立法會
Legislative Council

LC Paper No. CB(1)755/16-17
(These minutes have been seen by the Administration)

Ref : CB1/PL/FA/1

Panel on Financial Affairs

Minutes of meeting
held on Tuesday, 3 January 2017 at 9:00 am
in Conference Room 1 of the Legislative Council Complex

Members present : Hon Christopher CHEUNG Wah-fung, SBS, JP (Chairman)
Hon Kenneth LEUNG (Deputy Chairman)
Hon Abraham SHEK Lai-him, GBS, JP
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon WONG Ting-kwong, SBS, JP
Hon Starry LEE Wai-king, SBS, JP
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Hon Paul TSE Wai-chun, JP
Hon LEUNG Kwok-hung
Hon Frankie YICK Chi-ming, JP
Hon WU Chi-wai, MH
Hon Charles Peter MOK, JP
Hon CHAN Chi-chuen
Hon KWOK Wai-keung
Hon Dennis KWOK Wing-hang
Dr Hon Fernando CHEUNG Chiu-hung
Hon Holden CHOW Ho-ding
Hon SHIU Ka-fai
Hon CHAN Chun-ying
Hon Tanya CHAN
Hon CHEUNG Kwok-kwan, JP
Hon HUI Chi-fung
Hon LUK Chung-hung
Dr Hon YIU Chung-yim

Members attending : Hon YIU Si-wing, BBS
Hon Martin LIAO Cheung-kong, SBS, JP
Dr Hon LAU Siu-lai

Members absent : Hon James TO Kun-sun
Hon CHAN Kin-por, BBS, JP
Hon CHU Hoi-dick
Dr Hon Junius HO Kwan-yiu, JP
Hon HO Kai-ming
Hon Kenneth LAU Ip-keung, MH, JP

Public officers attending : Agenda Item IV

Prof K C CHAN, GBS, JP
Acting Financial Secretary

Mr Raymond WU
Administrative Assistant to Financial Secretary

Mrs Helen CHAN, JP
Government Economist

Agenda Item V

Prof K C CHAN, GBS, JP
Acting Financial Secretary

Mr Raymond WU
Administrative Assistant to Financial Secretary

Ms Elizabeth TSE, JP
Permanent Secretary for Financial Services and the Treasury (Treasury)

Agenda Item VI

Ms Mable CHAN, JP
Deputy Secretary for Financial Services and the Treasury (Financial Services)1

Ms CHEUNG Yi, Eureka
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)5

Ms CHUNG Lai Ling, Ada, JP
Registrar of Companies
Companies Registry

Agenda Item VII

Ms Mable CHAN, JP
Deputy Secretary for Financial Services and the Treasury (Financial Services)1

Ms CHEUNG Yi, Eureka
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)5

Mr Vincent LEE
Executive Director (External)
Hong Kong Monetary Authority

Miss Kyle HUNG
Head (External)
Hong Kong Monetary Authority

Agenda Item VIII

Mr James LAU, JP
Under Secretary for Financial Services and the Treasury

Mrs Laura CHA, GBS, JP
Chairman
Financial Services Development Council

Mr Esmond LEE
Senior Advisor
Financial Services Development Council

Mr Andrew WU
Head of Secretariat
Financial Services Development Council

Agenda Item IX

Mr Andrew LAI, JP
Deputy Secretary for Financial Services and the Treasury (Treasury)2

Mr Gary POON
Principal Assistant Secretary for Financial Services and the Treasury (Treasury) (Revenue)

Mr TAM Tai-pang, JP
Deputy Commissioner (Operations)
Inland Revenue Department

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)364/16-17 — Minutes of the meeting on 15 November 2016)

The minutes of the meeting held on 15 November 2016 were confirmed.

II Information papers issued since last meeting

(LC Paper No. CB(1)277/16-17 — Quarterly Report of the Securities and Futures Commission (July to September 2016)

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LC Paper Nos. CB(1)272/16-17(01) and (02)	—	Letter dated 10 November 2016 from Dr Hon Fernando CHEUNG on issues relating to the operation of the Future Fund (Chinese version only) and the Administration's response (i.e. an information note on "Update on the operation of the Future Fund")
LC Paper No. CB(1)306/16-17(01)	—	2015-2016 Annual Report of the Process Review Panel for the Securities and Futures Commission
LC Paper No. CB(1)320/16-17(01)	—	Press release on accrual-based consolidated financial statements of the Government for the year ended 31 March 2016)

2. Members noted the information papers issued since the regular meeting held on 5 December 2016.

III Date of next meeting and items for discussion

(LC Paper No. CB(1)363/16-17(01)	—	List of outstanding items for discussion
LC Paper No. CB(1)363/16-17(02)	—	List of follow-up actions)

3. Members agreed to discuss the following items proposed by the Administration at the next regular meeting scheduled for 6 February 2017:

(a) Briefing on the work of Hong Kong Monetary Authority;

(b) Briefing by the Secretary for Financial Services and the Treasury on the Chief Executive's ("CE") 2017 Policy Address;

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(c) Charging Mandatory Provident Fund intermediaries registration, approval and annual fees and revision of fees in relation to Occupational Retirement Schemes; and

(d) Budget of the Securities and Futures Commission for the financial year 2017-18.

4. Members further agreed that the meeting on 6 February 2017 would be held from 9:00 am to around 1:00 pm to allow sufficient time for discussion of the above four items.

5. Dr Fernando CHEUNG said that the Administration had only provided a brief written response (LC Paper No. CB(1)272/16-17 (02)) to his letter dated 10 November 2016 in which he proposed that the Panel should discuss the subject of the operation of the Future Fund ("FF"). He suggested adding the subject to the list of outstanding items for discussion so that the Panel could deliberate on the subject in depth.

6. The Chairman and Mr Kenneth LEUNG opined that members could raise questions and discuss with the Administration on the subject during the briefing on the 2017-2018 Budget.

7. Dr Fernando CHEUNG reiterated that the Panel should discuss issues relating to the operation of FF, including the investment strategy and conditions under which the Administration could withdraw funding from FF. He was concerned that the Administration would only provide factual information about FF during the briefing on the 2017-2018 Budget.

8. The Chairman said that the subject of the operation of FF would be added to the list of outstanding items for discussion.

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

(LC Paper No. CB(1)123/16-17(01) — Third Quarter Economic Report 2016 and the press release

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LC Paper No. CB(1)190/16-17(04) — 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 Acting Financial Secretary ("FS(atg)") briefed members on Hong Kong's latest overall economic situation.

(*Post-meeting note*: The press release containing the speaking note of FS(atg) (Chinese version only) was issued to members vide LC Paper No. CB(1)391/16-17(01) on 4 January 2017.)

10. The Government Economist ("GEcon") gave a powerpoint presentation on the latest developments in the Hong Kong economy, latest situation in the residential property market, updated economic forecasts for 2016, and the economic outlook for the local and global economy for 2017.

(*Post-meeting note*: The notes of the powerpoint presentation were issued to members vide LC Paper No. CB(1)390/16-17(01) on 3 January 2017.)

Discussion

Macroeconomic conditions and measures to stimulate the economy

11. Mr Jeffrey LAM, Mr CHAN Chun-ying, Mr WONG Ting-kwong, Dr Fernando CHEUNG and the Chairman expressed concern that the considerable uncertainties associated with the economic policies of the new administration of the United States ("US") might significantly affect the economic situations in Asia, the Mainland and Hong Kong. They enquired about measures the Administration would take to counteract the possible negative impacts. Mr LAM was concerned about the possible implementation of trade protectionist measures (such as increasing the import tax rates) by the US. Mr CHAN called on the Administration to implement concrete measures to stimulate domestic demand, support the tourism industry and the import and export industry, as well as strengthen Hong Kong's existing pillar industries. Mr WONG cautioned that the Administration should prepare for possible reduction in the US tax rates and changes in the US tax regime which might cause overseas companies to relocate from Hong Kong. Dr CHEUNG enquired

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about the Administration's measures in promoting development of the local economy. The Chairman asked whether FS(atg) would adopt measures different from his predecessor in preparing Hong Kong for the economic uncertainties ahead.

12. FS(atg) shared members' views that the economic policies of the new US administration could have significant impacts on the global economy. The Government would closely monitor the relevant developments in the US and would implement measures when necessary, such as introducing relief measures for relevant industries, to maintain the stability of the local economy and financial system. He added that Hong Kong would continue to implement policies supporting free trade, explore new export markets, and strengthen economic ties with other economies.

13. As regards the measures to maintain macroeconomic stability, FS(atg) remarked that the Hong Kong economy had undergone a challenging year in 2016. In response, the Government had taken a number of measures to stimulate the local economy and support relevant industries which were effective in maintaining the unemployment rate at low level throughout 2016. Looking ahead, the Government would continue assisting local companies, helping local industries, promoting the development of innovation technology, and strengthening Hong Kong's pillar industries. Regarding support for the tourism sector, FS(atg) remarked that the Government would step up efforts to attract non-Mainland visitors, implement relevant one-off relief measures for the tourism industry, and improve tourism infrastructure as well as develop new tourist attractions in the long run.

14. On members' concern about possible adverse impact on Hong Kong arising from changes in the US tax regime, FS(atg) advised that Hong Kong's simple tax regime, with relatively low tax rates and adopting a territorial source principle, was a cornerstone of Hong Kong's economic success. The Government had been closely monitoring developments in the tax regimes of other jurisdictions including the US. It was observed that a number of jurisdictions had been introducing tax incentives in boosting their economies, as such measures would likely affect Hong Kong's economy.

15. Mr WU Chi-wai enquired whether the Administration had taken recent developments in the Mainland (including the initiative in de-leveraging and various new economic policies) into account in assessing Hong Kong's economic outlook.

16. FS(atg) responded that the Mainland economy should be able to remain on a steady growth track. GEcon said that the Mainland economic situation remained largely stable. Those uncertainties associated with the economic policies of the new US administration had been taken into account in assessing Hong Kong's economic outlook. Also, the Mainland had accorded priority to avert financial risks and the systemic risk on the whole remained manageable.

Use of budget surplus in 2016-2017

17. Noting that the Government would likely enjoy a substantial budget surplus in 2016-2017 owing to a large revenue income from land premium, Mr WU Chi-wai enquired how the Administration would utilize the budget surplus effectively. He opined that the Government should "leave wealth with the people" by using the surplus to stimulate domestic demand, prepare for Hong Kong's imminent ageing population and possible changes in the arrangement of offsetting severance payments and long service payments against the accrued benefits of the Mandatory Provident Fund.

18. FS(atg) reiterated that the Government would continue implementing appropriate measures to support the economy and sustain domestic demand. He pointed out that the allocation of public resources was based on the principle of "policy leads and financial resources follow" and the Government welcomed views from Members and the public on the 2017-2018 Budget.

Development in the property market

19. Noting that the local property prices remained at a level beyond the affordability of the general public in spite of the new round of demand-side management measures introduced by the Government in November 2016, Mr Jeffrey LAM enquired whether the Administration would formulate measures to assist first-time home buyers, including relaxing the existing ceiling on loan to value ratios of the residential mortgages for such buyers. FS(atg) responded that the Government's new round of demand-side management measures were to cool down the heated property market and would not affect first-time home buyers.

20. Dr YIU Chung-yim noted with concern the significant growth in refinanced mortgages from 2014 to 2016. Given the uncertainties in the pace of the US interest hikes, he urged the Administration to take precautionary measures against a possible property slump in order to avert risks on banking stability. He also requested the Administration to provide information on the

amount of various kinds of major loans in 2014 to 2016 (including mortgage loans, re-financed mortgage loans and credit card loans), and their respective proportions in Hong Kong's Gross Domestic Product ("GDP").

21. FS(atg) agreed to provide supplementary information as requested by Dr YIU Chung-yim. He remarked that the Government was aware of the growth in the scale of re-financed mortgage loans recently. The Hong Kong Monetary Authority had implemented several rounds of countercyclical macroprudential measures to ensure prudent property mortgage lending and reduce risks arising from such lending. The Government had also reminded the public that the existing ultra-low interest rate environment might change abruptly, and encouraged prudent borrowing through various means, including public education programmes and Announcements of Public Interest.

> *(Post-meeting note:* The information provided by the Administration was issued to members vide LC Paper No. CB(1)514/16-17(02) on 1 February 2017.*)*

Measures to enhance Hong Kong's competitiveness

22. Mr Kenneth LEUNG enquired about the growth of the professional and business services sector and its share in Hong Kong's GDP in 2016, as well as the Administration's measures to promote development of the sector, in particular to other jurisdictions.

23. GEcon advised that the professional and business services sector, which was one of Hong Kong's four pillar industries, contributed to some 4.9% of Hong Kong's GDP in 2015. Over the past 10 years, the value added of the sector had grown appreciably by around 9% per annum in value terms, exceeding the average growth rate of Hong Kong's nominal GDP over the same period. As the Mainland was the major destination of the export of professional services, the preferential treatment for Hong Kong service suppliers concluded under the Mainland and Hong Kong Closer Economic Partnership Arrangement could boost the development of the sector. FS(atg) pointed out that the professional and business services sector had competitive advantages. The Government would continue promoting the Hong Kong brand and concluding more free trade agreements with other jurisdictions (such as the free trade agreement with the Association of Southeast Asian Nations currently under negotiation). It was also anticipated that the Belt and Road Initiative and Hong Kong's participation in the Asian Infrastructure Investment Bank ("AIIB") would be conducive to the development of the sector.

24. The Chairman enquired whether the Administration would consider introducing a third board in the securities market to cater for the listing of technology companies. FS(atg) said that the Government welcomed measures that would facilitate market development, and would adopt an open mind on the introduction of a third board. It would discuss with the industry on the need and implementation details of the proposal.

Measures to combat tax evasion

25. Dr Fernando CHEUNG remarked that according to information of the Statistics and Census Department released in December 2016, nearly half of Hong Kong's inward direct investment in 2015 were originated from jurisdictions (including the British Virgin Islands, Cayman Islands and Bermuda) which were common places of incorporation of offshore companies and often regarded as tax havens. He expressed concern that Hong Kong might suffer from tax evasion as the operation of many offshore companies lacked transparency. He enquired how the Government would tackle the issue. Noting that the number of tax evasion cases was on the rise, he was concerned whether the Inland Revenue Department ("IRD") had sufficient resources to tackle the problem.

26. FS(atg) explained that Hong Kong adopted a territorial source principle of taxation whereby only income sourced from Hong Kong would be subject to tax, irrespective of whether the companies involved were offshore or not. He added that the international community had been launching various initiatives to enhance tax transparency, including the implementation of automatic exchange of financial account information in tax matters ("AEOI"). He said that IRD had been taking investigations on suspected cases of tax non-compliance. He assured members that the Government would allocate sufficient resources to IRD as and when necessary.

Forecast of consumer price inflation

27. Dr YIU Chung-yim enquired about the Administration's forecast on inflation for 2017, which in his view might affect the growth of loans in Hong Kong. He also sought details of the inflation forecast model adopted by the Administration (including whether it involved the use of ARIMA model and factor analysis), and whether the Administration had conducted studies on the relation between changes in the Money Supply definition 3 ("M3") and the inflation rate.

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28. GEcon responded that the Government would announce its inflation forecast for 2017 when FS delivered his 2017-2018 Budget speech. Based on the latest developments, the upward pressures on inflation would be limited in the near future, considering the still-muted imported inflation and tame local cost pressures. As regards the inflation forecasting methodology adopted by the Government, it included the use of a large-scale econometric model, "time series analysis" and other methods to take account of a host of relevant factors for a comprehensive analysis and forecasting. GEcon further remarked that the Government had studied the impacts of M3 on the inflation rate and concluded that there was no obvious correlation between them.

V 2017-2018 Budget Consultation

(LC Paper No. CB(1)190/16-17(05) — Information pack for the Financial Secretary's consultations on the 2017-2018 Budget)

Briefing by the Administration

29. FS(atg) said that consultation for the Policy Address and Budget was conducted concurrently in order to enhance the coordination between policy formulation, resource allocation and budgetary planning. When drawing up the 2017-2018 Budget, he would make available resources for the policy initiatives announced in CE Policy Address, and give due regard to enhancing Hong Kong's competitiveness with a view to facilitating sustainable development of the economy. FS(atg) added that the Government had continued allocating resources to implement various initiatives for improving the well-being of the community. A number of initiatives relating to elderly services, including enhancing the Old Age Living Allowance and the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities, and converting the Elderly Health Care Voucher Scheme into a recurrent programme, had been implemented in recent years. In view of the long-term fiscal challenges ahead, in particular the fiscal pressure arising from an ageing population, the Government would continue to manage public finance in a prudent manner and align the growth of government expenditure with that of revenue. These had included, among others, the setting up of FF to serve as long-term savings. The Government would carefully consider the views from Members and the public in finalizing the 2017-2018 Budget.

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(*Post-meeting note*: The press release containing the speaking note of FS(atg) (Chinese version only) was issued to members vide LC Paper No. CB(1)391/16-17(02) on 4 January 2017.)

30. With the aid of a powerpoint presentation, the Permanent Secretary for Financial Services and the Treasury (Treasury) briefed members on the fiscal discipline, estimated government expenditure and revenue for 2016-2017, as well as the fiscal reserves and challenges ahead.

(*Post-meeting note*: The information pack for the 2017-2018 Budget consultation was tabled at the meeting and issued to members vide LC Paper No. CB(1)190/16-17(05) on 3 January 2017.)

Discussion

Tax related issues

31. Dr Fernando CHEUNG noted that 63% of the revenue from salaries tax was contributed by the top 5% taxpayers in the year of assessment 2014-2015, and considered that this had reflected the problem of wealth disparity. He asked whether the Administration would consider introducing new tax items targeted at the rich, such as capital gains tax, dividend tax and tax on vacant residential properties. He also requested the Administration to provide information on the percentage of total salaries tax yield of the top 1% taxpayers in the year of assessment 2014-2015.

32. Mr Dennis KWOK remarked that his office was studying legislative proposals of introducing capital gains tax on non-permanent Hong Kong residents. He considered that the Administration should study measures to widen Hong Kong's tax base and disclose the relevant findings. Sharing the concern about Hong Kong's narrow tax base, Mr CHAN Chun-ying enquired whether the Administration would consider introducing new tax items, such as tax on vacant residential properties.

33. Mr Holden CHOW opined that the Administration should implement measures to assist small and medium enterprises ("SMEs") so that more SMEs could contribute to profits tax. He requested the Administration to provide information on profits tax contributions made by corporations in respect of each of the past five years of assessment (i.e. slide 22 of the Administration's information pack for the 2017-2018 Budget consultation), including the

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proportions of profits tax paid by the corporations in particular the situations of SMEs with assessable profits below $10 million.

34. FS(atg) advised that in assessing whether a new tax item should be introduced, the Government would examine the underlying policy objectives and cost-effectiveness of the tax item concerned. While the Government welcomed views from Members on the issue, given the substantial impact of introducing new taxes on Hong Kong's simple tax regime, the Government would have to be extremely prudent in considering any such proposals. FS(atg) undertook to provide supplementary information as requested by Dr Fernando CHEUNG and Mr Holden CHOW.

(*Post-meeting note:* The information provided by the Administration was issued to members vide LC Paper No. CB(1)514/16-17(02) on 1 February 2017.)

Use of budget surplus

35. Mr WU Chi-wai enquired about how the Administration would utilize the anticipated huge budget surplus in 2016-2017 and the factors it would take into account in deciding various uses. He was concerned whether the surplus would be used to "leave wealth with the people" and prepare for Hong Kong's imminent ageing population. Mr Holden CHOW opined that the huge budget surplus in 2016-2017 would provide room for the Government to extend the relief measures relating to profits tax for corporates, in particular increasing the tax reduction ceiling for SMEs.

36. Dr Fernando CHEUNG expressed dissatisfaction that the Government had frequently over-estimated its expenditure but under-estimated its revenue. He also pointed out that the unfunded pension liabilities of the Government would be spread over a long period of time as retirement of civil servants would be in phases. As such, it was unnecessary for the Administration to set aside a large amount of fiscal reserves for the liabilities. On measures to assist the vulnerable and low-income group, Dr Fernando expressed grave concern that around 20% of the Hong Kong population was living below the poverty line and strongly urged the Administration to increase resources in combating poverty and narrowing wealth disparity.

37. Dr LAU Siu-lai criticized that the incumbent CE had failed to fulfil his election manifesto on narrowing wealth disparity, enhancing elderly care services and addressing the housing problem of Hong Kong. She was of the

view that the Administration should use resources to tackle problems arising from the ageing population instead of implementing "white-elephant" infrastructure projects. Moreover, she was concerned that a lot of the one-off relief measures implemented by the Government (including the rates concession) only benefited the large corporations rather than addressing the needs of the grassroots. She strongly urged the Administration to increase resources for helping the elderly and the grassroots. She remarked that the Administration should implement a universal retirement protection scheme, construct more public rental housing ("PRH") units, formulate a policy on bazaars, and provide a sum of $10,000 to each Hong Kong permanent resident.

38. FS(atg) remarked that the current term Government had launched a lot of measures to combat poverty, including taking forward a number of proposals recommended by the Commission on Poverty. The Government would examine ways to enhance the efficacy of its measures on poverty reduction. As compared with 2012-2013, the Government's recurrent expenditure on social welfare had increased by 54.5% in 2016-2017. He reiterated that the allocation of public resources was based on the principle of "policy leads and financial resources follow", and the Government would formulate measures to support local industries in view of the economic difficulties ahead and to cater for the needs of the community. He also remarked that CE would announce relevant policies on retirement protection in his 2017 Policy Address.

39. Mr CHAN Chi-chuen criticized that the Government had been over prudent in the management of public finance. He suggested that the Administration should "leave wealth with the people", and raise tax revenue with a view to generating more resources for implementing programmes to improve the livelihood of Hong Kong people. He enquired if the Administration would consider providing tax rebates and money to each Hong Kong permanent resident.

40. FS(atg) stressed the need for the Government to adopt a prudent approach in managing public finance. He pointed out that in the period from 2012-2013 to 2016-2017, the Government's recurrent expenditure had seen growth in a number of policy areas, including social welfare, health and education, and the growth rates had exceeded those of the nominal GDP. He assured Members that the Government would implement measures "leaving wealth with the people" should there be sufficient policy justifications.

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Assisting local industries and promoting their development

41. Mr CHAN Chun-ying opined that the Government should increase expenditure on capital investment which would be conducive to Hong Kong's long-term economic development. He further remarked that the amount of unfunded liabilities and outstanding commitments of the Government might have been over estimated, and this might have unnecessarily increased the concern about long-term fiscal pressure on the Government.

42. Mr Frankie YICK suggested that the Administration should implement relief measures for the transportation and logistics industries, such as waiving licence fees and annual inspection fees for vessels, to help them tide over the difficult operating environment. Moreover, he pointed out that the requirement for local vessels to renew various licences every three to five years had discouraged operators from making investments on equipment using new technologies. He added that while the Liberal Party did not oppose to the Government increasing the expenditure on social welfare, it opined that the Government should also devise measures to meet the needs of the middle class.

43. Mr WONG Ting-kwong relayed the industry's views for the Government to step up efforts in promoting development of the creative industries and the testing and certification industry, and enhancing food safety. He further called on the Administration to formulate measures to complement the commissioning of the Hong Kong-Zhuhai-Macao Bridge including pursuing the development of Lantau, and to develop convention and exhibition facilities in Hong Kong as existing venues including the Asia World-Expo had reached saturation.

44. Mr SHIU Ka-fai expressed concerns over continuous decline in the retail sales, fall in visitor arrivals, reduced spending by Mainland visitors, and keen competition faced by the local wholesale and retail industry due to rapid development in online shopping. He stressed the need for the Administration to implement relief measures for various industries in order to stimulate domestic demand, assist the industries to grasp new technologies, and step up efforts in attracting visitors from various cities of the Mainland.

45. Mr YIU Si-wing called on the Administration to step up efforts in supporting the tourism industry which was the driver for other related sectors including the retail and catering industries. He urged that the Administration should continue implementing measures to help reduce the operating costs of

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the industry, such as waiving licence fees, and promoting the development of green tourism.

46. Mr Charles Peter MOK commented that it would be insufficient for the Administration to promote innovation and technology through investment in hardware and provision of funds to start-ups. With a view to helping start-ups, the Administration should step up efforts in nurturing talents for the innovation and technology sector and stop awarding outsourced contracts to the lowest bidders which had disadvantaged start-ups. Mr MOK further urged the Administration to expedite digital transformation in government bureaux and departments ("B/Ds"), extend the scope of opening Government's data, and enhance co-operation with start-ups in facilitating digital transformation.

47. FS(atg) took note of Members' views and suggestions, and said that he would discuss the views and suggestions with the relevant B/Ds. He also remarked that the Government was aware of the difficulties facing the tourism industry and would consider the need to formulate relevant support measures. In this regards, he appealed to Members for supporting the proposed expansion of the Hong Kong Disneyland, which would be conducive to the long-term development of local tourism.

Measures to tackle challenges arising from the ageing population

48. Mr Frankie YICK noted with concern further decline in the total labour force and tight manpower supply in the labour market. He called on the Administration to consider relaxing the importation of labour into Hong Kong to address the acute manpower shortage in some industries and meet the challenge of ageing workforce. He remarked that the problem could not be resolved solely by enhancing the application of technologies as even the high-end logistics industry suffered from manpower shortage.

49. Mr Kenneth LEUNG opined that economic restructuring and promoting new technologies for industries and sectors would help address the problem of continuous decline in labour force. In this regard, Mr LEUNG enquired whether the Administration had any long-term plans on developing new industries.

50. FS(atg) agreed that the Government should formulate measures to tackle the ageing labour force which would increase the operating costs of many industries. The Government had adopted a multi-pronged approach in tackling the problem. It was also observed that industries including the retail industry had been exploring the use of new technology to reduce labour demand in their

operation. It was believed that the market would make adjustment and the Government would formulate measures to facilitate such adjustment.

Future Fund

51. Mr WU Chi-wai and Mr CHAN Chun-ying enquired about the expected rate of return of FF.

52. FS(atg) advised that the fiscal reserves used to be placed with the Exchange Fund ("EF") for investment. FF was established in 1 January 2016 with an "initial endowment" of $219.7 billion notionally held against the Land Fund. FF remained an integral part of the fiscal reserves and was being placed with EF for investment. It would be difficult to predict the rate of return of FF at this stage and the purpose of establishing FF was for longer-term investments with a view to securing higher returns for the fiscal reserves. For disclosure purpose, the balance of FF and its rate of return would be included in the annual financial statement of EF and in Government's annual accounts to be tabled before the Legislative Council.

Expenditure on capital works projects

53. Dr YIU Chung-yim noted that the 2016-2017 estimated expenditure of $78.5 billion on capital works was much higher than the balance of $58.2 billion of the Capital Works Reserve Fund ("CWRF") in 2015-2016. Moreover, the estimated expenditure on capital works was forecasted to grow steadily to over $100 billion in 2020-2021 which would be higher than the estimated revenue from land premium in the same period. As such, Dr YIU expressed concern about whether CWRF would have sufficient resources to implement the various planned capital works projects in the coming years. He also enquired about the Administration's criteria for reviewing the progress of implementing the Capital Works Programme.

54. FS(atg) said that sufficient resources would be reserved for taking forward projects in the Capital Works Programme for the period from 2016-2017 to 2020-2021, and the Government could transfer funds from the General Revenue Account to CWRF to meet such purpose if necessary. He explained that in assessing the need and priorities of capital works projects, the Government would consider the underlying policy objectives of implementing the projects and whether the level of expenditure of the capital works projects was commensurate with Hong Kong's GDP growth rate.

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Expenditure on housing

55. Dr YIU Chung-yim queried whether there would be sufficient resources for building PRH units and Home Ownership Scheme ("HOS") flats to meet the production targets in 2016-2017, and enquired about the resources to be allocated for constructing public housing in the next few years.

56. FS(atg) said that the construction of PRH units and HOS flats was under the purview of the Hong Kong Housing Authority ("HA"), the budget of which was independent from that of the Government. The Government would allocate resources to HA as and when necessary. In this regard, a Housing Reserve was established in 2014 to support the 10-year public housing supply target. FS(atg) stressed that HA would have sufficient resources to meet its housing construction targets.

VI Proposed amendments to the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance to enhance the regulation of certain designated non-financial businesses and professions, and the Companies Ordinance to enhance transparency of the beneficial ownership of companies

(LC Paper No. CB(1)363/16-17(05) — Administration's paper on "Enhancing Hong Kong's Regulatory Regime for Combating Money Laundering and Terrorist Financing"

LC Paper No. CB(1)363/16-17(06) — Background brief on proposed amendments to the Anti-Money Laundering and Counter-Terrorist financing (Financial Institutions) Ordinance prepared by the Legislative Council Secretariat)

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Briefing by the Administration

57. At the invitation of the Chairman, Deputy Secretary for Financial Services and the Treasury (Financial Services)1("DS/FS(1)") briefed members on the Government's plan to conduct consultations on proposals to amend the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Cap.615) ("AMLO") and the Companies Ordinance (Cap.622) ("CO"). The objective of the proposed amendments was to enhance the regulatory regime for combating money laundering and terrorist financing in fulfilment of Hong Kong's obligations under the Financial Action Task Force ("FATF"). The Government's target was to introduce the relevant amendment bills into the Legislative Council by July 2017.

Discussion

Proposed amendments to the Companies Ordinance

58. Mr LEUNG Kwok-hung noted that one of the proposed amendments to CO was to require a company to identify and keep a register of people and a relevant legal entity with significant control ("PSC") over the company. As the proposed penalty for non-compliance with the requirement to maintain a PSC register only included imposition of fines but not imprisonment, he was concerned that the proposed penalty would have little deterrent effect. As regards the sanction against registrable individuals or legal entities who failed to comply with the notice requirements to ascertain and confirm the relevant required particulars in the PSC register, Mr LEUNG enquired if the Administration would adopt the provisions in some overseas regimes (e.g. the United Kingdom and Switzerland) empowering companies to issue restriction notices to the non-complying registrable individuals or legal entities in order to restrict some of their rights.

59. DS/FS(1)1 said that while a heavier penalty for the offence would produce greater deterrence, the proposed level of fines for the offence was comparable to that currently applicable to failure to keep registers of members, directors and company secretaries under CO. The Government noted that in some overseas regimes, companies were provided with the power to issue restriction notices to a registrable individual or a registrable legal entity that failed to comply with the notice requirements, which would restrict some of their rights such as voting rights and right to receive dividends. The Government had an open mind on the issue and would consider public views in finalizing the proposal.

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60. Dr Fernando CHEUNG, Mr LEUNG Kwok-hung and Mr Holden CHOW pointed out that a beneficial owner or the ultimate controller of a company (who could be a natural person or a company) could conceal his/its interest in the company by establishing multiple layers of holding companies both local and overseas. They asked whether the information on the ultimate beneficial owner or the controlled legal person of a company would be disclosed to the public.

61. DS/FS(1) explained that under the proposed amendments to CO, companies incorporated in Hong Kong would be required to obtain and keep up-to-date information on its beneficial ownership, and provide the information for public inspection upon request. For companies controlled by a beneficial owner through a chain of successive layers of companies, apart from disclosing the ultimate beneficial owner who was an individual, these companies would be required to identify and register the immediate holding company irrespective of whether it was incorporated locally or overseas, as a relevant legal entity with significant control over the company. If the legal entity was an offshore company, the information of the ultimate beneficial owner who had control over the offshore company would also be required to be disclosed.

Proposed amendments to the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance

62. Mr CHAN Chun-ying asked whether there would be a target on the number of prosecutions against non-compliance with the proposed new regulatory requirements for meeting the relevant standards of FATF when the latter conducted the mutual evaluation on Hong Kong in 2018/2019. He pointed out that while non-compliance of financial institutions ("FIs") with the customer due diligence ("CDD") and record-keeping requirements of AMLO was a criminal offence, under the Administration's present proposal, no criminal sanctions would be imposed on the four designated non-financial business and professions ("DNFBP"), namely solicitors, accountants, real estate agents and trust or company service providers ("TCSP"), for their non-compliance with the requirements. He queried the different treatment for FIs and the four sectors, and asked whether the proposal was in line with recommendations of FATF.

63. DS/FS(1) responded that the Government would not set any target on the number of prosecutions to be made nor was there any such requirement by FATF. She advised that in conducting the mutual evaluation on the anti-money laundering and counter-terrorist financing regimes of member jurisdictions,

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FATF would examine the effectiveness of the regimes in combating money laundering and terrorist financing activities, and whether the jurisdictions had applied proportionate and dissuasive sanctions (whether criminal, civil or administrative) to deal with various non-compliances. Regarding the proposed penalty for non-compliance by the four sectors, DS/FS(1) said that FATF did not oblige member jurisdictions to impose criminal sanctions for non-compliance by DNFBP. It should be noted that the risks that might be faced by the four sectors in respect of transactions relating to the handling of clients' money should not be as high as those faced by FIs. Having regard to the inherent risks concerning the four sectors vis-à-vis FIs, the Government did not intend to propose criminal sanctions for non-compliances by these sectors.

64. Mr Kenneth LEUNG asked whether there were plans to amend the Legal Practitioners Ordinance (Cap. 159), the Professional Accountants Ordinance (Cap. 50) and the Estate Agents Ordinance (Cap. 511) to specifically provide for sanctions against non-compliance by solicitors, accountants and real estate agents with CDD and record-keeping requirements of AMLO. He also enquired about the Administration's consideration in proposing sanctions for non-compliance by TCSP.

65. DS/FS(1) responded that the Government would leverage on the existing regulatory regimes under the respective ordinances to enforce the statutory CDD and record-keeping requirements for the three sectors. Non-compliance with the AMLO requirements would be handled in accordance with the prevailing investigation, disciplinary and appeal mechanisms under the three ordinances. She added that the three ordinances had already stipulated a set of appropriate disciplinary sanctions ranging from reprimands, orders for remedial actions, to civil fine, and suspension from practice or revocation of license, which should provide sufficient deterrent effect. The disciplinary mechanisms of the three sectors were on a par with those of other member jurisdictions of FATF. In respect of TCSP, having regard to the risk of the sector and the need to maintain some degree of consistency among the other three DNFBP sectors, the Government did not intend to introduce criminal offences for non-compliance by TCSP.

66. Dr YIU Chung-yim asked whether surveyors who at times would undertake the work of real estate agents for their clients would be subject to the proposed regulatory measures. DS/FS(1) responded that in the FATF parlance, DNFBP covered casinos, dealers in precious metals and stones, real estate agents, lawyers, notaries, accountants, and TCSPs, and did not include

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surveyors. Hence, surveyors would not be affected by the proposed regulatory measures.

VII Asian Development Bank – Contribution of Hong Kong to the 11th Replenishment of the Asian Development Fund

(LC Paper No. CB(1)363/16-17(07) — Administration's paper on "Asian Development Bank – Contribution of Hong Kong to the 11th Replenishment of the Asian Development Fund"

LC Paper No. CB(1)363/16-17(08) — Background Brief on Hong Kong's contribution to the 11th replenishment of the Asian Development Fund prepared by the Legislative Council Secretariat)

Briefing by the Administration

67. At the invitation of the Chairman, the Deputy Secretary for Financial Services and the Treasury(Financial Services)1 ("DS(FS)1") and the Executive Director (External) of the Hong Kong Monetary Authority ("ED/HKMA") briefed members on the proposed contribution of US$17.47 million (about HK$137.2 million) to the 11th replenishment of the Asian Development Fund (or "ADF XII") of the Asian Development Bank ("ADB"). DS(FS)1 explained that ADF was typically replenished once every four years and contribution to ADF was voluntary. The Government's proposal was to maintain Hong Kong's burden share at 0.57% of the target donor contributions, which was the same ratio adopted in the last five ADF replenishments since 1997. The Government would adopt a 10-year standard encashment schedule (i.e. from 2017-2018 to 2026-2027) for Hong Kong's contribution to ADF XII, and include the required provision in the draft Estimates of the relevant financial years.

68. ED/HKMA supplemented on the contributions made by other donors. Among the 19 non-regional donors, over half agreed to increase or maintain their burden share in ADF XII, compared to ADF XI. As for the 14 regional donors in the Asia and Pacific region, most of them also agreed to increase or

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maintain their burden share. In particular, China significantly increased its burden share from 0.77% to 3.26%, while Indonesia re-joined as a new donor in ADF XII. Hence, it was generally expected that Hong Kong would maintain its burden share as in ADF XI.

Discussion

Hong Kong's contribution to the Asian Development Fund

69. Noting that Hong Kong's proposed contribution to ADF XII would be much smaller than its last contribution to ADF XI in 2013, Dr YIU Chung-yim enquired about estimated contribution to be made by Hong Kong beyond ADF XII.

70. DS(FS)1 advised that as compared with Hong Kong's contribution for ADF XI, the proposed contribution of US$17.47 million for ADF XII was 47.3% lower. This was due to the combination of ADF's loan operations and related assets with ADB's ordinary capital resources, after which the ADF would become a grant-only facility and require a substantially reduced total replenishment size in ADF XII. Noting that ADF was typically replenished once every four years, she said that negotiations on ADF XIII had yet to commence. It would be difficult to estimate Hong Kong's contribution to ADF beyond ADF XII at the present stage.

71. Mr Kenneth LEUNG expressed support for the funding proposal. He enquired how Hong Kong firms could benefit from Hong Kong's contribution to ADF. DS(FS)1 advised that according to ADB, Hong Kong firms had been awarded ADB-financed projects such as procurement contracts and consultancy services worth US$961.97 million in total as of end 2015. She added that these projects covered various sectors including transportation, energy and information technology.

Work of the Asian Development Bank and the Asian Infrastructure Investment Bank

72. Mr Kenneth LEUNG enquired whether there would be overlap in the work of ADB and AIIB. DS(FS)1 advised that ADB and AIIB had different work priorities. The former focused on supporting poverty reduction projects while the latter focused on financing infrastructure projects in Asia.

Conclusion

73. The Chairman concluded that members supported the Administration's proposed contribution of US$17.47 million to ADF XII.

VIII Briefing on the work of the Financial Services Development Council

(LC Paper No. CB(1)363/16-17(03) — Paper provided by the Financial Services Development Council

LC Paper No. CB(1)363/16-17(04) — Updated background brief on Financial Services Development Council prepared by the Legislative Council Secretariat)

Briefing by the Administration

74. With the aid of a powerpoint presentation (LC Paper No. CB(1)363/16-17(03)), the Chairman, Financial Services Development Council ("C/FSDC") briefed members on the work progress of FSDC, including the seven reports released in 2016, promotional and engagement activities and human capital initiatives in 2016, and work plan for 2017.

Discussion

The role of the Financial Services Development Council

75. Mr LEUNG Kwok-hung cast doubt on the need to establish FSDC and whether FSDC would continue to operate after the expiry of the term of office of the incumbent CE. Mr LEUNG was of the view that should FSDC continue with its work, it should be turned into a statutory body. Mr Kenneth LEUNG agreed that should FSDC continue with its work, its institutional arrangement must be reviewed in facilitating its future work.

76. C/FSDC said that FSDC was a high level advisory body established to engage the financial services industry and advise the Government on measures to enhance the competitiveness of Hong Kong as an international financial centre. At present, the research studies of FSDC were mainly carried on by its

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members who were working on a part-time and pro bono basis. She agreed that it would be desirable if FSDC could be developed into a statutory body in the future. The Under Secretary for Financial Services and the Treasury ("USFST") supplemented that the chairman and members of FSDC were appointed by CE for a term of two years. CE would re-appoint/appoint the Chairman and other members when their current term of office ended on 16 January 2017.

77. Given that FSDC was not a statutory body and did not have executive power to implement its recommendations, Mr CHAN Chun-ying enquired how FSDC would ensure that the Government and the regulators would take forward its recommendations in a timely manner. He considered that FSDC should conduct annual audits with a view to monitoring the implementation of its recommendations.

78. C/FSDC advised that FSDC did closely monitor the progress of the Government in taking forward the various recommendations in FSDC's reports and track the progress of each of its reports in FSDC's annual reports in order to keep the public informed.

79. Mr Abraham SHEK expressed support for the work of FSDC. He sought the Administration's assessment on the work of FSDC over the past years and the need for FSDC to continue with its work. He further requested the Administration to provide detailed information on its response to FSDC's reports, in particular the progress in taking forward the various recommendations and the reasons for not taking any follow-up action on some of the proposals.

80. USFST said that the Administration valued the recommendations made by FSDC. The reports of FSDC provided a collection of proposals on different subjects. It would take time for the Administration and relevant regulators to examine the feasibility of the recommendations. USFST took note of Mr SHEK's request.

(*Post-meeting note*: The information provided by the Administration was issued to members vide LC Paper No. CB(1)676/16-17(02) on 15 March 2017.)

Promoting green finance in Hong Kong

81. Ms Tanya CHAN noticed from FSDC's report "Hong Kong as a regional green finance hub" issued in May 2016 that green finance referred to capital

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raising and financial investments flowing into projects, products and companies that support the development of a more sustainable, low-carbon and climate-resilient economy. In this regard, she expressed concern on FSDC's recommendation of inviting public sector bodies like the Airport Authority ("AA") and The Mass Transit Railway Corporation ("MTRC") to consider issuing green bonds. In her views, AA, in particular its Three-Runway System ("TRS") Project, was not environmentally friendly and hence should not be awarded with a "Green Label". She further enquired whether FSDC had considered awarding "Green Label" to green projects, such as projects to promote the development and use of solar energy in Hong Kong.

82. Dr YIU Chung-yim shared the view that the TRS Project was indeed an environmentally unfriendly project. He enquired about FSDC's plans in promoting green finance in Hong Kong, in particular how it would encourage investors to invest in green projects considering the relative high investment risk and low investment return of such projects.

83. C/FSDC advised that green finance could refer to capital raising and financial investments flowing into any projects identified with green characteristics. FSDC recommended the Government issue benchmark green bonds with a view to promoting the development of green finance in Hong Kong and encouraging the private sector to issue green bonds. She added that though green finance was a relatively new subject area, following the outcome of international climate negotiations in Paris in December 2015 (COP21), governments round the world were proactively taking steps to develop green finance. Moreover, with the promulgation of the Principles for Responsible Investment by the United Nations, more and more enterprises were incorporating green elements such as environmental, social and corporate governance issues into their investment projects.

84. Mr Kenneth LEUNG sought information on the criteria for determining a green bond and how the Administration would encourage banks and FIs to promote the development of green finance.

85. C/FSDC said that rating agencies had developed the labeling/certification process to facilitate identification of "green characteristics" of bond products. A few local companies had issued green bonds in London given that the relevant labeling/certification market for green bonds in the United Kingdom was relatively more mature. She considered that the Government and the industry should collaborate in formulating the relevant labeling and certification framework. USFST supplemented that the BEAM

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Plus in the building sector was an example of a green labeling scheme. The Government and the Hong Kong Quality Assurance Agency were working together in developing a Green Labeling Scheme for the implementation of green finance in Hong Kong. He added that second party opinion or third party verification would be required during the certification process.

Research work of the Financial Services Development Council

86. Dr Fernando CHEUNG expressed concern about the slow progress in implementing Socially Responsible Investment ("SRI") in Hong Kong and enquired if FSDC would study ways to promote SRI in Hong Kong. C/FSDC agreed that there was room for developing SRI in Hong Kong and FSDC would put more emphasis on the subject in 2017.

87. The Chairman supported the work of FSDC. He urged the Administration and FSDC to conduct studies and formulate measures to facilitate small and medium-sized securities firms in adopting financial technology ("Fintech") in their business. He emphasized the need to provide financial support to these firms in developing Fintech and making use of technologies to address the know your client ("KYC") issue which would facilitate overseas investors to open trading accounts with local securities firms. He further called on the Administration to seize the opportunity to introduce Shanghai Shenzhen CSI 300 Index into the Hong Kong market.

88. USFST pointed out that the Financial Secretary had included in the 2016-17 Budget a number of measures to facilitate the development of Fintech in Hong Kong, including the provision of financial support to Fintech start-ups and FIs. The Securities and Futures Commission had already set up a coordination office to liaise with the securities industry with a view to identifying innovative financial products and services that could be introduced in Hong Kong, including the use of Fintech in the KYC process. C/FSDC said that enhancement in human capital and manpower training were crucial to the development of Fintech in Hong Kong. One of FSDC's work focuses had been developing human capital for the sustainable development of the financial services sector. Regarding the introduction of Shanghai Shenzhen CSI 300 Index into the Hong Kong market, USFST said that the Government would follow-up with the China Securities Regulatory Commission on the matter.

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IX Proposed creation of one post of Administrative Officer Staff Grade C in the Treasury Branch of the Financial Services and the Treasury Bureau and one post of Chief Assessor in the Stamp Office of the Inland Revenue Department

(LC Paper No. CB(1)363/16-17(09) — Administration's paper on "Proposed creation of one post of Administrative Officer Staff Grade C in the Treasury Branch of the Financial Services and the Treasury Bureau and one post of Chief Assessor in the Stamp Office of the Inland Revenue Department")

Briefing by the Administration

89. At the invitation of the Chairman, the Deputy Secretary for Financial Services and the Treasury (Treasury)2 ("DS(Tsy)2") briefed members on the Administration's proposal to create a post of Administration Officer Grade C ("AOSGC") in the Treasury Branch of the Financial Services and the Treasury Bureau ("FSTB") and a post of Chief Assessor ("CA") in IRD. The first post was required by FSTB for dealing with various initiatives relating to Hong Kong's cooperation with the international community on tax matters, and the second post was required by IRD to cope with the increased workload and support the implementation of various policy initiatives relating to stamp duty.

Discussion

90. Dr YIU Chung-yim sought clarification on whether the proposed posts were permanent posts. He also enquired about the economic benefits to be brought about by the proposed AOSGC post.

91. DS(Tsy)2 advised that the two proposed posts would be created on a permanent basis. In respect of the proposed AOSGC post, the main duty was to handle policy and legislative matters on various initiatives regarding Hong Kong's cooperation with the international community on tax matters. He explained that the Organisation for Economic Co-operation and Development ("OECD") had put forward a number of new initiatives in recent years to

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enhance tax transparency and combat cross-board tax evasion. OECD released the new standard on AEOI in 2014, and the Government was working on the implementation issues. Moreover, OECD released a package of 15 action plans in October 2015 to tackle base erosion and profits shifting ("BEPS") of enterprises. Hong Kong had indicated to OECD in June 2016 its commitment to the BEPS package and its consistent implementation. More similar initiatives were expected in the years to come. There was an imminent need to strengthen the support for FSTB to handle various matters relating to international tax cooperation on a long-term basis. He stressed that it would be crucial for Hong Kong to take forward these international initiatives timely in order to avoid being labelled by OECD/European Union ("EU") as a "non-cooperative" jurisdiction. Otherwise, it could seriously undermine Hong Kong's position as an international financial centre and might result in counter-measures taken by OECD/EU against Hong Kong. Regarding the proposed CA post to be created in IRD, DS(Tsy)2 said that a three-year supernumerary CA post was created on 1 April 2014 and would expire on 31 March 2017. The Administration proposed to create a permanent post to take up the relevant duties taking into account the sustained increasing workload arising from the policy and collection of stamp duty.

92. Mr LEUNG Kwok-hung questioned the benefits for Hong Kong to implement international initiatives in enhancing tax transparency as Hong Kong adopted a territorial-based tax regime. DS(Tsy)2 reiterated the importance for Hong Kong, as an international financial centre and a responsible member of the international community, to take forward the initiatives concerned. He added that Hong Kong had been practising a simple, territorial-based tax regime. It would imply a fundamental change to the existing taxation regime if Hong Kong were to adopt a global taxation system.

Conclusion

93. The Chairman concluded that members had no objection to the Administration submitting the staffing proposal to the Establishment Subcommittee.

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X Any other business

94. There being no other business, the meeting ended at 1:30 pm.

Council Business Division 1
Legislative Council Secretariat
29 March 2017