

**立法會**  
***Legislative Council***

LC Paper No. CB(1)277/15-16  
(These minutes have been seen  
by the Administration)

Ref : CB1/PL/FA/1

**Panel on Financial Affairs**

**Minutes of meeting**  
**held on Monday, 2 November 2015 at 10:45 am**  
**in Conference Room 1 of the Legislative Council Complex**

**Members present :** Hon NG Leung-sing, SBS, JP (Chairman)  
Hon Christopher CHEUNG Wah-fung, SBS, JP  
(Deputy Chairman)  
Hon Albert HO Chun-yan  
Hon LEE Cheuk-yan  
Hon James TO Kun-sun  
Hon CHAN Kam-lam, SBS, JP  
Hon Abraham SHEK Lai-him, GBS, JP  
Hon Jeffrey LAM Kin-fung, GBS, JP  
Hon Andrew LEUNG Kwan-yuen, GBS, JP  
Hon WONG Ting-kwong, SBS, JP  
Hon Starry LEE Wai-king, JP  
Hon CHAN Kin-por, BBS, JP  
Hon LEUNG Kwok-hung  
Hon James TIEN Pei-chun, GBS, JP  
Hon Charles Peter MOK, JP  
Hon Dennis KWOK  
Hon SIN Chung-kai, SBS, JP

**Members attending :** Dr Hon LAM Tai-fai, SBS, JP

**Members absent :** Hon Vincent FANG Kang, SBS, JP  
Hon Mrs Regina IP LAU Suk-ye, GBS, JP  
Hon Kenneth LEUNG

**Public officers attending** : Agenda Item IV

Mr Norman T. L. CHAN, GBS, JP  
Chief Executive  
Hong Kong Monetary Authority

Mr Peter PANG, JP  
Deputy Chief Executive (Development)  
Hong Kong Monetary Authority

Mr Eddie YUE, JP  
Deputy Chief Executive (Monetary)  
Hong Kong Monetary Authority

Mr Arthur YUEN, JP  
Deputy Chief Executive (Banking)  
Hong Kong Monetary Authority

Agenda Item V

Ms Ada CHAN  
Principal Assistant Secretary for Financial Services  
and the Treasury (Financial Services)<sup>2</sup>

Miss Renita AU  
Assistant Secretary for Financial Services and the  
Treasury (Financial Services)<sup>(2)2</sup>

Mr Daryl HO  
Head (Financial Stability Surveillance)  
Hong Kong Monetary Authority

Ms Polly LEE  
Senior Manager (Financial Stability Surveillance)<sup>4</sup>  
Hong Kong Monetary Authority

Mr Andy CHEUNG  
Senior Manager (Banking Policy)<sup>A3</sup>  
Hong Kong Monetary Authority

Ms Daphne DOO  
Senior Director (Supervision of Markets)  
Securities and Futures Commission

Ms Thrity MUKADAM  
Director (Supervision of Markets)  
Securities and Futures Commission

Ms Hwan Seng HEE  
Senior Manager (Supervision of Markets)  
Securities and Futures Commission

Ms Eunice CHENG  
Senior Manager (Supervision of Markets)  
Securities and Futures Commission

**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 meetings and matters arising**

(LC Paper No. CB(1)58/15-16 — Minutes of the meeting on  
15 October 2015)

The minutes of the meeting held on 15 October 2015 were confirmed.

**II Information papers issued since the meeting on 6 July 2015**

(LC Paper No. CB(1)1072/14-15 — Referral from the Public  
Complaints Office arising  
from the meeting between  
Duty Roster Members and  
the Hong Kong Unison  
Limited on 12 January 2015  
regarding the policy on the  
opening of bank accounts  
by the ethnic minorities  
(Chinese version only)

- LC Paper No. CB(1)1078/14-15(01) — Second quarterly report of 2015 on "Employees Compensation Insurance — Reinsurance Coverage for Terrorism"
- LC Paper No. CB(1)1183/14-15(01) Administration's paper on "Review of Doubled Ad Valorem Stamp Duty"
- LC Paper No. CB(1)1185/14-15(01) — Half-yearly Economic Report 2015 and the press release
- LC Paper No. CB(1)1188/14-15 — Quarterly Report of the Securities and Futures Commission (April to June 2015)
- LC Paper No. CB(1)1205/14-15(01) — Letter dated 17 July 2015 from Hon WONG Kwok-hing on issues relating to an automatic adjustment mechanism for the Minimum and Maximum Levels of Relevant Income for MPF mandatory contributions (Chinese version only), and the Administration's written response
- LC Paper No. CB(4)1313/14-15(02) Third Annual Report on the implementation of Law Reform Commission's recommendations

- LC Paper No. CB(1)1284/14-15(01) — Administration's paper on consultation conclusions on a risk-based capital framework for the insurance industry of Hong Kong
- LC Paper No. CB(1)1300/14-15(01) — Administration's letter on Mandatory Provident Fund Schemes (Amendment) Ordinance 2015 (Commencement) (No.2) Notice 2015
- LC Paper No. CB(1)1313/14-15(01) — Third quarterly report of 2015 on "Employees Compensation Insurance — Reinsurance Coverage for Terrorism")

2. Members noted the information papers issued since the regular meeting held on 6 July 2015.

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

(LC Paper No. CB(1)57/15-16(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 7 December 2015:

- (a) Briefing by the Financial Secretary ("FS") on Hong Kong's latest overall economic situation;
- (b) 2016-2017 Budget consultation.

4. Members further agreed that the next regular meeting on 7 December 2015 would start at 10:30 am to allow sufficient time for discussion of the above two items.

*(Post-meeting note:* Upon request of the Administration, the item of "Funding proposal relating to the establishment of an independent

Insurance Authority" was added on the agenda, and the meeting was advanced to start at 9:45 am. Members were informed of the arrangements vide LC Paper No. CB(1)121/15-16 issued on 5 November 2015.)

5. The Chairman remarked that Mr SIN Chung-kai had written to him suggesting the Panel to discuss the items of "Regulation of financial intermediaries" and "Refund arrangement of the Air Passenger Departure Tax", and Mr Christopher CHEUNG had written to him suggesting the Panel to discuss the item of "Study on introducing a sales platform for retail mutual funds". The Chairman said that he would discuss with the Administration at the work plan meeting of the 2015-2016 session scheduled for 6 November 2015 on how such items should be handled.

*(Post-meeting note: The discussion items of "Regulation of financial intermediaries" and "Study on introducing a sales platform for retail mutual funds" were incorporated into the Panel's "List of outstanding items for discussion" after the work plan meeting. As for the discussion item of "Refund arrangement of the Air Passenger Departure Tax", the Administration agreed to take up the discussion with the Panel on Economic Development ("EDEV Panel"). The item was placed in EDEV Panel's list of outstanding items for discussion.)*

#### **IV Briefing on the work of Hong Kong Monetary Authority**

(LC Paper No. CB(1)57/15-16(02) — Paper provided by the Hong Kong Monetary Authority)

##### Briefing by the Administration

6. At the invitation of the Chairman, the Chief Executive, Hong Kong Monetary Authority ("CE/HKMA"), the Deputy Chief Executive (Development)/HKMA ("DCE(D)/HKMA"), the Deputy Chief Executive (Banking)/HKMA ("DCE(B)/HKMA") and the Deputy Chief Executive (Monetary)/HKMA ("DCE(M)/HKMA") updated members on the work of the Hong Kong Monetary Authority ("HKMA") through a powerpoint presentation. Topics included assessment of risks to Hong Kong's financial stability, banking supervision, development of the financial market and Hong Kong as an offshore Renminbi ("RMB") centre, and investment performance of the Exchange Fund ("EF").

(*Post-meeting note:* The powerpoint presentation materials (LC Paper No. CB(1)126/15-16(01)) were issued to Members vide Lotus Notes e-mail on 5 November 2015.)

## Discussion

### *Macroeconomic environment and impacts of the interest rate hikes in the United States on Hong Kong*

7. Mr CHAN Kam-lam noted that under the linked exchange rate system, the interest rates of Hong Kong dollar would eventually adjust in tandem with those of the United States ("US") dollar. However, the unclear timetable of the normalization of the US interest rates had created great uncertainties to capital flow movement and business environment of Hong Kong. He enquired if there would be abrupt capital outflow from Hong Kong with the onset of the US interest rate hikes, and about measures HKMA would take to counteract the possible adverse impacts on the local economy.

8. Given the great uncertainties in the global economic outlook, Mr Andrew LEUNG was concerned whether the imminent US interest rate hikes and the potential increase in housing supply would lead to the problem of negative equities, and what measures HKMA would take to tackle such risks.

9. Mr LEE Cheuk-yan asked whether HKMA had assessed the impacts of various extents of increase in the US interest rates (i.e. a slight, moderate and a dramatic increase in the interest rates) on the global economy, the local property market and financial sector.

10. As the interest rates of Hong Kong dollar would eventually rise with increase in the US interest rates while there was possibility that the interest rates of RMB would continue to fall, Mr LEUNG Kwok-hung sought HKMA's assessment of whether the different interest rate movements would lead to speculative activities in the currency market.

11. CE/HKMA noted members' observation about volatilities in the global financial and monetary environment and shared some of the concerns. He said that HKMA had implemented seven rounds of countercyclical macroprudential measures on property mortgage loans with a view to reducing systemic risks to the banking system arising from the overheated property market and mitigating possible negative impact arising from the imminent US interest rate hikes. Regarding the impacts of US interest rate hikes on the local credit market, CE/HKMA remarked that local lending rates were affected by a host of factors

including the demand and supply of credits. It was anticipated that the pace of the US interest rate increase would be moderate and the some US\$130 billion capital inflow into Hong Kong dollar in recent years could provide buffer for capital outflow, thus avoiding abrupt and drastic increase in the local interest rates.

12. As regards impacts on the local property market, CE/HKMA said that the property market was affected by a host of factors, and movement in the interest rates was only one of the factors. It would be difficult to forecast development in the property market with the onset of increase in the US interest rates. Even though there was no change in the interest rates, it was noticed that the local property market had been facing downward pressure recently. On the concern about recurrence of the problem of negative equities, CE/HKMA pointed out that as compared to the 1990s when 90% mortgages had been common in the market, the existing loan-to-value ratio was only around 50% to 60%. Hence, the risk of a surge in the number of negative equities was relatively lower. As for the different interest rate movements of RMB and US dollar, CE/HKMA remarked that there was no control on the capital flow into or out of Hong Kong and HKMA would not interfere with normal market activities.

13. Mr Christopher CHEUNG noted that the local property market was facing downward pressure. He sought HKMA's views on whether the demand-management measures introduced by the Government since November 2010 (i.e. the Special Stamp Duty, Buyer's Stamp Duty and doubling of the ad valorem stamp duty rates) to cool down the overheated property market should be adjusted, and if so, the considerations.

14. CE/HKMA responded that he was not in a position to comment on the demand-management measures as the matter was outside the purview of HKMA. As regards the seven rounds of countercyclical macroprudential measures implemented by HKMA on property mortgage loans, HKMA would consider relaxing the measures in phases only when it was certain that the property market had entered a downward cycle. In making such decisions, HKMA would consider a host of factors, including transaction volumes and prices in the property market and prevailing global and local economic situations, in a holistic manner.

15. Mr Andrew LEUNG enquired whether HKMA had assessed the efficacy of the small and medium enterprise ("SME") financing scheme administered by Hong Kong Mortgage Corporation Limited ("HKMC") which



aimed to help SMEs to cope with the economic uncertainties, and considered extending coverage of the scheme and reducing its premiums.

16. CE/HKMA responded that HKMC had introduced the SME financing guarantee scheme and, with the Government's support, time-limited special concessionary measures under the scheme to help the business sector. In general, the special concessionary measures under the SME financing guarantee scheme were welcomed by SMEs as there were substantial government subsidies on the premiums. Whether the subsidised measures under the SME financing guarantee scheme should be extended would be subject to FS's decision and he would convey members' views on this regard to FS.

*Regulation and development of the banking industry*

17. While noting the Administration's efforts in promoting the use of information technology ("IT") in the financial industry, Mr Charles Peter MOK expressed concern that the development and application of IT in the financial sector lagged behind other financial centres. He enquired about HKMA's new initiatives in this area. Referring to the concern raised by some fintech companies, which were local start-up companies, that the regulatory regime for stored value facilities and retail payment systems introduced by the Clearing and Settlement Systems (Amendment) Bill 2015 ("the Bill") might hindered their development in Hong Kong, Mr MOK urged HKMA to strengthen its communication and consultation with the IT sector and invest more resources in promoting IT development for the financial sector.

18. While agreeing that the adoption of advanced and innovative technologies was vital to the development of Hong Kong as an international financial centre, CE/HKMA remarked that as far as stored value facilities were concerned, the priority of HKMA as a regulator of the banking industry was to protect users' float. As regards the designation regime for retail payment systems, it would only apply to systemically important retail payment systems. Hence, the operators of small and medium-sized systems were unlikely to be subject to the regulatory regime under the Bill. CE/HKMA said that HKMA would continue to engage the IT sector and the banking industry in formulating measures to promote financial infrastructure development in Hong Kong.

19. Ms Starry LEE pointed out that recent incidents of telephone scam and leakage of personal data by certain near field communication credit cards had called for the need of HKMA to enhance regulation of virtual banking activities. She enquired about the measures HKMA would take in this respect.

DCE(B)/HKMA responded that HKMA had issued a set of updated guideline to banks in September 2015 on the provision of electronic banking services.

20. Mr Dennis KWOK expressed concern about the regulation of leverage activities in the securities market of the Mainland as revealed by the sharp correction in the Mainland stock market in recent months. He sought HKMA's views on whether implementation of the proposed Shenzhen-Hong Kong Stock Connect ("SZ-HK SC") should be postponed until there was enhancement in the Mainland's regulatory regime.

21. CE/HKMA responded that there was no apparent relationship between the launch of Shanghai-Hong Kong Stock Connect ("SH-HK SC") in November 2014 and the sharp correction in the Mainland stock market in June 2015. In Hong Kong, no abnormality in margin loans for equities was noticed. He added that the margin loan activities of local banks were subject to stringent regulation by HKMA and banks had been conducting such business prudently. He believed that latest market developments would be taken into account when launching SZ-HK SC.

22. Mr CHAN Kin-por remarked that the banking industry was facing problems of rising compliance costs, shrinkage in credit growth and RMB business. He enquired how HKMA would assist the banking industry to develop business, and sought information on banks' interest income and non-interest income in recent years.

23. Mr WONG Ting-kwong enquired about initiatives to be pursued for Hong Kong's financial services industry in complementing the National 13<sup>th</sup> Five-Year Plan, particularly those for strengthening Hong Kong's position as a premier offshore RMB centre.

24. CE/HKMA said that due to Hong Kong's proximity to the Mainland and interface with the world, Hong Kong had competitive advantages in developing into a premier offshore RMB centre. There had been steady progress in the development of RMB lending business and asset management services by banks. In this regard, the Government and HKMA would continue to collaborate with the local banking industry and the relevant Mainland authorities in launching new measures and developing new products and services where appropriate. Apart from implementation of SH-HK SC and mutual recognition of funds arrangement, more linkages with the Mainland markets, such as SZ-HK SC, were anticipated to roll out in due course. It was envisaged that there would be good prospect for Hong Kong's role as a financial intermediary for the Mainland and the world. Regarding the National

13<sup>th</sup> Five-Year Plan, CE/HKMA remarked that there might be measures on deepening the financial cooperation between Hong Kong and the Mainland. Hong Kong could also ride on the business opportunities arising from the Mainland's initiative of "One Belt One Road". He added that Hong Kong could act as an important financial intermediary of the Mainland given its strengths in financing and investment activities in both RMB and US dollar. On the income profile of the banking industry, DCE(B)/HKMA advised that while both non-interest income and interest income were on the rise, the former had registered a faster growth. Profit in the banking sector continued to increase although its growth had slowed recently.

*Investor and consumer protection in banking services*

25. Ms Starry LEE expressed concern about the difficulties encountered by some members of the public, such as the ethnic minorities, in opening bank accounts under the existing anti-money laundering and counter-terrorist financing regime. There were also complaints about banks charging inappropriate fees on accounts of non-profit making organizations. She sought information on the number of relevant complaints handled by HKMA in the past six months, and the relevant guidelines issued to banks on the opening of bank accounts.

26. DCE(B)/HKMA advised that HKMA had received some complaints relating to banks refusing clients in opening of accounts, but the total number of such cases was small so far. In tackling the issue, HKMA had liaised with the relevant parties, including organizations assisting the ethnic minorities. It was noticed that the majority of the cases involved misunderstanding by members of the public on the requirements for banks in opening bank accounts for customers, which had been tightened internationally in recent years. HKMA had requested banks to provide the relevant information to customers and clearly explain to them the relevant requirements.

27. While expressing support in principle for HKMA to study with banks the feasibility of providing virtual tellers and mobile banking vehicles in the less accessible areas, Ms Starry LEE was concerned that this proposal might reduce banks' incentives in providing branches in remote areas. She said that HKMA should undertake that the proposal would not adversely affect the provision of necessary banking services in remote areas.

28. CE/HKMA took note of Ms Starry LEE's view. He clarified that the aim of the provision of virtual tellers and mobile banking vehicles was not to replace banks' branches in the less accessible areas but to provide customers in such areas with more efficient basic banking services. CE/HKMA said that

HKMA's principle was that banks should ensure access to basic banking services in remote areas.

29. Mr Dennis KWOK said that he was helping a number of investors suffering losses from the purchase of RMB derivative products. He stressed the importance for investors to be informed of the risks involved in RMB derivative products, and enquired whether HKMA would consider tightening regulation over banks in selling such products, and enhancing investor education in this area.

30. DCE(B)/HKMA responded that banks had been subject to a number of regulatory requirements in selling RMB derivative products since several years ago. For example, banks could not sell accumulators to retail customers. Besides, banks were required to disclose the risks of such products to investors clearly in the sales process. HKMA had also issued materials to enhance public understanding on the risks of RMB derivative products. He added that Mr Dennis KWOK might refer relevant complaints to HKMA for follow-up.

#### *Performance of the Exchange Fund*

31. Mr James TIEN noted with concern the substantial loss of \$36.8 billion and \$63.8 billion in the investment of EF in the first three quarters of 2015 and the third quarter of 2015 respectively. He enquired if HKMA would consider adjusting EF's investment strategy to improve the performance against continuous uncertainties in the global economic environment and volatilities in the international financial markets. Mr CHAN Kam-lam, Mr LEE Cheuk-yan, Mr Albert HO and Mr SIN Chung-kai shared similar concern. Mr CHAN sought HKMA's assessment of EF's performance in the fourth quarter of 2015 and Mr LEE enquired about the impacts of the imminent US interest rate hikes on the performance of EF. Mr HO asked whether HKMA would consider using hedging to reduce EF's investment loss in equities.

32. CE/HKMA responded that EF investment mainly involved bonds supplemented by equities. Under a normal market environment, investment in bonds could provide a stable interest income, and hence serve as a cushion against volatilities in equities. However, the current extremely low interest rate environment meant less interest income from bond investment. Coupled with the turbulence in the major equity markets in the third quarter, the investment performance of EF was inevitably adversely affected. As a result, both the investment returns from bonds and equities were unsatisfactory in the first three quarters of 2015. While the financial market sentiment had improved somewhat in October 2015, the global financial outlook remained uncertain.

CE/HKMA explained that hedging in equities was in essence equivalent to reducing the amount of equities held by EF. While this strategy could mitigate investment loss, it would also forgo upside gain when market rebounded. He said that while HKMA would review EF's investment strategy and asset allocation and make adjustment where appropriate, it should be noted that the investment strategy adopted for EF was to achieve a stable and reasonable return in the medium to long term instead of aiming for gains using short-term speculation.

33. Referring to slide 34 of the powerpoint, Mr SIN Chung-kai sought details of the item "Interest and other expenses". He also enquired about the impacts on the fee payment made to the fiscal reserves placed with EF if the investment of EF registered a substantial loss in 2015.

34. DCE(M)/HKMA explained that the item "Interest and other expenses" mainly referred to interest payable on EF Bills and Notes. He added that under the current arrangement with the Government, the fee on fiscal reserves placed with EF was calculated based on the moving average of the annual rate of return of EF's Investment Portfolio over the past six years with a view to ensuring a stable investment return for the fiscal reserves. The investment loss in 2015 would have no impact on the fee payment to the fiscal reserves in 2015. As for the fixed rate of fee payable to the fiscal reserves placed with EF in 2016, which would be announced in the 2016-2017 Budget, the average annual rate of return of EF's Investment Portfolio from 2010 to 2015 would be used.

35. Mr Albert HO, Mr SIN Chung-kai and Mr LEUNG Kwok-hung enquired if the investment loss of EF in 2015 would be taken into account in determining the remuneration of senior staff members of HKMA.

36. CE/HKMA advised that the remuneration of HKMA's staff consisted of fixed pay and variable pay. The Governance Sub-Committee ("GSC") of the Exchange Fund Advisory Committee ("EFAC") conducted review on the level of remuneration of HKMA's senior management staff on an annual basis. GSC would assess HKMA's performance in respect of the five core functions of HKMA and formulate recommendations to FS through EFAC. Management of EF was one of the core functions of HKMA, and hence would be examined by GSC. GSC did not apply a simple formula in working out its recommendation on the remuneration of HKMA's senior management staff.

37. Mr LEUNG Kwok-hung noted with concern that the GSC did not have any lay member, and suggested that a lay member and/or a Legislative Council Member should be appointed to GSC. CE/HKMA said that he would reflect Mr LEUNG's views to FS.

## **V Proposed implementation of the next phase of the over-the-counter derivatives regulatory regime in Hong Kong**

(LC Paper No. CB(1)57/15-16(03) — Administration's paper on "Phase 1 Clearing and Phase 2 Reporting under the Over-the-counter Derivatives Regulatory Regime in Hong Kong"

LC Paper No. CB(1)57/15-16(04) — Background brief on the over-the-counter derivatives regulatory regime in Hong Kong prepared by the Legislative Council Secretariat)

### Briefing by the Administration

38. At the invitation of the Chairman and with the aid of a powerpoint presentation, the Principal Assistant Secretary for Financial Services and the Treasury (Finance Services)<sup>2</sup> briefed members on the next phase of implementation of the over-the-counter ("OTC") derivatives regulatory regime in Hong Kong, which included the introduction of the mandatory clearing obligation ("phase 1 clearing") and expansion of the existing mandatory reporting obligation ("phase 2 reporting"). She said that the proposed scope of phase 1 clearing would include plain vanilla interest rate swaps denominated in the G4 currencies (i.e. USD, EUR, GBP and JPY) and HKD, and cover only dealer-to-dealer transactions which met the stipulated clearing thresholds. As for phase 2 reporting, it was proposed to expand the product scope to all OTC derivative products and expand the scope of information to be reported. The Administration's target was to submit the relevant subsidiary legislation to the Legislative Council ("LegCo") for negative vetting in the first quarter of 2016.

*(Post-meeting note: The powerpoint presentation materials (LC Paper No. CB(1)126/14-15(02)) were issued to Members by a Lotus Notes e-mail on 5 November 2015.)*

### Discussion

*Scope of the first phase of mandatory clearing*

39. The Chairman noted that authorized institutions ("AIs"), approved money brokers ("AMBs") and licensed corporations ("LCs") or the overseas equivalents of AIs and LCs would be covered under phase 1 clearing if they had outstanding transactions exceeding the proposed thresholds. Given that these entities might have different scales of operation, he was concerned whether the proposed regulatory regime would be unfair to smaller market players as they would be subject to the same requirements of larger players in the market. He considered that the Administration should strike a balance between enhancing regulation of the OTC derivatives market and avoiding imposing high compliance costs on market players. He said that the Administration should examine the cost impact of the proposed requirements on different market participants (e.g. participants with different transaction volumes, profit margins, and investment capital) and take into account the findings in developing the requirements under the regulatory regime for the Hong Kong OTC derivatives market.

40. Senior Director (Supervision of Markets), Securities and Futures Commission ("SD/SFC") responded that mandatory clearing under the OTC derivatives regulatory regime would be implemented in phases. In phase 1 clearing, only transactions between major dealers would be covered. It was expected that major dealers with a presence in Hong Kong were likely to be AIs, AMBs and LCs. Therefore, transactions subject to mandatory clearing would be identified based on two criteria: (a) the parties to a transaction must be an AI, AMB, LC or the overseas equivalent of an AI or LC, and at least one party must be an AI, AMB or LC; and (b) both parties to the transaction must have outstanding OTC derivative positions that exceeded the stipulated clearing thresholds. The proposed clearing thresholds were set at high levels so that only major dealers, including the 16 largest global dealers and dealers which were systemically important in the local context, would be captured. Implementation of phase 1 clearing would help prevent regulatory arbitrage by the major global dealers.

*Implementation timetable and review*

41. The Chairman enquired about the timetable for implementing and reviewing the clearing proposals covered in the next phase of the OTC regulatory regime. SD/SFC responded that the Securities and Futures

Commission ("SFC") and the Hong Kong Monetary Authority ("HKMA") aimed to issue the conclusions on the joint public consultation on the proposals in early 2016, and finalize the relevant subsidiary legislation for tabling before LegCo in the first quarter of 2016. It was expected that phase 1 clearing would be implemented in mid 2016. SFC and HKMA would conduct a review on the new requirements in late 2016 or early 2017 the earliest, including the need to adjust the clearing thresholds downward for bringing more market participants under the mandatory clearing regime. Factors including the prevailing market situation, market responses to phase 1 clearing, and views received during the relevant consultation would be taken into account in the review.

### Conclusion

42. The Chairman concluded that Panel members did not object to the Administration's proposals for implementing the next phase of the OTC derivatives regulatory regime in Hong Kong.

## **VI Any other business**

43. There being no other business, the meeting ended at 12:45 pm.

Council Business Division 1  
Legislative Council Secretariat  
9 December 2015