

**立法會**  
***Legislative Council***

LC Paper No. CB(1)1142/15-16

(These minutes have been seen  
by the Administration)

Ref : CB1/PL/FA/1

**Panel on Financial Affairs**

**Minutes of meeting  
held on Monday, 23 May 2016 at 10:45 am  
in Conference Room 2 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 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 Mrs Regina IP LAU Suk-yee, GBS, JP  
Hon LEUNG Kwok-hung  
Hon James TIEN Pei-chun, GBS, JP  
Hon Charles Peter MOK, JP  
Hon Kenneth LEUNG  
Hon Dennis KWOK  
Hon SIN Chung-kai, SBS, JP

**Members attending :** Hon Emily LAU Wai-hing, JP  
Dr Hon LAM Tai-fai, SBS, JP  
Hon WU Chi-wai, MH  
Hon TANG Ka-piu, JP

**Members absent** : Hon Abraham SHEK Lai-him, GBS, JP  
Hon Vincent FANG Kang, SBS, JP

**Public officers attending** : Agenda Item IV

Mr Norman CHAN, GBS, JP  
Chief Executive  
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

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

Mr Darryl CHAN, JP  
Executive Director  
Hong Kong Monetary Authority

Agenda Item V

Mr AU Ka Shing, Billy  
Principal Assistant Secretary for Financial Services  
and the Treasury (Financial Services)<sup>4</sup>

Mr Paul F WINKELMANN  
Chief Executive Officer  
Financial Reporting Council

Ms LAM Wing Chi, Wincey  
Deputy Chief Executive Officer  
Financial Reporting Council

**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

Action

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**I Confirmation of minutes of meetings and matters arising**

(LC Paper No. CB(1)803/15-16 — Minutes of the meeting  
on 15 February 2016

LC Paper No. CB(1)919/15-16 — Minutes of the meeting  
on 22 March 2016)

The minutes of the meetings held on 15 February and 22 March 2016 were confirmed.

**II Information papers issued since the meeting on 11 April 2016**

(LC Paper No. CB(1)783/15-16(01) — Process Review Panel for  
the Financial Reporting  
Council 2015 Annual  
Report

LC Paper No. CB(1)790/15-16(01) — First quarterly report of  
2016 on "Employees  
Compensation Insurance—  
Reinsurance Coverage for  
Terrorism"

LC Paper No. CB(1)864/15-16(01) — Hong Kong Monetary  
Authority Annual Report  
2015

LC Paper No. CB(1)921/15-16(01) — First Quarter Economic Report 2016 and the press release)

2. Members noted the information papers issued since the regular meeting held on 11 April 2016.

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

(LC Paper No. CB(1)918/15-16(01) — List of outstanding items for discussion)

#### Regular meeting in June 2016

3. Members agreed to discuss the following items proposed by the Administration at the next regular meeting scheduled for 6 June 2016 at 10:45 am:

- (a) Briefing by the Financial Secretary on Hong Kong's latest overall economic situation; and
- (b) Independent Insurance Authority budget for the financial year 2016-2017.

4. Members also agreed to include in the agenda Mr Kenneth LEUNG's proposal for briefing the Panel on his proposed Members' Bill to amend the Professional Accountants Ordinance (Cap. 50) which aimed to tighten up the usage of the term "Certified Public Accountant".

#### Meeting arrangements for June and July 2016

5. Noting that the Legislative Council and the Finance Committee ("FC") had to deal with a substantial number of outstanding items before prorogation of the Council on 16 July 2016 and the Administration's advice that it did not have any proposed items for discussion by the Panel within this legislative session, members agreed that the regular meeting scheduled for 4 July 2016 would be cancelled so as to release meeting time for holding additional Council meetings and FC meetings when necessary. Members further agreed that the duration of the regular meeting on 6 June 2016 would be extended to over two hours in order to allow sufficient time for discussing items which members might wish to raise. In the event that the regular meeting on 6 June was

unable to deal with all items to be proposed by members, the Panel would consider scheduling a special meeting in June 2016.

*(Post-meeting note:* Members were informed of the meeting arrangements for June and July 2016 vide LC Paper No. CB(1)956/15-16 on 24 May 2016. Hon LEE Cheuk-yan suggested in his letter dated 30 May 2016 that the Panel should discuss the issue of environmental, social and governance disclosure requirements of listed companies at the Panel meeting on 6 June 2016. With the concurrence of the Chairman, Mr LEE's suggested item was included in the agenda of the meeting. Members were informed of the arrangement vide LC Paper No. CB(1)994/15-16 on 1 June 2016. )

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

(LC Paper No. CB(1)918/15-16(02) — Paper provided by the Hong Kong Monetary Authority

LC Paper No. CB(1)852/15-16(01) — Letter dated 22 April 2016 from Hon James TO on security of bank accounts in Hong Kong (Chinese version only)

#### Briefing by the Administration

6. At the invitation of the Chairman, the Chief Executive, Hong Kong Monetary Authority ("CE/HKMA"), the Deputy Chief Executive (Banking)/HKMA ("DCE(B)/HKMA"), the Deputy Chief Executive (Monetary)/HKMA and Senior Executive Director (Development)/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, financial infrastructure, development of the financial market, and investment performance of the Exchange Fund ("EF").

*(Post-meeting note:* The powerpoint presentation materials (LC Paper No. CB(1)958/15-16(01)) were issued to Members vide Lotus Notes e-mail on 25 May 2016.)

## Discussion

### *Macroeconomic environment and development of the Hong Kong economy and the Mainland economy*

7. Ms Emily LAU, Ms Starry LEE and Mr Christopher CHEUNG expressed concern about the lackluster performance in the economy of Hong Kong and the economy of the Mainland, including the possible occurrence of an "L-shaped economy" in the Mainland economy and the impact of a slow down Mainland economy on Hong Kong. They sought HKMA's assessment of Hong Kong's economic outlook.

8. Mrs Regina IP observed that a number of companies and state-owned enterprises in the Mainland had defaulted on their loans recently. She sought HKMA's assessment of the impacts on the Mainland credit market, the outlook of RMB and the Hong Kong economy. She also enquired about the Mainland's policy on the default of state-owned enterprises.

9. CE/HKMA responded that HKMA had taken measures to mitigate excessive borrowing (including property mortgages) in Hong Kong by enterprises and individuals during the upward economic cycle, which should help strengthen their ability to cope with challenges in the economic downturn. On the Mainland's economy, CE/HKMA said that the annual gross domestic product growth of the Mainland remained at around 6.5%-7%, which was not a low level, even though it was undergoing an economic restructuring. While there was downward pressure on the manufacturing sector, the growth momentum in the services sector continued, and Hong Kong could tap opportunities arising from such growth momentum.

10. As regards default on loans by some Mainland enterprises, CE/HKMA advised that as opposed to past incidents where the Mainland authorities tried to avoid default by Mainland enterprises as far as possible, the recent events of default was not necessarily a bad thing as this would better reflect the credit risks of the enterprises and help reduce the risk of moral hazard. Also, such events were inevitable as the Mainland moved towards a market economy. CE/HKMA considered that Hong Kong, with its strength in assessment and management of risks, was well placed to complement the Mainland's further development.

11. Ms Starry LEE enquired about HKMA's measures to assist enterprises to participate in the Belt and Road Initiative and the National 13<sup>th</sup> Five-Year Plan. Mr Christopher CHEUNG enquired whether the Fintech Facilitation

Office ("FFO") established by HKMA would help local small and medium sized securities firms to enter the Mainland market and meet the Securities and Futures Commission's relevant regulatory requirements, including risk requirements and "know your client" requirements, through the development of relevant online trading platforms.

12. CE/HKMA remarked that Hong Kong could play an active role in meeting the investment and financing needs arising from the Belt and Road Initiative. It had been observed that a number of local companies had arranged visits to markets along the "Belt and Road" routes. HKMA would work with the Government and the Hong Kong Trade Development Council, and provide a platform for disseminating relevant information and discussing business opportunities pertaining to "Belt and Road" countries. As regards the development of online trading platforms for accessing the securities market of the Mainland, CE/HKMA explained that the matter concerned cross-border capital flow, which involved regulatory and policy issues rather than information technology issues, and was therefore outside the purview of FFO. Nevertheless, FFO would examine how financial technologies ("Fintech") could facilitate the local financial services industry to provide safe and effective services. As Fintech could help eliminate geographical restrictions, it was envisaged that the local securities industry could provide services to overseas customers, subject to relevant regulatory requirements.

13. In response to Mr CHAN Kin-por's enquiry, CE/HKMA advised that HKMA had been exchanging views with the Mainland authorities on relevant policy issues from time to time, including cross-border capital flow, internationalization of RMB, etc. It was also noted that the Mainland might launch a pilot scheme on debt-for-equity swaps.

14. Ms Emily LAU enquired whether the reduction in the Mainland's foreign reserves in the recent months implied a massive capital outflow from the Mainland. CE/HKMA explained that based on the publicly available data, the Mainland's foreign reserves experienced a substantial growth in the past few years due to the conversion of a huge amount of US dollar into RMB. The trend had been reversed recently, thus leading to a decrease in the Mainland's foreign reserves. He supplemented that the conversion from RMB to US dollar was not necessarily made by foreign enterprises only. Mainland's non-bank private sector was also buying foreign exchange.

15. Mr Kenneth LEUNG sought HKMA's assessment on the impacts of the implementation of negative interest rate policies in Europe and Japan on Hong Kong. CE/HKMA advised that the implementation of negative interest rate

policies by an economy would in theory encourage lending by its financial institutions and depreciation in its currency. Nevertheless, it was observed that the implementation of negative interest rates in a number of economies (including Europe, Japan and Switzerland) had different outcomes, and their effectiveness was not obvious so far.

*Tightening of credit for small and medium enterprises*

16. Ms Emily LAU, Mr Andrew LEUNG and Mr Jeffrey LAM expressed concerns about difficulties encountered by small and medium sized enterprises ("SMEs") in obtaining credit, and enquired how HKMA would tackle the issue. Ms LAU asked if HKMA's relevant regulatory requirements had indeed caused some banks to be over-prudent in lending. Mr LEUNG queried the efficacy of the Hong Kong Mortgage Corporation Limited's ("HKMC") SME Financing Guarantee Scheme ("the SME Scheme") in helping SMEs to access to credit. In his view, the Special Loan Guarantee Scheme launched after the global financial crisis in 2008 was more effective. He called on HKMA to review its policy so as to ease the liquidity constraints of SMEs.

17. CE/HKMA stressed that HKMA attached importance to supporting SMEs, which were vital to Hong Kong's economy. DCE(B)/HKMA added that HKMA understood the pressure faced by SMEs in the economic downturn. Therefore, HKMA had been liaising with banks and encouraging them to be accommodating to the financial needs of SMEs. While it would be inevitable for banks to review their lending if the financial positions of some enterprises had deteriorated, HKMA would encourage banks to strike a reasonable balance between risk management and support for SMEs during the economic downturn. Indeed, HKMA had received feedback from a number of banks that they had been recently strengthening their services for SMEs.

18. As regards the SME Scheme, CE/HKMA remarked that the Scheme had been well received. As at end-March 2016, over 10 000 applications had been approved, involving a total loan amount of around \$44 billion. It was estimated that around 7 000 SMEs (with around 170 000 employees) had benefited from the SME Scheme. He added that some 96% of the approved cases did not involve any collateral, and the rejection rate was less than 1%. However, it was observed that the number of applications received by HKMC had declined to around 200 in the first quarter of 2016 from some 370 in the same period last year. HKMC welcomed loan applications from SMEs, as there was still ample room to provide loan guarantee and loans under the SME Scheme, which amounted to \$65 billion and \$80 billion respectively. CE/HKMA also noted that the rejection rate of loan guarantee applications

from SMEs by banks had been between 6% and 9% in recent years. HKMA would liaise with HKMC to encourage banks not to tighten the credit policy in these difficult times.

### *Difficulties in opening bank accounts*

19. Mr Charles MOK expressed concern about the difficulties encountered by many start-up companies, including those already operating in the Science Park, in opening bank accounts. He stressed the importance for banks to adopt a more lenient approach in handling requests of Hong Kong people and companies in opening accounts, and suggested that HKMA should issue relevant guidelines to the banking industry. Mr Kenneth LEUNG echoed the concern. Mr Jeffrey LAM remarked that the problem also affected many SMEs, and relayed some companies' concern that their bank accounts had been closed by the banks without prior notice.

20. CE/HKMA responded that in opening accounts for customers, banks were required to comply with the relevant legal and regulatory requirements, including the statutory customer due diligence ("CDD") requirements stipulated in the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Cap. 615). As HKMA understood from the industry, the account opening issue was not an industry-wide phenomenon. Nevertheless, the account opening procedures and requirements of some individual banks might be more stringent, taking into account their own risk appetite and the requirements of their headquarters or group where applicable. HKMA would discuss with the banks concerned on the possible ways that would enable their compliance with CDD requirements on the one hand and satisfying the needs of account opening by the public and companies alike on the other. DCE(B)/HKMA supplemented that similar to Hong Kong, other major jurisdictions were also subject to increasingly stringent CDD requirements in recent years. HKMA had required banks to keep the relevant account opening process transparent and enhance communications with their customers.

### *Security and regulation of the banking industry*

21. Mr Charles MOK relayed the industry's concerns about the "Cybersecurity Fortification Initiative" ("CFI") launched by FFO recently, including the lack of consultation with the industry and the relevant implementation details (e.g. certification of penetration testers), the involvement of the Hong Kong Applied Science and Technology Research Institute in the training programmes under CFI, and possible replacement of

some existing practitioners by participants of the training programmes under CFI. Mr MOK also expressed concern about applying the certification standards set by CREST (a cybersecurity certification body of the United Kingdom ("the UK")) in Hong Kong. While the industry supported implementing certification standards in Hong Kong, he stressed the need for HKMA to enhance communication with the industry on the implementation of CFI.

22. CE/HKMA responded that one of the purposes of CFI was to increase the supply of qualified cybersecurity professionals in Hong Kong. HKMA would consult the industry on the implementation details soon, including the training programmes. He also clarified that CREST was engaged as a consultant to formulate a set of certification standards suitable for Hong Kong.

23. Mr James TO expressed concern about recent incidents of unauthorized online share trading transactions, and enquired about the measures taken by HKMA to prevent recurrence of the fraud cases. He also noted that some banks had persuaded their customers to open integrated accounts (which could conduct online share trading transactions). As some customers, particularly the retired, might not closely monitor their accounts, their accounts might be more prone to unauthorized access. Mr TO suggested that HKMA should review the need of imposing appropriate restrictions on such accounts.

24. CE/HKMA responded that HKMA and the Police were still investigating these cases. DCE(B)/HKMA supplemented that banks involved in these cases had already reimbursed any losses suffered by their customers as a result of unauthorized transactions conducted through their accounts. HKMA had been discussing with the industry on measures to further strengthen cybersecurity, including allowing customers to opt for "two-factor authentication" for logging onto online share trading platforms.

25. Pointing out that money market funds ("MMFs") in Hong Kong were currently not subject to regulation, Mr Kenneth LEUNG enquired whether HKMA had assessed the impacts of MMFs on banking stability. CE/HKMA advised that the nature of MMFs in Hong Kong was different from that in the United States ("US") in the sense that MMFs in Hong Kong were smaller in scale and did not guarantee the return of principal. DCE(B)/HKMA supplemented that the international community had strengthened monitoring on MMFs after the global financial crisis in 2008. The data for Hong Kong did not indicate a significant increase in the scale of shadow banking activities in Hong Kong in the past two years.

*Development in the property market*

26. Mr SIN Chung-kai and Mr Jeffrey LAM sought HKMA's assessment of further increases in the US interests rates on the local property market, including whether there would be a surge in the number of negative equities. Mr SIN also enquired whether and when HKMA would consider relaxing the countercyclical macroprudential measures on property mortgage lending.

27. CE/HKMA responded that the pace of the US interest rate hikes was uncertain and its impact on the Hong Kong property market was difficult to predict. However, any further increases in the US interest rates would unlikely result in an abrupt and drastic increase in the local interest rates given the large size of the Monetary Base, which was now standing at HK\$1.6 trillion. It was envisaged that the adjustments in local interbank rates should not be too rapid. CE/HKMA added that currently there were around 1 400 cases of negative equities and the majority of them involved mortgages with 90% loan-to-value ("LTV") ratio. It was noted that property prices had stabilized since March 2016 after consolidation for six months, and property transaction volume had also rebounded. HKMA had to observe the property market development for a longer period before it could be certain that the property market had entered a downcycle.

*Operation of the Exchange Fund*

28. At the request of Mr TANG Ka-piu, HKMA was required to provide the following information regarding EF —

- (a) the amount of operating expenditure (including administration fees) and the expense ratio of EF in HKMA's financial year in 2015;
- (b) the return rate of EF in the first quarter of 2016; and
- (c) measures taken by HKMA to control the operating expenditure of EF.

(*Post-meeting note:* HKMA's supplementary information was circulated to members vide LC Paper No. CB(1)1109/15-16(02) on 8 July 2016.)

29. Mr CHAN Kin-por enquired whether HKMA would consider taking up the role of a public trustee in the Mandatory Provident Fund ("MPF") System, and whether the administration fees of an MPF scheme could be reduced if HKMA acted as the fund manager concerned.

30. CE/HKMA explained that the nature of EF and MPF funds was fundamentally different. The former had to hold highly liquid assets for maintaining currency and monetary stability, while the latter would invest in a large variety of products involving different degrees of risk levels and liquidity for retirement protection purpose. He added that HKMA was not in a position to take up the administrative work relating to MPF funds.

31. Mr TANG Ka-piu enquired about the usage of the proceeds from the issuance of iBonds, and whether the Administration had to subsidize the interests payable to holders of iBonds.

32. CE/HKMA advised that the proceeds from the issuance of iBonds, like fiscal reserves, were placed with EF for investment. The return rate of the proceeds in a particular year was the six-year moving average of the investment return of the Investment Portfolio of the EF, and there was no guarantee on the return rate. On the other hand, the interest payable to iBond holders was linked to the inflation rate in Hong Kong, which had been declining in recent years. On average, the investment returns of the proceeds had been able to cover the interests payable to holders of iBonds so far. CE/HKMA emphasised that the purpose of issuing iBonds was to help the public to tackle inflation and to further develop the local bond market, rather than to generate more income for the Government.

## **V Annual briefing on the work of the Financial Reporting Council**

(LC Paper No. CB(1)918/15-16(03) — Paper on "Progress Report on the work of the Financial Reporting Council" provided by the Financial Reporting Council

LC Paper No. CB(1)918/15-16(04) — Background brief on the work of the Financial Reporting Council prepared by the Legislative Council Secretariat)

Briefing by the Financial Reporting Council

33. At the invitation of the Chairman, the Chief Executive Officer, Financial Reporting Council ("CEO/FRC") briefed members, through a powerpoint presentation, on the work of the Financial Reporting Council ("FRC") in 2015.

*(Post-meeting note: The powerpoint presentation materials (LC Paper No. CB(1)955/15-16(01)) were issued to Members vide Lotus Notes e-mail on 23 May 2016.)*

Discussion

34. Ms Starry LEE declared that she was an accountant and had been working in the audit profession for many years.

*Recruitment process of the Chief Executive Officer of the Financial Reporting Council*

35. Pointing out that the incumbent Chief Executive Officer ("CEO") of FRC was a retired audit partner of PricewaterhouseCoopers, one of the "Big Four" accounting firms, Mr Kenneth LEUNG queried whether the Administration had considered the issue of conflict of interest in the recruitment process. Mr LEUNG Kwok-hung shared the concern.

36. Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)<sup>4</sup> ("PAS(FS)4") responded that in the recruitment process of FRC's CEO, each applicant was required to declare interest. The recruitment committee had considered a host of factors including the issue of potential conflict of interest. PAS(FS)4 added that the experience of the candidate in the auditing profession was also a factor in the consideration, and stressed that FRC had put in place a proper system of declaration of interests.

*Disciplinary mechanism of the proposed auditor regulatory reform*

37. Mr Kenneth LEUNG sought details of the latest development on the disciplinary mechanism in the proposed auditor regulatory reform, including whether the Administration would take on his earlier suggestion to set up an independent committee within FRC or an independent tribunal to take charge of the disciplinary process of listed entity auditors ("LEAs"). He stressed the need to put in place proper checks and balances to ensure fairness and due

process when FRC discharged its investigatory and disciplinary powers. Ms Starry LEE concurred with the need to uphold the independence of FRC for regulating LEAs. She called on the Administration to pay heed to the views of the audit profession in formulating the disciplinary mechanism for LEAs. Mr LEUNG Kwok-hung enquired about the criteria to be adopted by the Administration for engaging persons independent of FRC to participate in the disciplinary process.

38. PAS(FS)4 advised that as stated in the "Consultation Conclusions on Proposals to Improve the Regulatory Regime for Listed Entity Auditors" issued in June 2015, FRC as the independent auditor oversight body would be vested with direct disciplinary powers and that the disciplinary mechanism should be independent of the audit profession. The Administration would consider whether, and if so how, any person independent of FRC should be given any formal role in the disciplinary process under the auspices of the FRC. The Administration would maintain liaison with relevant stakeholders in devising the disciplinary mechanism under the new regime.

39. Ms Starry LEE relayed the concern of the accounting sector (particularly the small and medium sized auditing firms) about the proposed maximum pecuniary penalty of \$10 million on irregularities committed by LEAs, and asked if the Administration would consider the suggestion of introducing a tiered penalty system. She opined that FRC should fully engage relevant stakeholders in formulating the guidelines on pecuniary penalty, and enquired about the timetable for conducting consultation on the guidelines.

40. PAS(FS)4 took note of Ms Starry LEE's views. He pointed out that in the auditor regulatory regimes of major overseas jurisdictions including the UK, there was no statutory limit on the amount of pecuniary penalty to be imposed. He stressed that FRC would be statutorily required to issue guidelines setting out the factors to be considered in determining the level of pecuniary penalty. Such factors would include fairness, proportionality of the penalty to the nature and seriousness of the irregularity concerned, and that the penalty should not have the likely effect of putting an LEA concerned into financial jeopardy. PAS(FS)4 added that FRC would consult relevant stakeholders in formulating the guidelines, and more details of the guidelines would be available in due course.

#### *Investigations conducted by the Financial Reporting Council*

41. Pointing out that there was a significant increase in the number of FRC's outstanding investigations in 2015 as compared to 2014, Mr LEUNG

Kwok-hung enquired about measures taken by FRC to expedite its work, including whether FRC would consider recruiting more staff.

42. CEO/FRC responded that FRC was below its staff complement in 2015, which might be among the reasons attributing to an increase in the number of outstanding investigations. FRC had recently reached its full staff complement of 21 staff (57% of FRC's staff members were accounting professional staff). CEO/FRC was confident that the present manpower of FRC was sufficient for handling the outstanding investigations. He added that should there be a dramatic increase in the number of pursuable complaints, FRC would consider the need of increasing its manpower resources.

**VI Any other business**

43. There being no other business, the meeting ended at 12:55 pm.

Council Business Division 1  
Legislative Council Secretariat  
19 July 2016