

**For discussion
On 6 November 2017**

Legislative Council Panel on Financial Affairs

Proposed Incorporation of the Financial Services Development Council

PURPOSE

This paper seeks Members' views on the proposal to incorporate the Financial Services Development Council (FSDC) as a company limited by guarantee and to provide funding to the FSDC through Government subvention.

BACKGROUND

2. In June 2012, the then Chief Executive appointed a Preparatory Taskforce (PTF) to study the establishment of an FSDC. The PTF made a strong case in its December 2012 report for the need of an FSDC in Hong Kong and suggested that the mission of the FSDC should be to advise the Government on the further development of both the financial services industry and the financial market in Hong Kong, thereby enhancing Hong Kong's status as an important international financial centre.

3. The PTF recommended that the Government should consider establishing the FSDC as a company limited by guarantee¹ under the Companies Ordinance (Cap. 622), with reference to the practice of the Financial Dispute Resolution Centre in Hong Kong. However, having regard to the concerns of the general public and members of the Legislative Council (LegCo) at the time about the status and role of the FSDC, the FSDC was established in January 2013 as an advisory body under the auspices of the Financial Services and the Treasury Bureau (FSTB).

4. The FSDC comprises 23 Council Members and a further 38 Committee Members grouped under five Committees, namely, the Policy Research Committee, Mainland Opportunities Committee, New Business Committee, Market Development Committee and Human Capital Committee, to carry out its mission under three broad themes of research, market promotion and human capital development. The objectives and terms of reference of the FSDC are at **Annex A**.

¹ A company limited by guarantee has no share capital. It is a corporate structure usually adopted by non-profit-making organisations.

JUSTIFICATION

The Need for Further Development

5. Over the past four years, the FSDC has published 33 research reports on strategic development in different areas of the financial services industry, all of which have been well received by the market as having high quality. In addition, the FSDC has actively promoted Hong Kong's financial services industry in collaboration with the Hong Kong Trade Development Council (HKTDC) and other industry players, and helped nurture human capital for the industry with outreach programmes for students and practitioners. The FSDC has so far organised/participated in over 50 promotional activities and engagement meetings, and organised 28 events on human capital development.

6. The work of the FSDC is highly recognised by both the Government and the industry. It is the rallying efforts of the FSDC that mobilised practitioners to work towards the common goal of reinforcing Hong Kong's position as a globally significant financial centre. Through its work, the FSDC has become an important platform for the industry to express their views and provide advice to the Government on various aspects of further developing our financial market.

7. In view of the dynamic economic landscape and challenges posed by other aspiring financial centres in the region, Hong Kong needs to consolidate its traditional edge and seize the opportunities to further develop its financial services sector. This includes opportunities brought forth by the continued liberalisation of the Mainland's capital market, implementation of the Belt and Road Initiative, the advent of financial technology, and the demand for green finance, etc. There is a strong need for the FSDC to step up its efforts in research, market promotion and human capital development in pursuit of enhancing Hong Kong's competitiveness in the international financial market.

Current Limitations

8. The achievements of the FSDC have insofar been largely attributable to the significant contribution of FSDC members, who have devoted much of their time in liaison and communication with stakeholders of the industry, as well as in conducting quality research and producing reports with constructive recommendations to the Government on various aspects of further developing the financial services sector. The current mode of operation with heavy reliance on the time and resources of FSDC members is not sustainable in the long run.

9. In addition, the current secondment arrangement² for the FSDC

² At present, the operation of the FSDC is supported by a Secretariat under the purview of the Financial Services Branch of FSTB. The FSDC Secretariat comprises staff seconded from the Hong Kong Monetary Authority, Securities and Futures Commission and HKTDC, and government employees deployed from FSTB.

Secretariat is subject to the staffing position and posting policy of the respective organisations. As seconded staff needs to return to their respective organisations at certain intervals, it is difficult to maintain a dedicated level of professional support, in particular as the scope and complexity of the work of the FSDC is expected to increase significantly in the coming years.

Continuous Government Support

10. Recognising the strong foundation established by the FSDC over the past four years, the Chief Executive has pledged in her first Policy Address to allocate more resources to the FSDC to enhance its role in conducting strategic research, formulating recommendations, promoting market development and nurturing talent.

11. In view of the FSDC's remit and functions as an advisor to the Government and a development body for the financial services sector in Hong Kong, the FSDC can carry out its functions more effectively and efficiently if it becomes an independent body, as compared to putting the establishment under the auspices of the Government. Therefore, we have reviewed the FSDC's institutional set-up with a view to establishing a more sustainable model which enables the FSDC to better fulfil its role.

Proposed Institutional Set-up of the FSDC

12. We propose to transform the FSDC from an advisory body to an independent organisation with its own legal identity. Having duly considered various corporate structures, we propose to incorporate the FSDC as a non-profit-making company limited by guarantee. The name of the FSDC will remain unchanged after incorporation considering that it has already built up its profile and identity both locally and internationally over the past four years.

13. As an independent body, the incorporated FSDC would be able to:
- (a) recruit its own staff with professional knowledge and market experience. As opposed to the existing model of secretariat support with rotating seconded staff, a stable executive team with solid experience in the financial services industry would be instrumental in the delivery of FSDC's objectives, especially on research work;
 - (b) project an independent and distinct image when carrying out its role and functions, in particular in promoting Hong Kong's financial services industry and forging closer relationships and collaborations with local organisations and counterparts outside Hong Kong. The presence of the FSDC can complement the efforts made by the Government and the HKTDC in promoting Hong Kong, which will

help in establishing the ‘Hong Kong Inc’ brand in other financial centres around the world; and

- (c) have more flexibility in recovering costs of its events (e.g. sponsorship or admission fees for promotional events) to complement government funding to support its operation.

Role and Functions of the Incorporated FSDC

14. The incorporated FSDC will continue to undertake the role of a high-level and cross-sectoral advisor to the Government and an overall development body for Hong Kong’s financial services industry. On this front, the FSDC will be able to:

- (a) **strengthen its research capabilities** by employing in-house research professionals with financial expertise as well as engaging consultants in conducting in-depth research, and be able to better support its members in identifying ways to reinforce Hong Kong’s competitiveness;
- (b) **enhance the promotion of Hong Kong’s financial services industry**, including organising publicity activities both locally and outside Hong Kong, and act as its ambassador through collaboration with the HKTDC; and
- (c) **cultivate professionals** in its outreach programmes and support the industry in nurturing talents and mapping out the manpower requirement of the industry.

Corporate Structure

15. The incorporated FSDC should have a proper corporate structure with a Board of Directors and a non-executive chairman, all to be appointed by the Chief Executive or under her delegated authority. All directorship, except that of the Executive Director, will be non-remunerable. The membership of the FSDC will continue to be drawn from the financial services industry and related sectors. The Secretary for Financial Services and the Treasury will serve as an ex-officio member of the Board.

16. The incorporated FSDC should have a solid executive team to better support the delivery of its objectives. The executive team will be headed by an Executive Director who should possess strong policy skill as well as sound knowledge and solid experience in the financial services industry. The Executive Director is expected to lead the team and assist the incorporated FSDC to formulate strategies and implement action plans in carrying out its functions in policy research, market development and human capital development. He / she will also

work closely with the board of the FSDC and maintain close communication with the Government and other stakeholders including regulatory and industry bodies, the media, LegCo members and overseas counterparts.

17. The Executive Director should be supported by a deputy and respective professional and administrative staff to perform duties ranging from policy research, industry engagement, talent development, market promotion, external affairs and other corporate matters. The incorporated FSDC will seek to maintain a lean and efficient manpower structure with a headcount of around 13 during the first two-year phased-in period. The staffing requirement will be reviewed in due course in light of operational experience.

Budget and Funding Arrangement

18. Given the FSDC's nature and mission, as well as its contribution to the overall development of the financial services industry and the economy of Hong Kong, the funding of the incorporated FSDC shall come entirely from the Government. We propose to provide funding to the incorporated FSDC in the form of subvention to allow flexibility for it to operate while maintaining sufficient control over its use of Government funds.

19. The annual operating expenditure of the incorporated FSDC during the initial years of incorporation is estimated at \$32 million, covering staff cost, office rental and related expenses, promotion and publicity expenses, professional fees on research activities and administration overheads. A breakdown of major operating expenditure items is at **Annex B**. In addition, there will also be a one-off cost of about \$11 million for setting up the office of the incorporated FSDC. A breakdown of the major set-up cost items is at **Annex C**.

Corporate Governance and Control Measures

20. The operation of the incorporated FSDC should be transparent as public funds are involved. To ensure proper use and disbursement of Government funds, we will put in place a proper control and review mechanism to monitor the operation of the incorporated FSDC. Apart from meeting the statutory requirements of Hong Kong companies under the Companies Ordinance (Cap. 622), the incorporated FSDC should adopt additional accountability and transparency measures in accordance with the prevailing Government guidelines on the management and control of funding for subvented organisations, which include submission of annual work plans, budgets, annual reports and audited annual financial statements to the Government.

FINANCIAL IMPLICATIONS

21. The estimated amount of subvention for the incorporated FSDC in 2018-19 is \$30.6 million, including \$11 million for set-up cost and \$19.6 million

for meeting the operating expenses. The annual recurrent subvention from 2019-20 onwards is estimated at \$32 million. Sufficient provision will be included in the draft Estimates for 2018-19 and the subsequent years.

IMPLEMENTATION PLAN

22. Subject to funding approval by LegCo, we will proceed to incorporate the FSDC in 2018 and target to have the incorporated FSDC up and running by end 2018. During the transitional period, the FSDC Secretariat will continue to support the work of the FSDC with current seconded staff and government employees deployed from FSTB, all of which would gradually be phased out.

ADVICE SOUGHT

23. Members are invited to comment on the proposal.

**Financial Services Branch
Financial Services and the Treasury Bureau
November 2017**

Objectives and Terms of Reference of FSDC

Objectives

- (i) Advise the Government on strategies and measures to expand the scope of our financial markets and enhance the competitiveness of Hong Kong as an international financial centre;
- (ii) Provide a channel for stakeholders to express views and champion the interests of the financial services industry;
- (iii) Support the financial services industry in developing the core competence and knowledge of its practitioners; and
- (iv) Promote our financial services industry and Hong Kong as an international financial centre on the Mainland and overseas.

Terms of Reference

- (i) To conduct policy research and industry surveys for the formulation of proposals to the Government and regulators;
- (ii) To work with regulatory and trade bodies to identify new opportunities for, and any constraints on, the sustainable growth and diversity of the financial services industry;
- (iii) To maintain a dialogue with the relevant bodies on the Mainland and overseas to support Hong Kong's financial services industry in accessing new markets and growth areas;
- (iv) To facilitate the upgrading of skills and expertise through collaboration with education and training institutions, trade bodies and practitioners; and
- (v) To promote, on the Mainland and overseas, our financial services industry and Hong Kong as an international financial centre through seminars, road shows, publications, and through active participation in international events.

Estimated Annual Budget of the Incorporated FSDC

	Estimated annual expenditure (\$ million)	Explanatory notes
Staff cost	16.6	A
Office rental and related expenses	6.2	B
Events and Visits	5.0	C
Research	2.0	D
Administrative costs	2.2	E
	<u>Total</u>	
	<u>32.0</u>	

Explanatory notes

- A The estimated staff cost is based on an establishment of 13 staff members including an Executive Director in the incorporated FSDC.
- B For office rental, rates, management fees, utilities and related charges of the leased office premises of the incorporated FSDC.
- C For participating/organising promotional activities in Hong Kong, the Mainland and overseas, and conducting visits and outreach programmes on human capital development.
- D For engaging consultants and professional services for conducting in-depth researches and large-scale studies on industry-wide issues.
- E For meeting the administrative overheads including general office expenses, IT support services, legal fees, accounting services and other miscellaneous expenses.

Estimated Set-up Cost of the Incorporated FSDC in 2018-19

	Estimated expenditure (\$ million)	Explanatory notes
Capital Cost		
IT infrastructure, systems and equipment	2.4	A
Office fitting-out	4.9	B
<i>Sub-total</i>	<u>7.3</u>	
Non-capital Cost		
Office furniture and minor equipment	0.5	C
Rental deposit and related fees	1.7	D
Professional and consultancy services	1.5	E
<i>Sub-total</i>	<u>3.7</u>	
Total	<u>11.0</u>	

Explanatory notes

- A For construction of IT infrastructure, procurement of computer hardware, software and conference facilities for the new office.
- B For engaging contractors to carry out office renovation works including interior design and fitting-out.
- C For procurement of office furniture and minor equipment including office desks and chairs, conference table, storage racks and office machines etc.
- D For rental deposit and related charges in connection with the lease of office premises.
- E For engaging professional and consultancy services on legal, human resources and website redevelopment issues.
