立法會
Legislative Council

LC Paper No. CB(1)951/18-19
(These minutes have been seen by the Administration)

Ref : CB1/PL/FA

Panel on Financial Affairs

Minutes of meeting held on
Tuesday, 19 February 2019, at 9:30 am
in Conference Room 3 of the Legislative Council Complex

Members present : Hon Christopher CHEUNG Wah-fung, SBS, JP (Chairman)
Hon Kenneth LEUNG (Deputy Chairman)
Hon James TO Kun-sun
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 Mrs Regina IP LAU Suk-yee, GBS, JP
Hon Steven HO Chun-yin, BBS
Hon WU Chi-wai, MH
Hon Dennis KWOK Wing-hang
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 LUK Chung-hung, JP

Members absent : Hon Charles Peter MOK, JP
Hon CHU Hoi-dick
Hon HO Kai-ming
Hon CHEUNG Kwok-kwan, JP

Public officers attending	**:**	Agenda Item IV Mr Norman T.L. CHAN, GBS, JP Chief Executive Hong Kong Monetary Authority Mr Eddie YUE, JP Deputy Chief Executive Hong Kong Monetary Authority Mr Arthur YUEN, JP Deputy Chief Executive Hong Kong Monetary Authority Mr Howard LEE, JP Deputy Chief Executive Hong Kong Monetary Authority Agenda Item V Miss Carrie CHANG Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)1 Agenda Item VI Miss Carrie CHANG Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)1 Miss CHENG Sze Ling Assistant Secretary for Financial Services and the Treasury (Financial Services)(1)1
Attendance by invitation	**:**	Agenda Item V Mr Tim LUI, SBS, JP Chairman Securities and Futures Commission

Mr Ashley ALDER, JP
Chief Executive Officer
Securities and Futures Commission

Mr Andrew WAN
Chief Financial Officer and Senior Director of Corporate Affairs
Securities and Futures Commission

Mr Paul YEUNG
Commission Secretary and Senior Director
Securities and Futures Commission

Agenda Item VI

Mr Keith LUI
Executive Director (Supervision of Markets)
Securities and Futures Commission

Mr Rico LEUNG
Senior Director (Supervision of Markets)
Securities and Futures Commission

Ms Thrity MUKADAM
Director (Supervision of Markets)
Securities and Futures Commission

Ms Agnes MAK
Deputy Chief Counsel (Legal Services Division)
Securities and Futures Commission

Clerk in attendance : Ms Connie SZETO
Chief Council Secretary (1)4

Staff in attendance : Miss Sharon LO
Senior Council Secretary (1)9

Ms Sharon CHAN
Legislative Assistant (1)4

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I Confirmation of minutes of meeting and matters arising

(LC Paper No. CB(1)552/18-19 — Minutes of the meeting on 5 November 2018)

The minutes of the meeting held on 5 November 2018 were confirmed.

II Information papers issued since the regular meeting on 7 January 2019

(LC Paper No. CB(1)416/18-19(01) — Administration's response to the submission from Mr David M. Webb regarding concerns on the operation of the Companies Registry Trading Fund

LC Paper No. CB(1)534/18-19(01) and (02) — Letter dated 28 December 2018 from Hon HO Kai-ming on issues relating to the licensing regime and supervisory measures for money service operators (Chinese version only) and the Administration's response)

2. Members noted the information papers issued since the regular meeting held on 7 January 2019.

III Date of next meeting and items for discussion

(LC Paper No. CB(1)556/18-19(01) — List of outstanding items for discussion

LC Paper No. CB(1)556/18-19(02) — List of follow-up actions)

3. Members agreed to discuss the following items proposed by the Administration at the regular meeting in March 2019 which had been re-scheduled to be held on Tuesday, 19 March 2019, from 9:30 am to 11:00 am:

(a) Budget of the Insurance Authority for the financial year 2019-2020; and

(b) Consultation on Uncertificated Securities Market Regime.

Proposed joint-Panel duty visit to the major cities in the Yangtze River Delta Region

4. The Chairman informed members that the Panel on Financial Affairs ("FA Panel"), Panel on Economic Development ("EDEV Panel"), Panel on Commerce and Industry ("CI Panel"), and Panel on Information Technology and Broadcasting ("ITB Panel") would hold a joint meeting on 22 February 2019 to discuss the tentative visit programme and draft estimates of expenditure for the proposed joint-Panel duty visit to the major cities in the Yangtze River Delta Region.

5. Mr Jeffrey LAM expressed support for the joint-Panel visit which would allow members to have better understanding on the financial and economic development of the Yangtze River Delta Region. He suggested that the Chairman should give views on the visit programme on behalf of FA Panel members.

(*Post-meeting note*: The notice of the joint-Panel meeting was issued to members vide LC Paper No. CB(4)528/18-19 on 15 February 2019.)

List of outstanding items for discussion

6. Mrs Regina IP referred to item 12 of the list of outstanding items for discussion (i.e. LC Paper No. CB(1)556/18-19(01)), and said that in view of the Central Government's promulgation of the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area ("the Outline Development Plan") recently, the Administration should brief members on the subject, and the FA Panel, EDEV Panel, CI Panel and ITB Panel should hold a joint meeting as soon as possible to discuss related matters including new opportunities for the financial services sector and measures to facilitate the flow of capital in the Guangdong-Hong Kong-Macao Greater Bay Area ("the Bay Area"). The Chairman said that the four Panels planned to hold the joint meeting in March 2019.

IV Briefing on the work of the Hong Kong Monetary Authority

(LC Paper No. CB(1)556/18-19(03) — Paper provided by the Hong Kong Monetary Authority)

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Briefing by the Hong Kong Monetary Authority

7. At the invitation of the Chairman, the Chief Executive, Hong Kong Monetary Authority ("CE/HKMA"), the Deputy Chief Executive (Banking), Hong Kong Monetary Authority ("DCE(B)/HKMA"), the Deputy Chief Executive (Monetary), Hong Kong Monetary Authority and the Deputy Chief Executive (Development), Hong Kong Monetary Authority updated members on the work of HKMA through a powerpoint presentation. Topics included assessment of risks to Hong Kong's financial stability, banking supervision, financial infrastructure, development of the financial market, and investment performance of the Exchange Fund ("EF").

(*Post-meeting note*: The powerpoint presentation material (LC Paper No. CB(1)599/18-19(01)) was issued to Members vide Lotus Notes e-mail on 19 February 2019.)

Discussion

Macroeconomic environment and the impacts of interest rate normalization

8. Mr CHAN Kin-por remarked that the recent corrections in the local property and equity markets were partially attributed to market expectation of the continual interest rate normalization in the United States ("US") during 2019 as scheduled. Noting that the US Federal Reserve might slow down the pace of US interest rate hikes, he sought HKMA's assessment of the possible impacts on the local property and equity markets, and HKMA's advice for the prospective property buyers and investors.

9. CE/HKMA said that while interest rates played a role, property prices were also determined by a number of other factors such as land supply, the demand and supply of housing units, and household income levels. He believed that the property market had cycles, similar to other asset markets. While there was no independent interest rate policy under the Currency Board system which underpinned the linked exchange rate system, HKMA had launched eight rounds of countercyclical macroprudential measures on property mortgages since 2009 to strengthen banks' risk management and resilience to cope with any downturn in the property market. CE/HKMA noted that the pace of interest rate hikes in the US might slow down, but interest rates in Hong Kong might continue to increase as the pace of interest rate normalization in Hong Kong had been lagging behind that in the US. The global economy was overcast by a number of uncertainties, including the lingering China-US trade conflict and the possibility of a hard Brexit. As mortgages were long-term loans, the public should remain vigilant, manage risks prudently and avoid over-borrowing.

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Development of the financial services sector

10. Referring to the Central Government's promulgation of the Outline Development Plan in February 2019, Mr CHAN Chun-ying enquired whether HKMA would consider organizing visits for the local banking sector to the Bay Area to facilitate the latter's exchange and discussion with its Mainland counterparts and relevant Mainland regulatory authorities on the implementation of various initiatives set out in the Outline Development Plan.

11. CE/HKMA said that the Outline Development Plan covered a lot of areas, including the financial services sector. HKMA had been working on a number of financial facilitation measures, including the pilot use of Hong Kong e-wallets in the Mainland, simplifying Mainland bank account opening process by Hong Kong residents, and mutual access of wealth management products. As the measures involved cross-border capital flow management, HKMA would need to liaise with the relevant central authorities in the Mainland, including the People's Bank of China. HKMA would also consult the banking industry as appropriate in implementing the relevant measures.

Investment performance of the Exchange Fund

12. Mr CHAN Chun-ying expressed concern about the relatively low real investment returns of EF in the past five years, and enquired whether HKMA would review EF's investment strategy. Pointing out that around 70% of EF's assets were in bonds, he enquired about measures HKMA would take to prepare for a possible correction in the global bond market given that the yield curves of a number of economies might flatten in the future.

13. Mr LUK Chung-hung noted that EF had achieved an annual average 4.7% investment gain between 1994 and 2018 while the composite consumer price index over the same period was only 2.1% which had demonstrated a satisfactory and reasonable long-term investment return of EF. He enquired whether HKMA would, apart from the recent launch of the Life Annuity Scheme, consider introducing publicly offered investment products, particularly long-term investment products.

14. On the investment performance of EF, CE/HKMA responded that the primary investment objectives of EF were to preserve capital and maintain sufficient liquidity to ensure EF could fulfill its statutory role of maintaining monetary and financial stability of Hong Kong, and hence HKMA had to be prudent in devising its investment strategy. Subject to the aforementioned objectives, EF would seek to achieve an investment return that would help preserve EF's long-term purchasing power. CE/HKMA said that EF had been

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accepting placements by fiscal reserves, Government funds and statutory bodies from time to time as they were public funds. HKMA, as part of the Government, had to be prudent in deciding whether to introduce publicly offered investment products, given that this might lead to competition with products offered by the private sector.

Financial inclusion

15. Mr CHAN Chun-ying welcomed the scheme introduced by the Hong Kong Association of Banks in 2018 for the elderly to withdraw cash at convenience stores and post offices without the need to make purchases ("the Scheme"). He enquired whether HKMA had collected data and feedback on the Scheme to consider further improvement for the Scheme.

16. DCE(B)/HKMA said that since the launch of the Scheme in 2018, the service had been expanded to over 300 convenience stores. The total withdrawal amount had recorded over HK$630,000, which was a satisfactory level, noting that there was a prescribed limit for each cash withdrawal (i.e. HK$500). The Scheme had also been extended to seven post offices mainly on outlying islands and in the New Territories. HKMA would liaise with the relevant parties, including the Hongkong Post, to examine how to further enhance the Scheme.

(At 10:23 am, the Chairman ordered that the meeting be suspended for a break of ten minutes. The meeting resumed at 10:32 am.)

V Budget of the Securities and Futures Commission for the financial year of 2019-2020

(LC Paper No. CB(1)556/18-19(04)	—	Administration's paper on "Securities and Futures Commission - Budget for the Financial Year 2019-2020"
LC Paper No. CB(1)556/18-19(05)	—	Background brief on the annual budgets of the Securities and Futures Commission prepared by the Legislative Council Secretariat)

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Briefing by the Administration

17. At the invitation of the Chairman, the Chairman of Securities and Futures Commission ("C/SFC") briefed members on the Securities and Futures Commission ("SFC")'s work in the past year and proposed budget for 2019-2020. On the progress of implementing the listing regime for companies from emerging and innovative sectors ("the new listing regime"), C/SFC said that since the launch of the new listing regime on 30 April 2018, seven companies had successfully listed on the Stock Exchange of Hong Kong under that regime.

18. Regarding the 2019-2020 budget, C/SFC summarized that for that financial year, SFC had projected a total income of $1,950 million and a total expenditure of $2,180 million, resulting in an operating deficit of $230 million. The major item in SFC's total expenditure was staff cost, which would increase by $106 million to $1.45 billion in 2019-2020, primarily due to the provision for an average 4% pay increase, additional pay for position upgrades and the cost of the creation of new posts. The annual licence fee waiver that had been implemented for seven years would end in March 2019. Noting that it was first granted as a temporary relief, and after reviewing SFC's financial position, in particular the projected operating deficits, SFC was of the view that a reinstatement of the annual licence fee would be fair and appropriate. SFC recommended a 50% waiver of annual licence fee to all licensed individuals and intermediaries for two years from 2019-2020, with a view to making a full reinstatement of the fees from 2021-2022 onwards. C/SFC also advised that SFC would move its office from Central to Quarry Bay. The relocation could achieve a saving of about $1 billion in rentals over the eight-year lease term of the new office. In the long run, SFC aimed to acquire its permanent office premises.

(*Post-meeting note*: The speaking note of C/SFC was issued to members vide LC Paper No. CB(1)619/18-19(01) on 19 February 2019.)

Discussion

Staff cost and staff size

19. Noting that staff cost continued to account for the largest share of SFC's recurrent expenditure in 2019-2020, Mr CHAN Kin-por enquired when SFC expected to reach the optimal staff size and cease to expand its establishment.

20. C/SFC advised that following a period of substantial increase in SFC's headcount in the years prior to 2016 which aimed to ensure the proper discharge of its duties when SFC was under-staffed, the increase in SFC's headcount had slowed down in recent years. SFC's total headcount would reach 988 after the

creation of 23 new posts (which would be a 2.4% increase) in the proposed 2019-2020 budget. SFC considered that this establishment size to be largely optimal. SFC would however keep its staff requirements under review having regard to its specific operational needs. For example, in order to provide expertise in specific technical areas and support the implementation of various information technology ("IT") systems within SFC, SFC had proposed the creation of four new posts in the Corporate Affairs Division in 2019-2020.

21. In response to Mr Abraham SHEK's enquiry about the annual pay adjustment in the proposed 2019-2020 budget, C/SFC advised that the projected staff cost for 2019-2020 was 7.9% higher than SFC's forecast for 2018-2019. The increase was mainly due to the creation of 23 new posts, the upgrading of 28 existing posts, and the annual pay adjustment (which represented an average of 4% pay increase). The total expenditure on staff in 2019-2020 was projected to be approximately $1.45 billion.

22. Mr Abraham SHEK enquired how SFC determined the salaries of its staff, and the comparison of SFC's salary levels with the private sector. He also asked whether SFC was subject to the scrutiny of the Audit Commission and the Public Accounts Committee ("PAC") of the Legislative Council ("LegCo").

23. The Chief Executive Officer of Securities and Futures Commission ("CEO/SFC") advised that since SFC primarily recruited talent from the private sector, it was important to benchmark staff salaries against the market. SFC each year engaged external consultants to conduct surveys on salary benchmarks in the private sector. SFC would also take into account other relevant considerations, including staff turnover rates at various levels. For example, SFC staff turnover rates in the middle level had been higher than that in other levels, which was not unexpected. It was necessary for SFC to benchmark the salaries of its middle-level staff to that in the private sector in order to retain talent and maintain a stable staff establishment. CEO/SFC said that the Remuneration Committee of SFC, which consisted only of Non-executive Directors, would examine all proposed salary increases and pay adjustments in a prudent and objective manner. On Mr Abraham SHEK's enquiry about whether SFC was subject to the scrutiny of the Audit Commission, which would submit the Director of Audit's Reports to PAC on a regular basis, CEO/SFC answered in the affirmative.

Investment strategies of reserves

24. Given the good investment performance of EF, Mr CHAN Chun-ying enquired whether SFC would consider adopting EF's investment strategies in managing its reserves so as to achieve higher investment returns.

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25. C/SFC advised that SFC's reserves were not as sizeable as EF, and SFC had the statutory obligation to adopt conservative and cautious strategies in investing its reserves, including capping investment in equity funds at 15% of the overall investment portfolio and putting the remaining 85% on fixed-income investments (e.g. bonds). SFC considered that it would be appropriate to task its own Investment Committee with the duties of managing SFC's reserves. The Committee had appointed four fund managers to handle the investment of SFC's reserves and would explore measures to improve the investment returns from time to time.

Resumption of collection of annual licensing fee

26. The Chairman appreciated that resuming the collection of annual licence fee through a phased approach from 2019-2020 could help alleviate SFC's projected budget deficit and avoid causing a drastic impact on the licencees. He conveyed the securities industry's views that SFC should consider reinstating the annual licence fee waiver or providing a discount on the fee if SFC's income level improved in future.

27. While taking note of the Chairman's views, C/SFC advised that, similar to many financial regulators in Hong Kong, SFC adopted the principle of full cost recovery in provision of its services. The licence fee waiver was introduced seven years before mainly as a temporary measure in response to the then challenges in the market environment and hence the need to provide a financial relief for licensed intermediaries and individuals. In the long run, the norm was for all types of regulated business to pay a reasonable licence or registration fee.

Digitalization of services and cyber security

28. Mr Kenneth LEUNG sought explanation for the sharp rise (i.e. 24.8%) in the recurrent expenditure on IT services in the proposed budget for 2019-2020. Pointing out that digitalization in financial services was the global trend, he enquired about SFC's plans in digitalizing its services, for example introducing e-approval in the authorization of financial products, and allowing e-submission of documents to SFC.

29. CEO/SFC concurred that digitalization was the way forward in the financial services sector, and SFC was no exception to this. He advised that complete digitalization for SFC's processes would take time; SFC was exploring the feasibility to integrate all of its internal systems and was also progressing in the use of Cloud services. SFC had also commenced the use of Data Analytics to enhance its investigatory and supervisory capabilities. To prepare for full digitalization of all the interfaces between SFC and its licencees this year, SFC

was revamping its licensing forms. The revised forms would be e-filed. SFC projected an increase of 24.8% in the expenditure on IT services to support the above initiatives.

30. In response to Mr Kenneth LEUNG's enquiry on SFC's measures to ensure cyber security, CEO/SFC confirmed that SFC would conduct regular checks on its IT security systems to mitigate the risks of hacking. The checks comprised two parts namely the security hygiene procedure which involved continuous monitoring and upgrading of the IT security systems, and response and system recovery in case of systems being hacked.

Regulating the trading of virtual assets

31. Mr Holden CHOW expressed concern about the risks of fraud and money laundering arising from trading of virtual assets, especially there were neither standardized international measures nor specific legislation in Hong Kong regulating such trading activities. He enquired whether SFC would further formulate measures to regulate virtual assets in Hong Kong.

32. CEO/SFC advised that financial regulators worldwide, including Central Banks, were of the view that due to the relatively small size of virtual assets trading in the market, such trading activities posed limited risk to financial stability at the moment. Nonetheless, SFC was mindful of the investor protection facet of virtual assets activities, including the possible failures of virtual assets trading platforms, which might cause financial loss to investors. In November 2018, SFC launched a new regulatory approach for the management or sale of virtual asset funds to protect investors' interests, and for virtual asset trading platform operators to opt in to regulation by SFC via a Sandbox environment on a voluntary basis. The latter was on the basis that the platforms were trading at least one type of virtual asset that met the definition of "securities" or "futures contracts" under the Securities and Futures Ordinance (Cap. 571). CEO/SFC stressed that the new regulatory approach was exploratory and still evolving. Currently, SFC was discussing with potential virtual assets trading platform operators to explore and decide whether it was suitable to regulate those platforms under the Sandbox environment on an exploratory basis. SFC would examine the opportunities and risks which might arise if platforms were brought within the regulatory perimeter, and would continue discussions with operators, with a view to determining whether virtual asset trading platforms were suitable to be regulated by SFC.

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Office premises

33. Mr CHAN Chun-ying enquired about SFC's reserves for purchasing its own office having regard to the escalating property prices in Hong Kong, and how SFC would finance the purchase.

34. C/SFC replied that taking into account its development needs, SFC estimated that it would require an office area of some 180 000 square feet. An office premises of such a considerable size was in limited supply in the market. Following its move to the new office in Quarry Bay, SFC would achieve savings of about $1 billion in rentals over the eight-year lease. Together with the $3 billion which SFC had ring-fenced for purchase of its office, SFC would have about $4 billion at its disposal for the acquisition of a new office in a commercial building. SFC estimated the total ring-fenced amount could contribute to 40% to 50% of the total purchase cost. In case of insufficient funds, SFC would consider making arrangement for a loan for the purpose.

VI Proposed enhancements to the Investor Compensation Regime and wind-up of the Dealers Deposit Scheme

(LC Paper No. CB(1)556/18-19(06) — Administration's paper on "Proposed enhancements to the Investor Compensation Regime and wind-up of the Dealers Deposit Scheme")

Briefing by the Administration and the Securities and Futures Commission

35. At the invitation of the Chairman, the Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)1 and the Executive Director (Supervision of Markets), Securities and Futures Commission ("ED/SFC") briefed members on SFC's proposals to enhance the investor compensation regime ("ICR") and to wind-up the Dealers Deposit Scheme ("DDS"). ED/SFC said that the current ICR included an investor compensation fund ("ICF") which was established in 2003 when the Securities and Futures Ordinance (Cap. 571) came into effect. The purpose of ICR was to provide a degree of compensation to investors who had suffered loss in relation to exchange-traded securities or futures in Hong Kong as a result of a default by their intermediary. The proposed enhancements to ICR included raising the compensation limit of $150,000 to $500,000 per investor per default, raising the trigger levels for ICF levy suspension from $1.4 billion to $3 billion, and for levy reinstatement from $1 billion to $2 billion, and expanding the coverage of ICF to

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cover the transactions under northbound leg of Stock Connect. As regards winding up of DDS, members noted that the Secretary for Financial Services and the Treasury would appoint a date to begin the winding-up process by notice in the Gazette ("the Notice"). The proposed enhancements to ICR and the Notice were subsidiary legislation subject to negative vetting of LegCo. The Administration and SFC planned to table the relevant subsidiary legislation before LegCo in 2019.

Discussion

36. Mr Holden CHOW supported raising ICF's compensation limit from $150,000 to $500,000 per investor per default, and noted that the enhanced limit would increase the average coverage ratio (i.e. the percentage of investors that would be compensated in full if their intermediary was to default) of ICF to around 83%. He sought information on the time required for processing an investor's claim for compensation and clarification on the coverage ratio.

37. Regarding the time for processing a compensation claim, ED/SFC said that this varied from case to case. If the investor concerned submitted his/her application for claims with relevant and comprehensive information and documents, compensation payment could be made in a few months' time. Majority of the investors could receive their compensation within a year after lodging the claims. On the coverage ratio, ED/SFC said that after raising the compensation limit to $500,000, it was expected that around 83% of investors would be compensated in full, and the remaining 17% of investors, who were usually high net-worth investors, would be entitled to a maximum payment of $500,000.

38. The Chairman said that the securities and futures industry supported the proposed enhancements to ICR which could enhance investors' confidence in and promote the growth and development of the securities and futures markets of Hong Kong.

VII Any other business

39. There being no other business, the meeting ended at 11:20 am.

Council Business Division 1
Legislative Council Secretariat
25 April 2019