

**立法會**  
***Legislative Council***

LC Paper No. CB(1)1162/15-16  
(These minutes have been seen  
by the Administration)

Ref : CB1/PL/FA/1

**Panel on Financial Affairs**

**Minutes of meeting  
held on Monday, 6 June 2016 at 10:15 am  
in Conference Room 3 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 Vincent FANG Kang, 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 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 WONG Kwok-hing, BBS, MH  
Dr Hon LAM Tai-fai, SBS, JP  
Hon CHAN Yuen-han, SBS, JP  
Dr Hon KWOK Ka-ki  
Hon KWOK Wai-keung  
Hon TANG Ka-piu, JP

**Member absent** : Hon Mrs Regina IP LAU Suk-yee, GBS, JP

**Public officers attending** : Agenda Item III

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

Ms WONG Wing Ting, Tracy  
Director, Admission  
Hong Kong Institute of Certified Public Accountants

Agenda Item IV

Mr John C TSANG, GBM, JP  
Financial Secretary

Mrs Helen CHAN, JP  
Government Economist

Mr Raymond WU  
Administrative Assistant to Financial Secretary

Agenda Item V

Mr Eddie CHEUNG Kwok-choi, JP  
Deputy Secretary for Financial Services and the  
Treasury (Financial Services)<sup>2</sup>

Dr Moses CHENG Mo-chi, GBS, JP  
Chairman  
Insurance Authority

Ms Fontaine CHENG Fung-ying  
Secretary  
Insurance Authority

Agenda Item VI

Ms Ada CHAN  
Principal Assistant Secretary for Financial Services  
and the Treasury (Financial Services)2

Mr David GRAHAM  
Chief Regulatory Officer and Head of Listing  
Hong Kong Exchanges and Clearing Limited

Ms Grace HUI  
Managing Director, Chief Operating Officer, Listing  
Hong Kong Exchanges and Clearing Limited

Ms Katherine NG  
Senior Vice President, Head of Policy, Listing  
Hong Kong Exchanges and Clearing Limited

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

(LC Paper No. CB(1)979/15-16 — Minutes of the meeting on  
11 April 2016

LC Paper No. CB(1)987/15-16(01) — List of follow-up actions)

The minutes of the meeting held on 11 April 2016 were confirmed.

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**II Information paper issued since the meeting on 23 May 2016**

(LC Paper No. CB(1)1001/15-16(01) — 2015 Annual Report of the Hong Kong Mortgage Corporation Limited)

2. Members noted the information paper issued since the regular meeting held on 23 May 2016.

**III Briefing on the proposed Members' Bill to amend the Professional Accountants Ordinance**

(LC Paper No. CB(1)987/15-16(02) — Letter dated 20 May 2016 from Hon Kenneth LEUNG (English version only))

Briefing on the Bill

3. At the invitation of the Chairman, Mr Kenneth LEUNG briefed the Panel on the draft Professional Accountants (Amendment) Bill 2016 which he intended to introduce as a Members' Bill into the Legislative Council ("LegCo") to amend the Professional Accountants Ordinance (Cap. 50) ("PAO") with a view to tightening up usage of the term "Certified Public Accountant". He said that currently it was an offence under section 42(1)(ha) of PAO for a company not being a corporate practice to use descriptions "certified public accountant (practising)" or "public accountant"; the initials "CPA (practising) ", "PA", or the characters "執業會計師", "註冊核數師", "核數師" or "審計師", in its name in connection with its business. Furthermore, it was an offence for a company not being a corporate practice to use the descriptions "certified public accountant", the initials "CPA" or the characters "會計師" with the intention of causing, or in a way which might reasonably cause a person to believe that it was a practice unit. Nevertheless, it was observed that some companies which were not a corporate practice had been using in their names terms such as "Professional Accounting Services", "Professional Accounting and Secretary", "Professional Accounting and Secretarial Services", or "Professional Accounting and Taxation". Such terms might cause confusion and lead the public to believe that such companies were practice units qualified to provide professional accounting service under PAO. For instance, some unscrupulous financial intermediaries had been operating under misleading names, including "accounting firms", in conducting business relating to money lending. Mr LEUNG said that with passage of his Members' Bill, the general public could ascertain easily whether a person was a certified public accountant

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holding a practising certificate or whether a company was a practice unit who were qualified to provide professional accounting service under PAO.

Discussion

4. Mr Andrew LEUNG was concerned that the proposed restrictions under the Members' Bill might be over stringent. He remarked that some individuals and companies might engage small consulting firms (who were not practice units registered with the Hong Kong Institute of Certified Public Accountants ("HKICPA")) to help them prepare tax returns. He enquired if such firms could continue to operate with passage of the Members' Bill. He was also concerned whether the proposed amendments in the Members' Bill would breach the Competition Ordinance (Cap. 619), as qualified accountants in other jurisdictions could not use the term "professional accountant" in carrying out business in Hong Kong unless they were members of HKICPA.

5. Mr Kenneth LEUNG clarified that his Members' Bill aimed to tighten the usage of the term "Certified Public Accountant" so that companies could not use names like "會計師事務所" with an attempt to mislead the public to believe that they were practice units qualified to provide professional accounting service under PAO. He stressed that there was no intention to prohibit small consulting firms from providing accounting services. Such firms could continue with their business and use their current names if the names would not reasonably cause the public to believe that the firms were practice units qualified to provide professional auditing service under PAO. Mr LEUNG added that under PAO, a certified public accountant must be a member of HKICPA. He took note of Mr Andrew LEUNG's views and said that he would seek the views of the Competition Commission on his bill.

6. Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)<sup>4</sup> said that section 42 of PAO aimed to prohibit an unqualified entity to use in its name certain specified descriptions which could cause a person to believe that it was a practice unit registered under the PAO. A Members' Bill (i.e. the Professional Accountants (Amendment) Bill 2013) was enacted in 2013 to tighten the relevant requirements. The intention of the current proposed Members' Bill was similar to that of the Members' Bill in 2013. The Administration would study the proposed Members' Bill when available which would need to go through the requisite procedures.

7. In response to Mr Andrew LEUNG's enquiry, Mr Kenneth LEUNG and the Admission Director, Hong Kong Institute of Certified Public Accountants advised that the restrictions to be imposed by the Members' Bill would apply to

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an entity not being a member of or a practice unit registered with HKICPA. Such an entity could be an individual, a partnership, or a company.

Conclusion

8. The Chairman informed members that it was anticipated that the Members' Bill would be introduced into LegCo in the 2016-2017 legislative session.

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

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

LC Paper No. CB(1)987/15-16(03) — Administration's paper on "Hong Kong's Recent Economic Situation and Near-term Outlook")

Briefing by the Administration

9. 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)1020/15-16(01) on 8 June 2016.)*

10. The Government Economist gave a powerpoint presentation on the latest developments in the Hong Kong economy, latest situation in the local residential property market, and the economic outlook of the local and global economy in 2016.

*(Post-meeting note: The notes of the powerpoint presentation (LC Paper No. CB(1)1015/15-16(01)) were issued to members vide Lotus Notes e-mail on 7 June 2016.)*

*(At 10:32 am, the Chairman ordered that the meeting be suspended to enable members of the Establishment Subcommittee ("ESC") to attend to a quorum*

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*call for the ESC meeting concurrently held in Conference Room 1. The meeting resumed at 10:33 am.)*

Discussion

*Macroeconomic conditions and measures to stimulate the economy*

11. Mr CHAN Kam-lam, Mr Jeffrey LAM, and Mr Andrew LEUNG expressed concern about Hong Kong's dim economic outlook and enquired about measures the Administration would take to stimulate domestic demand and support affected sectors. Noting that both the local and global economy was overcast by uncertainties, Mr Christopher CHEUNG sought the Administration's assessment as whether the current forecast 1%-2% real growth in the gross domestic product ("GDP") for 2016 was attainable.

12. FS responded that as foreshadowed in the 2016-2017 Budget Speech, 2016 would be a challenging year for the Hong Kong economy. The economic slowdown in the first quarter of 2016 did not come as a surprise. He had proposed in the 2016-2017 Budget a package of tax and short-term relief measures amounting to \$38.8 billion. Together with other spending initiatives in the Budget, it was envisaged that the counter-cyclical measures would have a fiscal stimulus effect of boosting GDP for 2016 by 1.1 percentage point. These measures would benefit the labour market, help local industry and stimulate domestic consumption. It was observed that the decline in export of goods and inbound tourism had moderated in recent months.

13. As regards the GDP growth forecast for 2016, FS said that Hong Kong, being a small and open economy, was vulnerable to developments in the external economic environment. While the overall global economic situation remained lacklustre, the recent economic indicators of the United States ("US") had improved and moderate economic expansion in the European Union ("EU") continued. The Mainland economy would likely grow at an annual rate of 6.5%-7%, which would continue to outpace other major economies. After a comprehensive review in May 2016, the Government considered it appropriate to maintain the economic growth forecast of 1%-2% for 2016. FS said that the Government would closely monitor the economic situation and update as appropriate the forecast in the next round of review in August 2016.

14. Mr Jeffrey LAM was concerned that the increasingly stringent requirement on loan-to-value ratio imposed by the Hong Kong Monetary Authority ("HKMA") on mortgages might make it more difficult for small and medium enterprises ("SMEs") in obtaining bank credit, as it was common for

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SMEs to borrow using properties as collateral. He also enquired about the impact of the US interest rate hikes on the local interest rates.

15. FS responded that the Government would continue to implement the SME Financing Guarantee Scheme to help SMEs in obtaining credit and maintaining liquidity. The banking industry in general indicated that there was no tightening of risk appetite or underwriting standards for lending to SMEs. He had also requested HKMA to impress upon the banking industry that SMEs were a major pillar of the economy and that banks should be supportive of SMEs to the extent permitted under their credit policies. On the US interest rate hikes, FS said that whether the local interest rates would follow would depend on the prevailing economic conditions.

16. Mr Christopher CHEUNG expressed grave concern about the drastic decline in the transaction volumes of the local securities market in recent months, and enquired when the Shenzhen-Hong Kong Stock Connect ("SZ-HK SC") would be launched. FS said that the securities market was very volatile in recent months and the transaction volumes had also been fluctuating. As regards SZ-HK SC, he said that a lot of preparatory work had been made and SZ-HK SC would be launched upon approval of the Central People's Government.

17. Mr SIN Chung-kai and Mr Dennis KWOK sought FS' assessment of the possible impacts on Hong Kong should the result of the referendum of the United Kingdom ("UK") was in favour of the UK leaving the EU ("Brexit"). They enquired about the contingency measures to be taken by the Administration and financial regulators on Brexit. Mr James TIEN enquired whether the Administration had developed contingency measures if Mr Donald TRUMP, the Republican presidential candidate advocating protectionist policies, won in the 2016 US Presidential Election.

18. FS said that according to the UK's official analysis, should Brexit happen, the UK would likely enter into recession, its inflation and unemployment rates would rise and British Pound would depreciate against other currencies. There might be negative spillover on the EU economy given its close economic ties with the UK. The direct impact of Brexit on the Hong Kong economy would not be significant, but there could be indirect knock-on effects on the global and the Hong Kong economy and financial markets due to uncertainties arising from the lengthy negotiations between the UK and the EU on the exit arrangements. The Government would monitor closely how the situation would unfold. FS said that the financial regulators had been closely monitoring the developments in their respective sectors, and would carry out stress tests and formulate relevant measures as necessary. On the US



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Presidential Election, FS said that past experiences showed that although some presidential candidates made radical claims during their election campaigns, the winning candidate would in general take a more moderate position.

19. Mr Dennis KWOK noted with concern the rising debt-to-GDP ratio and growth in the shadow banking activities in the Mainland. He enquired if the Administration had assessed the impacts of such developments on Hong Kong. FS said that the Mainland's overall debt-to-GDP ratio of about 250% covered mainly private debt, while the Government debt-to-GDP ratio was at about 50%. The latter figure was not high when compared with those of other developed economies.

*Labour Market*

20. Mr TANG Ka-piu remarked that awarding government outsourced service contracts to tenderers offering the lowest bid prices was one of the causes of working poverty. Noting that the Administration had recently introduced a revised guidelines for the tendering of government outsourced services which included the tenderers' proposed wage rates in the tender evaluation ("the revised guidelines"), he enquired about the details and the impact on the income of non-skilled workers. Mr TANG further suggested that the Administration should introduce an advance payment system for unskilled workers' wages in arrears, and urge contractors to speed up the making of severance payments.

21. While welcoming the revised guidelines, Mr WONG Kwok-hing said that the Hong Kong Federation of Trade Unions was opposed to the Administration outsourcing its services. Mr WONG enquired about the time table for implementing the revised guidelines and suggested that the Administration should require the successful tenderers to accord priority to hiring existing contract staff in order to protect the latter's job security.

22. Mr KWOK Wai-keung was concerned whether proper measures were in place to ensure compliance of bureaux/departments ("B/Ds") with the revised guidelines. Mr LEE Cheuk-yan remarked that the Administration should set appropriate weightings for the criteria of wage rates and bid price in tender evaluation.

23. FS responded that the Government attached importance to enhancing the well-being of non-skilled workers and reviewed the tendering procedures for outsourced contracts on a continuous basis. The revised guidelines, which applied to service contracts that relied heavily on the deployment of non-skilled workers, were introduced having regard to suggestions raised by LegCo

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Members to incentivize contractors of Government's outsourced services to pay higher wages to non-skilled workers engaged by them. The revised guidelines required all B/Ds to include by default assessment criteria on tenderers' proposed wage rates and working hours for non-skilled workers in the marking scheme, if adopted, for tender evaluation. All other things being equal, those tenderers who were willing to pay higher wages to their non-skilled workers would obtain more marks in the technical aspect, and hence had a better chance to compete for the contract. The Government would keep in view the impact of the revised guidelines after its implementation.

24. At Members' request, FS said that supplementary information on the revised guidelines would be provided, including the details and implementation time table, the B/Ds to which the revised guidelines would apply to, measures to prevent B/Ds from circumventing from the revised guidelines, and the respective weighting of bid price and wage levels for non-skilled workers in determining the award of tender.

*(Post-meeting note: The Administration's supplementary information was circulated to members vide LC Paper No. CB(1)1074/15-16(02) on 27 June 2016.)*

25. Mr LEE Cheuk-yan called on the Administration to expedite the review of the statutory minimum wage ("SMW") rate, and suggested that the Administration should make reference to the experience of "Living Wage Campaign" in a number of overseas economies including the US, the UK and Canada. FS undertook to relay Mr LEE's view regarding the review of SMW rate to the Labour and Welfare Bureau.

26. Dr KWOK Ka-ki was concerned that the average starting salaries of the local undergraduates had remained low in recent years, and that the majority of them could not afford to purchase their own properties. He enquired how the Administration would promote upward social mobility of young people.

27. FS responded that wages were determined by market demand and supply conditions, and that similar observations were made in many economies. The 2015 Study on Earnings Mobility recently released by the Government revealed that 62% of the first degree graduates from the 2001/2002 cohort could reach the 80<sup>th</sup> percentile of the income distribution or higher within 10 years, indicating that there continued to be opportunities for upward social mobility.

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*Measures to enhance Hong Kong's competitiveness*

28. Noting that Hong Kong was again ranked the world's most competitive economy in the International Institute for Management Development ("IIMD") World Competitiveness Yearbook 2016, Mr Andrew LEUNG enquired about measures the Administration would take to maintain Hong Kong's competitiveness.

29. Referring to the downgrading of Hong Kong's credit rating outlook by Standard & Poor's ("S&P") in March 2016 due to Hong Kong's close economic tie with the Mainland and incidents of local political disputes, Mr Albert HO enquired how the Administration would improve Hong Kong's credit rating outlook, including whether it would explore new markets to reduce Hong Kong's dependence on the Mainland economy.

30. FS welcomed IIMD's decision which had reflected the continued efforts of the Government in enhancing Hong Kong's competitiveness. He said that the Government would continue its endeavour to further strengthen Hong Kong's competitiveness. On S&P's credit rating on Hong Kong, FS said that Hong Kong's ratings would inevitably be affected by changes in the Mainland's ratings, as the credit rating mechanisms of S&P prescribed that there was a certain linkage between the maximum credit rating of Hong Kong and that of the Mainland. Nevertheless, the Government had pointed out that it did not agree with S&P's change in rating outlook of Hong Kong. Hong Kong had been maintaining a stable economy, resilient banking system and a strong fiscal position.

31. Mr Kenneth LEUNG noted from slide 18 of the powerpoint presentation that certain sectors, including transportation, storage and courier services, information and communications, and financing and insurance, adopted a relatively positive business outlook despite the current economic downturn. In his view, such sectors were less vulnerable to changes in the economic cycle. He opined that the Administration should consider stepping up development in these sectors which might give new impetus to Hong Kong's economic growth. Mr LEUNG also referred to the report entitled "Hong Kong as a regional green finance hub" released by the Financial Services Development Council on 24 May 2016 and enquired how Hong Kong could seize the opportunities arising from the development of green finance.

32. FS remarked that there had been considerable changes in the global economic conditions over the past decades. Owing to economic globalization, the world had become a huge supply chain and individual economies had become increasingly interconnected. The weaker external demand in recent

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years had affected the performance of export sector of Hong Kong, with spillover to other segments. He agreed with members' views that the Government should continue its efforts to create new growth spots and explore new markets, such as BRICS and other emerging markets.

*Measures on the property market*

33. Mr CHAN Kam-lam enquired about the Administration's measures to maintain healthy development in the local property market in the light of the imminent US interest rate hikes. FS responded that the Government would continue to monitor the development in the local property market and consider a host of factors in reviewing the demand-side management measures, including transaction volumes and prices, the demand and supply situations, affordability of home buyers, the extent of speculative activities, the future pace of increase in the US interest rates, and the global economic situation.

*(At 11:59 am, the Chairman ordered that the meeting be suspended for five minutes. The meeting resumed at 12:04 pm.)*

**V Independent Insurance Authority budget for the financial year 2016-2017**

(LC Paper No. CB(1)987/15-16(04) — Administration's paper on "Independent Insurance Authority Budget for the Financial Year 2016-17"

LC Paper No. CB(1)994/15-16(01) — Background brief on the establishment of the financial arrangements for the independent Insurance Authority prepared by the Legislative Council Secretariat)

Briefing by the independent Insurance Authority

34. At the invitation of the Chairman, the Chairman, Insurance Authority ("C/IA") briefed members on the main features of the budget of the independent Insurance Authority ("IIA") for the financial year 2016-2017. He advised that in 2016-2017, the estimated income of IIA was \$457.8 million while the estimated operating and capital expenditure were \$100.2 million and \$28.7

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million respectively. It was projected that there would be an operating reserve of some \$350 million. He added that IIA had established two Industry Advisory Committees, one on long term business and the other on general business, to advise it on industry-related issues.

Discussion

*Role of the independent Insurance Authority*

35. Mr CHAN Kin-por remarked that IIA should refrain from over-regulation and take appropriate measures to ensure the smooth transition of the insurance industry from the self-regulatory regime for insurance intermediaries to the new one. He also relayed the industry's view that IIA should exercise vigilance in controlling its expenditure so as to contain the levels of levy and fee to be collected from policy holders and the industry. Mr CHAN sought details of IIA's plans to promote the sustainable development of the insurance industry.

36. C/IA agreed that IIA should strive to maintain a proper balance between regulating the insurance industry and promoting its development. IIA would continue to engage the industry on various issues, including measures to enhance practitioners' professional knowledge and maintain good conduct standards. He said that IIA had endorsed the establishment of a task force with representatives from the industry to explore the future of the insurance industry in Hong Kong. IIA would also enhance public awareness of the professionalism of insurance practitioners so as to encourage young people to pursue their career in the industry.

*Regulation of insurance products*

37. Mr LEE Cheuk-yan expressed concern about the regulation of insurance products with investment features which provided the seemingly attractive but non-guaranteed returns. He said that according to the Office of the Commissioner of Insurance ("OCI"), it only regulated the disclosure of information of such products and the sale process concerned but not the product design per se. He enquired how IIA would regulate individual insurance products.

38. Mr Kenneth LEUNG enquired about the division of responsibilities between the Securities and Futures Commission ("SFC") and OCI (and IIA in future) in regulating the design, risk disclosure and sale process of Investment-Linked Assurance Schemes ("ILAS") products, and measures that would be taken by IIA to enhance regulation of such products. As insurance

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intermediaries selling ILAS products might not have the relevant investment knowledge and risk management, he called on OCI and IIA to enhance training for the intermediaries in this area.

39. Given that ILAS products were investment products in essence, Mr Albert HO was concerned about inconsistencies in the regulatory standards, such as qualification requirements of insurance intermediaries, adopted by IIA and SFC. He further enquired whether the Administration would consider extending the audio recording requirement, which currently applied to ILAS products, to other insurance products so as to ensure the sale process of insurance products would be conducted in a proper manner.

40. C/IA said that under the current regulatory regime, ILAS products, like other investment products, had to comply with the disclosure requirements set by SFC in order to be authorized for sale in the market. OCI had issued Guidance Note on Underwriting Class C Business (GN15) and Guidance Note on Underwriting Long Term Insurance Business (other than Class C Business) (GN16) to provide guidance to the industry on treating customers fairly in designing long-term and ILAS products. It was observed that these guidelines were effective in addressing a range of regulatory issues from product design to the sales process. IIA would also enhance public education to ensure that customers could make informed decisions when purchasing insurance products. On the regulatory responsibilities of SFC and IIA over ILAS products, C/IA remarked that the regulatory standards of the two regulators should be consistent. He said that IIA would liaise with SFC to enhance cross-regulator co-ordination whenever necessary.

41. As regards the regulation of ILAS products, C/IA said that insurance intermediaries selling ILAS products had to meet stipulated qualification requirements. IIA would step up its effort in enhancing the professional knowledge and conduct of insurance intermediaries. Deputy Secretary for Financial Services and the Treasury (Financial Services)<sup>2</sup> added that under GN15 issued by OCI, measures were imposed on the sale of ILAS products to protect policy holders, including audio recording requirement, provision of cooling-off period, and requirement for the policy holder to sign a statement confirming that they understood the important features of the products, such as the associated risks, fees and arrangements for surrender of policies.

*Handling of complaints*

42. Mr SIN Chung-kai expressed support for the proposed budget of IIA, and called on IIA to step up its efforts in enhancing the regulatory regime of the insurance industry. On the complaint cases being handled by the three

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Self-Regulatory Organizations ("SROs"), Mr SIN opined that IIA should look into such cases and take appropriate follow-up actions.

43. C/IA took note of Mr SIN's view. He noted that the existing complaint handling mechanism administrated by the SROs was inconsistent. As IIA would take over the regulation of insurance intermediaries from SROs, it would review the complaint handling mechanism to ensure its efficiency and effectiveness. IIA would also take steps to enhance the professional standards of insurance intermediaries.

*Staff recruitment of the independent Insurance Authority*

44. Noting that IIA planned to recruit around 180 staff members in 2016-2017, Mr CHAN Kin-por enquired if IIA would consider conducting the recruitment in phases to avoid causing adverse impact on the stringent manpower situation in the insurance industry. Mr Kenneth LEUNG enquired how IIA would benchmark the remuneration of its staff.

45. C/IA responded that IIA would recruit its staff in phases and explore arrangements for experienced staff members in the industry and other financial regulators to be seconded to IIA. C/IA added that IIA would make reference to the wage levels of other financial regulators in determining the remuneration of its own staff.

**VI Environmental, social and governance disclosure requirements of listed companies**

(LC Paper No. CB(1)994/15-16(02) — Letter dated 30 May 2016 from Hon LEE Cheuk-yan (Chinese version only)

LC Paper No. CB(1)994/15-16(03) — Further letter dated 31 May 2016 from Hon LEE Cheuk-yan enclosing relevant submissions on the issue (Chinese version only)

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LC Paper No. CB(1)994/15-16(04) — Hong Kong Exchanges and Clearing Limited's paper on "Environmental, social and governance disclosure requirements of listed companies")

Briefing by the Hong Kong Exchanges and Clearing Limited

46. At the invitation of the Chairman, the Chief Regulatory Officer and Head of Listing, Hong Kong Exchanges and Clearing Limited ("CRO/HKEX") briefed members on the latest developments in relation to the environmental, social and governance ("ESG") disclosure requirements of the companies listed on the Stock Exchange of Hong Kong ("SEHK") with the aid of a powerpoint presentation. He highlighted the following points:

- (a) SEHK's first Environmental, Social and Governance Reporting Guide ("ESG Guide") came into effect for issuers with financial years ending after 31 December 2012. Following a consultation exercise on the review of ESG Guide in 2015, SEHK decided to revise its ESG Guide;
- (b) The revised ESG Guide was re-organized into two ESG Subject Areas: "Environmental" (Subject Area A) and "Social" (Subject Area B). Each Subject Area contained various ESG Aspects. Each ESG Aspect set out General Disclosures and Key Performance Indicators ("KPIs"). All the General Disclosures of various ESG Aspects under the "Environmental" and "Social" Subject Areas, as well as all KPIs of different ESG Aspects under the "Environmental" Subject Area, were upgraded from voluntary to "comply or explain". KPIs in the "Social" Subject Area would remain recommended disclosures (i.e. voluntary);
- (c) The Listing Rules required a listed company to publish an ESG report on an annual basis, which must state whether it had complied with the "comply or explain" provisions of ESG Guide for the relevant financial year;
- (d) The revised ESG Guide would be implemented in two phases. The upgrade of the General Disclosures to "comply or explain" (i.e. phase 1) had come into effect for financial years beginning on or after 1 January 2016, while the upgrade of KPIs in the "Environmental" Subject Area (i.e. phase 2) would come into



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effect for the financial years beginning on or after 1 January 2017;  
and

- (e) SEHK adopted a combination of measures to regulate ESG disclosure. These included mandatory Rules (i.e. ESG disclosure requirements under the Companies Ordinance (Cap. 622), and disclosure of inside information under Part XIVA of the Securities and Futures Ordinance (Cap. 571)), as well as "comply or explain" provisions and recommended disclosures. SEHK considered that the approach was in line with that adopted by a number of overseas jurisdictions.

(*Post-meeting note:* The notes of the powerpoint presentation (LC Paper No. CB(1)1015/15-16(02)) were issued to members vide Lotus Notes e-mail on 7 June 2016.)

Discussion

*Implementation of the revised Environmental, Social and Governance Guide*

47. Mr Kenneth LEUNG enquired why SEHK had decided to adopt its own ESG Guide instead of requiring listed companies to disclose the ESG situations in accordance with the Global Reporting Initiative's G4 Sustainability Reporting Guidelines ("GRI Guidelines"), which were widely accepted international standards for ESG disclosure. He also asked whether SEHK had explained the different requirements in GRI Guidelines and ESG Guide to facilitate compliance by listed companies.

48. CRO/HKEX remarked that since the introduction of ESG Guide, SEHK had been encouraging issuers who were capable of doing so to adopt international guidelines and standards, including GRI Guidelines, when preparing their ESG disclosures. In formulating the revised ESG Guide, SEHK was mindful of the need to make it consistent with GRI Guidelines, where possible. SEHK had also compiled an FAQ comparing GRI Guidelines and ESG Guide.

49. Mr SIN Chung-kai sought SEHK's views on listed companies' compliance with ESG Guide, and enquired whether SEHK would consider introducing an ESG disclosure classification system to categorize companies into groups such as "comply", "explain" or "neither comply nor explain" to facilitate investors to understand the companies' ESG disclosure status. Noting that SEHK might discuss with listed companies which chose to explain rather than comply with the ESG requirements in making their disclosures, Mr SIN

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considered that SEHK should disclose its discussions with the companies and SEHK's views on the explanation provided by the companies so that investors could better grasp the ESG situations of the companies.

50. CRO/HKEX responded that if an issuer chose to explain rather than comply with the disclosure requirements of the revised ESG Guide, SEHK would examine the explanations provided by the issuer and follow up with the issuer if it was not satisfied with the explanations, including holding discussions with the issuer or requiring it to disclose further information to the market. SEHK considered it inappropriate to disclose details of its discussion with the issuer as the contents of such discussion might involve regulatory issues that were unrelated to ESG disclosure. CRO/HKEX added that SEHK considered it unnecessary to introduce the classification system proposed by Mr SIN Chung-kai as it was observed that issuers generally chose to comply rather than explain.

51. Mr LEUNG Kwok-hung enquired whether SEHK's ESG disclosure regime would be monitored by other regulators, and whether the revised ESG Guide covered disclosure of information relating to supply chain management.

52. CRO/HKEX responded that the listing function in SEHK was accountable to SFC. SEHK also had to report its relevant decisions to the Listing Committee, which was independent of SEHK. He advised that Aspect B5 of the revised ESG Guide covered issues relating to supply chain management.

53. In response to the enquiry raised by Mr Kenneth LEUNG and Mr Christopher CHEUNG on SEHK's time table for reviewing the revised ESG Guide, CRO/HKEX responded that the "comply or explain" provisions would be implemented in two phases. As phase 1 had just commenced while phase 2 had yet to come into force, it would be too early for SEHK to assess the efficacy of the revised ESG Guide. SEHK would consider conducting a review of the revised ESG Guide in one to two years' time.

*Mandatory disclosure of the environmental, social and governance aspects of listed companies*

54. Mr LEE Cheuk-yan relayed the Hong Kong Confederation of Trade Unions' concerns about inadequacy of the revised ESG Guide and the effectiveness of the "comply or explain" provisions. He stressed the importance for the Hong Kong ESG disclosure regime to be in line with that of other international markets. He opined that the regime should cover mandatory disclosure of risks relating to employer and employee relationship, including

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strikes, number of work injuries, occupational safety issues, and labour problems in the supply chains, which might have impact on the business of the company concerned. Mr Kenneth LEUNG asked if SEHK had plans to make ESG disclosure mandatory.

55. Mr Abraham SHEK welcomed the revised ESG Guide, and agreed that SEHK should adopt an evolutionary approach in developing the ESG disclosure regime instead of introducing mandatory disclosure requirements hastily. He also considered it unnecessary to introduce the classification system as suggested by Mr SIN Chung-kai in paragraph 49 above.

56. CRO/HKEX re-iterated that SEHK had adopted an evolutionary approach in developing the ESG disclosure regime, and considered the "comply or explain" provisions sufficient. He explained that the "comply or explain" approach could accommodate a wide variety of business models, and afforded companies the space to develop their practice and decide on the scope of their reporting. Not all ESG issues were material to the businesses of a company. Where an ESG issue was not material to a company, the "comply or explain" approach would allow the company to explain this fact. Moreover, it was observed that issuers generally chose to comply rather than explain. CRO/HKEX stressed that SEHK's ESG disclosure regime was in line with the relevant international standards. SEHK would only adopt proposals for changes to the Listing Rules (including the transition of the "comply or explain" provisions to mandatory disclosure) if the proposals were supported by the results of a rigorous and transparent public consultation process. SEHK currently had no plan to conduct such a consultation.

*(At 12:56 pm, the Chairman ordered that the meeting be extended for 10 minutes to 1:10 pm to allow sufficient time for discussion.)*

**VII Any other business**

57. There being no other business, the meeting ended at 1:07 pm.