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財經事務及庫務局

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1 December 2017

Clerk to Panel on Financial Affairs
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong
(Attn: Mr Hugo Chiu)

Dear Mr Chiu,

Panel on Financial Affairs
Follow-up to meeting on 6 November 2017

I refer to your letter dated 8 November 2017 requesting the Government to provide information arising from the discussion of **Agenda Item VI “Briefing of the work of the Financial Services Development Council (FSDC) and proposal on incorporation of the FSDC”** of the meeting of the Panel on Financial Affairs held on 6 November. Our responses are set out in the following paragraphs.

- (a) **Development of real estate investment trusts market in Hong Kong since revision of the Securities and Futures Commission’s “Code on Real Estate Investment Trusts” in 2014**

Between the end of 2014 and October 2017, there were eleven

listed real estate investment trusts (“REITs”) in Hong Kong. During this period, their total market capitalisation grew by 26% from around US\$26 billion to US\$33 billion¹. This was partly attributable to the acquisition and development activities undertaken by various Hong Kong REITs. The properties acquired were diversified, including hotels, offices, retail and car servicing centres.

In the last two years, the Hang Seng REIT index (total return) outperformed the Hang Seng Index (total return). The weighted average yield of Hong Kong REITs based on their distributions to investors ranged from approximately 4.6% to 5.6% during the same period, demonstrating a stable return to investors.

(b) Rationales and considerations of transforming FSDC into an independent organisation with its own legal identity instead of a statutory body

Since its establishment in 2013, the FSDC has strived to enhance the competitiveness of Hong Kong’s financial services industry through policy research, market promotion and human capital development. 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, we consider that the FSDC can carry out its functions more effectively and efficiently if it becomes an independent organisation, as compared to putting the establishment under the auspices of the Government.

When reviewing the institutional set-up of the FSDC, we have duly considered various corporate structures, including in the form of a statutory body. Taking into account FSDC’s functions in conducting strategic research, formulating recommendations, promoting market development and nurturing talent, we have concluded that there is no pressing need to turn the FSDC into a statutory body. In order to establish the FSDC as an independent organisation within a short period of time, we consider that incorporating the FSDC as a non-profit-making company limited by

¹ The market capitalisation growth is over six times, from around US\$4.9 billion to approximately US\$33 billion, since the first REIT was listed in Hong Kong in 2005.

guarantee is the most appropriate and viable option, and is adequate for enhancing the operational efficiency and flexibility of the FSDC.

(c) Details in the institutional arrangements of the incorporated FSDC including accountability, transparency and financial control measures, and whether such measures will be stated in the Article of Association of the incorporated FSDC

The incorporated FSDC will 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.

The recurrent subvention for the incorporated FSDC will be included in the annual Estimates of the Financial Services Branch of the Financial Services and Treasury Bureau for examination and approval by the Legislative Council. In addition, 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. The relevant control measures will be stipulated in the Memorandum of Administrative Arrangements as agreed between the Government and the incorporated FSDC.

We propose to incorporate the FSDC as a company limited by guarantee so as to strengthen FSDC's role as an overall development body for the financial services sector in Hong Kong through enhanced operational efficiency and flexibility. The functions of the FSDC will remain unchanged after its incorporation. The objectives of the

incorporated FSDC will be prescribed in the Articles of Association of the incorporated FSDC in accordance with relevant provisions of the Companies Ordinance (Cap. 622).

Yours sincerely,

A handwritten signature in black ink, appearing to be 'hi' or a similar stylized name.

(Anissa WONG)
for Secretary for Financial Services and the Treasury