立法會
Legislative Council

LC Paper No. CB(1)629/19-20
(These minutes have been seen by the Administration)

Ref : CB1/PL/FA

Panel on Financial Affairs

Minutes of meeting held on
Monday, 2 March 2020, 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 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
Members attending	**:**	Hon Steven HO Chun-yin, BBS Dr Hon KWOK Ka-ki
Members absent	**:**	Hon Charles Peter MOK, JP Hon CHU Hoi-dick Hon CHEUNG Kwok-kwan, JP

Public officers attending	:	Agenda Item IV 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 V Mr Chris SUN, JP Deputy Secretary for Financial Services and the Treasury (Financial Services)1 Mr George TSOI Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)2
Attendance by invitation	:	Agenda Item V Mr Brian HO Executive Director, Corporate Finance Division Securities and Futures Commission Ms Joanna LEE Director, Corporate Finance Division Securities and Futures Commission Mr Charles LI Chief Executive Hong Kong Exchanges and Clearing Limited

Ms Bonnie CHAN
Head of Listing
Hong Kong Exchanges and Clearing Limited

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

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

Ms Sharon CHAN
Legislative Assistant (1)4

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The Chairman said that having considered the latest situation of the coronavirus disease-2019 ("COVID-19"), only two discussion items were included in today's agenda. He would consider the arrangements of the remaining four discussion items originally scheduled for discussion at today's meeting and inform members in due course.

(*Post-meeting note:* The notice of the special meeting scheduled for 17 March 2020 (LC Paper No. CB(1)443/19-20) was issued to Members vide Lotus Notes e-mail on 6 March 2020.)

I Confirmation of minutes of meeting and matters arising

(LC Paper No. CB(1)376/19-20 — Minutes of the meeting on 2 December 2019)

2. The minutes of the meeting held on 2 December 2019 were confirmed.

II Information paper issued since the regular meeting on 6 January 2020

(LC Paper No. CB(1)430/19-20 — Quarterly Report of the Securities and Futures Commission (October to December 2019))

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3. Members noted the information paper issued since the regular meeting held on 6 January 2020.

III Date of next meeting and items for discussion

(LC Paper No. CB(1)428/19-20(01) — List of outstanding items for discussion

LC Paper No. CB(1)428/19-20(02) — List of follow-up actions)

4. Members agreed to discuss the following items proposed by the Administration at the regular meeting scheduled for 16 April 2020:

(a) Funding proposal of the Official Receiver's Office for implementation of an Electronic Submission System;

(b) Work of the Financial Services Development Council; and

(c) Development of financial technologies in Hong Kong.

IV Briefing on the work of Hong Kong Monetary Authority

(LC Paper No. CB(1)365/19-20(03) — Paper provided by the Hong Kong Monetary Authority)

Briefing by the Hong Kong Monetary Authority

5. 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 the Hong Kong Monetary Authority ("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").

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(Post-meeting note: The powerpoint presentation materials (LC Paper No. CB(1)437/19-20(01)) were issued to Members vide Lotus Notes e-mail on 2 March 2020.)

Discussion

Macroeconomic environment and financial and monetary stability of Hong Kong

6. Mr CHAN Chun-ying stressed the importance for HKMA to dispel vicious rumours about the monetary and financial stability of Hong Kong, and enquired about details of the mechanism HKMA had established to facilitate its work in this regard. Mr CHAN Kin-por echoed the views, and enquired whether HKMA had collected the contact information of the mass media and relevant stakeholders to facilitate the dissemination of its information.

7. CE/HKMA said that HKMA had been on high alert for rumours on social media platforms and strived to respond swiftly to false rumours through the use of traditional and social media platforms in order to reassure the public in a timely manner. To maximize the reach of its messages, HKMA had set up a network of key contacts such that important statements or clarifications could be sent to relevant stakeholders in a more systematic and effective manner. Based on its experience in the past few months, HKMA's quick and clear rebuttals to rumours proved useful in quelling false rumours from spreading further.

8. In view of COVID-19 outbreak, Mr Kenneth LEUNG enquired whether HKMA had assessed if the default risks of various types of loans (including credit card loans and mortgage loans) were on the rise in the past six months, and whether HKMA would refine its assessment methodology taking into account the impact of COVID-19 outbreak.

9. DCE(B)/HKMA pointed out that credit risks had been a key focus of HKMA's supervisory efforts. HKMA had stepped up its monitoring of banks' credit risks by enhancing data analysis and on-site examinations, particularly on credit risk exposures to large corporates. As for credit card loans, they constituted a relatively small proportion of banks' total loans. The introduction of positive consumer credit data sharing in 2003 had been useful for banks in managing credit card risks. In addition, with the eight rounds of countercyclical macroprudential measures introduced by HKMA over the past decade, the resilience of banks to a property market downturn had been greatly enhanced.

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10. Noting that the aggregate balance of the banking industry had declined continuously since 2016, Dr KWOK Ka-ki enquired about measures taken by HKMA to mitigate risks arising from such development.

11. CE/HKMA explained that under the Linked Exchange Rate System ("LERS"), a decline in the aggregate balance of the banking industry would lead to a rise in the Hong Kong dollar ("HKD") interest rates, which would induce investors to sell the United States dollar ("USD") for HKD and attract capital inflow. Moreover, with the vast amount of EF Bills and Notes ("EFBNs") outstanding, HKMA had the flexibility of increasing the aggregate balance by reducing the issuance of EFBNs when needed.

12. Mr CHAN Kin-por expressed concern that the global economy might enter an interest rate downward cycle. It was also observed that negative interest rates had already been implemented in several economies. He enquired how HKMA would tackle the possible burst of asset bubbles arising from such developments.

13. CE/HKMA said that there had yet to be a consensus in the central banking community on the efficacy of negative interest rates in stimulating economies. Under LERS, interest rates in Hong Kong generally followed those of the United States ("US"). At this stage, however, it was unlikely that Hong Kong would have negative interest rates.

14. Mr Martin LIAO enquired about the contribution by fixed investment and changes in inventory to Hong Kong's real gross domestic product growth since 2018. Noting that the Financial Secretary ("FS") stated in his 2020-2021 Budget Speech that the Government might suffer from fiscal deficit in the coming five years, he sought HKMA's assessment on whether the decline in local fixed investment would be aggravated, and HKMA's measures to counteract the trend.

15. CE/HKMA said that appetite for fixed investment had been dampened globally since 2018 because of heightened uncertainties arising from trade tensions between China and the US and other factors. Such appetite could be revived if uncertainties due to the geopolitical risks and COVID-19 outbreak subsided.

The SME Financing Guarantee Scheme and financing difficulties of small and medium-sized enterprises

16. While appreciating the need for maintaining prudent regulation over banks' exposures, Mr Jeffrey LAM considered that HKMA should encourage

banks to launch relevant measures to help various industries as necessary. He conveyed the business sector's concern about the stringent approach adopted by some smaller banks in handling the loans of small and medium-sized enterprises ("SMEs"), and called on HKMA to liaise with the banking industry on the matter. Mr LAM also enquired whether HKMA would, similar to its Mainland counterpart, consider reducing the reserve requirements of banks in Hong Kong in order to encourage them to lend money in the market.

17. Ir Dr LO Wai-kwok expressed concern about the impact of COVID-19 outbreak on the property market, which might increase the difficulties of SMEs in using properties as collateral for obtaining loans.

18. CE/HKMA and DCE(B)/HKMA said that HKMA had discussed the issues raised by Mr Jeffrey LAM and Ir Dr LO Wai-kwok with banks under the Banking Sector SME Lending Coordination Mechanism ("the SME Mechanism"). HKMA was mindful of the need to strike a balance between maintaining Hong Kong's financial stability and catering for the financing needs of various industries, and had therefore encouraged banks to adopt an accommodating stance in dealing with customers facing financial stress due to COVID-19 outbreak. On the business sector's concern about the approach adopted by some smaller banks in processing loan applications, DCE(B)/HKMA said that HKMA would examine how the measures agreed under the SME Mechanism could be conveyed effectively to all retail banks, including the smaller banks in Hong Kong. HKMA noted that some SMEs were using properties as collateral to obtain loans. HKMA had reminded banks to process such loan applications in a flexible manner, and to take a holistic view of the SMEs' businesses, instead of focusing only on the properties' values. HKMA had also asked the banks to strengthen their internal communications to ensure that frontline staff understood the banks' relevant policies on supporting SMEs.

19. As for the suggestion of reducing banks' reserve requirements, DCE(B)/HKMA clarified that there was no reserve requirement for banks in Hong Kong. HKMA had lowered the countercyclical capital buffer from 2.5% to 2% in October 2019 to free up additional capital such that banks could have additional headroom to support SME financing. HKMA would continue to monitor the situation and would take further measures as appropriate.

20. Mr SHIU Ka-fai expressed concern that the local retail sector was facing a bleak outlook, and urged HKMA to step up its efforts in supporting the sector. He pointed out that although the 2020-2021 Budget had included a special 100% loan guarantee ("100% LG") under the SME Financing Guarantee Scheme ("SFGS") administered by HKMC, it was uncertain when the funding proposal

would be approved by the Finance Committee ("FC"). It was also noted that relatively few applications (which stood at 155 as at 31 January 2020) under the 90% Guarantee Product of SFGS ("90% GP") had been approved. He was concerned whether the approval criteria of the 90% GP were over-stringent, and enquired if HKMC would examine the feasibility of lowering the interest rates of the scheme. Mr CHAN Chun-ying enquired whether enterprises having obtained loans under the existing plans of SFGS could apply for the 100% LG which offered lower interest rates.

21. Mr Holden CHOW suggested that HKMC should announce the list of banks participating in the 100% LG so that SMEs could make preparations in advance. He also considered that HKMC and banks should adopt a lenient approach in vetting applications under SFGS. Besides, banks should ensure that their policies on supporting SMEs were well understood by frontline staff.

22. CE/HKMA noted that many SMEs, especially those in the retail sector, were facing a difficult operating environment currently. It was envisaged that the number of approved applications for the 90% GP would gradually increase with the rising number of participating banks in the scheme. As regards the 100% LG, HKMC would strive to roll out the scheme within one month after FC had approved the funding, in order to ease corporates' cash flow pressures as quickly as possible. HKMC would announce the list of participating banks once confirmed, and would also discuss with the banking industry on the scope of further streamlining the application and vetting procedures under SFGS. CE/HKMA pointed out that enterprises with loans under the existing SFGS plans could also apply for the 100% LG as long as they met the relevant criteria.

The property market

23. Mr Holden CHOW noted that one of the measures under the SME Mechanism was for banks to offer optional principal moratoriums for residential mortgages, and some 17 banks had plans to offer the product. He requested HKMA to provide information on the list of banks concerned, and enquired about measures taken by HKMA to mitigate risks arising from this optional arrangement, which would increase the interest expenses of the mortgage borrowers concerned.

24. DCE(B)/HKMA said that the 17 banks had their own timetables in launching optional principal moratoriums for residential mortgages. HKMA would provide the list of banks to the Panel. As the total interest expenses payable by mortgage borrowers would increase, HKMA had reminded banks to

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clearly explain the situation to borrowers so that they could make informed decisions.

(*Post-meeting note:* HKMA's supplementary information was circulated to members vide LC Paper No. CB(1)476/19-20(02) on 19 March 2020.)

25. Ir Dr LO Wai-kwok was concerned whether COVID-19 outbreak would lead to a surge in the number of negative equities. While appreciating HKMA's work in the past twelve months, Mr Abraham SHEK was concerned whether measures were in place to ensure HKMA's independent operation. Mr SHEK also enquired whether HKMA had assessed the impact of COVID-19 outbreak on the property market and advised the Government on related policies accordingly, including implementation of the various demand-side management measures.

26. CE/HKMA said that the trend of the property market was still unclear, and HKMA would need more time to observe the impact of COVID-19 outbreak on the property market. While ensuring banking stability, HKMA had encouraged the banking industry to adopt a more accommodative approach in handling mortgage loans (such as offering optional principal moratoriums for residential mortgages). CE/HKMA stressed that HKMA maintained a high degree of operational autonomy in accordance with the established mechanism.

27. Mr CHAN Chun-ying noted that the interest rates of the proposed Fixed-rate Mortgage Pilot Scheme ("FMPS") to be launched by HKMC were on the high side, and enquired whether HKMC would review the interest rates of FMPS if the scheme was not well-received.

28. CE/HKMA explained that FMPS eliminated interest rate risks and provided an additional mortgage payment option for property buyers, although under the current low interest rate environment, the interest rates of FMPS might be higher than those of mortgages with floating rates. HKMC would regularly review the interest rates of FMPS having regard to market developments.

The Exchange Fund

29. Dr KWOK Ka-ki sought details of EF's Mainland-related investment (particularly investment involving banks in the Mainland) given the close economic links between Hong Kong and the Mainland. He also enquired whether HKMA would consider setting a target level on foreign exchange reserve so that EF's payment to fiscal reserves could be increased when the target was reached.

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30. CE/HKMA said that around 90% of EF's assets were USD-denominated, high quality and liquid assets, the majority of which were sovereign bonds. While the details of EF's investments could not be disclosed given the market sensitivity, HKMA would provide further information on EF's investments in Mainland-related debt instruments. Regarding EF's payment to fiscal reserves, CE/HKMA said that under the current arrangement with the Government, the return on the fiscal reserves placed with EF was calculated based on the average annual investment return of EF's Investment Portfolio over the past six years. This arrangement was designed to enhance the stability of investment return for the fiscal reserves. It was FS's decision on how the fiscal reserves should be used. He also pointed out that the substantial increase in EF's assets in the past 10 years was mainly due to the expansion of EF's Backing Portfolio alongside capital inflow, which could be reversed.

(*Post-meeting note:* HKMA's supplementary information was circulated to members vide LC Paper No. CB(1)476/19-20(02) on 19 March 2020.)

31. In response to Mr Kenneth LEUNG's enquiry on whether HKMA would adjust EF's asset allocation in response to COVID-19 outbreak, CE/HKMA said that HKMA had set a long-term asset allocation target for EF and at the same time made short-term tactical changes to EF's investment having regard to latest market conditions as appropriate. For instance, HKMA had enhanced the defensiveness of EF in response to COVID-19 outbreak.

Regulation of cryptocurrencies

32. Mr Dennis KWOK enquired whether HKMA would review its position on the regulation of cryptocurrencies given the increasing prevalence of public (i.e. central bank digital currency ("CBDC")) and private (like Facebook's Libra) cryptocurrencies.

33. CE/HKMA responded that major central banks had discussed about CBDC. There were some views that the potential use of CBDC for retail payments might be limited given the well-developed retail payment systems in most economies. On the contrary, there might be greater potential of using CBDC for cross-border payments. In this connection, HKMA had been conducting researches with the Bank of Thailand on this subject. CE/HKMA also pointed out that the Bank for International Settlements had set up a task force to study the implications of Libra. If Libra came to Hong Kong, it would have to comply with the relevant legal and regulatory requirements of Hong Kong.

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(At 10:22 am, the Chairman ordered that the meeting be extended for 30 minutes to 11:00 am. Members agreed.)

V Strategic development of Hong Kong as a premier listing platform and the development of the Hong Kong Exchanges and Clearing Limited

(LC Paper No. CB(1)428/19-20(03) — Administration's paper on "Strategic development of Hong Kong as a premier listing platform and the future strategic development of Hong Kong Exchanges and Clearing Limited"

LC Paper No. CB(1)428/19-20(04) — Background brief on the reforms made to the Main Board and Growth Enterprise Market Listing Rules in 2018 and Hong Kong Exchanges and Clearing Limited's Three-year Strategic Plan of 2019-2021 prepared by the Legislative Council Secretariat)

Discussion

Proposed purchase of the London Stock Exchange Group plc by the Hong Kong Exchanges and Clearing Limited

34. Mr Dennis KWOK referred to the Hong Kong Exchanges and Clearing Limited ("HKEX")'s proposal to acquire the London Stock Exchange Group plc ("LSEG") in September 2019 ("the Offer") which was subsequently declined by LSEG and sought the reasons of HKEX in making the proposal and the lessons learnt, as well as the possible adverse impact on HKEX's reputation resulting from the rejection of the Offer.

35. Mr Kenneth LEUNG expressed concern on the negative impact of LSEG's rejection of the Offer and enquired about HKEX's plans to further

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enhance cooperation and collaboration with LSEG, particularly in view of the opportunities arising from Brexit.

36. Chief Executive, Hong Kong Exchanges and Clearing Limited ("CE/HKEX") said that HKEX was one of the world's major market infrastructure groups, and operated a range of equity, commodity, fixed income and currency markets. It was believed that the combination of LSEG and HKEX was strategically compelling and could create a world-leading market infrastructure group. The offer would also enable the connection of the established financial markets in the West with the emerging markets in the East, particularly in the Mainland, reinforce Hong Kong's position as the portal connecting the Mainland and Asian markets with the world, and enhance the long-term resilience and relevance of Hong Kong and London as global financial centres. Though HKEX was unable to proceed with the Offer, it would continue to look for opportunities to increase its global connectivity and reinforce Hong Kong's role as a global financial centre. As regards HKEX's cooperation and collaboration with LSEG, CE/HKEX said that since the acquisition of The London Metal Exchange ("LME"), HKEX had been playing a key role in underpinning LME's position as the pre-eminent global centre for metals trading. Moreover, HKEX had a strong partnership with LSEG through active collaboration with its subsidiaries, such as FTSE Russell.

37. Mr Holden CHOW expressed support for the initiative of "China Anchored" in HKEX's Strategic Plan 2019-2021. He said that some news reports mentioned that LSEG preferred gaining access to the Mainland and Asia markets through cooperating with the Shanghai Stock Exchange instead of HKEX. He asked whether HKEX was aware of any concrete plan of cooperation between LSEG and the Shanghai Stock Exchange, and whether there was room for HKEX to enhance its competitiveness.

38. CE/HKEX said that Hong Kong remained a very popular listing venue for companies from various jurisdictions. Being strategically located at the gateway of the Mainland, Hong Kong had unrivalled advantages in developing its financial services sector by facilitating mutual market access between Hong Kong and the Mainland. Hence a number of mutual capital market access schemes had been launched over the past years, including the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect ("the Stock Connect schemes") to facilitate international investors to access the Mainland capital market through Hong Kong, as well as to provide Mainland investors with a secure and transparent channel for investment diversification. The continuing growth of international investment in the Mainland should provide the basis for significant

growth for the Hong Kong financial markets, particularly through the Stock Connect schemes.

Review of the Environmental, Social and Governance Reporting Guide

39. Mr Dennis KWOK noted that after the consultation on the "Review of the Environmental, Social and Governance ("ESG") Reporting Guide ("ESG Guide")", HKEX had revised the ESG Guide which required all Hong Kong-listed companies to, commencing 1 July 2020, disclose significant climate-related issues that had impacted and might impact the issuers, and policies relating to preventing child and forced labour. He sought progress on the preparation for implementing the revised ESG Guide.

40. Head of Listing, Hong Kong Exchanges and Clearing Limited ("H/HKEX") advised that subsequent to the publication of the consultation conclusions on ESG Guide in December 2019, HKEX had updated the Guide by amending the "Environmental" key performance indicators ("KPIs") to require disclosure of relevant issues, and enhancing the disclosure obligation of all "Social" KPIs. HKEX would provide training and publish guidance materials to facilitate issuers' understanding of and compliance with the new ESG requirements in due course.

Impact of the outbreak of coronavirus disease-2019 on the operation of the Hong Kong stock market

41. Mr Kenneth LEUNG noted the joint statement issued by HKEX and the Securities and Futures Commission ("SFC") on 4 February 2020 in relation to the publication of financial information by listed issuers in response to the outbreak of COVID-19 in Hong Kong ("Joint Statement"), which stated that if issuers had difficulties in fulfilling the reporting obligations, they were required to consult HKEX on the financial information that they should report on, and HKEX and SFC would consider the most suitable arrangement on a case by case basis. In view of the continuous spread of COVID-19, Mr LEUNG enquired whether HKEX would consider giving a blanket approval to all listed issuers allowing them to defer the publication of their financial information.

42. H/HKEX said that according to the Joint Statement, where an issuer with financial year ended 31 December 2019 was unable to obtain agreement from its auditors but was able to publish its preliminary results in full compliance with the other reporting requirements set out in the Listing Rules by 31 March 2020, HKEX would normally allow the trading of the securities of the issuer concerned to continue. The overall objective of the aforementioned arrangement in the Joint

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Statement was to minimize disruptions to trading while ensuring that the investing public continued to receive sufficient information in making informed investment decisions. She added that after issuing the Joint Statement, HKEX had communicated with more than 98% of the 1 781 listed issuers which were required to publish their financial information on or before 31 March 2020 (i.e. with financial year ended on 31 December 2019), and 1 304 of them expressed that they had no difficulty in complying with the reporting requirements, while 122 expressed that they could adopt the arrangements as set out in the Joint Statement. HKEX would continue to follow up with the remaining listed issuers. Moreover, HKEX and SFC had held discussions with various stakeholders and listed issuers on the Joint Statement, and HKEX had published a set of "frequently asked questions" to facilitate stakeholders' understanding of the reporting requirements. CE/HKEX added that it would not be advisable to give a blanket approval to all listed issuers in this regard as HKEX had to ensure that the publication of financial information by issuers had to be sufficient and up-to-date in order to maintain an orderly, informed and fair market.

43. Ir Dr LO Wai-kwok enquired about the measures adopted by HKEX to mitigate the impact of the outbreak of COVID-19 in Hong Kong and the possible worldwide spread of such virus on the operation of Hong Kong markets, in particular measures to ensure the smooth operation of the stock market and cope with the possible risks posed by volatilities and uncertainties in the global financial markets.

44. CE/HKEX said that with the outbreak of COVID-19 in Hong Kong, special arrangements had been implemented to ensure no disruption of operation, including arranging 40% of the staff to work from home, and splitting the staff working in office into teams and accommodating them in different offices. Moreover, HKEX had operated two separate data centres and both could be operated remotely. Regarding the uncertainties in the global financial markets, CE/HKEX said that HKEX would stay vigilant and make every effort to maintain the stability of the Hong Kong markets.

Improving the quality of the Hong Kong stock market

45. Dr KWOK Ka-ki pointed out that in recent years, share prices of some newly listed stocks had declined drastically soon after listing which had seriously affected the interests of investors and Hong Kong's reputation as an international financial centre. He enquired how the Administration could ensure the quality and governance standard of listed companies. Moreover, he remarked that the Hong Kong securities market had become a listing platform for mainly Mainland

companies instead of an international listing venue as more than 90% of the companies seeking listing in Hong Kong in recent years were Mainland companies. He expressed concern on the supervision of Mainland companies, particularly some companies had been delisted shortly after their initial public offerings ("IPO") in Hong Kong, and enquired if HKEX would consider reviewing its strategic plan by not merely focusing on the Mainland market and capital.

46. CE/HKEX said that the majority of companies listed in Hong Kong in recent years were Mainland companies. He added that strengthening mutual market access with the Mainland was indeed conductive to supporting the development of Hong Kong as a more international listing platform. For example, the Stock Connect schemes would help attract international investors to access the Mainland capital market through Hong Kong on one hand, and drive the flows of Mainland capital into Hong Kong on the other. Increasing international and Mainland capital flows to Hong Kong continuously could help sustain the development of local businesses and boost local employment, thus contributing to the long-term prosperity of Hong Kong.

47. As regards quality of the Hong Kong stock market, Deputy Secretary for Financial Services and the Treasury (Financial Services)1 advised that since early 2017, SFC had adopted a front-loaded regulatory approach to enhance market quality by taking early preventive action against suspected serious market misconduct behaviours. Moreover, the Listing Rules had been amended in August 2018 to delist, in a timely manner, companies that no longer meet the continuing listing criteria, and HKEX had been applying a heightened review on listing applications that could marginally meet the eligibility requirements under the Listing Rules. In addition, SFC and HKEX had been working closely to introduce a series of reforms to the listing regime to combat "shell" listing and related activities. Executive Director, Corporate Finance Division of the Securities and Futures Commission added that subsequent to the reforms made to the Main Board and the Growth Enterprise Market ("GEM") Listing Rules in 2018, the price-volatility of newly listed GEM stocks had significantly reduced and more restrictions had been imposed on share subscription activities. SFC and HKEX were also studying measures to enhance the structure of the IPO process, including the price discovery process.

48. Mr CHAN Chun-ying noted that HKEX had heightened the review on listing applications that could marginally meet the eligibility requirements under the Listing Rules, and as a result, the number of listing applications rejected had increased in recent years. Given that SFC had powers to object to the listing of any securities, Mr CHAN enquired whether SFC had reviewed the listing

applications of the rejected cases. Noting that "Technology Empowered" was among the major themes underlying HKEX's Strategic Plan 2019-2021, Mr CHAN enquired how HKEX would apply new technologies to strengthen its front-line regulatory role.

49. H/HKEX responded that HKEX had adopted a multi-pronged approach to improve the market quality in addition to heightening the review on listing applications. She said that the Listing Rules had been amended in August 2018 to delist, in a timely manner, companies that no longer meet the continuing listing criteria. The number of delisted companies increased from five and four in 2017 and 2018 respectively to 19 in 2019. Moreover, the Listing Rules and practices relating to backdoor listings had also been tightened. As regards the use of technologies, CE/HKEX said that HKEX would focus on applying new technologies, including artificial intelligence, blockchain, cloud infrastructure, etc., in an agile manner to optimize process in order to enable greater efficiency in operations and deliver new services to the market.

VI Any other business

50. There being no other business, the meeting ended at 11:02 am.

Council Business Division 1
Legislative Council Secretariat
14 May 2020