attracting enterprises to establish CTCs in Hong Kong, and the results achieved so far.

54. Executive Director (Monetary Management), Hong Kong Monetary Authority advised that HKMA had been promoting Hong Kong as a regional hub for corporate treasury centres. Since the announcement of the proposal by FS in his 2015-2016 Budget, the Government and HKMA had conducted meetings and various promotional activities in the Mainland, Asia and Europe, as well as collected feedbacks from the industry on the proposal. Comments and responses had been positive so far. The Government and HKMA would continue to step up efforts in this regard.

55. The Chairman said that all along he was supportive of the development of the headquarters economy in Hong Kong, as it would be conducive to diversifying the economy and promoting employment especially for the young generation. Pointing out that Singapore had adopted a proactive approach in promoting relevant tax incentives and measures to enterprises, he urged that the Administration should step up its efforts in pressing ahead the development of the headquarters economy in Hong Kong taking into account the relevant practices of other jurisdictions including Singapore. DS(FS)1 took note of the Chairman's views and advised that InvestHK and other relevant agencies had been taking forward work in this regard.

*Implementation of the proposal*

56. Mr WONG Kwok-hing enquired about measures to address possible abuse of the proposal in preventing revenue losses. DS(FS)1 advised that the Bill would include provisions to ensure that only enterprises engaging in genuine corporate treasury activities could benefit from the proposal. The Bill would include specified definitions such as "qualifying corporate treasury services" and "qualifying corporate treasury transactions". Besides, a group company had to set up a standalone corporate entity in order to enjoy the proposed concessionary tax rate for qualifying CTCs. Deputy Commissioner of Inland Revenue (Technical) ("DCIR") supplemented that the standalone corporate entity to be established could enjoy the concessionary tax rate only if it carried on the business of the borrowing of money from and lending of money to associated corporations; and performed "qualifying corporate treasury services" or entered into "qualifying corporate treasury transactions". To enjoy the proposed deduction of interest expense, the non-Hong Kong associated corporation (from whom borrowing of money was made by the

corporation engaging in CTC business) had to be subject to tax of substantially the same nature of profits tax in a territory outside Hong Kong with the tax paid thereon at a rate not lower than the Hong Kong's profits tax rate. DCIR said that the Administration would review the proposed anti-avoidance measures in the light of operation of the proposed tax regime.

57. Mr Kenneth LEUNG stressed the need for the Administration to work out the details of the Bill with care to avoid further complicating the provisions in IRO. He enquired whether the proposed deduction of interest expense would be in conflict with the corresponding arrangements provided in the existing section 16 of IRO, whether both the borrowing and lending activities conducted by CTCs would be covered by the proposal, and sought details on the definition of the term "group company".

58. DCIR responded that it was envisaged that the relevant Bill would add a new section to IRO setting out details of the proposed deduction of interest expense by CTCs. It was envisaged that the provisions would not be in conflict with the existing arrangements in section 16 of IRO. He also confirmed that both the borrowing and lending activities conducted by CTCs would be covered by the proposal, and advised that the Government would further examine the appropriate scope for the term "group company".

### Conclusion

59. The Chairman concluded that members had no objection to the Administration introducing the relevant Bill into LegCo during the 2015-2016 legislative session.

## **VII. Any other business**

60. There being no other business, the meeting ended at 12:27 pm.