

立法會
Legislative Council

LC Paper No. CB(1)1108/18-19
(These minutes have been seen
by the Administration)

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Panel on Financial Affairs

**Minutes of meeting held on
Tuesday, 19 March 2019, at 9:30 am
in Conference Room 2 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 CHAN Kin-por, GBS, JP
Hon WU Chi-wai, MH
Hon Charles Peter MOK, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon CHU Hoi-dick
Hon SHIU Ka-fai
Hon CHAN Chun-ying, JP
Hon LUK Chung-hung, JP

Member attending : Hon YIU Si-wing, BBS

Members absent : Hon WONG Ting-kwong, GBS, JP
Hon Starry LEE Wai-king, SBS, JP
Hon Mrs Regina IP LAU Suk-ye, GBS, JP
Hon Steven HO Chun-yin, BBS
Hon Dennis KWOK Wing-hang
Hon Alvin YEUNG
Hon Holden CHOW Ho-ding
Hon CHEUNG Kwok-kwan, JP

Public officers attending : Agenda Item IV

Mr Eddie CHEUNG Kwok-choi, JP
Deputy Secretary for Financial Services and the
Treasury (Financial Services)²

Agenda Item V

Mr Chris SUN, JP
Deputy Secretary for Financial Services and the
Treasury (Financial Services)¹

Mr George TSOI
Principal Assistant Secretary for Financial Services and
the Treasury (Financial Services)²

Attendance by invitation : Agenda Item IV

Dr Moses CHENG Mo-chi, GBM, GBS, JP
Chairman
Insurance Authority

Mr Clement CHEUNG Wan-ching, GBS, JP
Chief Executive Officer
Insurance Authority

Mr Ryan CHIU Pit-ming
Director, Corporate Services
Insurance Authority

Mr Christopher LAU Chung-hoi
Secretary
Insurance Authority

Agenda Item V

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

Mr Calvin TAI
Co-President and Chief Operating Officer
Hong Kong Exchanges and Clearing Limited

Mr Daniel POON
Managing Director
Hong Kong Exchanges and Clearing Limited

Mr Allan TONG
Chairman
Federation of Share Registrars Limited

Ms Phyllis LEE
Vice Chairman
Federation of Share Registrars Limited

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)714/18-19 — Minutes of the meeting on
7 January 2019)

The minutes of the meeting held on 7 January 2019 were confirmed.

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II Information papers issued since the regular meeting on 19 February 2019

(LC Paper No. CB(1)632/18-19 — Quarterly Report of the Securities and Futures Commission (October to December 2018)

LC Paper No. CB(1)663/18-19(01) — 2017-2018 Annual Report of the Process Review Panel for the Securities and Futures Commission

LC Paper Nos. CB(1)680/18-19(01) and (02) — Letter dated 15 February 2019 from Dr Hon Fernando CHEUNG on issues relating to the Caring and Sharing Scheme (Chinese version only) and the Administration's response)

2. Members noted the information papers issued since the regular meeting held on 19 February 2019.

III Date of next meeting and items for discussion

(LC Paper No. CB(1)695/18-19(01) — List of outstanding items for discussion

LC Paper No. CB(1)695/18-19(02) — List of follow-up actions)

3. Members agreed to discuss the following items proposed by the Administration at the regular meeting scheduled for 1 April 2019, from 10:45 am to 12:45 pm:

- (a) E-stamping of share transfer documents;
- (b) Development of financial technologies; and
- (c) Work of the Financial Services Development Council.

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Joint-Panel meeting

4. The Chairman informed members that the Panel on Financial Affairs, Panel on Economic Development, Panel on Commerce and Industry and Panel on Information Technology and Broadcasting would hold a joint meeting on 19 March 2019, from 2:30 pm to 4:30 pm, to discuss the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area.

(Post-meeting note: The notice of the joint-Panel meeting was issued to members vide LC Paper No. CB(1)621/18-19 on 22 February 2019.)

IV Budget of the Insurance Authority for the financial year 2019-2020

(LC Paper No. CB(1)695/18-19(03) — Administration's paper on "Budget of the Insurance Authority for the financial year 2019-2020"

LC Paper No. CB(1)695/18-19(04) — Updated background brief on the establishment of and financial arrangements for the Insurance Authority prepared by the Legislative Council Secretariat)

Briefing by the Insurance Authority

5. At the invitation of the Chairman, the Chairman of Insurance Authority ("C/IA") briefed members on the main features of the proposed budget of the Insurance Authority ("IA") for the financial year 2019-2020. He advised that IA had all along exercised financial discipline and had been prudent in managing its resources and controlling expenditure. C/IA stated that the estimated income of IA for 2019-2020 was about \$243 million while the estimated operating and capital expenditure were \$446.6 million and \$21.8 million respectively. The forecast income level had taken into account the revision of levy rate with effect from 1 April 2019 (from 0.04% to 0.06%) and the projected growth in insurance premiums. As for expenditure, "staff costs" and "office rentals and related expenses" were the two most prominent items.

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Operation of the Insurance Authority

6. C/IA said that IA had taken up the responsibility for regulation of insurance companies from the former Office of the Commissioner of Insurance ("OCI") in June 2017 and achieved substantial progress in a host of initiatives. IA was making intensive preparations to take over the regulation of insurance intermediaries from the three Self-Regulatory Organizations ("SROs") and implement a statutory licensing regime for insurance intermediaries ("the New Licensing Regime") in the second half of 2019. This would serve to boost public confidence and uplift the professionalism of insurance intermediaries, bringing about better protection for policy holders.

7. C/IA said that IA was reinforcing its regulatory regime by undertaking preparatory work for introducing a risk-based capital regime, working with the Government in drafting the legislation for setting up the Policy Holders' Protection Scheme ("PPS") as well as formulating a group-wide supervisory framework for insurance groups. These measures would not only preserve market stability, but also consolidate the status of Hong Kong as a regional insurance hub and risk management centre.

8. C/IA stressed that IA was determined to foster sustainable market development and enhance overall competitiveness of the insurance industry. Hong Kong should leverage on opportunities presented by the Belt and Road Initiative ("BRI"), especially those arising from large-scale infrastructure projects and position itself as a preferred domicile for State-owned Enterprises wishing to set up captive insurers.

9. As for specific initiatives in 2019-2020, C/IA mentioned that IA would promulgate codes and guidelines under the New Licensing Regime to ensure seamless transition. IA would also assist the Government in introducing the bill on PPS and finalizing legislative amendments for introducing a group-wide supervision regime. Looking forward, IA would maintain close liaison with the industry and professional bodies, with a view to projecting itself as a reputable and efficient regulator.

Discussion

Recruitment of staff of the Insurance Authority

10. Mr CHAN Chun-ying noted that IA currently had about 270 staff members and enquired whether it planned to fill vacancies to reach the full establishment of about 300 in 2019-2020.

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11. Mr CHAN Kin-por declared that he was the Senior Advisor of Well Link Insurance Group Holdings Limited and enquired if IA had any difficulties in staff recruitment.

12. C/IA advised that in order to cope with prevailing workload, IA would persist with its recruitment drive. Moreover, IA would work with related parties to hold seminars and briefings for students on the prospects of and career opportunities available in the industry. Given the impending launch of the New Licensing Regime, the demand for manpower would rise further. IA would adopt a multi-pronged approach and pursue the use of information technologies to conserve staff resources.

13. Mr YIU Si-wing enquired whether staff of the former OCI and the three SROs were granted appointment in IA, and whether staff of the former OCI received any financial compensation from the Administration.

14. C/IA pointed out that all employees of IA were sourced through open recruitment, but staff of the former OCI who indicated interest had applied for job openings in IA, and about 90 of them eventually joined IA. Deputy Secretary for Financial Services and the Treasury (Financial Services)2 ("DS(FS)2") said that some staff members of the three SROs had joined IA through open recruitment.

15. On the arrangement for the pensionable civil servants of the former OCI, DS(FS)2 said that in addition to ex-gratia payment and special lump sum payment, they were eligible for enhanced pension benefits in accordance with the Pension Benefits Ordinance (Cap. 99).

Remuneration of the staff of Insurance Authority

16. Noting that IA did not set up a remuneration committee, Mr CHAN Chun-ying enquired how the salary levels of its staff were determined, and whether IA would consider establishing such a committee which was common in the private sector.

17. C/IA replied that the Corporate Services Committee of IA was tasked to review the structure and level of staff remuneration, and recommend adjustments where necessary.

18. Mr CHAN Kin-por opined that attractive remuneration packages in private sector might compel IA to offer competitive terms to attract and retain talents. He considered IA should exercise caution and avoid excessive increase in headcount.

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19. C/IA replied that it was difficult to make a direct comparison between IA and private sector given its status as a public body. However, those who chose to join IA were committed to serving the community so IA's turnover rate had remained stable. IA attached high importance to staff matters and was updated on human resources matters at every meeting. IA also engaged consultancy firms to benchmark its remuneration package against other employers and improved its fringe benefits including annual leaves and corporate insurance. C/IA said that IA would continue to exercise vigilant control on headcount.

Financial position of the Insurance Authority

20. Mr CHAN Chun-ying noted that according to IA's projection, its reserve would be reduced to \$104.4 million by March 2020, which was only enough to support about three months of operating expenditure. He enquired how IA would cope with this problem.

21. C/IA advised that it was the Government's policy objective for IA to be financially independent. At present, there was limitation for IA to achieve full cost recovery as premium levies (primary source of income) was capped. C/IA assured members that IA would discuss this matter with the Government in due course while actively exploring new sources of income.

22. Mr Kenneth LEUNG enquired about the reason for the substantial increase in IA's estimated expenditure on professional services in 2019-2020, and whether such a trend was expected to continue.

23. C/IA advised that the phenomenon was attributable to an expanded scope of work, including preparation for the introduction of the risk-based capital regime and the New Licensing Regime. On the former, IA was conducting a series of quantitative impact studies whereas for the latter, in-house capacity was being built to exercise disciplinary action against insurance intermediaries with suspected misconduct. External consultancy and legal support might be called for, although it would be difficult to estimate the amount of funds required.

Application of information technologies in the operation of the Insurance Authority

24. Noting the considerable operating expenditure projected for 2019-2020, Mr CHAN Kin-por enquired whether IA would consider using regulation technology to reduce operating cost.

25. C/IA replied that IA valued the application of IT in carrying out its regulatory tasks. For instance, an on-line portal catering for licensing of

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insurance intermediaries would be commissioned to enhance convenience and efficiency. Moreover, IA had formed a working group under the Future Task Force to promote financial technologies and adopt technological advancement.

The roles of the three Self-Regulatory Organizations

26. Mr YIU Si-wing enquired about the future roles of the three SROs and whether the Administration would provide funding to them.

27. DS(FS)2 advised that the future roles of the three SROs had been discussed during the consultation on the establishment of IA in 2012. SROs would still play a role in representing industry practitioners and provide continuous professional training for its members after the implementation of the New Licensing Regime. The Administration launched a three-year pilot programme in August 2016 to enhance talent training and development for the insurance sector. Of the total funding of about \$50 million for the pilot programme, certain amount had been allocated to the three SROs for organizing quality training courses.

28. In response to Mr Kenneth LEUNG's enquiry as to whether IA would consult the three SROs in drafting codes and guidelines concerning the insurance industry, C/IA advised that IA had all along involved the industry in the process.

Publicity and education programmes for the public

29. Mr LUK Chung-hung commented that policy holders should have access to more information about the nature of insurance products available in the market while insurance intermediaries should possess comprehensive knowledge before recommending a product to their clients. He enquired about efforts made by IA in strengthening public education and professional training regarding insurance products so far.

30. C/IA advised that IA had a statutory duty to promote understanding of insurance products by the public and the insurance industry. This was being done through the IA website, social media, briefings, seminars and various industry events. The Chief Executive Officer of Insurance Authority ("CEO/IA") elaborated that compared with the former OCI which was only responsible for prudential regulation, IA must deliver a wider range of outcomes. He explained that part of the budget on external relations for 2019-2020 was dedicated towards public education, and that partnership had been forged with the Investor and Financial Education Council and the three SROs to derive maximum synergy. Furthermore, a mortality protection gap study, the first of its kind carried out by IA, was close to completion.

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31. Mr SHIU Ka-fai enquired about the existing mechanism for handling complaints from policy holders against insurance companies and intermediaries, and the number of complaints received in recent years.

32. C/IA advised that the Insurance Complaints Bureau provided a dispute resolution mechanism to resolve claim disputes between policy holders and insurers. Complaints lodged against insurance intermediaries would be handled by the three SROs until the New Licensing Regime came into operation, and IA had internal procedures to deal with complaints against its staff.

33. CEO/IA added that the number of complaints were steady in the past few years, with 915 in 2015, 955 in 2016, 1 100 in 2017, and the number in 2018 was comparable to that in 2017. A majority of these complaints were associated with misrepresentation, claims handling, conduct and quality of service.

34. Mr WU Chi-wai referred to some cases where the policy holders were administered with unnecessary medical treatment to maximize insurance claims. Mr WU enquired whether IA had plans to step up public education in light of this problem, and augment training of insurance intermediaries on advising clients to disclose pre-existing conditions where appropriate to reduce rejection of claims.

35. C/IA reiterated that IA was not empowered to vet products, but insurance intermediaries had to perform more training on ethics under the New Licensing Regime. DS(FS)2 said that some insurance companies had issued letters to advise medical practitioners that they should only prescribe treatments which were clinically justified regardless of whether their patients had acquired insurance coverage.

Development of the insurance industry

36. Mr CHAN Kin-por stressed the importance of striking a balance between regulating the insurance industry and maintaining its global competitiveness.

37. C/IA highlighted that IA was playing a dual role as prudential regulator and market facilitator. Apart from seizing opportunities presented by BRI, IA was looking into development of the Guangdong-Hong Kong-Macao Greater Bay Area in collaboration with its counterparts in the Mainland. C/IA indicated that IA was elected as the Group-wide Supervisor for Prudential plc, consolidating Hong Kong's position as a regional insurance hub.

38. In response to Mr Kenneth LEUNG, C/IA advised that the membership of IA, effective from December 2018, comprised of himself, eight non-executive

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directors and five executive directors. Monthly honoraria of the Chairman and each non-executive director were \$74,000 and \$21,000 respectively. He added that a new non-executive director from the academia had been appointed to enrich the diversity of IA.

39. Mr Kenneth LEUNG asked whether the honoraria of IA's non-executive directors were on a par with that of other statutory bodies. DS(FS)2 responded that there was no standard rate for the honoraria of board members of statutory bodies. The levels varied, depending on the functions of the respective bodies.

V Consultation on Uncertificated Securities Market Regime

(LC Paper No. CB(1)695/18-19(05) — Administration's paper on "Consultation on Uncertificated Securities Market Regime"

LC Paper No. CB(1)695/18-19(06) — Background brief on the development of an uncertificated securities market regime in Hong Kong prepared by the Legislative Council Secretariat)

Briefing by the Administration

40. At the invitation of the Chairman, Deputy Secretary for Financial Services and the Treasury (Financial Services)1 ("DS(FS)1") briefed members on the latest proposal for establishing an uncertificated securities market ("USM") regime in Hong Kong. DS(FS)1 said that the USM regime was one of the key initiatives to further enhance and modernize Hong Kong's financial market infrastructure. The USM regime aimed to improve the efficiency of the market through doing away with the current paper-based transaction arrangements and replacing them with a digitalized environment for holding and transfer of securities. The USM regime would provide the option for investors to hold securities in their own names and without paper documents, such that investors would enjoy better legal protection and greater convenience as compared with the current paper-based regime. After the legislative exercise for introducing the USM regime in Hong Kong in 2015, the Securities and Futures Commission ("SFC"), the Hong Kong Exchanges and Clearing Limited ("HKEX"), and the Federation of Share Registrars Limited had developed a revised operational model ("the Revised Model") in pursuing the USM initiative taking into account

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feedback from the industry and the continuous evolvement of the market. To facilitate the transfer of securities into and out of the clearing and settlement environment under the Revised Model, the Hong Kong Securities Clearing Company Limited ("HKSCC") and the share registrars would need to establish an electronic interface between their respective systems. The costs of the new systems to support the Revised Model would largely be borne by HKEX and share registrars, and hence the cost implications on market participants was expected to be low.

41. As regards implementation of the USM regime, DS(FS)1 said that a phased approach would be adopted both in terms of the products and processes to be covered. In terms of products, the initial stage of the USM regime would cover listed shares of Hong Kong-incorporated companies. In terms of processes, focus would first be put on initial public offerings ("IPOs"). It was expected that the first batch of securities could begin to be held and transferred without paper documents in around 2022. The Administration planned to introduce the legislative amendments for implementing the USM regime under the Revised Model (covering amendments to the Securities and Futures Ordinance (Cap. 571) and the Companies Ordinance (Cap. 622)) into the Legislative Council within the 2019-2020 legislative session.

Discussion

42. Mr CHAN Chun-ying pointed out that in taking forward the USM initiative, the Administration should be mindful of the need of elderly investors who might prefer to hold their securities in paper certificates. Noting that the initial stage of the USM regime would focus first on IPOs, Mr CHAN enquired about the timetables for extending the regime to cover existing shares and achieving a full USM regime. He also sought information on the Administration's projection on the acceptance level of the USM regime by investors.

43. DS(FS)1 said that the proposed legislative amendments were to provide a legal framework for implementing a USM regime in Hong Kong under the Revised Model. The USM regime would be taken forward in a progressive manner taking into account the operational experience, market readiness and investors' acceptance. It was expected that the first batch of securities might begin to be held and transferred without paper documents in around 2022 if the necessary legislative amendments were in place and systems development was ready. While the Government would not devise a concrete timetable for implementing a full USM regime lest this would compromise flexibility and it might not be feasible to forecast investors' acceptance of the USM regime, the Government's ultimate goal was to achieve a full USM regime as early as possible.

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44. Mr WU Chi-wai enquired about the room for lowering the custodian fees payable by investors with the implementation of the USM regime and whether the Administration had considered introducing a grandfathering arrangement so that investors' rights to paper securities already held in their own names could be preserved without the need to change their securities to uncertificated form with full implementation of the USM regime.

45. Co-President and Chief Operating Officer, Hong Kong Exchanges and Clearing Limited ("CP&COO/HKEX") explained that under the Revised Model, the fees and charges would remain the same if investors continued to hold securities through the Central Clearing and Settlement System ("CCASS") in the way they did at present. If investors opted to hold securities in their own names and in uncertificated form, the relevant fees and charges would be determined by the market participants, and it was expected that market competition could help drive down the fees and charges.

46. Chairman, Federation of Share Registrars Limited ("Chairman/FSR") added that with the full implementation of the USM regime, investors would need to convert their paper securities into uncertificated form. In response to Mr WU Chi-wai's further enquiry, Chairman/FSR confirmed that IPO securities would also be in uncertificated form upon the implementation of the USM regime.

47. Mr Kenneth LEUNG sought information on the estimated cost for HKEX to develop the new systems required for supporting the Revised Model. He further enquired about possible changes in the existing operation of securities firms upon the implementation of the USM regime, in particular, whether securities firms would be required to ask their clients about their willingness to dematerialize the securities, and whether the existing nominee structure in CCASS would be maintained.

48. CP&COO/HKEX said that HKEX would need to upgrade its existing systems in order to support the implementation of the USM regime under the Revised Model, and the relevant system requirements would be included in HKEX's system enhancement project to be implemented in due course. The cost would be absorbed by HKEX. He further said that while the transfer of securities within CCASS was paperless at present, some transactions still required the use of paper, particularly the IPO process. With the implementation of the USM regime, the transfer of securities within CCASS as well as all IPO securities would be in uncertificated form. As regards possible changes to the nominee structure in CCASS, CP&COO/HKEX advised that in order to preserve the existing settlement efficiencies and relatively low intraday liquidity needs that market participants currently enjoyed, the nominee structure in CCASS would be

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retained under the USM regime. Investors would be allowed to continue holding only the beneficial interest of the securities in CCASS and the legal title to the securities would be vested in the CCASS nominee (i.e. HKSCC Nominees Limited).

49. Chairman/FSR added that under the USM regime, the electronic systems for evidencing, and effecting transfers of, the legal title to securities would be operated by share registrars. As such, share registrars would also need to invest and upgrade their systems to support the implementation of the USM regime under the Revised Model. Moreover, it would also be necessary to invest and establish an electronic interface between HKSCC's system and share registrars' systems in order to ensure secure and efficient transfers between the systems.

50. The Chairman enquired whether the settlement period of IPO securities would be shortened, say from five days to three days, upon the implementation of the USM regime. Executive Director (Supervision of Markets), Securities and Futures Commission responded that SFC and HKEX were exploring possible options for shortening the IPO settlement timetable. Since the IPO securities would be in uncertificated form under the USM regime, and with the electronic platforms and electronic payment options made available, it was believed that there would be room for shortening the settlement period.

51. The Chairman concluded that members had no adverse comments on the implementation of a USM regime under the Revised Model and noted the Government's plan to introduce further legislative amendments to pursue the USM initiative.

VI Any other business

52. There being no other business, the meeting ended at 10:50 am.