立法會
Legislative Council

LC Paper No. CB(1)280/19-20
(These minutes have been seen by the Administration)

Ref : CB1/PL/FA

Panel on Financial Affairs

Minutes of policy briefing-cum-meeting held on Monday, 4 November 2019, 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 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 WU Chi-wai, MH
Hon Charles Peter MOK, JP
Hon Alice MAK Mei-kuen, BBS, JP
Hon Dennis KWOK Wing-hang
Hon Martin LIAO Cheung-kong, GBS, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon Holden CHOW Ho-ding
Hon SHIU Ka-fai, JP
Hon CHAN Chun-ying, JP
Hon CHEUNG Kwok-kwan, JP
Hon AU Nok-hin

Members attending :
Hon Paul TSE Wai-chun, JP
Hon YIU Si-wing, BBS
Hon KWOK Wai-keung, JP

Member absent	**:**	Hon CHU Hoi-dick
Public officers attending	**:**	<u>Agenda Item IV</u> Mr James LAU, JP Secretary for Financial Services and the Treasury Ms Alice LAU, JP Permanent Secretary for Financial Services and the Treasury (Treasury) Ms Michelle LI, JP Permanent Secretary for Financial Services and the Treasury (Financial Services) 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 Aaron LIU, 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 Andrew LAI Deputy Secretary for Financial Services and the Treasury (Treasury)2 <u>Agenda Item V</u> Mr Eddie YUE, JP 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

Mr Edmond LAU
Senior Executive Director
Hong Kong Monetary Authority

Agenda Item VI

Mr Raistlin LAU, JP
Deputy Secretary for Financial Services and the Treasury (Treasury)1

Dr Edward CHENG
Principal Assistant Secretary for Financial Services and the Treasury (Treasury) (H)

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

Action

I Confirmation of minutes of meeting and matters arising

(LC Paper No. CB(1)51/19-20 — Minutes of the meeting on 17 October 2019)

The minutes of the meeting held on 17 October 2019 were confirmed.

Action

II Information papers issued since the regular meeting on 3 June 2019

(LC Paper No. CB(1)1168/18-19(01)	—	2018 Annual Report of the Hong Kong Mortgage Corporation Limited
LC Paper No. CB(1)1205/18-19(01)	—	First quarterly report of 2019 on "Employees Compensation Insurance — Reinsurance Coverage for Terrorism"
LC Paper No. CB(1)1284/18-19(01)	—	Administration's paper on Departmental Interpretation and Practice Notes Relating to the Transfer Pricing Regulatory Regime
LC Paper No. CB(1)1296/18-19(01)	—	Second quarterly report of 2019 on "Employees Compensation Insurance — Reinsurance Coverage for Terrorism"
LC Paper No. CB(1)1307/18-19(01)	—	Administration's paper on Review and Way Forward of Pilot Programme to Enhance Talent Training for the Insurance Sector and Asset and Wealth Management Sector
LC Paper No. CB(1)1321/18-19(01)	—	The Quarterly Report of the Securities and Futures Commission (April to June 2019)
LC Paper No. CB(1)1322/18-19(01)	—	Second Quarter Economic Report 2019 and the press release

Action

LC Paper No. CB(1)1347/18-19(01) — Administration's paper on Mutual Evaluation of Hong Kong's Anti-Money Laundering and Counter-Terrorist Financing Regime by Financial Action Task Force and Asia-Pacific Group on Money Laundering)

2. Members noted the information papers issued since the regular meeting held on 3 June 2019.

III Date of next meeting and items for discussion

(LC Paper No. CB(1)53/19-20(01) — List of outstanding items for discussion)

3. Members agreed to discuss the following items proposed by the Administration at the regular meeting scheduled for 2 December 2019:

(a) Briefing by the Financial Secretary ("FS") on Hong Kong's latest overall economic situation;

(b) 2020-2021 Budget consultation;

(c) Enhancement and relocation of information technology systems and facilities of the Inland Revenue Department;

(d) Proposal to establish a limited partnership regime for funds;

(e) The Government's initiatives to promote the development of the insurance industry in Hong Kong; and

(f) Progress update on the eMPF Platform.

4. Members further agreed that the meeting on 2 December 2019 would be held from 9:00 am to 1:00 pm to allow sufficient time for discussion of the above six items.

Action

IV Briefing by the Secretary for Financial Services and the Treasury on the Chief Executive's 2019 Policy Address

(LC Paper No. CB(1)53/19-20(02) — Administration's paper on 2019 Policy Address - Policy Initiatives of the Financial Services and the Treasury Bureau)

Relevant papers provided by the Administration

(*issued on 16 October 2019* — The Chief Executive's 2019 Policy Address

issued on 16 October 2019 — The Chief Executive's 2019 Policy Address Supplement)

Briefing by the Administration

5. 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 2019 Policy Address. He highlighted the following areas of work set out in the Administration's paper (LC Paper No. CB(1)53/19-20(02)):

(a) capitalizing on the opportunities presented by the Guangdong-Hong Kong-Macao Greater Bay Area ("Greater Bay Area") and the Belt and Road Initiative through various measures, including expanding further the scale and scope of cross-boundary use of Renminbi ("RMB"), enhancing connectivity among the financial markets and promoting measures to facilitate cross-boundary wealth management;

(b) enhancing Hong Kong's status as an international insurance hub through various measures including reducing profits tax rate by 50% for general reinsurance business of direct insurers, selected general insurance business of direct insurers and selected insurance brokerage business, enabling the issuance of insurance-linked securities by special purpose vehicles and expanding the scope of insurable risks by captive insurers set up in Hong Kong;

(c) consolidating Hong Kong's position as a major asset and wealth management centre by diversifying the fund structures (including the recently launched open-ended fund company regime and the proposed limited partnership regime), providing a facilitating tax environment, and continuing to work on the mutual recognition of funds ("MRF") arrangements with other jurisdictions;

(d) developing Hong Kong into a broader and deeper platform for fund-raising by implementing a new listing regime in Hong Kong to facilitate the listings of companies from the emerging and innovative sectors and establishing an uncertificated securities market regime with a view to enhancing and modernizing the financial market infrastructure;

(e) promoting the development of financial technologies ("Fintech") by taking forward initiatives including facilitating members of the public to settle Government bills through the Faster Payment System ("FPS"), granting of virtual bank licences by the Hong Kong Monetary Authority ("HKMA"), implementing the Open Application Programming Interface framework by the banking industry in phases and granting authorizations to virtual insurers by the Insurance Authority;

(f) developing and consolidating Hong Kong's position as a leading hub for green finance in the region by providing the necessary infrastructure and catalyst for jump-starting market developments and stepping up promotion and publicity efforts to enhance Hong Kong's international profile in green finance; and

(g) taking forward initiatives to enhance the regulatory system and financial safety, including continuing to implement regulatory standards prescribed by international organizations, developing an eMPF Platform to enhance the administrative efficiency of Mandatory Provident Fund ("MPF") schemes and introducing a statutory corporate rescue procedure and insolvent trading provisions to provide an option for companies in short-term financial difficulties to initiate the procedure.

(*Post-meeting note*: The press release containing the speaking note of SFST (Chinese version only) was issued to Members vide LC Paper No. CB(1)113/19-20(01) on 4 November 2019.)

Action

Discussion

Measures to support enterprises

6. Anticipating increasing volatilities in the economic environment in the coming year, Mr Jeffrey LAM was concerned why the Policy Address had not included supportive measures to help small and medium sized enterprises ("SMEs") including SME securities firms to tide over the challenges of the uncertain economic situation. Pointing out that the business of local enterprises were greatly affected during the social unrest in the recent months, Mr LAM urged the Administration to introduce measures to support enterprises, particularly SMEs, to alleviate their financing burden by making reference to the arrangement under the SME Financing Guarantee Scheme ("SFGS") which only required borrowers to pay interests for their loans in the initial six months.

7. Mr Kenneth LEUNG conveyed the comments from the Consulate General of France that, besides Hong Kong's sound financial system, its rule of law and free flow of information as well as it not becoming a police city were crucial factors in maintaining Hong Kong's position as a leading international financial centre.

8. The Chairman agreed that the rule of law was among the core values of Hong Kong, and urged the Administration to take concrete actions to stop the present violent and chaotic situations. He further called on the Administration to develop measures to assist the securities industry to alleviate the financial hardship caused by the recent social unrest, including waiving the annual licence fees of intermediaries registered with the Securities and Futures Commission ("SFC") and expanding the list of technological services and solutions under the Technology Voucher Programme to cover the expenses incurred by securities firms for upgrading their trading systems and applying technologies for cross-border authentication.

9. SFST said that in the face of an increasingly austere economic situation in recent months, FS had announced three rounds of relief measures to support enterprises since August 2019. The Government would strive to stop the violence and chaos, and expeditiously restore public order with a view to stabilizing and improving the business environment in Hong Kong. As regards assistance for SME securities firms, SFST advised that the Government was exploring various support measures, including waiving the annual licence fees of intermediaries registered with SFC, and facilitating remote client onboarding which would help the local securities industry to promote business to non-local clients. He added that the Government and financial regulators, besides continuing to stay alert and strengthening the preventive measures to safeguard financial stability, would also

Action

promote diversification in the Hong Kong financial markets through various initiatives, such as fostering the developments of green finance, Fintech, virtual banking, etc. in order to enhance Hong Kong's competitiveness.

10. Noting that the Administration had planned to reduce rentals for its leased premises in order to assist SMEs to cope with the difficult operating environment, Mr WU Chi-wai called on the Administration to develop measures to assist SMEs to reduce their operating costs, including appealing to the commercial sector to reduce rentals for shop tenants. Moreover, he sought information on the effectiveness of HKMA's recent measures for relieving the cash flow pressure faced by SMEs, including reducing the countercyclical capital buffer ("CCyB") from 2.5% to 2.0% which could release about HK$300 billion capital in the banking system, and clarifying to banks the regulatory requirements for rescheduled loans. Mr Wu further stressed that the Administration must resolve political problems by political means.

11. Ms Starry LEE concurred that the Administration should appeal to the commercial sector, including the Link Real Estate Investment Trust, for reducing rentals of shops and business premises with a view to relieving the financial hardship of local enterprises, particularly SMEs.

12. SFST said that the Government would reduce the rental by 50% for its leased premises and those under short-term tenancies, and would appeal to landlords to lower their rents. It was observed that some landlords had made positive responses. He added that at the first meeting of the Banking Sector SME Lending Coordination Mechanism ("the SME Mechanism") established by HKMA held in October 2019, banks agreed to adopt eight measures to support SMEs, including making good use of the capital buffer released by the reduction of CCyB to support SMEs and adopting an accommodative approach in handling SMEs' financing needs without compromising the prudent risk management principles. It would take time for the measures to take effect. HKMA, together with the banking sector, would continue to maintain close dialogue with the commercial sector in providing appropriate support to SMEs and helping them tide over the current difficulties. SFST added that the Chief Executive had announced on 4 September 2019 that the Government would invite community leaders, professionals and academics to independently examine and review society's deep-seated problems which would cover political, economic and social issues, and to advise the Government on finding solutions.

13. Mr YIU Si-wing expressed grave concern that the medium-small-and micro-sized enterprises ("MSMEs") were facing serious cash-flow problems due to significant decline in businesses arising from the recent social unrest. Pointing out that the Administration had implemented the low-interest loan guarantee

scheme during the outbreak of Severe Acute Respiratory Syndrome to provide enterprises in various sectors with full guarantee for loans granted by lending institutions, Mr YIU enquired if the Administration would consider implementing similar measures to provide immediate cash-flow relief for MSMEs to help them tide over the present crisis. He further opined that the Administration should consider cooperating with enterprises and business consortia to provide full guarantee for approved commercial loans under SFGS. Mr YIU also commented that the procedure for making applications for the 80% guarantee product under SFGS was complicated and time-consuming, and sought details, including the implementation timetable, of a new loan guarantee product the Commerce and Economic Development Bureau ("CEDB") planned to introduce under SFGS, which would provide 90% guarantee for approved loans to help SMEs and businesses with relatively less operating experience as well as professionals seeking to set up their own practices in obtaining financing.

Admin 14. SFST said that the Government recognized the cash-flow problems faced by MSMEs and would keep in view the financial and economic developments in Hong Kong and introduce appropriate relief measures where necessary. He undertook to liaise with CEDB in providing the Panel with details of the new loan guarantee product under SFGS.

Measures to relieve people's financial burden

15. Mrs Regina IP, Ms Alice MAK, Mr WONG Ting-kwong, Ms Starry LEE, Mr Holden CHOW and the Chairman strongly urged the Administration to consider waiving the provisional tax for the current year of assessment so as to help relieve taxpayers' burden in view of the expected significant drop in their income/profits in the near future. They further expressed concern about the complicated and time-consuming procedure for taxpayers to apply for holding over their provisional tax, which had created troubles to taxpayers and brought extra workload for the Administration. Mrs IP added that charging taxpayers for provisional tax was unfair as they were required to pay tax on income/profits they were yet to earn. Mr Holden CHOW suggested that the Administration should consider allowing taxpayers to apply for deferment in tax payments in the face of the present economic hardship. Mr WONG Ting-kwong and Mr Kenneth LEUNG sought information on the procedure and supporting documents required for applying holding over of provisional tax.

16. SFST said that while the Government understood Members' concerns relating to provisional tax, the provisional tax system was implemented because Hong Kong did not adopt the "pay as you earn" system in collecting taxes as practised in many jurisdictions. He further said that provisional tax was collected only after the relevant income had been earned under the present arrangement.

Moreover, taxpayers anticipating a more than 10% decrease in their net chargeable income or assessable profits for the current year of assessment might apply to the Inland Revenue Department for holding over the provisional tax in whole or in part.

17. In response to Ms Alice MAK's concern that taxpayers might need to borrow money for paying tax, SFST said that taxpayers could purchase tax reserve certificates (which were interest bearing) to build up funds for tax payment. He added that with the proposed one-off reduction of profits tax, salaries tax and tax under personal assessment for the year of assessment 2018-2019 by 100%, subject to a ceiling of HK$20,000 per case, about two-thirds of the taxpayers were not required to pay any tax for the year of assessment 2018-2019. Noting SFST's response, Mr WONG Ting-kwong remarked that the tax reduction would only be applicable to the final tax for the year of assessment 2018-2019, but not to the provisional tax of the same year.

18. In response to Ms Starry LEE's enquiry about the progress of processing the applications for HK$4,000 under the Caring and Sharing Scheme, SFST and Permanent Secretary for Financial Services and the Treasury (Treasury) advised that the Working Family Allowance Office ("WFAO") had received more than 3 million applications, completed processing nearly all of them and disbursed the funds concerned. WFAO was actively following up the remaining less than 1% applications, including contacting the applicants concerned, requesting them to submit supporting documents where necessary as soon as possible, etc., and would process the applications promptly once the relevant information was received.

Measures to maintain monetary and financial stability

19. Mr CHAN Kin-por noted from the 2019 Policy Address Supplement that 9 040 companies and 1 541 headquarters had established presence in Hong Kong. He expressed concern that if the social unrest continued, the Hong Kong economy would face a serious downturn and the multinational corporations might consider relocating their headquarters and offices to other places, such as Singapore and the Mainland. He also pointed out that many Hong Kong people and companies had opened offshore bank accounts in recent months, and enquired about measures the Administration would take to prevent large-scale capital outflow from Hong Kong. He stressed the importance for the Administration to stop violence and chaos in Hong Kong, and restore public order. It was also necessary for the Administration to formulate strategies to strengthen Hong Kong's financial system with a view to consolidating its position as a leading international financial centre. Moreover, he requested the Administration to provide the

Action

up-to-date statistics on the trade and investment companies and regional headquarters establishing presence in Hong Kong.

Admin 20. SFST said that the Government had noticed that some multinational corporations were reviewing the need of relocating their headquarters and offices to other places having regard to the recent social events. The financial and social stability, the law and order situations of Hong Kong, as well as the location of companies' target market and business network were among the various factors these multinational corporations would take into consideration. As regards capital outflow, SFST advised that although it was observed that the number of enquiries on opening offshore bank accounts had increased, HKMA's latest statistics indicated that there was no noticeable outflow of funds from the Hong Kong dollar ("HKD") or the banking system. He added that to promote the development of Hong Kong's financial markets, the Government would continue to capitalize on the opportunities presented by the Greater Bay Area and the Belt and Road Initiative. He undertook to provide information on statistics relating to companies as requested by Mr CHAN Kin-por after the meeting.

Promoting the development of green finance

21. Ir Dr LO Wai-kwok declared that he was the Chairman of the Hong Kong Quality Assurance Agency ("HKQAA"). He concurred that the Administration should stop the violence and chaos in Hong Kong, and restore public order expeditiously as law and order were cornerstones of Hong Kong underpinning its economic development. Referring to the Green Finance Certification Scheme ("GFCS") established by HKQAA for providing third-party conformity assessments for green finance issuers, Ir Dr LO sought information on the scale of the green bonds market in Hong Kong and the development in the coming years with the Administration's further promotion and publicity to enhance Hong Kong's international profile in green finance. He also enquired about the benefits for the local financial services industry with the development.

22. SFST responded that the Government was making progress on various fronts in developing and promoting Hong Kong as a leading hub for green finance in the region, and would continue to facilitate and provide the necessary infrastructure and catalyst for jump-starting market developments. On promoting local certification for green finance products, HKQAA had established GFCS to provide third-party conformity assessments for issuers on their green financial instruments by making reference to a number of international and national standards, including those promulgated by the International Capital Market Association and the International Organization for Standardization. To attract more green bond issuance in Hong Kong, the Government had introduced the Green Bond Grant Scheme to provide subsidies to qualified green bond issuers in

Action

obtaining green bond certification from HKQAA with a grant ceiling of HK$800,000 per issuance. Moreover, the Government had successfully issued its inaugural green bond under the Government Green Bond Programme in May this year, with an issuance size of US$1 billion and a tenor of five years. The inaugural green bond had attracted orders exceeding US$4 billion, which was more than four times of the issuance size. The Government would continue to issue green bonds to finance or refinance public works projects with environmental benefits. In addition, a three-year Pilot Bond Grant Scheme had been launched to attract enterprises to issue bonds in Hong Kong. The amount of grant for each bond issuance was equivalent to half of the issuance expenses, with a cap of HK$2.5 million.

Admin 23. As regards promotion and publicity, SFST said that the Government and the relevant financial regulators would step up efforts to enhance Hong Kong's international profile in green finance. For instance, the HKMA Infrastructure Financing Facilitation Office and the International Finance Corporation held joint seminars on issues relating to environmental, social and governance principles and would co-organize the Sixth Climate Business Forum in Hong Kong in early 2020. HKMA had also participated in the Network of Central Banks and Supervisors for Greening the Financial System. In response to Ir Dr LO's further enquiry, SFST advised that green bonds arranged and issued in Hong Kong amounted to US$11 billion in 2018. Many local, Mainland and even international organizations, such as the Asian Development Bank and the European Investment Bank, had issued green bonds in Hong Kong.

Development in cross-boundary financial services

24. Mr CHAN Chun-ying expressed disappointment that there were few initiatives relating to the development of financial services industry in the 2019 Policy Address Supplement. He enquired about the progress in the development of cross-boundary financial services between Hong Kong and the Mainland, in particular the timetable for implementing the initiative relating to cross-boundary attestation service for Hong Kong residents to open Mainland personal bank accounts in the Greater Bay Area remotely and the provision of cross-boundary mortgage services by Hong Kong banks in the Greater Bay Area.

25. SFST advised that there was progress in promoting facilitation measures relating to the daily lives of people in the Greater Bay Area including cross-boundary payment services by individual e-wallet operators and the pilot services of opening bank accounts remotely by Hong Kong residents. The Government would continue to explore measures to meet Hong Kong people's demand for cross-boundary wealth management services.

Development in financial technologies

26. Mr CHAN Chun-ying noted that to foster the development of Fintech, Cyberport would strengthen the provision of Fintech-related training for in-service financial practitioners and an in-town event space (tentatively named "Fintech @ Gloucester") would be established for Fintech related companies and institutions to connect and exchange ideas. He asked how the Administration would attract Fintech talents and experts to Hong Kong.

27. SFST advised that local universities and tertiary institutions had been offering various courses and programmes on Fintech, and there were measures in place to attract and retain talents. It was observed that about one-fourth of those working in Cyberport were from overseas and the Mainland.

28. In response to Ms Starry LEE's enquiry on FSTB's new initiatives on Fintech development, SFST advised that the application of Fintech would further enhance the competitiveness of the financial services industry and support youth innovation and entrepreneurship. In this regard, a number of funding schemes, such as the Innovation and Technology Venture Fund, had been set up to support start-ups including those engaged in Fintech. Promoting the use of stored value facilities, FPS and virtual banking would also facilitate start-ups and SMEs to explore new business opportunities.

Enhancing the Mandatory Provident Fund System

29. Ms Alice MAK enquired about the progress of the initiative to abolish the offsetting of severance payment and long service payment with the accrued benefits for employees contributed by employers under the MPF System ("the offsetting arrangement").

30. SFST advised that the Government was committed to abolishing the offsetting arrangement and the Labour and Welfare Bureau had been handling the relevant issues.

Regulation of crowdfunding and money lending activities in Hong Kong

31. Ms Alice MAK pointed out that crowdfunding activities had become increasingly popular in Hong Kong, and enquired about the Administration's plan in developing a regime to both regulate and promote crowdfunding in Hong Kong. She also referred to a recent report issued by the Consumer Council ("CC") (i.e. "Money Lending – Reforming Law and Trade Practices for Consumer Protection") and enquired whether the Administration would conduct a comprehensive review of the regulatory regime for money lenders and the

Money Lenders Ordinance (Cap. 163) ("MLO") in light of CC's recommendations made in its report.

32. SFST responded that crowdfunding could appear in various forms including equity crowdfunding and peer-to-peer lending. Some forms of crowdfunding, in particular equity crowdfunding, were subject to regulation under the Securities and Futures Ordinance (Cap. 571). The Administration would keep in view the development of different modes of crowdfunding and consider the need to regulate the activities with a view to promoting healthy development on one hand and safeguarding the interests of investors on the other. As regards money lending activities, SFST said that FSTB was aware of CC's report and the recommendations therein. The Administration was conducting a survey on unsecured personal loans offered by licensed money lenders. The survey was expected to complete in early 2020. The Administration would consider the need to review MLO and implement new measures as and when necessary taking into account results of the survey.

Consolidating Hong Kong's position as an asset and risk management centre

33. Mr Kenneth LEUNG sought clarification on the implementation of the MRF arrangements, in particular whether Hong Kong was required to make agreements with individual jurisdictions for allowing eligible funds to be distributed in the respective markets. He also enquired about the estimated amount of asset managed by the asset and wealth management sector in Hong Kong as compared to that of Singapore, and how the Administration would further enhance Hong Kong's position as an international asset and risk management centre. He suggested that the Administration should invite key opinion leaders to help promote Hong Kong's asset and risk management sector overseas.

34. SFST took note of Mr Kenneth LEUNG's suggestion and responded that a total of US$3,100 billion was managed by the Hong Kong asset and wealth management sector as at 2018 and the respective amount was US$2,500 billion for Singapore. Hong Kong was required to make bilateral agreements with individual jurisdictions in order for eligible funds to be distributed in the respective markets. The Administration would explore channels with the European Union ("EU") for distributing Hong Kong funds in all EU member states on a territory-wide basis. The Administration would also continue its efforts in consolidating Hong Kong's position as an international asset and risk management centre through further promoting relevant businesses to overseas and the Mainland, including considering measures to attract family offices and private equity funds to set up and operate in Hong Kong.

V Briefing on the work of Hong Kong Monetary Authority

(LC Paper No. CB(1)53/19-20(03) — Paper provided by the Hong Kong Monetary Authority)

Briefing by the Hong Kong Monetary Authority

35. 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 Senior Executive Director (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, investment performance of the Exchange Fund ("EF"), and measures implemented by the Hong Kong Mortgage Corporation ("HKMC").

(*Post-meeting note*: The powerpoint presentation materials (LC Paper No. CB(1)114/19-20(01)) were issued to Members vide Lotus Notes e-mail on 4 November 2019.)

Discussion

Macroeconomic environment and financial and monetary stability of Hong Kong

36. Mr SHIU Ka-fai and Mr Holden CHOW were concerned that the recent social unrest in Hong Kong might undermine its financial stability and cause large-scale capital outflows and enquired about the trend of capital flows in recent months. Ms Starry LEE stressed the need for HKMA to stay vigilant in monitoring Hong Kong's financial stability and signs of capital outflows, as well as changes in foreign investment. Dr LO Wai-kwok expressed concern about the significant downturn in the Hong Kong economy amid slowing global economic growth and the lingering social unrest.

37. CE/HKMA said that maintaining monetary and financial stability was the top priority of HKMA. HKMA had been closely monitoring HKD exchange rate against the US dollar and deposit levels in the local banking system. Both of them had remained stable in recent months, suggesting that there were no noticeable capital outflows from HKD or Hong Kong's banking system. He emphasized that as Hong Kong was an international financial centre, it was natural to see capital

flows into and out of Hong Kong. Based on communications with international financial institutions, HKMA noted that while some investors were concerned about the recent social situation in Hong Kong, they in general appreciated that Hong Kong's fundamentals and core competitiveness as an international financial centre remained sound. These included its role as a dominant gateway to Mainland's capital market, rapid development in Fintech and robust financial infrastructure. Many Mainland companies also considered Hong Kong the ideal springboard for them to "go global". Therefore, while there might be some capital outflows, there were also capital inflows looking for investment opportunities in Hong Kong. HKMA would step up its efforts in promoting the strengths of Hong Kong's financial services industry to the international community.

38. The Chairman and Mr CHAN Kin-por appreciated HKMA's efforts in making prompt response in recent months to refute rumours relating to possible changes to the Linked Exchange Rate System ("LERS") and imposition of capital or foreign exchange controls in Hong Kong. Mr CHAN enquired about HKMA's mechanism to facilitate the dissemination of information in this regard including the traditional and new channels established by HKMA.

39. CE/HKMA said that HKMA endeavoured to use all appropriate channels, including traditional and social media, to dispel vicious rumours about the monetary and financial stability in Hong Kong in a timely manner and to a wide audience. To maximize the reach of its messages, HKMA had also disseminated important statements or clarifications issued by it to relevant stakeholders in both the local and international community, including other central banks, regulators, asset managers and investors.

40. Referring to news reports about the growing number of Hong Kong people and companies converting HKD into the United States dollar ("USD"), Mr James TO enquired about HKMA's assessment on the stability of LERS if such activities were carried out on a massive scale and continued.

41. Referring to news that many Hong Kong people had opened offshore bank accounts in recent months and views that there might be massive capital outflows from Hong Kong in 2020 if the current social unrest persisted, the Chairman enquired about HKMA's precautionary measures to counteract capital outflows and defend LERS.

42. CE/HKMA reiterated that upholding market confidence was the key to maintaining monetary and financial stability. Therefore, effective public communications were crucial, and HKMA was committed to refuting unfounded rumours firmly and in a timely manner. He said that under LERS, HKD would weaken if a large amount of HKD was converted into USD. When the HKD

exchange rate weakened to the weak-side Convertibility Undertaking ("CU") of HK$7.85 to one US dollar, HKMA would buy HKD from banks, leading to a decline in the aggregate balance in the banking system and a rise in HKD interest rates. This would induce investors to sell USD for HKD, which would in turn support HKD exchange rate. This automatic adjustment mechanism would help stabilize the HKD exchange rate under LERS. CE/HKMA pointed out that LERS had been in place for more than 30 years and withstood numerous tests. The fact that the operation of LERS remained orderly notwithstanding some market rumours spoke for itself and helped underpin market confidence in LERS.

43. Mr Kenneth LEUNG noted that some major central banks in the world had implemented rounds of interest rates cuts since early 2019. He asked whether HKMA would, in adjusting the interest rates and supply of HKD, consider other factors besides maintaining LERS. He also sought information on the demarcation of work between HKMA and FS in determining Hong Kong's monetary policies.

44. CE/HKMA explained that LERS was a Currency Board system, under which HKMA would not proactively manage local interest rates or monetary base. The monetary base would change passively when the weak-side or strong-side CU was triggered, and the triggering was driven by the market, not by HKMA. On the division of work between HKMA and FS, CE/HKMA said that FS was responsible for determining the monetary policy objectives, while HKMA was responsible for achieving such objectives by its own means.

45. Mr CHAN Kin-por expressed concern about the current abnormally low interest rates of several economies including Hong Kong which might subsequently create asset bubbles. He enquired about measures HKMA had in place to tackle the possible burst of such bubbles.

46. CE/HKMA said that the prolonged low interest rate environment and elevated asset prices in major economies might pose financial risks globally. Looking ahead, the monetary policies in major economies would hinge on a number of factors including the inflationary pressures in those economies. HKMA would continue to closely monitor the developments.

Development of financial services

47. Dr LO Wai-kwok sought HKMA's view on Hong Kong's role in financial development in the Greater Bay Area, in particular, the impact on Hong Kong of Macao's initiative to develop its offshore RMB business through establishing a stock exchange specializing in the trading of RMB-denominated securities.

48. CE/HKMA responded that the issuance of RMB-denominated equities was already possible under the current framework in Hong Kong. The liquidity of such RMB-denominated products and the overall liquidity pool of offshore RMB in Hong Kong were important elements for the market to thrive. HKMA had been exploring with SFC and the Hong Kong Exchanges and Clearing Limited ("HKEX") whether there was room to facilitate more issuance of RMB-denominated equities in Hong Kong, particularly by Mainland enterprises in the Greater Bay Area and multinational companies.

49. Mr CHAN Chun-ying declared that he was a consultant of a local bank. He enquired about the progress of HKMA's follow-up actions to the incident happened in early 2019 concerning online security of consumer credit data maintained by the TransUnion Limited, particularly the review on the need of introducing more credit reference agencies for the banking industry in order to cope with the development of the credit market.

50. DCE(B)/HKMA advised that the Hong Kong Association of Banks ("HKAB") had agreed in principle the proposal of introducing more than one credit reference agency ("CRA"). HKMA would discuss with HKAB on the implementation details, including how banks could handle their credit enquiries properly with different CRAs.

Revised Mortgage Insurance Programme and the property market

51. Ms Starry LEE referred to HKMC's announcement in October 2019 on the amendments introduced to the Mortgage Insurance Programme ("MIP") for completed residential properties ("the MIP amendments") which, inter alia, sought to increase: (a) the maximum property value eligible for mortgage loans up to 80% loan-to-value ("LTV") ratio from HK$ 6 million to HK$ 10 million; and (b) for first-time homebuyers, the maximum property value eligible for mortgage loans up to 90% LTV ratio from HK$ 4 million to HK$ 8 million. She expressed concern that there were criticisms that the MIP amendments might drive up property prices further and induce the public to make imprudent decisions to purchase properties when the Hong Kong economy was facing a lot of uncertainties. She called on HKMA to step up its efforts in explaining to the public the objectives of the MIP amendments.

52. Mr Martin LIAO declared that he was an independent non-executive director of a Mainland bank of which one of the subsidiaries had mortgage business in Hong Kong. He enquired about the measures taken by HKMA to mitigate the possible adverse impacts of the MIP amendments on Hong Kong's property market (such as causing a drastic surge in property prices) and financial stability, and to inform members of the public of the need to make prudent

decisions in purchasing residential properties. He was concerned that while the MIP amendments could reduce down payment paid by buyers, buyers would need to pay more interests and installments for longer periods for their mortgages. Mr CHAN Kin-por raised similar enquiries.

53. CE/HKMA and DCE(B)/HKMA advised that the main objective of the MIP amendments was to provide assistance to homebuyers with immediate housing needs and long-term repayment ability but without a sufficient down payment. Mortgage loans under the revised criteria would only apply to completed residential properties and those households who were not holding any other residential properties. The measure was intended to provide an additional option for this specific group of households. Indeed, there had been calls from members of the public in the past years for relaxing the cap on the property value eligible for high LTV ratio mortgage loans under MIP for such households. CE/HKMA stressed that the property market was affected by a host of factors. Therefore, members of the public should carefully assess property market outlook and their affordability when making the purchase decisions. HKMC would step up publicity to promote public understanding of the objective of and points to note for the MIP amendments.

54. Mr Martin LIAO enquired about questions raised by banks since the introduction of the MIP amendments. Mr CHAN Chun-ying enquired about the proportion of applicants under MIP who were first-time homebuyer, i.e. who had not held any residential properties before.

55. DCE(B)/HKMA said that in the first few days after the launch of the MIP amendments, some banks enquired about certain implementation details, such as the need to conduct stress tests for the bank exposure portion of MIP loan applications. HKMA had already clarified the issues raised by banks. Generally speaking, the maximum debt-to-income ("DTI") ratio for all MIP loans was set at 50%, and borrowers had to meet the stressed DTI ratio. Even if borrowers could not meet the stressed DTI ratio, they would still be eligible for MIP loans up to the LTV ratio, subject to an additional adjustment to the premium based on relevant risk factors.

The Banking Sector SME Lending Coordination Mechanism

56. Mr CHAN Chun-ying welcomed the establishment of the SME Mechanism. He noted that one of the measures under the SME Mechanism was for the banks to make good use of the reduction in CCyB requirement to support SMEs, and enquired how HKMA would assess whether banks had actually implemented the measure.

Action

57. CE/HKMA said that to assess the effectiveness of the measure, HKMA would monitor changes in SME loans made by banks through regular reports and statistics provided by banks. DCE(B)/HKMA added that the SME Mechanism was expected to hold meetings regularly to review parameters such as the amount of SME loans made by banks.

58. Mr Holden CHOW welcomed the SME Mechanism which included measures to strengthen banks' internal communication ensuring frontline staff would properly understand banks' policies on SMEs. He enquired whether HKMA would release information demonstrating the effect of the SME Mechanism including the number of approval cases on SME loan applications.

59. DCE(B)/HKMA said that under the SME Mechanism, banks would strengthen their internal communication to ensure that frontline staff understood the banks' policy on supporting SMEs. He pointed out that the SME Mechanism had just been established and the focus of HKMA's work for the time being was to clarify regulatory requirements where appropriate. HKMA would consider providing progress update on the SME Mechanism from time to time.

The Exchange Fund

60. Pointing out that EF's investment in alternative assets held under the Long-Term Growth Portfolio ("LTGP") had been gaining relatively high annualized internal rate of return in recent years, Mr CHAN Chun-ying enquired whether HKMA would consider increasing EF's investment under LTGP.

61. CE/HKMA said that LTGP had achieved a relatively high investment return in the past 10 years, and there was still room to increase EF's allocation to LTGP. However, it should be noted that LTGP primarily invested in alternative assets in private markets, which in general had longer investment period and lower liquidity. Therefore, HKMA would need to strike a proper balance in asset allocation to ensure EF maintained sufficient liquidity.

VI Electricity charges subsidy

(LC Paper No. CB(1)53/19-20(04)	—	Administration's paper on "Electricity charges subsidy"
LC Paper No. CB(1)53/19-20(05)	—	Background brief on electricity charges subsidy prepared by the Legislative Council Secretariat)

Action

Briefing by the Administration

62. Deputy Secretary for Financial Services and the Treasury (Treasury)1 ("DS for FST(T)1") briefed members that to counter the challenging external and local economic environment, FS had announced in August 2019 the provision of a one-off electricity charges subsidy of $2,000 to each eligible residential electricity account ("new subsidy scheme") as one of a series of measures to support enterprises, safeguard jobs and relieve people's financial burden. The subsidy of $2,000 would be injected into each eligible residential electricity account in 12 installments (i.e. $160 for the first to eleventh installments, and $240 for the last installment). Subject to funding approval by the Finance Committee ("FC") in late November 2019, the first installment could be injected into the eligible accounts in January 2020. Moreover, to allow any unused credits under both the existing electricity charges subsidy schemes ("existing subsidy schemes") and the new subsidy scheme to be carried over for a longer period, the expiry date for the unused credits under these schemes would be extended to 31 December 2022. This would allow the new subsidy scheme to last for three years from the first credit. The Administration would review the need to further extend the expiry date of any unused credits as and when necessary.

Discussion

Implementation of the new electricity charges subsidy scheme

63. Ms Alice MAK expressed support for the electricity charges subsidy schemes. She pointed out that some beneficiaries, in particular the elderly and the underprivileged, tended to reduce their electricity consumption so that they might accumulate the credits under the schemes to pay for electricity charges for longer periods before the schemes expired. She urged the Administration to consider lifting the expiry date of the new subsidy scheme so as to allow the beneficiaries more time to utilize the unused credits and encourage households to save power.

64. DS for FST(T)1 advised that following the previous extension of the existing subsidy schemes to 30 June 2020, the Administration now proposed to further extend the expiry date so that the unused credits under both the existing schemes and the new subsidy scheme could be used to cover billed electricity charges up to December 2022, or the close of the account, whichever the earlier. He said that the Administration might, as in the past, review the need of extending the expiry date of the ongoing schemes from time to time.

65. Holden CHOW expressed support for the new subsidy scheme to alleviate the financial burden of electricity charges on the general public, and enquired

whether the Electricity Charges Relief Scheme ("ECR Scheme") which was under implementation and aimed to help eligible residential households cope with the tariff spike caused by growing reliance on natural gas in electricity generation, would be halted with implementation of the new subsidy scheme.

66. DS for FST(T)1 reiterated that the objective of the new subsidy scheme was to provide one-off electricity charges subsidy to eligible residential electricity accounts, and confirmed that the scheme was independent of the existing subsidy schemes and ECR Scheme.

Further measures to relieve the financial burden of paying electricity charges

67. Ms Alice MAK expressed concern that the tenants of sub-divided units ("SDUs") often could not benefit from the electricity subsidy schemes as many did not have individual electricity meters. She asked what measures the Administration would take to assist those not benefited from the electricity charges subsidy schemes (e.g. SDU households and the "N have-nots"). Noting that the two power companies had launched programmes to help SDU households install individual electricity meters, she enquired about the details of the programmes and their progress. Ms MAK further urged the Administration to consider prohibiting landlords from reselling electricity to their SDU tenants or reselling electricity to tenants at a tariff higher than that charged by the two power companies through legislative means.

68. DS for FST(T)1 replied that the two power companies had set up funds i.e. the Community Energy Saving Fund and the Smart Power Care Fund, to provide assistance in installing individual electricity meters for the underprivileged including SDU households. However, whether individual electricity meters could be installed in the premises depended on a number of factors, for example, whether consent was given by the landlord of the premises, or owners' corporations and/or property management companies of the buildings concerned. He agreed to provide supplementary information on the progress of the installation as carried out by the two power companies, and to convey Ms Alice MAK's other suggestions to the relevant parties.

> (*Post-meeting note*: The Administration's supplementary information was circulated to members vide LC Paper No. CB(1)226/19-20(01) on 4 December 2019.)

69. SHIU Ka-fai welcomed the new subsidy scheme and urged the Administration to implement it as soon as possible. Expressing concern that many business establishments, especially the small and medium sized enterprises, were seriously affected by the recent social events and had suffered from losses,

Action

he urged the Administration to introduce measures to relieve the financial burden of electricity charges on enterprises. DS for FST(T)1 said that the new subsidy scheme was targeted to relieve the financial burden of eligible residential households. He took note of Mr SHIU's views and agreed to convey them to the relevant bureaux for consideration.

Conclusion

70. The Chairman concluded that Panel members had no objection to the Administration submitting the proposal to FC for funding approval.

VII Any other business

List of outstanding items for discussion

71. Mr Holden CHOW remarked that he had suggested inviting HKEX to brief members on its future development strategies and plans (i.e. item 17 of LC Paper No. CB(1)53/19-20(01)) and enquired when the proposed item would be scheduled for discussion.

72. The Chairman said that pursuant to the work plan meeting held with the Administration on 1 November 2019, it was tentatively agreed that HKEX would be invited to discuss with the Panel on Mr CHOW's suggested item at the regular meeting of March/April 2020. The Administration also agreed to update the Panel on the reforms introduced to the Growth Enterprise Market and Main Board Listing Rules at the said briefing.

73. There being no other business, the meeting ended at 12:27 pm.

Council Business Division 1
Legislative Council Secretariat
20 December 2019