立法會
Legislative Council

LC Paper No. CB(1)1402/16-17
(These minutes have been seen by the Administration)

Ref : CB1/PL/FA/1

Panel on Financial Affairs

Minutes of meeting held on
Monday, 29 May 2017 at 10:00 am
in Conference Room 2 of the Legislative Council Complex

Members present	**:**	Hon Christopher CHEUNG Wah-fung, SBS, JP (Chairman) Hon James TO Kun-sun Hon Jeffrey LAM Kin-fung, GBS, JP Hon WONG Ting-kwong, SBS, JP Hon Starry LEE Wai-king, SBS, JP Hon CHAN Kin-por, BBS, 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 Dennis KWOK Wing-hang Hon Holden CHOW Ho-ding Hon SHIU Ka-fai Hon CHAN Chun-ying Hon CHEUNG Kwok-kwan, JP Dr Hon YIU Chung-yim
Member attending	**:**	Hon Alice MAK Mei-kuen, BBS, JP

Members absent	**:**	Hon Kenneth LEUNG (Deputy Chairman) Hon Abraham SHEK Lai-him, GBS, JP Hon CHU Hoi-dick Dr Hon Junius HO Kwan-yiu, JP Hon Tanya CHAN

[According to the Judgment of the Court of First Instance of the High Court on 14 July 2017, LEUNG Kwok-hung, Nathan LAW Kwun-chung, YIU Chung-yim and LAU Siu-lai have been disqualified from assuming the office of a member of the Legislative Council, and have vacated the same since 12 October 2016, and are not entitled to act as a member of the Legislative Council.]

Public officers attending	**:**	<u>Agenda Item III</u> Mr Norman T. L. CHAN, GBS, JP Chief Executive Hong Kong Monetary Authority Mr Eddie YUE, JP Deputy Chief Executive Hong Kong Monetary Authority Mr Arthur YUEN, JP Deputy Chief Executive Hong Kong Monetary Authority Mr Henry CHENG, JP Acting Senior Executive Director Hong Kong Monetary Authority Mr Darryl CHAN, JP Executive Director (Corporate Services) Hong Kong Monetary Authority <u>Agenda Item IV</u> Mr Patrick HO Chung-kei, JP Deputy Secretary for Financial Services and the Treasury (Financial Services) Mr Paul WONG Yan-yin Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)6

Ms Ada CHUNG Lai-ling, JP
Registrar of Companies
Companies Registry

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 Information papers issued since the regular meeting on 18 April 2017

(LC Paper No. CB(1)839/16-17(01)	—	First quarterly report of 2017 on "Employees Compensation Insurance — Reinsurance Coverage for Terrorism"
LC Paper No. CB(1)893/16-17(01)	—	Hong Kong Monetary Authority Annual Report 2016
LC Paper No. CB(1)912/16-17(01)	—	Process Review Panel for the Financial Reporting Council 2016 Annual Report
LC Paper No. CB(1)945/16-17(01)	—	First Quarter Economic Report 2017 and the press release)

Members noted the information papers issued since the regular meeting held on 18 April 2017.

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II Date of next meeting and items for discussion

(LC Paper No. CB(1)993/16-17(01) — List of outstanding items for discussion

LC Paper No. CB(1)993/16-17(02) — List of follow-up actions)

2. Members agreed to discuss the following items proposed by the Administration at the next regular meeting scheduled for 5 June 2017:

(a) Briefing by the Financial Secretary on Hong Kong's latest overall economic situation;

(b) Annual briefing on the work of the Financial Reporting Council;

(c) Subsidiary legislation and code relating to the open-ended fund company regime; and

(d) Application of Multilateral Convention on Mutual Administrative Assistance in Tax Matters in Hong Kong.

3. Members further agreed that the meeting on 5 June 2017 would be held from 9:30 am to 12:45 pm to allow sufficient time for discussion of the above four items.

III Briefing on the work of Hong Kong Monetary Authority

(LC Paper No. CB(1)993/16-17(03) — Paper provided by the Hong Kong Monetary Authority)

Briefing by the Hong Kong Monetary Authority

4. At the invitation of the Chairman, the Chief Executive, Hong Kong Monetary Authority ("CE/HKMA"), the Deputy Chief Executive (Banking), Hong Kong Monetary Authority ("DCE(B)/HKMA"), the Deputy Chief Executive (Monetary), Hong Kong Monetary Authority and the Acting Senior Executive Director (Development), Hong Kong Monetary Authority updated members on the work of the Hong Kong Monetary Authority ("HKMA") through a powerpoint presentation. Topics included assessment of risks to Hong Kong's financial stability, banking supervision, financial infrastructure, development of the financial market, investment performance of the Exchange Fund ("EF"), and

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the Hong Kong Mortgage Corporation Limited's ("HKMC") Life Annuity Scheme ("LAS").

(*Post-meeting note*: The powerpoint presentation materials (LC Paper No. CB(1)1029/16-17(01)) were issued to Members vide Lotus Notes e-mail on 29 May 2017.)

Discussion

Macroeconomic environment and Hong Kong's credit ratings

5. Mr CHAN Chun-ying noted with concern Moody's recent downgrade of the credit ratings of the Mainland (from Aa3 to A1) and Hong Kong (from Aa1 to Aa2), and sought HKMA's views on the impacts on Hong Kong's financial stability. The Chairman disagreed with Moody's rationale for its decision (i.e. Hong Kong's close economic tie with the Mainland) and was concerned that other major credit rating agencies might follow Moody's action. He enquired about measures HKMA would take to mitigate the possible adverse impacts, and sought its assessment of the downgrading on the participation of Hong Kong's financial services sector in the Belt and Road Initiative ("BRI") and the Guangdong-Hong Kong-Macao Big Bay Area development.

6. CE/HKMA said that Moody's had mechanically downgraded Hong Kong's credit rating following its downgrading of Mainland's credit rating and HKMA did not agree with Moody's decision. He pointed out that the Mainland economy had stabilized and shown signs of improvement since the second half of 2016, while in Hong Kong, credit quality remained healthy with the classified loan ratio of retail banks declining slightly in the first quarter of 2017. On the impact of the downgrading on Hong Kong, CE/HKMA said that in general, it would increase the cost of bond issuers. However, he did not envisage that it would have a significant impact as Hong Kong maintained a strong fiscal position and did not need to finance its expenditures by issuing government bonds. The objective of the government bond programme was to promote the development of the local bond market, and the issuance size was relatively small. As regards private enterprises which issued bonds in Hong Kong, they were mainly corporates with high credit ratings and well-known to investors. The slight downgrade in Hong Kong's credit rating should not have significant impact on their bond issuance cost. CE/HKMA said that although Moody's had downgraded Hong Kong's credit rating, Hong Kong still maintained very high international credit ratings as assigned by other credit rating agencies (e.g. AAA by Standard and Poor's). Going forward, as long as Hong Kong maintained sound economic fundamentals and robust financial regulatory regime, there was a chance that Moody's would eventually restore Hong Kong's credit rating.

7. Dr YIU Chung-yim remarked that the international community had expressed concern about the risks arising from the development of trade protectionism. He enquired about measures HKMA would take to counteract such risks, and sought its views on the recent decline in the inflation rates of Hong Kong and the Mainland.

8. CE/HKMA referred to slide 7 of the powerpoint presentation where he mentioned that one of the risks pertaining to the new US administration was its trade protectionist policies, which could in turn have a negative impact on the global economy. On the question of inflation, he remarked that owing to global economic slowdown and a sharp decline in energy and commodity prices in the past two years or so, the global inflation rates had been falling. Some advanced economies were even worried about deflationary risks. However, with the improvement in global economic conditions and stabilization in commodity prices recently, he envisaged that Hong Kong's inflation would be moderate in the near term.

Banking and market stability

9. Mr WU Chi-wai noted that at the last briefing at the Panel meeting on 6 February 2017, HKMA remarked that the risks arising from the high loan-to-value ("LTV") ratio mortgages offered by property developers through finance companies were not significant. He asked why HKMA had changed its position by introducing measures on 12 May 2017 to strengthen banks' risk management on lending to property developers. He also expressed concern that high LTV ratio mortgages could be securitized, thus increasing the risks to market stability.

10. CE/HKMA advised that HKMA had been monitoring high LTV ratio mortgages offered by property developers since 2016. While the total amount of such mortgages remained low in 2016, HKMA noted the potential risk to banks (which provided credit to property developers) if these mortgages were to increase rapidly. According to the latest data collected from banks, the growth rate of such mortgages had accelerated recently and the number of property buyers taking up such mortgages was also on the rise. HKMA therefore introduced the relevant measures on 12 May 2017. CE/HKMA said that at present, he was not aware that securitization of mortgage loans by property developers was active in the market. He stressed that banks were not allowed to purchase mortgage loans which were not in line with HKMA's prudential requirements on property mortgage lending.

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11. Mr WU Chi-wai observed that a number of companies had obtained loans from banks in Hong Kong using assets they held in the Mainland as collateral. He sought information on the scale of such lending by banks and HKMA's assessment of the associated risks on banking stability, and measures taken by HKMA to manage the risks.

12. DCE(B)/HKMA advised that HKMA had put great emphasis on supervising banks' Mainland-related lending business and had been monitoring banks' Mainland-related loans ("MRL") in the past six years or so, including those loans using Mainland assets as collateral. Banks were required to have proper credit risk management systems in place to effectively identify and manage the relevant risks (e.g. stringent assessment of the collateral when approving loans). The classified loan ratio of banks' MRL had been hovering around 0.8%, indicating that the asset quality of their MRL portfolio remained at a healthy level. DCE(B)/HKMA agreed to provide supplementary information (such as the amount and the proportion to the total amount of loans) on MRL provided by local banks.

(*Post-meeting note*: HKMA's supplementary information was issued to members vide LC Paper No. CB(1)1197/16-17(02) on 26 June 2017.)

13. Dr YIU Chung-yim noted with concern about the significant decline in the aggregate balance of Hong Kong dollar ("HKD") and the total amount of Renminbi ("RMB") deposits in Hong Kong recently, as well as fluctuations in the exchange rate of HKD and the 12-month HKD forward points since early 2017. He sought HKMA's explanation on the phenomena. Mr CHAN Kin-por enquired how EF would mitigate the potential risks arising from the interest rate normalization of the United States ("US") on EF's bond investment.

14. CE/HKMA responded that the Monetary Base of HKD had remained stable, and the recent changes in HKD exchange rate were normal and within expectations. He explained that under the Linked Exchange Rate System ("LERS"), as the negative spreads between HKD and US dollar ("USD") interest rates had been widening since the start of USD interest rate normalization process, there had been more interest rate arbitrage activities, which had resulted in a weakening of HKD exchange rate recently. As arbitrage activities continued to increase, it was expected that HKD exchange rate would reach the weak-side Convertibility Undertaking level of 7.85 against USD at some point in time and the Monetary Base of HKD would contract, which was a normal and natural process under LERS. CE/HKMA agreed to provide information on the changes in the Aggregate Balance and Monetary Base of HKD and HKMA's assessment as requested by Dr YIU Chung-yim.

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(*Post-meeting note*: HKMA's supplementary information was issued to members vide LC Paper No. CB(1)1197/16-17(02) on 26 June 2017.)

15. Mr Charles MOK pointed out that a number of multinational corporations were laying off staff and some banks in Hong Kong had been contracting out their information technology ("IT") services and down-sizing their IT divisions. He expressed concern about the negative impacts on cyber resilience of the banking industry. Mr CHAN Kin-por enquired how HKMA would tackle the issue.

16. CE/HKMA responded that HKMA adopted a risk-based approach in its supervision of banks, and normally would not interfere with the commercial decisions of individual banks. Any changes in banks' manpower resources would be assessed from a risk management perspective to ensure that the security and integrity of banks' operations would be maintained. He noted that it had become a growing trend for banks to outsource some of their business operations, such as IT system. He said that banks were required to consult HKMA before they contracted out their services (in particular those on a large-scale basis) to ensure that no major risks would arise from such outsourcing. DCE(B)/HKMA advised that HKMA had set up a dedicated team responsible for supervising the technology risk of the banking industry, and had been promoting the sharing of cyber threat intelligence among banks to enhance their cyber resilience. The local banking industry was not affected by the major cybersecurity incidents occurred recently.

17. Mr CHAN Chun-ying enquired whether HKMA had studied the reasons for the increase in the proportion of "loans for other private purposes" to Hong Kong's gross domestic product since 2005.

18. DCE(B)/HKMA responded that while HKMA did not collect detailed information about "loans for other private purposes" on a regular basis, relevant information was obtained from banks about a year ago on an ad hoc basis. According to the data provided by banks at that time, the growth of such loans was mainly driven by banks' private banking businesses. Around two-thirds of such growth were related to personal loans with collateral (such as investment products) while the remaining one-third was loans without collateral (like tax loans). HKMA would consider whether to collect more updated information from banks to better assess the latest situation.

19. Mrs Regina IP referred to the recent remarks of Mr Joseph YAM (the former Chief Executive of HKMA) that the scale of the next round of global financial crisis would be larger than that in 2008, and enquired how HKMA would prepare Hong Kong for the potential financial crisis.

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20. CE/HKMA responded that HKMA attached utmost importance to maintaining the financial stability of Hong Kong. The international community had implemented various measures under G20 to enhance global financial stability in the wake of the 2008 global financial crisis, such as raising capital requirements and establishing resolution regimes to mitigate risks posed by financial institutions that were "too big to fail". In Hong Kong, the Financial Institutions (Resolution) Ordinance was passed in 2016. HKMA would continue to closely monitor developments in the monetary and financial environment and implement appropriate measures to enhance the resilience of the banking industry having regard to the unique circumstances of Hong Kong (e.g. risks posed by the overheated property market on the banking industry).

Development of financial services

21. Mrs Regina IP enquired about CE/HKMA's experience in the Belt and Road Forum for International Cooperation ("the BR Forum") held in Beijing in May 2017. She pointed out that the local business sector had reservation towards BRI projects due to concerns about the higher risks involved in the projects and the long cost-recovery period. She asked how HKMA would address such concerns.

22. CE/HKMA advised that he had promoted Hong Kong's strengths in infrastructure investments and financing and introduced the work of HKMA's Infrastructure Financing Facilitation Office ("IFFO") at the BR Forum. IFFO had been working closely with a cluster of like-minded stakeholders to facilitate infrastructure investments and financing. For instance, IFFO organized the inaugural Debt Financing and Investors' Roundtables in March 2017 in which a reference term sheet for infrastructure investments was developed to set out various major factors to be considered for infrastructure investments. The reference term sheet had been uploaded onto IFFO's website. The next step would be to leverage on the cluster of IFFO partners to facilitate equity and debt financing for BRI-related projects by bringing together project developers/operators and investors/financiers. HKMA would keep Members posted of the progress. CE/HKMA said that infrastructure projects often involved issues like land acquisition, compensation and environmental assessments, so they were in general of larger scale and with longer cost-recovery period. Some enterprises possessed the necessary expertise and experience in managing infrastructure projects. Moreover, the opportunities arising from BRI did not confine to infrastructure but also covered trading and manufacturing. As long as Hong Kong continued to leverage on its intermediary role and increase understanding of BRI countries and projects, opportunities would come by.

23. Mr LEUNG Kwok-hung asked whether HKMA had any role in the Bond Connect ("BC") initiative, whether EF would increase its holdings in RMB-denominated bonds issued by the Central Government through BC, and whether there would be targets set for the usage of BC.

24. CE/HKMA said that HKMA had been, through existing channels, investing in RMB-denominated bonds issued by the Central Government. At present, there was no plan to increase investment in RMB-denominated bonds due to the launch of BC. BC aimed to provide a more convenient channel for overseas investors to participate in the Mainland bond market through Hong Kong's trading and settlement platforms. It was a new financial infrastructure to promote Hong Kong's offshore RMB business, and HKMA did not set any targets on its usage. He undertook to provide information on EF's investment in RMB-denominated bonds issued by the Central Government.

(*Post-meeting note*: HKMA's supplementary information was issued to members vide LC Paper No. CB(1)1197/16-17(02) on 26 June 2017.)

The property market

25. Ms Starry LEE expressed grave concern about continued surge in the local property prices, which she considered were far beyond the affordability of the general public, despite implementation of various demand-side management measures and eight rounds of counter-cyclical macroprudential measures by the Government and HKMA respectively. Ms LEE enquired how HKMA would mitigate risks arising from the bubble property market, and whether HKMA had conducted studies on the financial capacity of property buyers.

26. Mr LEUNG Kwok-hung remarked that property developers had devised various measures to counteract HKMA's counter-cyclical macroprudential measures, and enquired how HKMA would address the matter.

27. CE/HKMA remarked that the local property market, which had been distorted by the US Quantitative Easing policy and the ultra-low interest rate environment, was affected by many factors. He pointed out that if one believed in the property cycle, he/she would appreciate that the cycle comprised upward and downward trends. CE/HKMA noted that the existing upward cycle since 2003 was unusually long and current property prices were beyond the affordability of the general public. One of the responsibilities of HKMA was to maintain banking stability. It had therefore introduced eight rounds of counter-cyclical macroprudential measures to strengthen the resilience of the banking sector against any reversal of the property cycle. On 12 May 2017, HKMA also introduced a new measure to strengthen the risk management of banks on lending

to property developers, especially those offered mortgage financing with high LTV ratios. CE/HKMA added that HKMA did not have data on the affordability of property buyers if they took out mortgage loans from property developers instead of banks. Reportedly, some buyers decided to purchase flats mainly because they believed that property prices would rise further. CE/HKMA said that potential property buyers should remain vigilant and manage risks prudently so as to cope with potential market volatility arising from the continued normalization of US monetary policy.

28. Dr YIU Chung-yim suggested that HKMA should refine its information on housing affordability of the public (i.e. slide 19 of its powerpoint presentation), taking into account the fact that the mainstream mortgage terms had changed from 20 years in 1997 to 30 years in 2016.

29. CE/HKMA pointed out that the information provided in slide 19 indicated a deterioration of housing affordability in terms of price-to-income ratio over the last 20 years and served to remind the public of the importance to exercise prudence before purchasing flats. In terms of mortgage payment-to-income ratio, the current level was still lower than the peak in 1997, but it was mainly due to much lower interest rates currently. The ratio might climb up further when HKD interest rates started its upward cycle. He undertook to provide the information as suggested by Dr YIU.

(*Post-meeting note*: HKMA's supplementary information was issued to members vide LC Paper No. CB(1)1197/16-17(02) on 26 June 2017.)

Provision of banking services

30. Mr CHAN Kin-por declared that he was an independent non-executive director of the Bank of East Asia Limited. He appreciated HKMA's efforts in promoting financial inclusion and enquired about HKMA's policy regarding banks' expansion or closure of local branches. Mr CHAN Chun-ying also welcomed HKMA's work in promoting financial inclusion. He sought information on the progress of the proposal allowing senior citizens to withdraw cash at designated outlets without the need for making purchase ("the cash withdrawal proposal").

31. CE/HKMA responded that financial inclusion referred to enabling the general public to have reasonable access to basic banking services. The global trend was towards digitalization, and banking transactions could be conducted through mobile phone or the internet without necessarily involving physical branches. The automatic teller machines were well developed nowadays. These, coupled with the newly launched video teller machines, could help address the

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issue of insufficient branch network in some remote areas and hence promote financial inclusion. As regards the cash withdrawal proposal, DCE(B)/HKMA advised that the Hong Kong Association of Banks was gauging the views of relevant stakeholders. The proposal could be implemented if there was positive feedback from merchants as he did not see any regulatory hurdles in this regard. HKMA would continue to closely communicate with the banking industry on the cash withdrawal proposal.

Difficulties in opening bank accounts

32. While welcoming HKMA's work in addressing the difficulties encountered by certain entities in opening bank accounts, Mr CHAN Kin-por enquired about the refusal rate of account opening applications, which could reflect the effectiveness of HKMA's measures in addressing the problem.

33. CE/HKMA responded that HKMA had been working closely with the banking industry to address the issue. Due to the tightening of international anti-money laundering and counter-terrorist financing requirements, the banking industry had to take increasingly stringent customer due diligence ("CDD") measures. In view of the community's concern about the matter, HKMA issued a circular in September 2016 reminding banks to adopt a risk-based approach (rather than a one-size-fits-all approach) in carrying out CDD measures so as not to undermine access by legitimate business and ordinary citizens to banking services. DCE(B)/HKMA added that the rejection rate of bank account applications had been declining and averaged below 10% currently. The difficulties encountered in opening of bank accounts were not an industry-wide issue but pertinent amongst one or two banks which were usually the first port of call for many companies (in particular foreign enterprises) seeking to open bank accounts. HKMA had therefore adopted a two-pronged approach. On the one hand, it continued to work with the industry to improve the process of account opening; on the other hand, it also reminded enterprises that there were in fact many banks in Hong Kong for them to choose from.

The Hong Kong Mortgage Corporation Limited's Life Annuity Scheme

34. Mr CHAN Kin-por considered that the terms and conditions of HKMC's LAS rather attractive, and enquired whether HKMC would consider increasing the proposed issuance amount of HKD $10 billion.

35. CE/HKMA advised that the actual issuance amount of LAS would depend on market feedback. The proposed issuance amount of HK$10 billion for the first batch of LAS was based on risk management considerations. Unlike the annuity schemes run by insurance companies under which they usually received

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premiums on a periodic basis (e.g. monthly), HKMC would receive a lump-sum premium from each applicant under LAS at the outset. As such, it would be more desirable to launch LAS in batches so as to even out investment risks. CE/HKMA said that the details of LAS were not yet finalized, and HKMC would review the terms and consider if there was a need for adjustments having regard to market response.

Coin Collection Programme

36. Mr CHAN Chun-ying noted that HKMA currently deployed two coin carts in the Coin Collection Programme ("CCP"), and enquired whether it would co-operate with local start-ups (e.g. Heycoins) to enhance the collection of coins.

37. CE/HKMA said that HKMA currently deployed two coin carts which served members of the public in the 18 districts of Hong Kong on a rotational basis, and was different from others (e.g. Heycoins) that installed coin collection machines in shopping malls. HKMA welcomed innovation and new technology, as they could complement the two coin carts in collecting coins from the public to enhance coin circulation. HKMA would maintain close dialogue with the industry and study the cost effectiveness of new technology.

IV Developments after implementation of the four-pronged approach for tackling money lending-related malpractices

(LC Paper No. CB(1)993/16-17(04)	—	Administration's paper on "Developments after implementation of the four-pronged approach for tackling money lending-related malpractices"
LC Paper No. CB(1)993/16-17(05)	—	Updated background brief on regulatory arrangements to tackle malpractices by financial intermediaries for money lending prepared by the Legislative Council Secretariat)

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Briefing by the Administration

38. At the invitation of the Chairman, Deputy Secretary for Financial Services and the Treasury (Financial Services) ("DS(FS)") and the Registrar of Companies ("RC") briefed members on the developments after the Government had implemented the four-pronged approach in 2016 to tackle the problem of malpractices by fraudsters who claimed to be financial intermediaries for money lending ("intermediaries").

Discussion

Implementation of the new regulatory measures to tackle money lending-related malpractices

39. Ms Alice MAK pointed out that after implementation of the four-pronged measures, her office had received fewer cases of malpractices by intermediaries but the complexity of the cases and the amount associated with individual cases had increased. She was concerned whether the Companies Registry ("CR") would conduct site inspections on licensed money lenders without office premises, and sought details of the 38 non-compliance cases in which CR had issued letters to the money lenders concerned requiring rectifications within a specified period.

40. Mr LEUNG Kwok-hung enquired about the sanctions imposed on licensed money lenders who had failed to meet the new licensing requirements, the frequency of site inspection conducted by CR, and details of CR's inspection work.

41. DS(FS) advised that CR conducted site inspections on licensed money lenders on an on-going basis, and would conduct more than one inspection on individual money lenders if necessary. RC pointed out that CR would conduct site inspections at venues where the money lenders in question carried on their businesses irrespective of whether they had a retail branch or not. Money lenders were in general cooperative during the inspections. On the non-compliance cases identified by CR, about 60% related to failure to keep proper records showing that the money lenders had explained the terms and conditions of the loan agreements to borrowers. Of the remaining cases, non-compliances mainly involved failure to state in the loan agreements whether the borrower had entered into any agreement with a third party for or in relation to his application for a loan, failure to state particulars relating to intermediaries and failure to attach a copy of the intermediary agreement to the loan agreement. CR had pointed out the irregularities to the money lenders concerned and would usually arrange a second site inspection in such cases.

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42. Regarding sanctions on non-complying money lenders, DS(FS) advised that CR would take prompt follow-up actions for cases of non-compliance. For the vast majority of cases, the licensed money lenders concerned had either completed rectification actions or had been taking steps to rectify the non-compliances. For serious cases of non-compliance, CR could consider seeking the Licensing Court's order to revoke the money lenders' licences, and/or make referral to the Police as appropriate.

Information contained in the Register of Money Lender

43. Ms Alice MAK pointed out that a money lender might appoint more than one intermediary and an intermediary might also work for more than one money lenders. She suggested that the Register of Money Lender ("RML") should be refined so that besides showing all the intermediaries appointed by a specific money lender, it should show information on the money lenders by whom a specific intermediary had been appointed so that the public could easily identify whether an intermediary had been appointed by any licensed money lenders.

44. RC responded that of the 706 appointed intermediaries contained in RML as at 31 March 2017, some 200 were appointed by more than one licensed money lender. She advised that the current RML had already shown the particulars suggested by Ms MAK. RC added that the public could access RML on-line free-of-charge, and the accumulated number of downloads of RML exceeded 40 000 by end of March 2017.

45. In response to Mr CHEUNG Kwok-kwan's enquiry about the situation of money lenders in RML that were involved in the money lending business of personal loans and had appointed intermediaries, RC advised that the 706 intermediaries in RML were appointed by 239 (or 13% of all) licensed money lenders. However, CR did not have information on the number of licensed money lenders who engaged in unsecured personal loans with appointed intermediaries. RC added that among the cases of non-compliance identified by CR, only a few licensed money lenders were involved in unsecured personal loan business.

Further measures to protect borrowers

46. While expressing support for the Administration's new regulatory measures to tackle malpractices by intermediaries, Mr CHAN Chun-ying noted that some intermediaries had suggested that the Administration should consider introducing a licensing regime for intermediaries so as to restore public confidence in law-abiding intermediaries. He sought the Administration's view on the suggestion.

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47. Mr WU Chi-wai enquired whether the Administration would consider other measures to further protect borrowers including introducing mandatory requirements of cooling-off period and audio-recording of the loan making process, and if so, the implementation timetable. He also opined that the Administration should consider further tightening the regulation of advertisements on money lending by making reference to those imposed on the advertisements of tobacco products to help discourage imprudent borrowing. Ms Alice MAK also sought the Administration's view on the suggestion of introducing mandatory requirement of cooling-off period and enquired about the progress of the Administration's work in reviewing the Money Lenders Ordinance (Cap. 163).

48. DS(FS) responded that in the past, concerns had been expressed by some money lenders that the reputation of the industry was adversely affected by the malpractices of unscrupulous intermediaries. He stressed that the new regulatory measures aimed at tackling such malpractices and protecting borrowers' interests. He said that since it was not mandatory to arrange a loan through an intermediary, there was not a clear case or a practical need to introduce a licensing regime for intermediaries. The proposal of establishing a licensing regime for intermediaries would also entail complex issues, e.g. how to define an "intermediary". The priority of the Government at the moment was to monitor the implementation of the new regulatory measures. The Government would review the effectiveness of the new measures, and monitor whether the unscrupulous intermediaries had developed new tactics. The Government would commence a review in the third quarter of 2017 with a view to identifying changes in the modus operandi of unscrupulous intermediates after taking into account operational data and relevant information for the first six months of implementation of the new measures, and would aim to come up with initial findings and observations by around end-2017 or early 2018 to facilitate further consideration of whether any new measures would be necessary.

49. On the proposal of introducing mandatory requirements of cooling-off period, DS(FS) responded that while the Government would, in the context of the review, consider different possible additional measures if necessary, it should be noted that some borrowers with an urgent need of liquidity would wish to use the loans immediately rather than wait for the expiry of the cooling-off period. Therefore, borrowers must be given the right to waive the cooling-off period, and there would be a risk that waiver could be abused by some unscrupulous operators to render this measure unable to achieve its intended effect. Therefore the Government had to examine the operational feasibility of each proposal carefully.

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V Any other business

50. There being no other business, the meeting ended at 12:27 pm.

Council Business Division 1
Legislative Council Secretariat
4 September 2017