

**Special Meetings of the Finance Committee of the Legislative Council
to Examine the Estimates of Expenditure 2017-18**

(2:15 pm - 3:25 pm on 3 April 2017)

Speaking Note of the Secretary for Financial Services and the Treasury

Chairman and Honourable Members,

I will briefly introduce the estimates of expenditure for financial services and our key areas of work in the coming year.

Estimates of Expenditure

2. For 2017-18, about \$1.11 billion has been allocated to the Financial Services Branch and departments under its purview. The amount represents a decrease of about \$530 million over last year.

Key Areas of Work

3. We will focus our work in the coming year on reinforcing Hong Kong's status as an international financial centre, promoting market development, and enhancing protection for investors and the general public.

(I) Developing Offshore Renminbi Business in Hong Kong and Enhancing Financial Co-operation with the Mainland

4. We will capitalise on the opportunities arising from the implementation of the National 13th Five-year Plan and the Belt and Road Initiative to enhance Hong Kong's position as a major platform of capital raising and financing for Mainland and overseas enterprises, the global offshore Renminbi (RMB) business hub and an international asset management centre, as well as serving as a vital bridge between our country and countries along the Belt and Road. We will continue to liaise and foster closer co-operation with the Mainland in developing offshore RMB business and facilitating two-way fund flows.

5. We will continue to take forward the work on Hong Kong's membership in the Asian Infrastructure Investment Bank (AIIB). AIIB accepted Hong Kong's

application last month and the proposal has been supported by the Panel on Financial Affairs. We have submitted the funding application to the Finance Committee for subscription of AIIB's capital shares.

(II) Promoting Market Development

6. On promoting market development, I would like to give a brief account of our priorities.

(i) Development of Financial Technologies (Fintech)

7. We will continue to support the financial sector in developing and applying Fintech, and promote Hong Kong as a hub for the setting and application of standards for cutting-edge Fintech such as Blockchain and cyber security. We will also enhance the payment infrastructure and explore new payment channels for settling government bills and fees so as to encourage people to make use of innovative payment products and services.

(ii) Bond Market

8. We will issue a second batch of Silver Bond under the Silver Bond Pilot Scheme, and will review the effectiveness and arrangements of the two-year pilot scheme upon its completion.

9. The Government is studying with the relevant Mainland authorities the Bond Connect proposal, with a view to further facilitating investors' participation in the bond market and improving the connectivity between market infrastructures.

(iii) Development of Fund Industry

10. To attract more funds to domicile in Hong Kong and drive the development of the fund industry and related professional services, we propose to extend profits tax exemption to onshore privately-offered open-ended fund companies. We have consulted the Panel on Financial Affairs and are consulting the industry again. Our target is to introduce the relevant bill into the Legislative Council (LegCo) in the second half of this year.

(iv) Listing Platform

11. To keep our listing platform competitive, the Government has always been very concerned about market quality issues and will continue to support the Securities and Futures Commission's monitoring and law enforcement efforts in combating malpractices.

12. The Hong Kong Exchanges and Clearing Limited is studying ways to continuously enhance the competitiveness of the listing platform in Hong Kong. They include a review of the positioning of the Growth Enterprise Market and an assessment of the feasibility of introducing a new board. Once more concrete progress is made, public consultation on the relevant conceptual proposals will be launched to map out the direction for long-term development.

(v) Financial Services Development Council

13. The Government attaches great importance to the recommendations of the Financial Services Development Council (FSDC) and takes positive follow-up actions. Many of the recommendations have already been implemented. We will continue to provide the FSDC with the necessary resources and fully support its work.

(III) Protection for Investors and the General Public

14. Regarding protection for investors and the general public, I would like to highlight a few initiatives.

(i) Enhancing the Mandatory Provident Fund (MPF) System

15. On the MPF System, the Default Investment Strategy with fee caps was just implemented on 1 April 2017. The Mandatory Provident Fund Schemes Authority (MPFA) will closely monitor the implementation of the strategy and continue its publicity efforts targeting scheme members. In tandem, the development of the eMPF, a centralised electronic platform, will facilitate the standardisation, streamlining and automation of the MPF scheme administration, thereby further reducing costs. We will set up a working group and discuss the details of developing the electronic platform with the MPFA and the industry.

(ii) Establishing an Independent Insurance Authority

16. It is expected that the independent Insurance Authority would be ready to take over the statutory functions of the Office of the Commissioner of Insurance in end June 2017. The preparatory work is well underway. We will liaise closely with the industry to ensure a smooth transition to the new regime.

(iii) Tackling Money Lending-Related Malpractices

17. Since December last year, the Government has imposed additional licensing conditions on all money lender licences to tackle money lending-related malpractices. We will keep in view the effectiveness of the new measures and conduct a review six months after implementation.

(IV) International Regulatory Requirements

(i) Reforming the Regulatory Regime for Listed Entity Auditors

18. On improving the regulatory regime for listed entity auditors, we have engaged relevant stakeholders on the details of the new regime, and expect to introduce an amendment bill into the LegCo in this quarter.

(ii) Resolution Regime for Financial Institutions

19. The Financial Institutions (Resolution) Ordinance was enacted by the LegCo last June to establish a cross-sectoral resolution regime for financial institutions in Hong Kong in compliance with international standards. We plan to table the relevant subsidiary legislation in LegCo in this quarter, so that the Ordinance can come into operation within this year.

(iii) Combating Money Laundering and Terrorist Financing

20. To ensure that our regulatory regime complies with international standards on combating money laundering and terrorist financing, we plan to amend the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance and the Companies Ordinance. We have just completed a two-month consultation and are analysing the views collected, with a view to introducing the amendment bills into the LegCo in July this year.

21. Chairman, my colleagues and I will be happy to answer any questions from Members.

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