立法會
Legislative Council

LC Paper No. CB(1)376/19-20
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Panel on Financial Affairs

Minutes of meeting held on
Monday, 2 December 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 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 Martin LIAO Cheung-kong, GBS, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon CHU Hoi-dick
Hon Holden CHOW Ho-ding
Hon SHIU Ka-fai, JP
Hon CHAN Chun-ying, JP
Hon AU Nok-hin

Members absent : Hon Starry LEE Wai-king, SBS, JP
Hon Alice MAK Mei-kuen, BBS, JP
Hon Dennis KWOK Wing-hang
Hon CHEUNG Kwok-kwan, JP

Public officers attending : Agenda Item III

Mr Paul MP CHAN, GBM, GBS, MH, JP
Financial Secretary

Mr James LAU, JP
Secretary for Financial Services and the Treasury

Ms Alice LAU Yim, JP
Permanent Secretary for Financial Services and the Treasury (Treasury)

Mr Andrew AU Sik-hung, JP
Government Economist

Mr Willy TSOI
Administrative Assistant to Financial Secretary

Agenda Item IV

Mr Andrew LAI, JP
Deputy Secretary for Financial Services and the Treasury (Treasury)2

Mr TAM Tai-pang, JP
Deputy Commissioner (Operations)
Inland Revenue Department

Mr WONG Kai-cheong, Tony
Assistant Commissioner (Headquarters Unit) (Acting)
Inland Revenue Department

Mr NG Kwok-ho, Barry
Chief Systems Manager (Inland Revenue) (Acting)
Inland Revenue Department

Agenda Item V

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

Ms Estrella CHEUNG
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)1

Ms Marianna YU
Registry Manager
Companies Registry

Mr Enoch FUNG
Head (Market Development)
Hong Kong Monetary Authority

Agenda Item VI

Mr Aaron LIU Kong-cheung, JP
Deputy Secretary for Financial Services and the Treasury (Financial Services)2

Ms Noel TSANG Fung-yi
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services) Insurance and Retirement Scheme

Agenda Item VII

Mr Aaron LIU Kong-cheung, JP
Deputy Secretary for Financial Services and the Treasury (Financial Services)2

Ms Joan HUNG
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services) Mandatory Provident Fund Reform

Attendance by invitation : Agenda Item VI

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

Mr Raymond TAM Wai-man
Executive Director (Policy and Development)
Insurance Authority

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

Agenda Item VII

Mr CHENG Yan-chee
Chief Corporate Affairs Officer and Executive Director
Mandatory Provident Fund Schemes Authority

Ms Cynthia HUI
Executive Director (Members)
Mandatory Provident Fund Schemes Authority

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 Information papers issued since the regular meeting on 4 November 2019

(LC Paper No. CB(1)143/19-20(01) and (02)	—	Letter dated 25 October 2019 from Hon CHU Hoi-dick and Hon AU Nok-hin on issues relating to the progress of issuance of Government green bonds (Chinese version only) and the Administration's response
LC Paper No. CB(1)150/19-20(01)	—	Third Quarter Economic Report 2019 and the press release

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LC Paper No. CB(1)179/19-20(01) — Third quarterly report of 2019 on "Employees Compensation Insurance — Reinsurance Coverage for Terrorism")

Members noted the information papers issued since the regular meeting held on 4 November 2019.

II Date of next meeting and items for discussion

(LC Paper No. CB(1)175/19-20(01) — List of outstanding items for discussion

LC Paper No. CB(1)175/19-20(02) — List of follow-up actions)

2. Members agreed to discuss the following items proposed by the Administration at the regular meeting scheduled for 6 January 2020, at 10:45 am:

(a) Joint-user Government Office Building in Area 67, Tseung Kwan O; and

(b) Directorate staffing proposal of the Financial Services Branch of the Financial Services and the Treasury Bureau.

Joint-Panel meeting

3. The Chairman informed members that four Panels namely 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 6 December 2019, from 10:45 am to 12:45 pm, to discuss the economic impact of the recent social incidents and changes to external environment on Hong Kong.

(*Post-meeting note*: The notice of the joint-Panel meeting was issued to members vide LC Paper No. CB(1)153/19-20 on 18 November 2019.)

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III Briefing by the Financial Secretary on Hong Kong's latest overall economic situation and the 2020-2021 Budget consultation

(LC Paper No. CB(1)175/19-20(03) — Administration's paper on Hong Kong's recent economic situation and near-term outlook

LC Paper No. CB(1)175/19-20(04) — Information pack for the Financial Secretary's consultations on the 2020-2021 Budget)

Briefing by the Administration

4. At the invitation of the Chairman, the Financial Secretary ("FS") briefed members on Hong Kong's latest overall economic situation and short-term economic forecasts and the 2020-2021 Budget consultation. FS said that the Hong Kong economy saw an abrupt deterioration in the third quarter of 2019 as the local social incidents dealt a severe blow to the economy which was already weakened by a synchronized global economic slowdown and the trade conflict between China and the United States ("China-US trade conflict"). The economy contracted by 2.9% in the third quarter from a year earlier, and the real Gross Domestic Product ("GDP") decreased significantly by 3.2% in the third quarter after a 0.5% decline in the preceding quarter on a seasonally adjusted quarter-to-quarter comparison, indicating that the economy had entered a recession. The difficult external environment was likely to persist in the near term.

5. As regards the 2020-2021 Budget, FS said that the Government would announce the Budget on 26 February 2020 and the relevant consultation work had commenced in mid-November 2019. Owing to the economic downturn, anticipated reduction in tax collection and capital revenue, together with the introduction of a series of relief measures since August 2019, the Government might record a deficit this financial year. To counter the increasingly challenging economic environment, the Government would continue to adopt forward-looking and strategic financial management principles to invest for Hong Kong and improve people's livelihood on the premises of ensuring healthy public finance. The Government would carefully consider the views of Members and the public in preparing the 2020-2021 Budget.

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(*Post-meeting note*: The press release containing the speaking note of FS (Chinese version only) was issued to members vide LC Paper No. CB(1)212/19-20(01) on 2 December 2019.)

6. The Government Economist ("G Econ") gave a powerpoint presentation on Hong Kong's recent economic situation and near-term economic outlook.

(*Post-meeting note*: The notes of the powerpoint presentation (LC Paper No. CB(1)211/19-20(01)) were issued to members vide Lotus Notes email on 2 December 2019.)

Discussion

Measures to promote economic development

7. Mr CHAN Chun-ying noted that many countries had issued advice on travelling to Hong Kong in view of the recent social incidents. He enquired how the Administration would rebuild Hong Kong's image so as to attract tourists and businesses back to Hong Kong and to sustain Hong Kong's economic growth and maintain its status as an international financial and business centre. He suggested that the Administration should consider increasing the investment in the Long Term Growth Portfolio to enhance diversification of investment of the Exchange Fund.

8. Mr CHAN Kin-por urged the Administration to strengthen its promotional works to rebuild Hong Kong's image as a leading international financial centre so that multinational corporations would not consider relocating their headquarters and offices to other places and that large-scale capital outflows from Hong Kong would not be triggered.

9. FS said that the continuous protests and conflicts in the society, with many of them turning violent, had caused many countries to worry about the deterioration of the law-and-order situation in Hong Kong. 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. Once peace and order were restored, the Government would, in collaboration with relevant organizations, chambers of commerce and professional bodies etc., devote efforts and resources to promote Hong Kong and launch other measures to rebuild international confidence in Hong Kong. Meanwhile, an inter-departmental task force had been set up to prepare for the carrying out of promotional works to rebuild Hong Kong's image as a safe cosmopolitan city. The Government would assure overseas and Mainland stakeholders that

Hong Kong's core advantages remain unchanged so as to restore confidence in Hong Kong.

10. Mr Charles MOK referred to his recent visit to Germany and stressed that the key factors overseas investors would take into account when considering whether to continue their businesses and investments in Hong Kong included whether Hong Kong would continue to uphold the rule-of-law and free flow of information. He remarked that the recent social incidents had not adversely affected Hong Kong's status as a leading international financial centre.

11. FS reiterated that Hong Kong remained a safe cosmopolitan city which upheld the rule-of-law, and people could enjoy freedom of expression in Hong Kong. Referring to his recent overseas duty visits, FS remarked that people overseas might not be able to obtain accurate and comprehensive information on the local social incidents and up-to-date situations of Hong Kong. It was important to let the international community have a thorough and updated understanding of the situation in Hong Kong in recent months in rebuilding international confidence in Hong Kong. Mr CHAN Kin-por agreed that the Administration should endeavour to disseminate accurate and comprehensive information on Hong Kong to the local and international communities.

12. In response to Mr WU Chi-wai's concern about the impact on the retail industry, FS reiterated that recent social incidents had not only led to a drastic decline in visitor arrivals but also dampened consumption sentiment of local people. Regarding the impact on the residential property market, FS remarked that the soaring residential property prices in recent years were caused mainly by insufficient land supply and the housing demand-supply imbalance. Mainland capital did not play a significant role. FS added that after the introduction of Buyer's Stamp Duty, company buyers and non-local individual buyers accounted for only a small proportion of the total residential property transactions (i.e. 3.6% in 2015, 3.2% in 2016, 5.0% in 2017, 5.3% in 2018, and 3.4% in the first 10 months of 2019).

Measures to support enterprises and relieve people's burden

13. Mr CHAN Chun-ying welcomed the helping measures, such as the one-off electricity charges subsidy, introduced by the Administration in recent months to help ease the financial pressure on the public, and enquired if the Administration would consider introducing more helping measures targeting the grassroots and the needy.

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14. In view of the significant downturn in the Hong Kong economy, Ir Dr LO Wai-kwok urged the Administration to introduce measures to help local enterprises to alleviate the financial hardship, including allowing taxpayers to defer their tax payments or pay taxes in installments, reducing the rates of Rates and providing electricity charges subsidy to the commercial and industrial sectors.

15. FS advised that the Government had introduced various relief measures targeting needy families in the past, such as providing a one-off extra allowance for social security recipients and paying one month's rent for lower income tenants living in the public rental units of the Hong Kong Housing Authority and the Hong Kong Housing Society. FS took note of Ir Dr LO's suggestions on relief measures.

16. Mr SHIU Ka-fai pointed out that the Crunch Time Instant Relief Fund donated by the Li Ka Shing Foundation had provided cash grant in an expeditious manner to support local small and medium sized enterprises ("SMEs") that were severely affected by the recent social incidents. He enquired if the Administration would consider implementing similar measures to provide immediate cash-flow relief for SMEs to help them get through the tough times (e.g. assisting them in paying salaries to and making mandatory provident fund ("MPF") contributions for their employees). Besides, Mr SHIU noted that continued protests in Hong Kong involving violence had led to a significant fall of 26% in visitor numbers, and the worsening economic conditions had added pressure to the labour market, particularly the retail and catering sectors which had recorded a more visible rise in unemployment rates in the third quarter of 2019. As it was expected that many retail and catering outlets would shut down after the Lunar New Year resulting in further rise in the unemployment rates, Mr SHIU enquired about the Administration's measures to assist the unemployed. Mr CHAN Kin-por raised a similar question.

17. FS said that inbound tourism was hard hit by the local social incidents in the third quarter with overall visitor arrivals plunging by 26% from a year earlier. As the mass demonstrations got increasingly violent, the fall in visitor arrivals accelerated to some 40% in October and over 50% in November. To counter the increasingly challenging economic environment, the Government had announced three rounds of relief measures to support enterprises since August 2019. While the Government welcomed the cash grant provided by the private sector to support local SMEs, it would continue to explore suitable measures and would actively consider a new package of relief measures in due course to support enterprises and safeguard jobs, particularly in hard hit sectors.

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18. In view of continuous slowdown in economic growth in major economies and difficult external environment, Mr Kenneth LEUNG was of the view that the Administration should provide technical and funding support to assist enterprises, particularly SMEs, to utilize information technologies, such as artificial intelligence ("AI") and Internet sales platforms, in order to reduce their operating costs. Moreover, the Administration should assist local enterprises to explore business opportunities in new and emerging markets, such as Central and South America, Africa, Russia, Middle East, etc., by providing them with information and advice on legal, technical and procedural issues in accessing these markets. The Administration should also enhance Hong Kong's tax regime, by for example, concluding more tax treaties with overseas jurisdictions and providing tax incentives to targeted industries and sectors with a view to promoting their development. Furthermore, in order to increase the supply of financial talents in Hong Kong, the Administration should seek to enter agreements with other jurisdictions to facilitate Hong Kong graduates to receive professional attachment training and obtain the relevant qualifications overseas.

19. FS said that the recent social incidents with intensifying violence had kept visitors away, taken a heavy toll on local consumption demand, and seriously dampened economic sentiment. The real GDP growth forecast for 2019 was revised downward to -1.3%. Hence, ending violence and restoring calm were pivotal to the recovery of the economy. As regards assisting SMEs in utilizing technologies, FS advised that the Government had introduced the Technology Voucher Programme to subsidize local SMEs in using technological services and solutions to improve productivity and upgrade or transform their business processes. Moreover, the Hong Kong Trade Development Council ("HKTDC") had been organizing events to promote the development of e-commerce in Hong Kong, such as the Asian E-tailing Summit. As for new markets development, the Dedicated Fund on Branding, Upgrading and Domestic Sales was established to assist enterprises in exploring and developing new markets, including developing brands, upgrading and restructuring enterprises' operations, and promoting domestic sales in these markets, namely the Mainland market, markets of member states of the Association of Southeast Asian Nations and economies which had signed Free Trade Agreements with Hong Kong. To facilitate local enterprises to explore new investment opportunities in the new and emerging markets, the Commerce and Economic Development Bureau and HKTDC had also made arrangements for enterprises to visit these markets. Regarding Hong Kong's tax regime, FS said that the Government would step up its work in expanding Hong Kong's network of Comprehensive Avoidance of Double Taxation Agreements and working into the provision of tax benefits to various industries with a view to enhancing Hong Kong's competitiveness.

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20. Mr WU Chi-wai agreed that the Administration should consider introducing further helping measures to assist the grassroots and needy to tide over the difficult time, including providing cash to individual citizens and promoting the development of local economy. He further noted that many Hong Kong enterprises planned to relocate their operations from the Mainland to other South East Asian countries, and enquired if the Administration would implement measures to rejuvenate the "Made in Hong Kong" brand with a view to encouraging relevant enterprises and manufacturers to set up supporting business operations in Hong Kong so as to provide new impetus to the Hong Kong economy and stimulate economic growth. Regarding the recent social events, Mr WU remarked that the Administration must respond to the demands of the protesters, and address people's dissatisfaction over the Government which had been clearly reflected in the results of the recent District Council elections.

21. FS said that it was true that the recent social incidents had added a further blow to an already-weakened economy and also seriously hurt the international image of Hong Kong. As regards measures to help Hong Kong enterprises and manufacturers, FS advised that the Government had been working into measures to facilitate them in making use of the "Made in Hong Kong" brand when relocating their operations to other South East Asian countries, including measures to attract enterprises to set up supporting business operations in Hong Kong (such as marketing, promotion, and product design), which in return would create services demand for other sectors and bring wider benefits to various sectors in Hong Kong.

22. Mr WONG Ting-kwong said that the local economy had been hard hit by the recent social unrest, with the businesses of SMEs particularly affected. He urged the Administration to stop the violence and chaos and restore public order expeditiously with a view to improving the business environment in Hong Kong. Instead of handing out cash to individual citizens, Mr WONG considered that the Government's helping measures should aim at supporting enterprises, especially SMEs, and safeguarding jobs.

23. Mr Holden CHOW suggested that the Administration should consider enhancing the Love Upgrading Special Scheme ("the Scheme") operated by the Employees Retraining Board, particularly raising the $4,000 per trainee monthly allowance ceiling, and developing measures, such as providing subsidies and allowances, to encourage employers to retain their employees.

24. Mr CHAN Kin-por echoed Mr Holden CHOW's view that the Administration should develop measures to encourage employers to retain their

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employees, and the measures should target companies employing mainly the lower income groups.

25. FS said that the Government was aware of the suggestions made by the Democratic Alliance for the Betterment and Progress of Hong Kong ("DAB") and the Hong Kong Federation of Trade Unions regarding raising the per trainee monthly allowance ceiling under the Scheme, and was studying the relevant views and actively reviewing the details of the Scheme. FS reiterated that the Government would continue to implement effective measures to support enterprises, safeguard jobs and relieve people's financial burden. The Government welcomed Members to propose measures to encourage employers to retain employees through retraining.

26. The Chairman expressed concern that the Hong Kong economy would continue to face an austere environment in the coming year due to global economic slowdown, the escalated tensions of the China-US trade conflict, and the recent social incidents. In addition to introducing helping measures to support enterprises, safeguard jobs and relieve people's financial burden, the Administration should increase resources to strengthen youth development and address young people's concerns about education and career pursuit, as well as encourage their participation in social and economic activities in promoting Hong Kong's economic development.

27. FS said that the current-term Government attached great importance to youth development and had increased its recurrent expenditure on education. Moreover, innovation and technology ("I&T") could help with the development of new industries (e.g. the e-sports industry) and create wealth, as well as provide more employment for young people. The Government would also continue its efforts in diversifying the Hong Kong economy with a view to providing young people with more and better career choices.

Impact of the passage of the Hong Kong Human Rights and Democracy Act

28. Ir Dr Hon LO Wai-kwok sought the Administration's view on the impact of the passage of the Hong Kong Human Rights and Democracy Act of 2019 ("the Hong Kong Act") by US Congress on the Hong Kong economy and the business environment.

29. Mrs Regina IP pointed out that the Hong Kong Act required an annual report on "an assessment of the efforts by the Government of the People's Republic of China to use the status of Hong Kong … whether as part of the Greater Bay Area plan, through the assignment by Beijing of Hong Kong as

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a national technology and innovation center, or through other programs that may exploit Hong Kong as a conduit for controlled sensitive technology". She expressed concern that the Hong Kong Act might greatly hinder the economic and I&T development in Hong Kong.

30. FS said that issues relating to the economic impact of the Hong Kong Act on Hong Kong, which straddled several policy areas, could be discussed at the joint-Panel meeting to be held on 6 December 2019. The directors of the relevant policies bureaux, including the Secretary for Innovation and Technology, had been invited to join the discussion at the joint meeting.

Development in innovation and technology

31. Given that the Government had invested huge amount of resources to promote I&T development in recent years, Mrs Regina IP sought information on the growth of technology-based industry in Hong Kong, and how the development of I&T would help stimulate Hong Kong's economic development. She also asked if the Administration had made comparison of Hong Kong's competitive edges at present and in the past when Hong Kong was regarded as one of the Four Little Dragons in Asia.

32. FS advised that the Government had committed to invest over $100 billion to enhance the I&T ecosystem in Hong Kong through putting in place infrastructure, encouraging research and development ("R&D"), supporting start-ups, nurturing I&T talents and promoting I&T industries. For example, the development of the Hong Kong-Shenzhen Innovation and Technology Park in the Lok Ma Chau Loop was a large-scale long-term project aiming to establish Hong Kong as an important international I&T hub in the Guangdong-Hong Kong-Macao Greater Bay Area ("the Greater Bay Area"). Moreover, funding had been earmarked to support the establishment of two research clusters in the Hong Kong Science Park, one focusing on healthcare technologies and the other on AI and robotics technologies, with a view to attracting world class scientific research institutions and technology enterprises to Hong Kong to join forces with the local universities and scientific research institutions in conducting more midstream and downstream R&D projects, which would serve to nurture more technology talents in Hong Kong.

Inflation and economic forecasts

33. Mrs Regina IP noted that while G Econ had quoted forecasts made by the International Monetary Fund and some private sector analysts on the outlook of

the Hong Kong economy in 2020, he had not made his own assessment in this regard.

34. G Econ said that the Government would continue to monitor the latest forecasts of Hong Kong's economic growth by international think-tanks and private sector analysts while making internal assessment continuously. The Government would release its economic forecasts for 2020 when FS announced the 2020-2021 Budget.

35. Noting that consumer price inflation had gone up further in the third quarter of 2019, mainly because of elevated food inflation amid the reduced supply of fresh pork, Mr SHIU Ka-fai urged the Administration to study measures to ensure a stable supply of fresh pork to meet demand of the community. FS advised that both the Mainland and Hong Kong had recorded accelerated increases in pork prices. He would convey SHIU's concern to the Food and Health Bureau for consideration.

Budget related issues

36. In response to Mr CHAN Chun-ying's enquiry about whether the Administration would consider increasing the rate of betting duty and introducing new tax items, particularly indirect tax like sales tax, in the coming Budget, FS said that the Government was aware of concerns about Hong Kong's narrow tax base. In considering whether to introduce sales tax or increase the rate of betting duty, the Government would examine the pros and cons very carefully and the most opportune time for proposing such a move. For instance, increasing the rate of betting duty might increase illegal betting activities.

37. Mr WU Chi-wai opined that the Administration should strive to remove unnecessary regulations and restrictions for doing business in Hong Kong, and enquired whether the coming Budget would include relevant measures with implementation timelines.

38. FS advised that the Efficiency Office under the Innovation and Technology Bureau had been working closely with the business sector and other stakeholders to reform the existing regulatory regimes, enhance regulatory efficiency and reduce business compliance costs so as to further improve the business environment of Hong Kong. Moreover, a task force had been formed under the Development Bureau to plan and co-ordinate inter-departmental work with a view to enhancing the performance and cost-effectiveness of public works projects.

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39. Mr Holden CHOW said that DAB had proposed to the Government for introducing "silver age cards" to enable persons aged between 60 and 64 to enjoy welfare benefits. He asked if the Administration would consider this proposal in the coming Budget.

40. FS said that the Labour and Welfare Bureau had carefully examined the feasibly of issuing "silver age cards" to persons aged between 60 and 64 before the Chief Executive announced the 2019 Policy Address. Having regard to the long-term financial commitment of the proposal, the Government considered it not viable to implement the proposal at the moment.

41. While recognizing the need for the Administration to continue investing in capital works projects to promote economic growth and provide employment for the construction industry, Mr AU Nok-hin emphasized the importance to ensure the cost-effectiveness and economic benefits of the works projects. He also expressed concern over the withdrawal of the funding proposal relating to the extension and revitalization works of the library at the Hong Kong Polytechnic University ("PolyU") and urged the Administration to increase resources in education in the coming Budget.

42. FS said that the Government was committed to investing in capital works projects as it was conductive to promoting Hong Kong's social and economic development and would enhance Hong Kong's competiveness and improve people's quality of life. Apart from strategic infrastructure to improve transport links, the capital works programme also covered projects relating to land and housing supply for improving people's daily lives. To enhance cost surveillance and project governance, the Government had established the Project Strategy and Governance Office to strengthen cost management, uplift the performance of public works projects and enhance productivity and cost-effectiveness. As regards investment in education, FS said that the current-term Government had continued to allocate resources in education and the recurrent expenditure on education had increased. On the withdrawal of funding proposal for PolyU, the Secretary for Financial Services and the Treasury advised that the Administration was aware of the concerns expressed by some Members over the funding proposal. The Administration had decided to withdraw the proposal for the time being to better review the details and timetable for the implementation of the project. The Government would re-submit the proposal in due course after the review.

43. Mr WONG Ting-kwong called on the Administration to allocate more resources for providing training and development programmes to civil servants to better prepare them for various challenges ahead and strengthen their capabilities

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in undertaking duties, as well as enhance their understanding of the principle of "one country, two systems". FS took note of Mr WONG's views.

(At 10:58 am, the Chairman ordered that the meeting be suspended for five minutes. The meeting resumed at 11:04 am.)

IV Enhancement and relocation of information technology systems and facilities of the Inland Revenue Department

(LC Paper No. CB(1)175/19-20(05) — Administration's paper on "Enhancement and relocation of information technology systems and facilities of the Inland Revenue Department")

Briefing by the Administration

44. At the invitation of the Chairman, Deputy Secretary for Financial Services and the Treasury (Treasury)2 ("DS(Tsy)2") briefed members on the proposed enhancement and relocation of Information Technology ("IT") systems and facilitates of the Inland Revenue Department ("IRD"). He said that following the Finance Committee's ("FC") approval of $3.6 billion for the design-and-build project for the new Inland Revenue Tower ("IR Tower") in the Kai Tak Development Area in April 2018, construction works of the Tower was underway. As relocation of IRD was expected to take place by late 2022 or early 2023, IRD had to relocate and re-provision its IT systems and facilities in the new IR Tower. IRD commissioned a consultancy study on the Departmental Information Technology Plan ("the Study") in August 2018 which was completed in June 2019. To keep pace with the latest IT development and to support the changing business requirements of IRD, the Study recommended that IRD should upgrade its IT systems and facilities. Hence, IRD proposed to implement the following system development and modifications: (a) developing a Business Tax Portal to facilitate submission of tax returns by businesses; (b) replacing the existing eTax system with an Individual Tax Portal with enhanced functionalities for individual taxpayers; (c) developing a Tax Representative Portal to enable tax representatives to conduct e-transactions on behalf of their clients; (d) leveraging cloud services to accommodate all IRD's IT systems after office relocation; and (e) extending the application of workflow technology to improve IRD's internal communication and work efficiency. The Administration sought the Panel's support for the funding proposal of $742.463 million for the above project.

Subject to FC's approval of the funding proposal in early 2020, the re-provisioning of IRD's IT systems and facilities would be carried out over a period of six years from 2020-2021 to 2025-2026.

Discussion

Utilization of cloud services and digitalization of tax administration

45. Mr CHAN Chun-ying expressed support for the funding proposal to relocate and enhance IRD's IT systems in order to streamline the e-filing processes of tax returns and transactions for over 1.8 million taxpayers and to improve the work efficiency of the department. He opined that IRD should consider taking this opportunity to strengthen interdepartmental communication and provision of information to enhance the overall work efficiency. Mr CHAN enquired whether IRD's new IT systems would be linked to those of other Bureaux/Departments ("B/Ds") so as to facilitate data sharing and IRD's verification of information in the tax returns. Noting that an increasing number of B/Ds were adopting the Government Cloud Infrastructure Services ("GCIS") to accommodate their IT systems, he asked if IRD's cloud facilities would be segregated from the cloud facilities maintained by other B/Ds to ensure the security of sensitive data stored in IRD's cloud facilities.

46. DS(Tsy)2 advised that the Administration recognized that the tax returns submitted by individuals and corporates contained sensitive information which should be duly protected. All personal data submitted to IRD on paper or electronic form was and would continue to be handled in accordance with the secrecy provision under the Inland Revenue Ordinance (Cap. 112). Such data was collected for the sole purpose of assessment and collection of taxes, and would not be shared with other B/Ds.

47. Deputy Commissioner (Operations) of Inland Revenue Department ("DCIR(O)") and Chief Systems Manager (Inland Revenue) (Acting) of Inland Revenue Department ("CSM(IR)(Atg)") added that while IRD would adopt GCIS for storing the personal data contained in tax returns and related documents, such data would be encrypted to ensure the compliance with the relevant legal requirements for the protection of tax secrecy. IRD's systems and data were independent of those maintained by other B/Ds in GCIS.

48. In response to Mr Charles MOK's enquiry as to how the "iAM Smart" platform initiative could strengthen the communications among B/Ds and improve IRD's e-services, DS(Tsy)2 said that the initiative would provide a one-stop platform to facilitate users' access to various digital government

services with a single digital identity (e.g. the smart identity cards). The "iAM Smart" platform would enhance the efficiency of government e-services and bring convenience to members of the public as the latter would no longer have to log onto various government platforms when using different e-services.

Effective use of public resources

49. Given that the re-provisioning of IRD's IT systems and facilities involved substantial public fund of over $700 million, Mr CHAN Kin-por enquired how the Administration could ensure the new systems and facilities would keep pace with the latest IT development as it would take six years to complete the project.

50. DS(Tsy)2 and DCIR(O) advised that the Study had set out the blueprint on IRD's use of IT in the coming decade taking into account the need to keep pace with the latest IT development and to support the changing business requirements of the department. The Study had recommended that IRD should upgrade its IT infrastructure to enhance processing capacity and strengthen the provision of e-services to the public. Therefore, IRD had proposed to develop three tax portals, namely the Business Tax Portal, Individual Tax Portal and Tax Representative Portal, to facilitate and streamline the e-filing processes for taxpayers.

51. DS(Tsy)2 elaborated that due to the limited capacity of the current eTax system, only companies with an annual income below $2 million could use the system to file their tax returns. The Business Tax Portal to be developed would have a much larger capacity to enable enterprises to upload supporting documents for tax filing purposes e.g. their financial statements. Furthermore, tax representatives would be able to file tax returns on behalf of their clients (both individual taxpayers and enterprises) more effectively using the Tax Representative Portal in future. In taking forward the re-provisioning project, IRD had identified the most stable, secured and advanced IT technology available in the market.

52. Noting that the Information Technology Strategy Plan ("ITSP") implemented by the Judiciary was similar to the re-provisioning of IRD's IT systems and facilities, Mr Abraham SHEK Lai-him urged that the Administration should make reference to the recommendations of the Public Accounts Committee ("PAC") concerning ITSP in Report No. 73 of the Director of Audit to avoid problems, such as delays in implementation and limited enhancement to existing IT infrastructure, in order to ensure public resources were well-used. Mr SHEK further suggested that IRD should invite IT experts in other B/Ds to

conduct health checks on the new IT systems and facilities to ensure their smooth operation in future.

53. DS(Tsy)2 noted the views expressed by Mr Abraham SHEK and advised that the Administration would make reference to the experience of the Judiciary in implementing ITSP and the recommendations in the relevant PAC report. He further assured members that IRD would continue to work closely with the Office of the Government Chief Information Officer in developing IRD's new IT systems and facilities to ensure that they would deliver the anticipated benefits to IRD and members of the public.

54. Mr CHAN Chun-ying enquired about IRD's measures to ensure a smooth relocation of IT facilities to the new IR Tower including data migration, and whether the estimates for the contingency item in the funding proposal would cover the expenditure for unexpected problems that might arise from the relocation and data migration. Moreover, as the relocation would involve a large number of hardware equipment and data migration to cloud services, Mr CHAN was concerned whether the budget of $38.348 million on cloud services would be sufficient.

55. CSM(IR)(Atg) advised that IRD would conduct various tests on the new IT systems and facilities and invite users to participate in trials of the new systems and data migration rehearsal. Moreover, personal data currently held by IRD would be encrypted for data migration to the new IT systems in the new IR Tower. The latter would also be connected to the existing IT systems during system migration to GCIS as part of the contingency plan so that members of the public and IRD staff would be redirected to the existing systems should any problem arise.

New functions in and benefits of the enhanced information technology systems

56. Mr Charles MOK expressed support for the Administration's proposal to revamp the existing eTax system which had become outdated, and to introduce new functions to meet the latest needs in society. In view of growing public interest and concern about the use of public resources, he suggested that the Administration should consider incorporating a function in IRD's new IT systems to provide individual taxpayers with a breakdown of the use of their tax payments so that taxpayers would better understand how the taxes they paid were spent. Mr MOK added that many countries had adopted similar measures to enhance the transparency in public finance.

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57. DS(Tsy)2 explained that under the current mechanism, Government incomes from various sources were pooled together to finance expenditures in various areas such as welfare services and education. Of the forecast of total Government income of $610 billion in the current financial year, about one-third came from taxation including salaries tax and profits tax. The Government could thus not trace the specific use of taxes paid by individual taxpayers. It would be difficult for the Administration to adopt Mr Charles MOK's suggestion.

58. Given the substantial public resources involved in the re-provisioning of IRD's IT systems and facilities, Mr Holden CHOW asked if the Administration should seize this opportunity to incorporate more functions in the new IT systems so as to facilitate the implementation of Government relief measures in future. For instance, new functions which would enable the Government to identify eligible recipients of various assistance schemes or rates concession.

59. DS(Tsy)2 replied that the re-provisioning of IT systems and facilities would help IRD conduct big data analysis and enable cross-unit communication in its Workflow Management System ("WMS") to integrate a full-scale WMS. He advised that about half of the four million working population in Hong Kong paid salaries tax. IRD hence did not have the data of those not paying any tax. The new IT systems of IRD could hardly be used for the disbursement of funds under the relief measures implemented by the Government.

Conclusion

60. The Chairman concluded that the Panel had no objection to the Administration's plan to submit the funding proposal for the enhancement and relocation of IRD's IT systems and facilities to FC for approval in early 2020.

V Proposal to establish a limited partnership regime for funds

(LC Paper No. CB(1)175/19-20(06) — Administration's paper on "Proposal to establish a limited partnership regime for funds")

Briefing by the Administration

61. At the invitation of the Chairman, Deputy Secretary for Financial Services and the Treasury (Financial Services)1 ("DS(FS)1") briefed members on the Administration's proposal to establish a limited partnership regime for funds

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("LPF regime") to attract investment funds (particularly private funds like private equity ("PE") funds) to establish and operate in Hong Kong. He said that a limited partnership fund ("LPF") would be an arrangement meeting the definition of fund that was structured in a limited partnership form and would be used for the purpose of managing investments for the benefit of its investors (i.e. the limited partners). The LPF regime would be a registration scheme to be administered by the Companies Registry. A fund qualifying for registration under the LPF regime would be constituted by at least two partners (one general and one limited) under a written agreement (i.e. limited partnership agreement). The general partner of an LPF had unlimited liability in respect of the debts and liabilities of the fund and ultimate responsibility for the management and control of the fund. On the other hand, the limited partner(s) of an LPF, whose liability would generally be limited up to the commitment they made to the fund, would not have day-to-day management rights or control over the underlying assets held by the fund. They, however, would have the right to participate in the prescribed/agreed safe harbour activities. DS(FS)1 also highlighted other salient features of the LPF regime including the anti-money laundering/counter-terrorist financing requirements, the contractual freedom among partners, the scope of safe harbour activities for limited partner(s), the dissolution and liquidation mechanisms, as well as tax and stamp duty treatment for LPFs. The Administration planned to introduce the relevant bill into the Legislative Council ("LegCo") in the first half of the 2019-2020 legislative session.

Discussion

Benefits of the proposed limited partnership regime for funds and implementation details

62. Mr CHAN Chun-ying expressed support for introducing the LPF regime, which could sharpen Hong Kong's competitive edge on asset and wealth management. Pointing out that pending the election of the Chairman and Deputy Chairman of the House Committee for the 2019-2020 session, the Committee currently could not consider matters relating to whether to form any Bills Committees, he was concerned that the Administration's legislative timetable to introduce the bill on the LPF regime in the first half of the 2019-2020 session was over optimistic. He sought the Administration's views regarding the opportune time for introduction of the bill so as to enable Hong Kong to enjoy the benefits of the LPF regime taking into account latest international developments. Mr CHAN Kin-por enquired about the benefits of introducing the LPF regime to Hong Kong.

63. DS(FS)1 pointed out that the proposal could help Hong Kong grasp the opportunity of potential shifting of fund structures and activities from offshore to onshore as a result of the global implementation of the Base Erosion and Profit Shifting ("BEPS") package of the Organisation for Economic Co-operation and Development ("OECD"). The BESP package required taxation to happen where asset management activities took place, and its implementation should incentivize the funds to align their structures with business activities. The proposed LPF regime would attract more investment funds to set up in Hong Kong, and in turn increase the demand for local professionals including lawyers, accountants, auditors and investment managers, and would benefit Hong Kong's financial services industry in the long run. On the legislative timetable, DS(FS)1 said that it was the Administration's plan to introduce the relevant bill into LegCo in the first half of the 2019-2020 legislative session. While the passage of the bill would be subject to scrutiny progress by LegCo, with OECD pressing ahead with the implementation of the BEPS package, it would be beneficial for Hong Kong to put in place the LPF regime as soon as possible.

64. Mr CHAN Kin-por expressed support for the proposed LPF regime, and sought details of the Administration's consultation with the industry including the views expressed by the industry that had been incorporated in the present proposal. He also enquired about the competitiveness of the proposed LPF regime vis-à-vis similar regimes adopted by other jurisdictions including Singapore.

65. The Chairman welcomed the proposed LPF regime. Noting that many PE funds had been set up in jurisdictions including the Cayman Islands because of their confidentiality protection for limited partners (i.e. investors) and preferential tax treatment, he enquired whether the proposed LPF regime was as competitive as the regimes adopted in such jurisdictions. He also enquired whether the proposed LPF regime would impose restriction on the funds' investment in real estate property.

66. DS(FS)1 advised that the Administration conducted an industry consultation on the proposed LPF regime in the third quarter of 2019, and had taken into account views received in finalizing the proposal, including: (a) adopting a registration system for LPFs; (b) protecting the confidentiality of limited partners of LPFs; and (c) allowing the general partner of an LPF to appoint a person who was not a licensee of the Securities and Futures Commission ("SFC") to be the fund's investment manager if the fund did not engage in activities regulated by SFC ("SFC's regulated activities"). It was anticipated that the proposed LPF regime would be as competitive as that of Singapore. He also said that under the proposed LPF regime, the confidentiality

protection extended to limited partners was on a par with that adopted by other offshore fund centres including the Cayman Islands.

67. On the provision of tax incentives, DS(FS)1 said that the Inland Revenue (Profits Tax Exemption for Funds) (Amendment) Bill 2018 was passed by LegCo in February 2019. The Bill provided profits tax exemption for both onshore and offshore funds subject to meeting certain conditions. Such exemption currently did not apply to PE funds in respect of their investments in local real estate property. In other words, a PE fund's investment in local real estate property would be subject to tax. There was no investment restriction on LPFs under the proposed regime.

Investor protection

68. The Chairman enquired how investors' interests would be protected under the LPF regime, in particular there seemed to be no qualification requirement imposed on the investment managers of LPFs.

69. DS(FS)1 explained that the proposed LPF regime allowed the general partner of an LPF to appoint a person who was not a licensee of SFC as the LPF's investment manager if the LPF did not engage in SFC's regulated activities, having considered that investors of LPFs were generally large institutional investors including sovereign wealth funds and pension funds. Such investors would carry out risk assessments and were rather well-placed in protecting their own interests.

70. Mr Holden CHOW enquired whether there would be qualification requirements for the general partner of an LPF given that the partner had to bear unlimited liability in respect of the debts and liabilities of the fund and ultimate responsibility for the management and control of the fund.

71. DS(FS)1 advised that the decision of general partners of PE funds on whether to domicile the funds in Hong Kong would be vital to the success of the proposed LPF regime. It was observed that other comparable jurisdictions had not imposed any qualification requirements on the general partners of limited partnerships. It was also anticipated that in practice the general partners of LPFs would possess relevant professional qualifications or experience, or otherwise it would be difficult for them to persuade investors (who were usually large institutional investors) to invest in the funds.

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Conclusion

72. The Chairman concluded that the Panel supported the Administration's proposal to introduce the relevant bill into the LegCo in the first half of the 2019-2020 legislative session.

VI The Government's initiatives to promote the development of the insurance industry in Hong Kong

(LC Paper No. CB(1)175/19-20(07) — Administration's paper on "The Government's initiatives to promote the development of the insurance industry in Hong Kong")

Briefing by the Administration

73. At the invitation of the Chairman, Deputy Secretary for Financial Services and the Treasury (Financial Services)2 ("DS(FS)2") updated members on the progress achieved by the Government and the Insurance Authority ("IA") in promoting the development of the insurance industry in Hong Kong, including the major policy initiatives on: (a) modernizing the insurance regulatory framework; (b) enhancing competitiveness and promoting market development; and (c) developing Insurtech. DS(FS)2 said that upon evaluation of IA's financial projection and uncertainties in the level of future income, it was envisaged that IA would face a funding shortfall in 2020-2021 which was likely to persist in the subsequent few years. To assist IA to tide over its projected cash shortfall in the short to medium term and maintain an appropriate level of reserve, the Administration planned to provide additional funding of $300 million to IA in 2020-2021 in accordance with the established mechanism.

Discussion

Financial arrangements of and the proposed additional funding for the Insurance Authority

74. Given that IA would experience a funding shortfall in 2020-2021, Mr CHAN Chun-ying was concerned whether IA would suffer from a persistent operating deficit in the foreseeable future, and whether IA could achieve the ultimate goal of becoming financially independent from the Government. He further enquired whether IA would review its financial arrangements including

the need to adjust its current levy rate on insurance premiums to enable it to achieve financial independence as soon as possible.

75. Mr James TO said that he was opposed to the Administration's plan to provide the additional funding of $300 million to IA in the form of a direct capital injection, and suggested that the funding should be provided in the form of an interest-bearing loan. Having considered that IA was established as a statutory body and aimed to become financially independent from the Government, he opined that IA should repay the additional funding when its financial position improved. If IA's funding gap persisted and could not repay the loan, while urging IA to review its levy rate with a view to improving its financial position, the Administration might consider waiving the interest on the loan, allowing a longer repayment period, or writing off the loan when it was confirmed that IA suffered from prolonged financial difficulties. Pointing out that a substantial number of insurance policies were held by non-Hong Kong permanent residents, Mr TO was concerned that providing IA with a direct capital injection could amount to subsidizing this group of policyholders.

76. Mr WU Chi-wai echoed Mr James TO's views. Mr WU was concerned that IA might suffer from a persistent funding gap as he noted from IA's budget for 2019-2020 that the estimated income could not cover the estimated staff costs. He enquired about the measures IA would take to bridge the funding gap and achieve a break even position in the budget as soon as possible.

77. Mr CHAN Kin-por declared that he was the Chief Executive of the Well Link Insurance Group Holdings Ltd. He expressed support for the Administration to provide the additional funding to IA in the form of a direct capital injection. He further disagreed with Mr James TO's views relating to providing indirect subsidies to Mainland visitors, stressing that the sale of policies to non-Hong Kong permanent residents could spur development of the local insurance market.

78. Mr Holden CHOW enquired whether the provision of direct capital injection instead of arranging loans was a usual practice of the Government in providing additional funding to statutory bodies.

79. On the need to provide additional funding to IA, DS(FS)2 and the Chief Executive Officer, Insurance Authority ("CEO/IA") explained that IA's funding shortfall in 2020-2021 was mainly attributed to a longer lead time required to complete the takeover of regulatory responsibilities from the former Office of the Commissioner of Insurance. This caused delay in collection of premium levies and authorization/annual fees (amounting to some $260 million) from insurers, as

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well as lower actual income as compared with the estimates adopted in preparing the indicative budget used to work out the initial capital injection of $650 million. DS(FS)2 stressed that the proposed additional funding, which only served to tide IA over its projected cash shortfall in the short to medium term and allow it to maintain a modest reserve, was not any form of subsidy. CEO/IA added that unlike the other financial regulators (i.e. the Hong Kong Monetary Authority ("HKMA"), SFC and the Mandatory Provident Fund Schemes Authority ("MPFA")), IA had taken on a unique role of promoting global competitiveness and sustainable development of the local insurance industry. An upper limit imposed on the premium levies and phased increase towards the target levy rate of 0.1%, coupled with the lack of a generous seeding grant, compelled IA to open up other income streams. He predicted that if those initiatives set out in paragraphs 3 to 14 of the discussion paper could materialize, the financial position of IA would be significantly bolstered.

80. As regards the provision of funding to statutory bodies in the financial services sector, DS(FS)2 confirmed that the Government usually provided additional funding to them in the form of direct capital injections in their initial years of operation. He pointed out that the Government had provided two direct capital injections to SFC during its initial years of operation, and an injection of $5 billion to MPFA for its establishment. If the proposed additional funding was made in the form of an interest-bearing loan, it might be more difficult for IA to achieve full financial independence and maintain an appropriate level of reserve.

81. CEO/IA added that IA's existing funding model effectively prevented it from building up excessive reserves. Under the Insurance Ordinance (Cap. 41), when the reserves of IA were more than twice its estimated operating expenses for the financial year (after deducting depreciations and all provisions) and subject to no outstanding borrowing, IA had to consult FS with a view to recommending to the Chief Executive in Council that the rate or amount of a levy be reduced. CEO/IA clarified that the insurance premiums of new policies issued to Mainland visitors had plummeted from $72.7 billion in 2016 to $47.6 billion in 2018, accounting for 39% and 26% of total new premiums in the respective years, and that such a trend was likely to aggravate. Meanwhile, IA was encouraging the industry to diversify its product mix in line with emerging societal needs to avoid concentration risks.

82. Regarding IA's financial position, CEO/IA observed that in comparison with other financial regulators (i.e. HKMA, SFC and MPFA), the manpower and budget of IA were the lowest. With about 35% of the workforce being qualified professionals, staff costs accounted for some 70% of IA's total operating expenditure, in line with other fellow regulators. The target levy rate of 0.1%

would kick in by April 2021, and IA might be able to achieve break even in 2022-2023 at the earliest.

83. Mr WU Chi-wai suggested that the Administration should, before submitting the relevant funding proposal for approval of LegCo, provide information on the respective impacts on IA's financial position if the proposed additional funding of $300 million was to be provided by the Government in the form of (a) an interest bearing loan; or (b) a direct capital injection.

(*Post-meeting note:* The supplementary information provided by the Administration and IA was circulated to members vide LC Paper No. CB(1)382/19-20(02) on 31 January 2020.)

84. Mr Kenneth LEUNG remarked that the public expected IA to achieve break even as soon as possible if the insurance industry thrived. He requested the Administration and IA to provide information on IA's projected financial position after the target levy rate of 0.1% was reached in 2021, in particular, when IA was expected to achieve break even.

(*Post-meeting note:* The supplementary information provided by the Administration and IA was circulated to members vide LC Paper No. CB(1)382/19-20(02) on 31 January 2020.)

85. Mr Holden CHOW cautioned that the Administration and IA should exercise prudence in contemplating any adjustment of the target levy rate, which might hinder development of the insurance industry. DS(FS)2 responded that the Administration and IA would take impact on the insurance industry into account if there was indeed a need to review the target levy rate.

The Insurance Authority's work in promoting the development of the insurance industry

86. Mr Holden CHOW enquired about the progress of discussion with the Mainland authorities on enhancing market access for the local insurance industry in the Greater Bay Area, including the development of cross-boundary motor vehicle and medical insurance products and the sale of Hong Kong insurance products in the Greater Bay Area.

87. DS(FS)2 responded that following the third meeting of the Leading Group for the Development of the Greater Bay Area convened on 6 November 2019, the Central Government announced three policy measures related to the insurance sector, namely (a) supporting Mainland insurers to issue catastrophe

bonds in Hong Kong; (b) extending the preferential treatment to Hong Kong qualified reinsurers under the "China Risk Oriented Solvency System"; and (c) removing the requirement on years of operating experience for Hong Kong service suppliers to provide insurance loss adjusting services in the Mainland. The Government would continue to liaise with the Mainland authorities on other initiatives such as cross-boundary motor vehicle insurance products and after-sale service centres.

88. CEO/IA commented that while it would not be possible to give a concrete timeline on specific initiatives, the Mainland authorities were keen to introduce innovative insurance products that could facilitate movement of people and goods in the Greater Bay Area. On cross-boundary motor vehicle insurance policies that involved different legal regimes in the Mainland, Hong Kong and Macao, mutual recognition might be able to engineer a breakthrough.

89. Noting that IA was currently responsible for overseeing the regional operations of AIA, FWD and Prudential plc through a combination of direct and indirect supervisory powers, and the Administration was pursuing enhancements to the regulatory framework where the holding company of an insurance group was incorporated in Hong Kong, Mr CHAN Kin-por enquired whether relevant fees to be paid by the insurance groups would be pitched at a competitive level against other jurisdictions.

90. CEO/IA advised that the related amendment bill had yet to be introduced into LegCo, but IA was already engaging with the three insurance groups to work out a charging mechanism for the relevant fee, which would be prescribed through subsidiary legislation.

91. In response to Mr CHAN Kin-por's enquiry about market response to the Qualifying Deferred Annuity Policy ("QDAP") introduced in April 2019, DS(FS)2 and CEO/IA reported that during the period from April to October 2019, some 82 500 QDAPs were underwritten with total premiums of around $6 billion. The average premium per policy was about $72,500 which was well above the maximum tax deduction limit of $60,000. IA was exploring with the industry on possible means to make this product more appealing to young customers.

Implementation of the new statutory regulatory regime for insurance intermediaries

92. Noting that the new statutory regulatory regime for insurance intermediaries had commenced on 23 September 2019, Mr Holden CHOW

enquired whether IA had put in place any measures to facilitate the transition of pre-existing insurance intermediaries to the new regime.

93. CEO/IA advised that all insurance intermediaries who had successfully obtained registration with the three former Self-Regulatory Organizations were recognized as deemed licensees for a period of three years. The applications being processed by IA were thus fresh cases received after 23 September 2019.

Merging of financial regulators

94. Mr Kenneth LEUNG observed that at present, the Government's policy was to establish a dedicated financial regulator for each individual industry. He enquired whether the Administration had looked into the benefits of merging various financial regulators. In his view, this could help reduce expenditure of the regulators especially their staff costs and enhance operational efficiency. DS(FS)2 indicated that the Government did not have any plan of merging the financial regulators.

Conclusion

95. The Chairman concluded that members in general were not opposed to the direct capital injection to IA. Mr James TO and Mr WU Chi-wai maintained that funding should be provided to IA in the form of an interest bearing loan.

(At 12:48 pm, the Chairman ordered that the meeting be extended for ten minutes to 1:10 pm to allow sufficient time for discussion.)

VII Progress update on the eMPF Platform

(LC Paper No. CB(1)175/19-20(08)	—	Administration's paper on "Progress update on the eMPF Platform"
LC Paper No. CB(1)199/19-20(01)	—	Updated background brief on the centralized electronic platform for the administration of Mandatory Provident Fund registered schemes prepared by the Legislative Council Secretariat)

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Briefing by the Administration

96. At the invitation of the Chairman, DS(FS)2 updated members on the latest developments in establishing a common electronic platform ("eMPF Platform") to facilitate the standardization, streamlining and automation of MPF scheme administration processes. He said that after LegCo approved the funding of $3,367.15 million for the development of the eMPF Platform in May 2019, the Working Group on eMPF (comprising primarily of representatives of the Financial Services and the Treasury Bureau, MPFA and trustees) and its two Task Forces had held extensive and detailed discussions and agreed on a set of common standards for the administration of various MPF schemes on the Platform. Moreover, additional functionalities including know-your-customer and anti-money laundering support capability for customized trustees' practices and needs would be included in the eMPF Platform. In view of the additional functionalities to be taken up by the eMPF Platform and the need to provide funding for the initial operation of the subsidiary company wholly-owned by MPFA for the running of the Platform ("the eMPF Platform Entity"), the Administration would seek from LegCo additional funding of $536.48 million to enhance IT infrastructure of the Platform (amounted to $281.6 million) and to fund the first two years of set-up and operation of the eMPF Platform Entity (amounted to $254.88 million).

97. To empower MPFA to set up the eMPF Platform Entity, DS(FS)2 said that the Mandatory Provident Fund Schemes (Amendment) Bill 2019 was introduced into LegCo in June 2019 and received its first reading at the Council meeting of 23 October 2019. For the second-phase legislative exercise of the eMPF Platform, the Administration would conduct an overhaul of the Mandatory Provident Fund Schemes Ordinance (Cap. 485) to reflect the changes in the MPF scheme administration work flow and enable the implementation and operation of the new eMPF Platform to ensure that the Platform could be launched by phases after its development was completed in 2022 the earliest. Moreover, the Administration would continue to collaborate with MPFA to promote the digital take-up of the eMPF Platform as the success of the Platform hinged on the readiness and pace of digital take-up by MPF scheme users including employers, scheme members and trustees.

Discussion

Additional funding for the eMPF Platform

98. Mr WU Chi-wai was of the view that the additional funding of $536.48 million for enhancing the infrastructure of the eMPF Platform and initial

operation of the eMPF Platform Entity should be provided in the form of a loan instead of direct grant by the Government in order to better facilitate monitoring by LegCo on the use of public money and over the development of the eMPF Platform. He elaborated that providing the eMPF Platform Entity with a loan would unlikely compromise its financial position as the Entity would generate a steady income from the service fees to be paid by trustees using the eMPF Platform for repaying the loan, especially the digital take-up rate was expected to rise after the launch of the eMPF Platform.

99. Ir Dr Hon LO Wai-kwok expressed support for the proposal to provide additional funding for the development of the eMPF Platform and the initial operation of the eMPF Platform Entity. Mr CHAN Kin-por welcomed incorporating the additional functionalities as requested by the industry to the eMPF Platform as set out in the information paper, and expressed support for the additional funding proposal.

100. DS(FS)2 advised that the decentralized MPF scheme administration, a number of cumbersome administration processes, as well as the different commercial models of trustees, had contributed to the high administration cost of the MPF System. To maximize operational efficiency of MPF schemes with a view to creating room for fee reduction so as to benefit scheme members, the Administration and MPFA had proposed developing the eMPF Platform as a common platform to facilitate standardization, streamlining and automation of MPF scheme administration processes. The eMPF Platform was financed by public money and would be a public infrastructure operated by MPFA via the eMPF Platform Entity. Providing direct grant would provide necessary incentive to trustees to centralizing, streamlining and standardizing their individual scheme administration procedures which were currently inefficient. On the contrary, an interest-bearing loan could push up the administrative cost of using the Platform and thus the fees to be paid by scheme members, which would defeat the ultimate purpose of bringing fee reduction to scheme members.

Reduction in the administrative fee of MPF schemes

101. Noting that implementation of the eMPF Platform could enhance operational efficiency of MPF schemes so as to create room for reduction in the administrative fee, Mr WU Chi-wai urged that the Administration and MPFA should develop measures to ensure that scheme members could benefit from fee reduction as early as possible after the implementation of the Platform. He asked if the rate of fee reduction could be prescribed according to the level of the digital take-up rate of the eMPF Platform.

102. Mr Holden CHOW enquired whether the Administration and MPFA had made any assessment or set any target as to how far the administration fee of MPF schemes could be reduced following the implementation of the eMPF Platform.

103. DS(FS)2 advised that according to MPFA, the administrative fee of an MPF scheme accounted for about 0.4% to 0.8% (or an average of 0.6%) of the overall administrative cost of managing a scheme. While it was envisaged that implementation of the eMPF Platform would help streamlining the administrative processes and reducing the compliance cost of MPF schemes, the rate of reduction in fee would depend on the result of the tendering exercise for developing the eMPF Platform and the subsequent digital take-up rate. He added that the Administration would make reference to the prevailing rate, i.e. 0.4% to 0.8%, as the benchmark when assessing possible reduction in MPF administrative fees.

104. Pointing out that employers and employees contributing to the MPF schemes often complained about the high administrative fees, Ir Dr Hon LO Wai-kwok urged the Administration to provide undertaking that the eMPF Platform would bring down the administrative fee of MPF schemes and scheme members would not be charged for using the Platform.

105. DS(FS)2 assured members that the major objective of developing the eMPF Platform was to create room for fee reduction of MPF schemes. It was expected that the fee level would be driven down as the centralization of scheme administration would bring higher efficiency to the MPF System. Also, the digitalization of scheme administration would help tackle the high administrative fee of MPF schemes caused by the huge manpower cost in undertaking scheme management and the reliance on paper-based MPF transactions by a large number of scheme members and some trustees. Moreover, compared to the various existing administrative models offered by trustees, the eMPF Platform Entity would be a non-profit making subsidiary wholly-owned by MPFA, and would not seek to make profit from managing MPF schemes. Furthermore, the lower threshold to enter the MPF market would attract smaller firms (notably small and medium-sized enterprises) to enter the MPF market as trustees. The keen competition among trustees would then create room for lowering the administrative fee of MPF schemes. He also added that as the success of the eMPF Platform would depend on its take-up rate, the Administration and MPFA would endeavor to boost the digital take-up of the Platform to ensure it would effectively lower the administrative fee of MPF schemes.

Functionalities of the eMPF Platform

106. Mr Holden CHOW enquired if the eMPF Platform could facilitate comparison of administrative fees charged by various trustees. Chief Corporate Affairs Officer and Executive Director, Mandatory Provident Fund Schemes Authority advised that, to increase transparency of MPF schemes, MPFA had launched an MPF Fund Platform in April 2019 on its website which incorporated four separate online platforms, namely Fund Performance Platform, Fee Comparative Platform, Default Investment Strategy Fund List and Low Fee Fund List. The platforms showed the breakdown of management fees and the performance of all MPF funds. The functions of the MPF Fund Platform would also be placed on the future eMPF Platform.

Conclusion

107. The Chairman concluded that the Panel had no objection to the additional funding requirements proposed by the Administration for the eMPF Platform.

VIII Any other business

108. There being no other business, the meeting ended at 1:07 pm.

Council Business Division 1
Legislative Council Secretariat
24 January 2020