立法會
Legislative Council

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Panel on Financial Affairs

Minutes of policy briefing held on
Tuesday, 30 October 2018 at 9:00 am
in Conference Room 1 of the Legislative Council Complex

Members present : Hon Christopher CHEUNG Wah-fung, SBS, JP (Chairman)
Hon Kenneth LEUNG (Deputy Chairman)
Hon Abraham SHEK Lai-him, GBS, JP
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon WONG Ting-kwong, GBS, JP
Hon Starry LEE Wai-king, SBS, JP
Hon CHAN Kin-por, GBS, JP
Hon WU Chi-wai, MH
Hon Charles Peter MOK, JP
Hon Dennis KWOK Wing-hang
Hon Martin LIAO Cheung-kong, SBS, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon Alvin YEUNG
Hon Holden CHOW Ho-ding
Hon SHIU Ka-fai
Hon CHAN Chun-ying, JP
Hon CHEUNG Kwok-kwan, JP
Hon Kenneth LAU Ip-keung, BBS, MH, JP

Members absent : Hon James TO Kun-sun
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Hon Steven HO Chun-yin, BBS
Hon CHU Hoi-dick
Hon HO Kai-ming
Hon LUK Chung-hung, JP

Public officers Attending	**:**	Mr James LAU, JP Secretary for Financial Services and the Treasury Mr Andrew WONG, JP Permanent Secretary for Financial Services and the Treasury (Financial Services) Ms Alice LAU, JP Permanent Secretary for Financial Services and the Treasury (Treasury) Mr Joseph CHAN, JP Under Secretary for Financial Services and the Treasury Mr Chris SUN, JP Deputy Secretary for Financial Services and the Treasury (Financial Services)1 Mr Eddie CHEUNG, JP Deputy Secretary for Financial Services and the Treasury (Financial Services)2 Ms Winnie NG, JP Deputy Secretary for Financial Services and the Treasury (Financial Services)3 Mr Raistlin LAU, JP Deputy Secretary for Financial Services and the Treasury (Treasury)3
Clerk in attendance	**:**	Mr Hugo CHIU Chief Council Secretary (1)4 (Acting)
Staff in attendance	**:**	Miss Sharon LO Senior Council Secretary (1)9 Ms Sharon CHAN Legislative Assistant (1)4

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I Briefing by the Secretary for Financial Services and the Treasury on the Chief Executive's 2018 Policy Address

(LC Paper No. CB(1)12/18-19(01) — Administration's paper on 2018 Policy Address - Policy Initiatives of the Financial Services and the Treasury Bureau)

Relevant papers provided by the Administration

(*issued on 10 October 2018* — The Chief Executive's 2018 Policy Address

issued on 10 October 2018 — The 2018 Policy Agenda booklet)

Briefing by the Administration

The Secretary for Financial Services and the Treasury ("SFST") briefed Members on the policy initiatives of the Financial Services and the Treasury Bureau ("FSTB") featured in the Chief Executive's 2018 Policy Address. He highlighted the following areas of work set out in the Administration's paper (LC Paper No. CB(1)12/18-19(01)):

(a) capitalizing on the opportunities arising from the Belt and Road Initiative ("BRI") and development of the Guangdong-Hong Kong-Macau Greater Bay Area ("Bay Area") through various measures, including offering a wide range of financial services for enterprises and developing additional cross-boundary financial services to promote the flows of factors of production (such as capital and persons);

(b) reinforcing and enhancing the status of Hong Kong as a global hub for offshore renminbi ("RMB") business;

(c) strengthening the regulatory framework for the insurance industry by continuing the work to introduce the new licensing regime for insurance intermediaries and the Policy holders' Protection Scheme;

(d) enhancing Hong Kong's status as a regional insurance hub through various measures including implementation of tax relief

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proposals to promote the development of marine insurance and the underwriting of specialty risks in Hong Kong, and working out the implementation details and legislative proposals for the formation of special purpose vehicles for issuing Insurance Linked Securities ("ILS");

(e) consolidating Hong Kong's position as a major asset and wealth management centre by reviewing the tax arrangements applicable to the fund industry and continuing to work on the mutual recognition of funds ("MRF") arrangements with other jurisdictions to broaden the distribution network for the fund industry;

(f) promoting the development of financial technologies ("Fintech") by taking forward initiatives including rolling out the Faster Payment System ("FPS") and Common QR Code Standard for Retail Payments, granting the first batch of virtual bank license(s) and implementing the Open Application Programme Interface framework for the banking sector;

(g) enhancing the robustness of Hong Kong's anti-money laundering and counter-terrorist financing regime;

(h) enhancing the Mandatory Provident Fund ("MPF") System through various measures including reviewing the fee cap level of the two constituent funds ("CFs") under the fee-controlled Default Investment Strategy ("DIS") by April 2020 and building a centralized electronic platform ("eMPF") to enhance the administrative efficiency of MPF schemes;

(i) taking forward initiatives regarding Hong Kong's international commitments to enhancing tax transparency and preventing cross-border tax evasion, including promulgating the implementation arrangements in respect of the measures to tackle base erosion and profit shifting, taking forward necessary legislative amendments to align Hong Kong's automatic exchange of financial account information in tax matters regime with the requirements of the Organisation for Economic Co-operation and Development, and continuing to expand Hong Kong's network of Comprehensive Avoidance of Double Taxation Agreements; and

(j) introducing a new pro-innovation government procurement policy to encourage bureaux/departments to adopt innovative

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suggestions and facilitate the participation of start-ups and small and medium enterprises ("SMEs") in government procurement.

(*Post-meeting note*: The press release containing the speaking note of SFST (Chinese version only) was issued vide LC Paper No. CB(1)118/18-19(01) on 30 October 2018.)

Discussion

Development of cross-boundary financial services

2. Mr CHAN Chun-ying enquired about the development progress of cross-boundary financial services between Hong Kong and the Mainland, in particular measures to facilitate Hong Kong people to open bank accounts, obtain mortgage loans and invest in financial management products in the Bay Area.

3. Mr WONG Ting-kwong and Ms Starry LEE expressed grave concern on the difficulties encountered by Hong Kong people in opening bank accounts and using e-wallets in the Mainland. Mr WONG pointed out that at present, the provision of Mainland residential proof was mandatory for Hong Kong people seeking to open bank accounts in the Mainland. He called on the Administration to liaise with the Mainland on simplifying such formalities (including the waiving of the Mainland residential address proof requirement). Ms LEE was of the view that the difficulties encountered by Hong Kong people in opening Mainland bank accounts and using e-wallets in the Mainland could be resolved by allowing them to open such accounts through banks in Hong Kong. She further said that with the commissioning of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macao Bridge, it would be necessary to provide more convenience for local e-wallet users to make payment in the Mainland.

4. Mr Kenneth LEUNG expressed concern on the low penetration rate of local e-wallets with access to the Mainland electronic payment systems. Ms Starry LEE echoed Mr LEUNG's concern, and opined that the Administration should study the underlying reasons. They called on the Administration to develop measures to facilitate Hong Kong people to adopt e-wallets to make payment in the Mainland, in particular in the Bay Area.

5. SFST responded that the Administration and the Hong Kong Monetary Authority ("HKMA") had been discussing with the People's Bank of China on the feasibility of allowing Hong Kong people to open bank accounts, obtain mortgage loans and invest in financial management products in the Mainland,

which would also hinge on the capital account liberalization of the Mainland. As regards the use of Hong Kong e-wallets in the Mainland, SFST said that WeChat Pay HK in conjunction with Union Pay had already introduced support for cross-border mobile payments to allow Hong Kong residents to make payments to certain merchants in the Mainland.

6. In response to Mr WU Chi-wai's enquiry, SFST said that the Administration would continue to discuss with relevant Mainland authorities to explore expansion of the channels for two-way flow of cross-boundary RMB funds which would hinge on the relevant Mainland policies and its pace of capital account liberalization. It was envisaged that the expansion, if materialized, would facilitate the launch of RMB investment products by financial institutions in Hong Kong, and enhance the status of Hong Kong as a global hub for offshore RMB business.

Difficulties in opening bank accounts

7. Mr WONG Ting-kwong expressed concern about the difficulties encountered by certain individuals and enterprises in opening bank accounts in Hong Kong, in particular start-up companies which usually had relatively few business records.

8. SFST advised that in order to carefully distinguish between the vast majority of bona fide businesses and those few businesses created as front companies for money laundering ("ML"), banks would require customers to provide relevant information/documentation in the account opening processes. For a start-up with no business history or records to refer to or a Fintech company with a rather new business model or involving new technology applications, provision of the relevant documentation/information and vetting by banks might take more time. That said, HKMA had required banks to implement measures to enhance the account opening process and customer experience, and emphasized that they should adopt a risk-based approach where the customer due diligence ("CDD") requirements should be proportionate with respect to the customer's background, circumstances and likely ML and terrorist financing risk involved. Meanwhile, HKMA would continue to encourage the banking industry to develop a Know-Your-Customer Utility, which would provide greater efficiency to CDD processes.

Impacts of the Mainland's Individual Income Tax Law

9. Ms Starry LEE noted that the Standing Committee of the National People's Congress had recently passed the Draft Amendment to the Individual

Income Tax Law ("the new tax law"). She sought details on the impacts of the new tax law on Hong Kong people residing and working in the Mainland.

10. SFST said that the Ministry of Finance and the State Administration of Taxation had commenced a public consultation on the implementation of the new tax law on 20 October 2018. It was proposed that, a resident individual who had no domicile and had resided in the Mainland for an annual aggregate of 183 days or more for less than five consecutive years, or had resided in the Mainland for an annual aggregate of 183 days or more for five consecutive years but during which there was a single absence from the Mainland of more than 30 days, might, upon filing records with the relevant tax authorities, pay individual income tax with respect to his/her income derived from sources outside the Mainland only on the part paid by enterprises, institutions and other economic organizations or resident individuals in the Mainland. The Administration was of the view that the proposal had addressed the concerns of the majority of Hong Kong people working in the Mainland. As regards the concern of Hong Kong people, including retirees residing in the Mainland, SFST said that the Administration would continue to follow up the relevant tax matters with the Mainland authorities.

Promoting the development of green finance

11. Mr CHAN Chun-ying pointed out that private participation was crucial to the development of green finance and enquired whether the Administration would consider, by making reference to the practices of relevant jurisdictions including the United Kingdom ("UK"), establishing an independent green investment bank to foster private capital to invest in green projects, and introducing tax concessions and offering profits tax exemption to funds investing in green finance products.

12. Ir Dr LO Wai-kwok sought details on the Administration's plan to promote the development of green finance in Hong Kong, in particular measures to attract the issuance of corporate green bonds in Hong Kong.

13. SFST and Permanent Secretary for Financial Services and the Treasury (Financial Services) ("PS(FS)") said that the Administration was making progress on various fronts to facilitate the development of green finance in Hong Kong, including promoting local certification for green finance products by the Hong Kong Quality Assurance Agency and introducing the Green Bond Grant Scheme to subsidize qualified green bond issuers in obtaining green bond certification with a grant ceiling of HK$800,000 per issuance. SFST said that the amount of green bonds issued in Hong Kong in the first half of 2018 stood at USD 8 billion. A number of corporations such as the

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Hong Kong and China Gas Company Limited, and multilateral development banks such as the European Investment Bank had issued green bonds in Hong Kong. PS(FS) added that the Administration planned to introduce a piece of legislation by the end of 2018 to enable different types of onshore and offshore funds operating in Hong Kong to enjoy profits tax exemption on the same footing for transactions in qualifying assets, subject to certain eligibility requirements. This tax arrangement would be applicable for funds investing in green finance products which could fall under the classification of qualifying assets.

Development in financial technologies

14. Mr CHAN Chun-ying, Mr Holden CHOW and Mr SHIU Ka-fai expressed concern about the recent fraud cases relating to FPS where the personal data of some FPS users were stolen and subsequently used to set up e-wallet accounts and electronic Direct Debit Authorization ("eDDA") for account top-up. Mr CHAN enquired about the Administration's measures to enhance personal data protection and strengthen the authentication controls of online financial services. Mr CHOW enquired whether stored value facility ("SVF") operators would be required to verify customer identities via two-factor authentication in the future. Mr SHIU sought clarification on whether bank customers would have to bear the financial losses incurred in the fraud cases.

15. SFST explained that the incidents were related to the authentication controls of e-wallets rather than the security of FPS. As such, HKMA had requested SVF operators and banks to adopt the refined processes to enhance user protection which included (a) sending an SMS notification to the e-wallet user to confirm the setting-up of eDDA through FPS; (b) requiring the user to make a one-time credit transfer from the relevant bank account to his/her e-wallet so as to confirm the wallet user was the same as the bank account owner; or (c) verification of customer identities via two-factor authentication with banks. SFST supplemented that bank customers would not be liable for the unauthorized transactions and would not bear financial losses as a result.

16. Noting that the first batch of virtual bank licence(s) would be granted towards the end of 2018 or early 2019, Mr WU Chi-wai enquired about the Administration's measures to protect the personal data privacy of virtual bank customers. SFST advised that virtual banks, like other authorized institutions, were required to put in place stringent control measures for customer data protection.

17. Referring to some media reports that Singapore might issue government-backed digital currencies, Mr Kenneth LEUNG enquired about the

progress of the development of Central Bank Digital Currency ("CBDC") in other jurisdictions. SFST said that some overseas jurisdictions were studying the feasibility of issuing CBDC and the Administration would keep in view its latest development.

Consolidating Hong Kong's position as a major asset and wealth management centre

18. Noting that the Administration might introduce a limited partnership regime for private equity funds in Hong Kong, Mr Holden CHOW enquired whether there would be different arrangements for limited partners and general partners in a limited partnership.

19. SFST and Deputy Secretary for Financial Services and the Treasury (Financial Services)1 explained that there were two types of partners in a limited partnership, namely, limited partners and general partners. The liability of limited partners was capped at the amount of their investment or commitment, while the general partners had unlimited liability for the liabilities of the limited partnership. In formulating the legal and regulatory framework for limited partnerships in Hong Kong, the Administration would make reference to the practices of other global investment fund centres where limited partnerships were often set up.

20. Mr Kenneth LEUNG sought information on the types of onshore funds that would be qualified for the proposed profits tax exemption and expressed concern about the possible risk of tax evasion by entities disguising as onshore funds. He also enquired about the Administration's plan in negotiating MRF arrangements with other jurisdictions (including Germany, Luxembourg and Ireland), in addition to the existing MRF arrangements with the Mainland, Switzerland, France and the UK.

21. SFST advised that the Administration planned to introduce legislation by the end of 2018 so that different types of onshore funds, like offshore funds, could likewise enjoy profits tax exemption subject to meeting certain conditions. The legislation was necessary for addressing the concern of the Council of the European Union about the ring-fencing tax features for offshore funds in Hong Kong. As regards MRF arrangements, SFST said that the Securities and Futures Commission ("SFC") was discussing similar arrangements with a number of overseas jurisdictions.

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Enhancing Hong Kong's status as a regional insurance hub

22. Mr CHAN Kin-por pointed out that many international insurance companies had chosen to establish regional headquarters in Singapore. Hong Kong's development of general insurance business also lagged behind its competitors (including Singapore), which introduced various measures and policies to attract talents. He expressed concern about the shortage of talents in the insurance industry and considered that the Administration should step up its efforts, including providing more tax concessions and other incentives, in attracting insurance companies and talents to settle in Hong Kong, in particular those with experience in providing insurance for large-scale infrastructure and investment projects and the underwriting of specialty risks.

23. SFST responded that to promote the sustainable development of Hong Kong's insurance industry, including the development of the marine insurance, the underwriting of specialty risks, and the issuing of ILS, the Administration launched in 2016 a three-year Pilot Programme to Enhance Talent Training for the Insurance Sector and the Asset and Wealth Management Sector with a view to enhancing the professional competence of insurance practitioners. Besides, the Administration was actively discussing with the relevant officials in the Mainland to encourage enterprises to make use of Hong Kong's insurance and reinsurance services.

Enhancing the Mandatory Provident Fund System

24. Mr WONG Ting-kwong sought information on the investment return rates of the two CFs under DIS, namely the Core Accumulation Fund ("CAF") and the Age 65 Plus Fund ("APF"), since the inception of DIS on 1 April 2017. He relayed the Democratic Alliance for the Betterment and Progress of Hong Kong's suggestion that the Administration should consider bearing the fees charged to the two CFs under DIS for MPF scheme members. Ms Starry LEE expressed similar concern and requested the Administration to address holistically the issues of low returns and high fees by offering scheme members zero-fee, pure savings options in MPF schemes and bearing the basic management and administration fees of MPF funds for scheme members.

25. SFST said that the annualized internal rate of return of CAF and APF were 7% and 2.6% respectively as at June 2018. He added that the management fees and out-of-pocket expenses of the two CFs under DIS were capped at 0.75% and 0.2% respectively. The Administration and the Mandatory Provident Fund Schemes Authority ("MPFA") would review the fee cap level by April 2020 with a view to adjusting it further downward. Moreover, the Administration and MPFA were working together to put in place

eMPF, a centralized electronic platform, to enhance the administrative efficiency of MPF schemes, thereby providing more room for potential fee reduction.

26. Mr CHAN Chun-ying enquired whether the Administration would consider changing the fee charging mechanism of MPF schemes to address the concerns of low returns and high fees, including prescribing the fee levels for CFs with relatively low investment risks and requiring that the fees charged to CFs with high investment risks should be proportionate with their investment returns. Moreover, noting that MPFA planned to start charging MPF approved trustees Annual Registration Fee ("ARF") to cover its operating expenses which would be determined by reference to the current value of scheme assets of a registered scheme, Mr CHAN asked how the Administration would ensure that the ARF collected would be used efficiently, and whether the Administration would consider suspending the collection of ARF when the ARF collected accumulated to a certain level.

27. Deputy Secretary for Financial Services and the Treasury (Financial Services)2 ("DS(FS)2") said that although it might not be feasible to manage different fee charging mechanisms for CFs according to the corresponding levels of risk, MPFA had introduced a number of measures to enhance market transparency and promote competition, including raising the transparency of the fees. As for ARF, DS(FS)2 advised that the Mandatory Provident Fund Schemes Ordinance ("MPFSO") (Cap. 485) had already provided for the charging of ARF. MPFSO also clearly specified that ARF should only be charged to recover the costs incurred, or likely to be incurred, by MPFA in exercising and performing its functions with respect to registered schemes. As for whether ARF could be suspended subject to a review mechanism, DS(FS)2 responded that the Administration had been discussing with trustees on the proposal, and details including the review mechanism could be further worked out with MPF trustees.

Safeguards for investors of companies with weighted voting right structures

28. Mr Holden CHOW expressed concern about the protection for the interests of the minority shareholders of companies with weighted voting rights ("WVR") structures and enquired if the Administration would consider establishing a class action regime in Hong Kong.

29. SFST responded that that the Administration had no plan to introduce a class action regime for disputes among company shareholders. However, under the existing mechanism, the Court had discretion to consolidate proceedings involving the same interest of numerous persons.

Investment strategy of the Exchange Fund

30. Mr Alvin YEUNG and Mr Dennis KWOK pointed out that the Financial Secretary ("FS") had recently stated in his blog that "with the support of the State-owned Assets Supervision and Administration Commission of the State Council, HKMA was exploring cooperation with some state-owned enterprises to jointly look for attractive BRI infrastructure projects with stable returns, and to consider investing in these projects as equity investors". Mr YEUNG enquired whether FSTB was empowered under the existing legislation to give direction or advice to HKMA on the investment policies and strategies of the Exchange Fund ("EF"), including those relating to BRI infrastructure projects. He also sought details on the Administration's policy and view on investing in BRI infrastructure projects. Mr KWOK expressed grave concern on the potential risks of investing in BRI infrastructure projects, in particular the political risks.

31. SFST said that EF started to invest in infrastructure projects under its Long Term Growth Portfolio in recent years. When investing in infrastructure projects, HKMA would observe the usual principle of prudence and appropriate risk management measures would also be implemented having regard to the characteristics of individual projects in order to assess, mitigate and prevent potential risks. FS would provide steer to HKMA on the investment policies and strategies of EF in exercise of his control of EF.

Measures to mitigate impacts of the trade conflict between China and the United States

32. In view of the intensifying trade conflict between China and the United States ("China-US trade conflict"), Mr Alvin YEUNG sought information on the Administration's measures to mitigate impacts of the trade conflict on the Hong Kong economy.

33. Mr WU Chi-wai sought details on the stress tests conducted by HKMA and SFC to assess the resilience of the banking sectors and the securities and futures markets respectively to withstand the impact of the China-US trade conflict under extreme market situations.

34. SFST advised that since the start of the China-US trade conflict, HKMA had conducted a series of stress tests to assess the ability of the Hong Kong banking sector to withstand the impact of the rising trade tensions between China and US. The results indicated that even in extremely adverse situations, banks would still be able to meet the relevant capital and liquidity

supervisory requirements. As regards the securities and futures markets, SFC would monitor the market with vigilance, including the financial positions and settlement status of brokers, as well as their ability to deal with different market situations. In addition, the special concessionary measures of the SME Financing Guarantee Scheme administrated by the Hong Kong Mortgage Corporation Limited was further enhanced to alleviate the financing burden of local enterprises. The Administration would closely monitor the development of the China-US trade conflict and its impacts on Hong Kong's economy. Given that the local interest rates were expected to rise against the backdrop of the US interest rate normalization, SFST reminded the public to assess carefully their financial ability to cope with risks arising from possible changes in the market, particularly those of interest rates and the general economic situation.

Pro-innovation government procurement

35. Mr CHAN Chun-ying noted that in order to avoid placing start-ups and SMEs in an unduly disadvantageous position in government procurement, tenderers' experience would in general not be set as essential requirements under the proposed new procurement regime. He enquired how the Administration could minimize the entry barrier for start-ups and SMEs while allowing the merits of engaging an experienced tenderer to be taken into account in the tender evaluation process.

36. Permanent Secretary for Financial Services and the Treasury (Treasury) advised that the new pro-innovation government procurement policy aimed to provide a more enabling environment that would encourage bureaux/departments to adopt innovative suggestions and facilitate the participation of start-ups and SMEs in government procurement. Under the new regime, tenderers' experience should in general not be set as essential requirements so that less experienced tenderers would not be barred from the outset. However, tenderers' experience might still be assessed in the tender evaluation process, provided that its weighting in the marking scheme should, as a general rule, be capped at 15% of the total technical marks.

(At 10:25 am, the Chairman ordered that the meeting be extended for 15 minutes to 10:45 am to allow sufficient time for discussion. Members agreed.)

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II Any other business

37. There being no other business, the meeting ended at 10:38 am.

Council Business Division 1
Legislative Council Secretariat
12 December 2018