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COMMERCE, INDUSTRY AND TOURISM BRANCH
**COMMERCE AND ECONOMIC
DEVELOPMENT BUREAU**
GOVERNMENT OF THE HONG KONG
SPECIAL ADMINISTRATIVE REGION

23/F, WEST WING
CENTRAL GOVERNMENT OFFICES
2 TIM MEI AVENUE
TAMAR, HONG KONG

3 May 2018

Mr Desmond LAM
Clerk to Panel on Commerce and Industry
Legislative Council Complex,
1 Legislative Council Road,
Central, Hong Kong

Dear Mr Lam,

Panel on Commerce and Industry
Information requested at the meeting on 20 March 2018

At the meeting of the Panel on Commerce and Industry on 20 March 2018, Members requested the Government to provide information on improvement measures to the existing application and vetting procedures for the various small and medium enterprises (SMEs) funding schemes; collaboration with industry organisations to promote the various SME funding schemes; as well as information regarding the difficulties faced by SMEs (particularly those SMEs with business operations in the Mainland and Belt and Road countries) in opening bank accounts, especially in major international banks.

Having consulted the Financial Services and the Treasury Bureau and the Trade and Industry Department, we provide the requested information at **Annex**.

Yours sincerely,

(Miss Ingrid YU)

for Secretary for Commerce and
Economic Development

c.c. Financial Services and the Treasury Bureau
(Attn: Ms Eureka CHEUNG)
Trade and Industry Department
(Attn: Ms Belinda WONG)

**Follow-up to the Panel on Commerce and Industry meeting on 20 March 2018
Information regarding small and medium enterprises (SMEs)**

Improvement measures to the application and vetting procedures for the various SME funding schemes

Enhancing the operation of funding schemes

The Trade and Industry Department (TID) has been closely monitoring changes in the market and the needs of SMEs, and reviews the operation and effectiveness of the funding schemes from time to time, with a view to providing appropriate support to SMEs. The various funding schemes have been enhanced at times since their establishment, including increase in grant ceiling and expansion in funding scope etc., as well as adjustment to their operation details, so as to suit the trade's needs.

2. For example, under the Enterprise Support Programme of the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD (ESP)), the Government launched the “ESP Easy – Simplified Application Track” in August 2015 which adopted a set of simplified application procedures and shorter vetting time to fund enterprises in undertaking specified activities. The Government also introduced the “Simplified Option” in October 2016 under which enterprises could commence projects as early as the date after the submission of an application without the need to set up a project account separately. The reporting requirements for funded enterprises were also simplified.

3. TID has also recently reviewed again the application requirements and vetting mechanisms of the funding schemes, with a view to providing more flexible and convenient support to SMEs, in particular start-ups. TID will implement the following facilitation measures:

BUD (ESP)

- Waive the requirement on enterprises' number of year of substantive business operations in Hong Kong so as to provide greater facilitation for start-ups.
- Consolidate the various application tracks and application forms under the existing programme to simplify the application procedures, so that

enterprises only need to complete a unified application form.

- Simplify the requirements on procurement procedures by reducing the number of quotations required to reduce the administrative costs of enterprises.
- Provide full funding support for the audit fee of approved projects under the enterprises' funding ceiling, capped at \$10,000 per audit, so as to reduce the costs of enterprises in using the BUD Fund.
- Provide greater flexibility and autonomy for enterprises in the reallocation of grant amongst approved budget items.

SME Export Marketing Fund (EMF)

- Remove the current condition of use of the last \$50,000 of the grants.
- Relax the double funding rule to allow SMEs to apply funding for individual expenditure items of an export promotion activity as long as an item is not receiving direct funding support from other funding schemes.
- Relax the condition on transportation expenses to allow transportation expenses (for travelling between Hong Kong and the city where the activity is taking place) incurred 5 days before the start and 5 days after the end of an export promotion activity to be eligible for EMF grant, so as to enable SMEs to discuss businesses and network with business partners when participating in exhibitions outside Hong Kong.

Trade and Industrial Organisation Support Fund (TSF)

(merging the existing SME Development Fund and the Organisation Support Programme (OSP) of the Bud Fund)

- Allow organisations to use the fund to engage existing staff for implementing projects, so as to provide organisations with greater flexibility in project implementation.
- Simplify the requirements on procurement procedures by reducing the number of quotations required to reduce the administrative costs of organisations.
- Provide greater flexibility and autonomy for organisations in the reallocation of grant amongst approved budget items.

- Allow organisations to source in-kind sponsorships by phases to facilitate project implementation.
- Remove the restriction of funding a maximum of two projects of the same nature to provide greater flexibility for organisations in formulating promising projects.

4. TID will continue to review the operation details of the funding schemes and will collect views from users via surveys and focus groups etc., with a view to streamlining the procedures, processing time and requirements in application and vetting, so as to further enhance the operation of the various funding schemes.

One-stop service

5. TID's Support and Consultation Centre for SMEs (SUCCESS) provides free business information and consultation services to SMEs. SUCCESS and its website provide information on the different Government funding schemes targeting enterprises for SMEs' reference. TID staff at SUCCESS can answer general questions on funding schemes, as well as provide contact details of the relevant department/secretariat to facilitate SMEs to contact them for more detailed information of the funding schemes concerned.

6. Apart from SUCCESS, other quasi-Government organisations also provide services to SMEs, including information on Government funding schemes. For example, the SME One of the Hong Kong Productivity Council provides information on various funding schemes operating in Hong Kong and the Mainland to SMEs. Its website also provides hyperlinks on the funding schemes to facilitate SMEs to look for more details about the schemes.

Collaboration with industry organisations

7. TID attaches importance to promoting the various funding schemes. It organises seminars and also attend seminars organised by trade and industrial organisations to introduce the funding schemes. It also promotes the funding schemes through various channels such as TV and radio Announcements of Public Interest, exhibitions, leaflets and website etc.

8. TID has cooperated with trade and industrial organisations from time to time to promote the funding schemes. Apart from attending seminars organised by

them, TID also makes use of these organisations' networks to conduct more targeted promotion, such as providing links to the funding schemes on their websites, and publicising promotion articles in their newsletters etc.

9. In 2017, TID organised 12 seminars and attended 12 seminars organised by trade and industrial organisations to promote the various funding schemes to the trade (including the textiles sector, the information and technology sector and the e-commerce sector etc.).

10. As for the tourism sector, TID organised a seminar targeting the sector in May 2017 to brief them on the various funding schemes and encourage their application. TID also attended a seminar organised by the Hong Kong Japanese Tour Operators Association in July 2017 to promote the schemes to its members.

Difficulties faced by SMEs in opening bank accounts

11. In the past few years, the strengthening of international efforts in combating money laundering and terrorist financing ("ML/TF") has in general led the global banking industry to enhance their relevant controls, including adopting a more comprehensive customer due diligence ("CDD") process for new and existing customers. Apart from local requirements, some international banks based on various reasons, also need to comply with requirements or standards mandated by their head offices or groups and overseas relevant authorities.

12. The Hong Kong Monetary Authority ("HKMA") has been reminding the local banking industry that in implementing robust controls, they should also take care that the access of banking services by legitimate businesses and ordinary citizens should not be unreasonably impeded. The HKMA has issued guidance to banks in the past two years, reiterating that banks should adopt a risk-based approach to the CDD process which is conducted in a proportionate and pragmatic manner having regard to the customer's background, circumstances and likely ML/TF risk, rather than applying a "one-size-fits-all" approach, as well as clarifying some common misinterpretation of the CDD requirements. At the same time, banks should maintain sufficient communication with customers throughout the CDD process to ensure that they are treated fairly, particularly with respect to transparency, reasonableness and efficiency. In response to the guidance, banks have taken steps to enhance transparency and improve customer experience; for example, all retail banks have established review mechanism to help customers in re-examination of unsuccessful applications. Based on the feedback received recently from chambers

of commerce and other sources, there are indications that customer experience has been improving and the related work will be ongoing.

13. In order to provide more comprehensive information relating to bank account opening and maintenance, and to collect views as well as to answer related enquiries from the public, business community, and other stakeholders, the HKMA set up a dedicated webpage on the HKMA's website and launched a dedicated email account (accountopening@hkma.gov.hk) in March last year to facilitate submission of enquiries and feedback from the public. Since the launch of the aforesaid arrangement, useful feedback and comments have been received which are being followed up by a dedicated team of the HKMA.

14. On communication with the trade, TID's Small and Medium Enterprises Committee and the Hong Kong Monetary Authority jointly organised a briefing cum networking session on "Bank Account Opening and Maintenance for SMEs and Start-up Companies" on 23 June 2017. Over 100 representatives from 39 major Hong Kong Chambers of Commerce, professional bodies, SME associations, Hong Kong Association of Banks and representatives from 20 banks attended the event. At the briefing, representatives from banks shared with participants practical aspects related to bank account opening and maintenance, the changing international landscape and regulatory requirements, and various improvement measures introduced by banks. A networking session was carried out after the briefing to facilitate exchange between the banking sector and participants.

15. The HKMA has not imposed any requirements prohibiting banks from establishing business relationships with customers from or connected with the Mainland China or countries along the "Belt and Road". As mentioned above, banks should apply the risk-based approach and carry out CDD process which is proportionate to the level of ML/TF risk of a customer. In assessing the risk level of a customer, the HKMA expects banks to consider a range of risk factors, with country risk being only one of the factors. In the guidance to banks, the HKMA emphasises that risk-based approach is not a "zero failure" regime, which means that banks should not implement overly stringent CDD process with a view to eliminating, ex-ante, all risks. Proper application of the approach would help to ensure that legitimate businesses, including those companies related to the Mainland China or countries along the "Belt and Road", have reasonable access to banking services in Hong Kong.

16. The HKMA will continue to work with the banking industry, business

community and relevant stakeholders to tackle this global and complex issue. The aim of the HKMA is to maintain a robust anti-money laundering and counter-terrorist financing regime in Hong Kong which does not undermine access by legitimate businesses and ordinary citizens to basic banking services.