

**Special Meetings of the Finance Committee of the Legislative Council
to Examine the Estimates of Expenditure 2018-19**

(2:00 - 3:10 pm on 17 April 2018)

Speaking Note of the Secretary for Financial Services and the Treasury

Chairman and Honourable Members,

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

Estimates of Expenditure

2. The allocation to the Financial Services Branch and departments under its purview for 2018-19 is about \$1.69 billion. The amount represents an increase of about \$580 million over last year.

Key Areas of Work

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

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

4. We will capitalise on the opportunities arising from the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Bay Area development to reinforce Hong Kong's status as a global hub for offshore Renminbi (RMB) business and an international asset management centre. Hong Kong is in the best position to provide offshore RMB business, project financing, risk management, capital management and other related services for enterprises along the Belt and Road regions and in the Bay Area.

5. Leveraging the opportunities presented by the Bay Area development, we will actively explore and seek to implement measures that will facilitate capital flow and integration of financial markets in the Bay Area, such as expanding cross-border financial services and lowering entry thresholds, with a view to enhancing financial developments of the two places.

(II) Promoting Market Development

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

(i) Bond Market

7. To encourage more investors and issuers from the Mainland, Asia and along the Belt and Road to participate in the Hong Kong bond market, the Government plans to launch an array of measures to enhance our competitiveness, including attracting corporate bond issuance, facilitating investors' participation and broadening investment platform. These measures include, among other things, launching a three-year Pilot Bond Grant Scheme, refining the qualifying debt instrument scheme, continuing the issuance of Silver Bonds in this and next year, and allowing securities brokers to participate in the subscription of Silver Bond so as to increase the sales channels.

(ii) Green Finance

8. As part of the Government's vigorous effort to promote Hong Kong as a regional green finance hub, a portion of the \$500 million dedicated provision will be used for introducing a Green Bond Grant Scheme to subsidise qualified green bond issuers in obtaining green bond certification. Besides, we will launch a green bond issuance programme with a borrowing ceiling of \$100 billion. The sums borrowed will be credited to the Capital Works Reserve Fund for funding green public works projects of the Government. We will submit a draft resolution to the Legislative Council (LegCo) as soon as possible to seek authorisation to take forward the programme.

(iii) Asset and Wealth Management

9. The Government will continue its endeavour to develop Hong Kong's fund industry and in parallel adjust applicable tax arrangements with regard to international requirements on tax co-operation. We are reviewing the existing tax concession arrangements applicable to the fund industry as well as examining the feasibility of introducing a limited partnership regime for private equity funds and the related tax arrangements. We are consulting the industry on the proposed enhancements to the tax concession arrangements and will consult LegCo in due course.

10. Moreover, we will continue with our work on implementing the open-ended fund company (OFC) regime. A bill was passed by LegCo last month so that all types of OFCs could enjoy profits tax exemption. We will introduce into LegCo the subsidiary legislation

setting out the operational details of OFCs in due course. Our target is to implement the OFC regime in tandem with the related tax concession arrangements within this year.

(iv) *Listing Platform*

11. The Hong Kong Exchanges and Clearing Limited has finished the consultation on a listing regime for companies from emerging and innovative sectors, and is considering the views and feedback collected, with a view to releasing the consultation conclusions and implementing the new regime in light of the comments received. It is expected that the new regime can be implemented within this quarter.

(v) *Tax Concessions for the Insurance Industry*

12. To enhance Hong Kong's competitiveness as an insurance hub, we will set up a dedicated task force to undertake a series of tax reviews, covering areas such as captive insurance, reinsurance and marine insurance. We will also discuss with the Insurance Authority the feasibility of updating regulatory requirements as appropriate with a view to facilitating business, thereby attracting more enterprises to underwrite their overseas risks in Hong Kong.

(vi) *Amendments to the Companies Ordinance*

13. We will amend certain provisions of the new Companies Ordinance to improve its clarity and operation and to further facilitate business in Hong Kong. We have consulted the Panel on Financial Affairs. The Panel generally supports the proposed legislative amendments. The bill will be introduced into LegCo this quarter.

(vii) *Development of Financial Technologies (Fintech)*

14. The Government and regulators will continue to facilitate Fintech development. In September this year, the Hong Kong Monetary Authority (HKMA) will launch the Faster Payment System, a round-the-clock real-time payment platform with full connectivity between banks and stored value facilities operators. HKMA has also consulted the banking industry on reviewing and amending the guidelines on virtual banks, and will make the best endeavour to issue licences within this year.

(viii) *Financial Services Development Council (FSDC)*

15. Since its establishment, the FSDC has been dedicated to advising the Government on the sustained development of Hong Kong's financial services industry. We will allocate

more resources to the FSDC to enhance its role in conducting strategic research, formulating recommendations, promoting market development and nurturing talent. To allow the FSDC to carry out its functions more effectively and to enhance its operational efficiency and flexibility, we plan to incorporate the FSDC as a company limited by guarantee and provide funding to support its operation. Subject to funding approval of LegCo, the FSDC will be incorporated by the end of this year.

(III) Protection for Investors and the General Public

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

(i) Policy Holders' Protection Scheme

17. The Policy Holders' Protection Scheme aims at providing a safety net by compensating policy holders or securing the continuity of insurance contracts in case an insurer becomes insolvent. We briefed the LegCo Panel on Financial Affairs at its meeting in March on details of the legislation. Our target is to introduce the relevant bill into LegCo for scrutiny in the 2018-19 legislative year.

(ii) Saving for Retirement

18. To encourage early preparation for better retirement protection among the public, we are discussing with insurers and Mandatory Provident Fund (MPF) trustees on the implementation details of the tax concessions for deferred annuity products and MPF voluntary contributions. We will also discuss with the Investor Education Centre the ways to enhance public awareness of retirement wealth management products.

(iii) Tackling Money Lending-related Malpractices

19. Since 2016, the Government has implemented a four-pronged approach to tackle money lending-related malpractices. The four-pronged approach has generally been effective in tackling such malpractices. In particular, we note that since the implementation of the new measures, the number of complaints against unscrupulous intermediaries received by the Police has dropped significantly. That said, we will continue to monitor the situation closely, implement further enhancement measures, and strengthen public education.

(IV) International Regulatory Requirements

(i) Listed Entity Auditor Regulatory Regime

20. The Government introduced the Financial Reporting Council (Amendment) Bill 2018 into LegCo in January this year to further enhance the independence of the existing regulatory regime for listed entity auditors from the audit profession, so as to enhance investor protection and ensure that the regime is benchmarked against the international standard and practice. The Bills Committee is now scrutinising the Bill.

(ii) Resolution Regime for Financial Institutions

21. We are progressively improving our resolution regime for financial institutions, including the formulation of relevant subsidiary legislation to enhance the resolvability, with a view to strengthening the resilience of Hong Kong's financial system.

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