

立法會
Legislative Council

LC Paper No. CB(1)805/19-20
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by the Administration)

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Panel on Financial Affairs

**Minutes of special meeting held on
Tuesday, 17 March 2020, at 10:45 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 WU Chi-wai, MH
Hon Charles Peter MOK, JP
Hon Dennis KWOK Wing-hang
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 CHEUNG Kwok-kwan, JP
- Members absent** : Hon Mrs Regina IP LAU Suk-ye, GBS, JP
Hon Alice MAK Mei-kuen, BBS, JP

**Public officers
attending** : Agenda Item I

Mr Howard LEE
Deputy Secretary for Financial Services and the
Treasury (Treasury)3

Miss Leonia TAI Shuk-yiu, JP
Government Property Administrator

Mr Leo CHOY Man Wai
Deputy Government Property Administrator

Mr Simon CHAN
Senior Property Manager (Boundary Control Point)
Government Property Agency

Mr WONG Chi-yuen
Senior Engineer / Cross Boundary 6
Highways Department

Agenda Item II

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

Mr Stephen LO
Principal Assistant Secretary for Financial Services and
the Treasury (R2)

Mr Brian CHIU, JP
Deputy Commissioner (Technical)
Inland Revenue Department

Ms Peggy LEUNG
Chief Assessor (Tax Treaty)1 (Acting)
Inland Revenue Department

Agenda Item III

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

Agenda Item IV

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

Attendance by invitation : Agenda Item III

Mr Tim LUI, SBS, JP
Chairman
Securities and Futures Commission

Ms Julia LEUNG, SBS
Acting Chief Executive Officer
Securities and Futures Commission

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

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

Agenda Item IV

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

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

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

Mr Christopher LAU Chung-hoi
Secretary
Insurance Authority

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

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

Ms Sharon CHAN
Legislative Assistant (1)4

Action

I Proposed creation of one permanent Principal Valuation Surveyor post in the Government Property Agency to oversee the property and facilities management of the boundary control points

(LC Paper No. CB(1)365/19-20(04) — Administration's paper on "Creation of One Permanent Directorate Post in the Government Property Agency")

Briefing by the Administration

At the invitation of the Chairman, the Deputy Secretary for Financial Services and the Treasury (Tsy) 3 ("DS(Tsy)3") briefed members on the Administration's proposal to create one permanent Principal Valuation Surveyor ("PVS") post in the Government Property Agency ("GPA") to oversee the property and facilities management of the boundary control points ("BCPs"). DS(Tsy)3 said that, at present, the day-to-day property management of the common areas of shared-use government facilities in 12 BCPs was handled through Building Management Committees ("BMCs") which comprised members of the user departments accommodated therein, such as the Customs and Excise Department, Immigration Department and Department of Health. As the representatives of the user departments often had to venture beyond their areas of expertise in order to handle property management issues, the current approach was not the most efficient set-up to manage BCPs. Upon the completion of a review to enhance the effectiveness in managing BCP facilities, the Administration considered that it would be more effective to adopt a coordinated approach in managing the facilities of 12 existing BCPs and one new BCP, i.e. the Heung Yuen Wai Boundary Control Point ("HYW BCP"), and designated GPA as the single dedicated department for: (a) taking over the property and facilities

Action

management responsibilities of 12 BCPs from BMCs and that of HYW BCP to be commissioned; (b) providing professional property and facilities management services in BCPs; (c) overseeing the management, operation and maintenance contracts of facilities in BCPs; and (d) assigning the proposed PVS to serve as the convenor of BMCs. As such, the Administration proposed to create one permanent PVS, who would lead a new division, the Boundary Control Point Division ("the new Division"), to enable GPA to take up the above new responsibilities more efficiently and effectively. The Administration planned to submit the proposal to the Establishment Subcommittee for endorsement and the Finance Committee ("FC") for approval in due course.

Discussion

Rationale for creating one permanent Principal Valuation Surveyor post in the Government Property Agency

2. Mr WU Chi-wai enquired how the proposed PVS could better tackle problems currently encountered by the various BMCs in managing BCP facilities. As GPA was primarily responsible for outsourcing the management, operation and maintenance of government buildings to contractors, and receiving feedback of user departments in assessing the contractors' performance, Mr WU questioned whether GPA possessed sufficient knowledge and expertise in the management of government buildings, in particular BCP facilities. He also enquired whether the Administration had plan to extend the purview of GPA to take over the management of all government buildings and property in future.

3. Noting that as compared to GPA, members of BMCs, which were users of BCP facilities, would be in a better position to assess the performance of management contractors concerned, Mr James TO queried the need to create the PVS post. He asked if GPA considered that members of BMCs were too heavily engaged in their official duties and therefore could not monitor the performance of the contractors at the respective BCP facilities. To assist members in understanding the rationale behind the establishment proposal, Mr TO requested the Administration to provide supplementary information on: (a) the shortcomings of the existing approach of using BMCs formed by user departments accommodated in BCPs for the management of the property and facilities therein and (b) how the proposed PVS could improve the management work as compared with the existing approach.

(Post-meeting note: The Administration's supplementary information was circulated to members vide LC Paper No. CB(1)565/19-20(02)) on 24 April 2020.)

Action

4. Government Property Administrator replied that according to the review conducted by the Administration, in handling property management issues and managing the contractors of BCP facilities, BMC members were required to go beyond their areas of expertise. As they had their core functions and duties to fulfil, it would not be practical for them to give their full attention to supervise the performance of the contractors on a dedicated basis. Thus, it was considered that the current management approach was inefficient. Meanwhile, when managing outsourced property management contracts in respect of various government properties and facilities, including joint-user government office buildings, quarters developments and ex-departmental/specialist premises under the charge of GPA over the years, GPA had accumulated the experience of managing, supervising and evaluating the performance of outsourced contractors to achieve the service levels set out in the contracts. These tasks and experience had also put GPA in a better position, as compared to user departments of BCP facilities, in taking up the coordination work with government works departments (including the Architectural Services Department and the Electrical and Mechanical Services Department) so as to discharge the responsibilities relating to the maintenance and repair of relevant building structures, equipment and facilities more effectively. The new approach for a designated management department with the relevant property management experience would ensure more effective and smooth operation of the user departments and/or occupants therein. The Administration considered the designation of GPA as the single department to coordinate the management of the facilities of 13 BCPs a more appropriate and efficient approach as compared to the current arrangement. Government Property Administrator undertook to provide the supplementary information requested by Mr James TO.

5. Mr CHAN Kin-por expressed his support for the establishment proposal as it would provide the professional knowledge and expertise essential to enhance the efficiency in managing BCP facilities, which were otherwise lacking in BMCs or representatives of the user departments. He said that the Administration should provide supplementary information to facilitate members' consideration of the proposal (e.g., providing quantifiable information to justify the benefits of the new approach).

6. Government Property Administrator noted Mr CHAN Kin-por's views. She stressed that the proposed PVS, who was equipped with the professional knowledge and skills for property and facilities management, could assist GPA in taking up the management of BCP facilities in phases, achieving the cost-effectiveness of the property management contracts of BCPs, setting up key performance indicators on checking and monitoring the performance of the

Action

contractors, etc., with a view to enhancing property management services for BCPs.

7. Mr WU Chi-wai remained unconvinced. He pointed out that the proposal would unnecessarily complicate the management of BCPs, and more public resources would ultimately be required in addition to the creation of the proposed PVS and the new Division to assist GPA in handling the relevant tasks. As the Administration's replies did not allay his concerns, he objected the establishment proposal.

Contingency plan

8. In response to Mr CHAN Kin-por's enquiry about how GPA would manage the facilities of BCPs if FC could not deal with the establishment proposal within the current legislative session because of the heavy agenda, Government Property Administrator replied that GPA would endeavour to address the additional workload arising from the transfer of property management duties of BCPs by redeployment of internal resources, pending approval of the permanent PVS post by FC. GPA had already taken over the management of Hong Kong-Zhuhai-Macao Bridge Hong Kong Port since 1 January 2020.

II Automatic Exchange of Financial Account Information in Tax Matters

(LC Paper No. CB(1)428/19-20(05) — Administration's paper on "Automatic Exchange of Financial Account Information in Tax Matters"

LC Paper No. CB(1)428/19-20(06) — Updated background brief on automatic exchange of information for tax purposes prepared by the Legislative Council Secretariat)

Briefing by the Administration

9. At the invitation of the Chairman, Deputy Secretary for Financial Services and the Treasury (Treasury)2 ("DS(Tsy)2") briefed members on the implementation of automatic exchange of financial account information in tax matters ("AEOI") in Hong Kong, and the proposed amendments to the Inland

Action

Revenue Ordinance (Cap. 112) ("IRO") for implementing the recommendations from the Organisation for Economic Co-operation and Development ("OECD") regarding Hong Kong's AEOI legislative framework. The proposed amendments sought to: (a) refine the definition of "controlling person" by removing the 25% stake threshold currently applicable to partnerships and trusts ("the controlling person amendment"); and (b) specify that if a reporting financial institution ("FI") relied on information collected and maintained pursuant to the anti-money laundering/know your customer ("AML/KYC") procedures for the purpose of determining the controlling persons of an account holder of a new entity account, such procedures must be consistent with Recommendations 10 and 25 of the Financial Action Task Force Recommendations (as adopted in February 2012) ("the AML/KYC amendment"). The Administration planned to table the proposed amendments to IRO, which would be in the form of subsidiary legislation, before the Legislative Council ("LegCo") for negative vetting in April 2020.

Discussion

Implementation of automatic exchange of financial account information in tax matters

10. Noting that Hong Kong conducted the first and second rounds of AEOI in 2018 and 2019 respectively, Mr CHAN Chun-ying sought information on the breakdown by types of reporting FIs furnishing Financial Account Information Returns to the Inland Revenue Department ("IRD"), and enquired about the expected increase in the number of jurisdictions conducting AEOI with Hong Kong.

11. DS(Tsy)2 undertook to provide information as requested by Mr CHAN Chun-ying after the meeting. As regards the number of jurisdictions conducting AEOI with Hong Kong, he pointed out that while the number would increase steadily, it was envisaged that it would take time for Hong Kong to conduct AEOI with all the current 112 jurisdictions which had implemented or had a definite plan for implementing AEOI as exchange of information arrangement between the relevant tax authority and IRD had to be in place before Hong Kong could conduct AEOI with the jurisdiction concerned.

(Post-meeting note: The Administration's supplementary information was circulated to members vide LC Paper No. CB(1)504/19-20(02) on 26 March 2020.)

Action

12. Mr Kenneth LEUNG enquired if IRD had received any security incident reports including cyber attacks against IRD's AEOI system during Hong Kong's first two rounds of AEOI with other jurisdictions, and whether OECD would regularly review the data security arrangements of jurisdictions implementing AEOI.

13. DS(Tsy)2 responded that both OECD and IRD attached great importance to maintaining the data security of AEOI systems. Reporting FIs would submit the required information to IRD via IRD's dedicated AEOI Portal system and such information would be stored in IRD's back-end system with encryption under a high level of security. So far, IRD had not received any security incident reports concerning AEOI. OECD conducted security audits on jurisdictions implementing AEOI on a regular basis to ensure that the confidentiality and data safeguarding requirements were met. For instance, a security audit was conducted on Hong Kong in 2016.

Legislative proposals to implement the recommendations of the Organisation for Economic Co-operation and Development

14. Mr CHAN Chun-ying was concerned whether the relevant standards currently applicable to reporting FIs for determining the controlling person(s) of an account holder would be raised significantly under the AML/KYC amendment. He also enquired if the Administration would consider implementing the amendment in phases to avoid a drastic surge in FIs' compliance costs.

15. DS(Tsy)2 said that it was not envisaged that implementation of the proposed legislative amendments would result in significant increase in reporting FIs' compliance work. The Administration had consulted relevant stakeholders including the Hong Kong Association of Banks on the amendments in November 2019. Most of the submissions received indicated no objection or no comment towards the proposed legislative amendments. Given that the Administration would propose that the legislative amendments came into force on 1 January 2021, reporting FIs should have sufficient time to make preparations.

16. Mr Kenneth LEUNG enquired whether all partners of a partnership would become controlling persons under the controlling person amendment. Mr James TO enquired how the controlling person(s) of a partnership or a trust would be determined in practice after removal of the existing 25% stake threshold.

Action

17. DS(Tsy)2 said that the existing definition of "controlling person" in IRO was not fully consistent with that set out in OECD's Common Reporting Standard ("CRS") for the implementation of AEOI as OECD considered that the scope of beneficial owners of partnerships and trusts for the purpose of AEOI should not be subject to any thresholds on the stakes held. Thus, all partners of a partnership would be regarded as its controlling persons under the controlling person amendment. Deputy Commissioner (Technical), Inland Revenue Department added that the proposed amendment, which aligned with the prevailing international standards, only covered partnerships and trusts classified as passive non-financial entities under CRS and there were very few such entities in Hong Kong. In order to combat tax evasion, OECD required reporting FIs to identify all controlling persons of passive non-financial entities that were partnerships or trusts, regardless of the stake held by individual persons.

Conclusion

18. The Chairman concluded that the Panel had no objection to the Administration's plan to table the relevant subsidiary legislation before LegCo in April 2020.

III Budget of the Securities and Futures Commission for the financial year 2020-2021

(LC Paper No. CB(1)365/19-20(06) — Administration's paper on "Securities and Futures Commission - Budget for the Financial Year 2020-2021"

LC Paper No. CB(1)365/19-20(07) — Updated background brief on the annual budgets of the Securities and Futures Commission prepared by the Legislative Council Secretariat)

Briefing by the Administration

19. At the invitation of the Chairman, Chairman, Securities and Futures Commission ("C/SFC") briefed members on the Securities and Futures Commission ("SFC")'s proposed budget for 2020-2021. C/SFC highlighted that SFC had resumed the collection of annual licensing fees with a 50% waiver to all

Action

licensed individuals and intermediaries in 2019-2020. However, after reviewing market conditions, in particular the business environment of small and medium-sized securities firms in the past few difficult months, SFC announced in December 2019 to waive in full the annual licensing fees for 2020-2021. As a result, the estimated revenue forgone for SFC would be about HK\$235 million.

20. Regarding the 2020-2021 budget, C/SFC summarized that the projected total income was \$1,643 million assuming an average daily market turnover of \$87 billion, and the projected total expenditure was \$2,297 million, therefore resulting in an operating deficit of \$653 million. On SFC's expenditure, the single largest item was staff cost, which would be \$1,488 million in 2020-2021, primarily due to a proposed average 3% pay increase and additional pay for 22 position upgrades. The headcount of SFC would be frozen for 2020-2021. C/SFC further said that SFC would move its office from Central to Quarry Bay in the second quarter of 2020. The relocation could achieve rental savings of about \$125 million per year for a consecutive period of eight years commencing in 2020-2021, and the savings would be added to the \$3,000 million ring-fenced reserves for the potential purchase of office premises as a long-term accommodation strategy.

(Post-meeting note: The speaking note of C/SFC was issued to members vide LC Paper No. CB(1)477/19-20(01) on 19 March 2020.)

Discussion

Annual licensing fees

21. On SFC's licensing fee waiver for one year in 2020-2021, Mr CHAN Chun-ying noted that it was among the various further relief measures announced by the Financial Secretary ("FS") in December 2019 in order to support enterprises and employment, and questioned why the estimated revenue forgone of about \$235 million was not borne by the Government.

22. The Chairman welcomed SFC's decision to waive the collection of annual licensing fees in 2020-2021 to alleviate the regulatory cost burden of brokerage firms during the difficult operating environment despite SFC's budget deficit. In view of the significant downturn in the Hong Kong economy caused by the coronavirus disease-2019 ("COVID-19") outbreak, the Chairman called on SFC to seriously consider continuing the licensing fee waiver when preparing the budget for 2021-2022.

Action

23. C/SFC and Acting Chief Executive Officer, Securities and Futures Commission ("Acting CEO/SFC") advised that SFC had offered an annual licensing fee waiver in 2009-2010 and from 2012-2013 to end March 2019. SFC had resumed collecting the annual licensing fees from 2019-2020 in a phrased approach by introducing a 50% discount in the fees for 2019-2020 and 2020-2021, and expected to fully reinstate the fees from 2021-2022 onwards. However, after reviewing its fees and charges level and the market conditions, SFC announced in December 2019 to fully waive the annual licensing fees for one year in 2020-2021 as a relief measure for brokerage firms. C/SFC took note of the Chairman's views and said that SFC would carefully review the market conditions when considering whether and when to reinstate the collection of the annual licensing fees.

Human resources issues

24. Mr CHAN Chun-ying pointed out that among the 22 positions to be upgraded, only one was in the Information Technology ("IT") Department. Given the increasing adoption of technology by the financial services industry and SFC's initiative to use front-end technology to streamline its business process, Mr CHAN enquired about the reasons for upgrading only one position in the IT Department.

25. Acting CEO/SFC said that in addition to the IT Department, SFC had employed staff with relevant knowledge and expertise in various departments for implementing new technology solutions to streamline SFC's business process and upgrade market surveillance capabilities. For example, staff with relevant virtual assets and regulatory experience had been employed in the Intermediaries Division to oversee regulatory activities relating to virtual assets trading platforms.

26. Mr Kenneth LEUNG noted that SFC was in the process of recruiting a new Chief Executive Officer ("CEO"), and enquired about the progress of the recruitment exercise, and the remuneration package of the new CEO as compared to that of the incumbent CEO.

27. C/SFC responded that a selection panel led by FS had been set up to assess applications for the position of the new CEO. The selection panel consisted of five members including C/SFC, and the work details could not be disclosed at the moment.

Action

Office premises

28. Mr CHAN Chun-ying noted that SFC had secured an eight-year lease for the new office premises in Quarry Bay, and that relocating SFC's office from Central to Quarry Bay could achieve rental savings of about \$125 million per year to be added to the \$3,000 million of reserves ring-fenced for the potential purchase of office premises in the long run. In view of the possible downturn of the local property market and decline in property prices amidst an economic downturn, Mr CHAN enquired if SFC would consider purchasing its office premises before expiry of the eight-year lease.

29. Mr WONG Ting-kwong pointed out that office rentals had been a key expenditure item in SFC's budget, and enquired about SFC's plan to purchase its office premises, particularly in view of the possible adjustment in property prices in times of economic downturn. Ir Dr LO Wai-kwok was of the view that SFC's office might not necessarily locate in prime business districts.

30. C/SFC responded that purchasing its own office premises was all along the long term goal of SFC. However, it would take time for SFC to identify suitable office premises in an appropriate location and of a considerable size for accommodating its some 900 staff. He reiterated that SFC would move its office from Central to Quarry Bay in the second quarter of 2020 and the relocation could achieve savings of about \$1,000 million in rentals over the eight-year lease. Together with the \$3,000 million which had been ring-fenced for the purchase of its office, SFC would have about \$4,000 million at its disposal for the purchase. SFC would keep in view the availability of suitable office premises in the market and development in the property market, and when appropriate, might consider purchasing its office premises before the expiry of eight-year lease.

Information and systems services

31. Noting that SFC had projected an increase of \$23.38 million in information and systems services expenses in 2020-2021, Mr Kenneth LEUNG sought details of the increase. He further enquired whether SFC's IT systems were developed and managed by its own staff or outsourced to external contractors.

32. Ir Dr LO Wai-kwok concurred that SFC should further explore the use of new technology to streamline its work processes and enhance operational efficiency.

Action

33. C/SFC responded that SFC, being a financial regulator, needed to make use of and increase investment in advanced and customized technology, particularly the adoption of big data analytics, in order to enhance its work efficiency and strengthen its market surveillance capabilities. As regards the provision of IT services, C/SFC said that depending on the work process involved and system requirements, some of SFC's IT systems were developed by in-house staff and some by external contractors.

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"), and enquired whether HKEX had consulted SFC before making the Offer, as well as whether HKEX had reported the progress and outcome to SFC. Mr KWOK further referred to a recent court order relating to SFC's power to apply for search warrants for seizure and retention of digital devices during its search operations, and opined that SFC should exercise the power concerned cautiously, in particular to ensure that human rights and personal data privacy were properly protected. He sought SFC's views on the court's decision.

35. Acting CEO/SFC pointed out that SFC had not engaged in or provided advice to HKEX regarding the Offer as it was a business decision of HKEX. Meanwhile, as HKEX was a recognized exchange controller under the Securities and Futures Ordinance, SFC had exchanged views with the Financial Conduct Authority, the regulator of financial services firms and financial markets in the United Kingdom, on the regulatory issues relating to the Offer. HKEX also had to comply with the statutory disclosure requirements applicable to listed companies in Hong Kong when proposing the Offer to LSEG. As regards the court order, Acting CEO/SFC said that SFC welcomed the court's decision which confirmed that the scope of documents that SFC could seize during its search operations should include digital devices. She stressed that SFC would continue to exercise its power in accordance with applicable laws and regulations, including the Personal Data (Privacy) Ordinance.

Guidelines for securities margin financing activities

36. The Chairman referred to the "Guidelines for Securities Margin Financing Activities" issued by SFC in 2019 ("the New Guidelines") and urged SFC to allow flexibility in enforcing the guidelines, particularly the new margin call policies, in response to calls from the securities brokerage firms. As the continuous spread of

Action

COVID-19 might have adverse impact on the securities market and investors, he was concerned that under the New Guidelines, brokerage firms would need to request Mainland clients to settle margin calls during a short period.

37. Acting CEO/SFC stressed that proper management of margin lending risk was crucial to protect market integrity especially during periods of great market volatilities, hence the New Guidelines had required brokers to set prudent triggers for margin calls. That said, if a broker could not meet all the benchmarks set out in the New Guidelines, the broker was allowed to deviate from a benchmark provided that compensating measures were taken by the broker to mitigate the additional risk that might result from the deviation. She added that SFC had observed that implementation of the New Guidelines had been smooth, and SFC would continue to constructively engage individual brokers in discussions on practical compliance issues.

IV Budget of the Insurance Authority for the financial year 2020-2021

- (LC Paper No. CB(1)428/19-20(07) — Administration's paper on "Budget of the Insurance Authority for the financial year 2020-2021"
- LC Paper No. CB(1)428/19-20(08) — Updated background brief on the establishment of and financial arrangements for the Insurance Authority prepared by the Legislative Council Secretariat)

Briefing by the Insurance Authority

38. At the invitation of the Chairman, the Chairman of Insurance Authority ("C/IA") briefed members on the main features of the proposed budget of the Insurance Authority ("IA") for the financial year 2020-2021. He advised that IA had all along exercised financial discipline and had been prudent in managing its resources and controlling expenditure. The estimated operating and capital expenditure of IA for 2020-2021 were \$534.8 million and \$33.7 million respectively. The main operating expenditure items were staff costs and office rental. The estimated income was about \$339.7 million, derived largely from levies on insurance premiums after taking into account the adjustment of the levy rate from 0.06% to 0.085% in April 2020. As it was envisaged that IA would

Action

incur an operating deficit of about \$195 million in 2020-2021, the Government planned to inject \$300 million to assist IA in tiding over the projected cash shortfall and maintaining an appropriate level of buffer.

39. C/IA advised that for the sustainable development of the insurance industry, IA continued to identify business opportunities for Hong Kong arising from the Belt and Road Initiative, especially those from large-scale infrastructure projects, and to promote Hong Kong as a preferred domicile for captive insurers set up by state-owned enterprises. Furthermore, the Inland Revenue (Amendment) (Profits Tax Concessions for Insurance-Related Business) Bill, introduced into LegCo in end-2019, was instrumental in providing tax reliefs to promote the development of the insurance industry including marine insurance and the underwriting of specialty risks in Hong Kong.

40. C/IA added that since the Insurtech Sandbox and the Fast Track scheme were launched in September 2017, IA had approved seven applications for trial run under the former and authorized two virtual insurers under the latter so far.

41. As regards regulation of insurance intermediaries, C/IA said that since September 2019, IA had taken over the responsibilities of the three former self-regulatory organizations ("SROs") including granting licenses, conducting inspections and investigations as well as imposing disciplinary sanctions where applicable.

Discussion

Recruitment exercise and policy

42. Mr CHAN Chun-ying said that while he had no objection to the estimated expenditure on staff costs, which was \$83.5 million higher than the revised estimate for 2019-2020, he was concerned as to whether the outbreak of COVID-19 would affect IA's recruitment exercise to reach its full staff establishment of about 330.

43. Given that staff costs were one of the largest expenditure items in the budget of IA for 2020-2021, Mr CHAN Kin-por suggested that IA should consider conducting phased recruitment in line with prevailing needs. He also enquired whether IA had examined if the headcount of 330 was optimal.

44. C/IA advised that while the estimated expenditure on staff costs for 2020-2021 was projected to be \$83.5 million higher than the revised estimate for 2019-2020, \$39 million was attributable to new employees hired in 2019-2020.

Action

Given that IA would take on additional duties related to group-wide supervision and regulation of intermediaries, it had increased its headcount by 29 in 2020-2021. The Chief Executive Officer of Insurance Authority ("CEO/IA") added that the projected increase of \$83.5 million covered annual salary adjustment, full-year effect for employees who joined in 2019-2020 and the 29 posts to be created in 2020-2021, roughly accounting for \$10 million, \$39 million and \$35 million respectively.

45. CEO/IA advised that out of the 29 posts to be created in 2020-2021, 19 would be filled by seasoned professionals responsible for group-wide supervision. The pace of recruitment hinged on a number of factors including availability of suitable talents in the market. Citing that the revised operating expenditure for 2019-2020 was 6.9% lower than the approved budget, primarily due to unfilled vacancies, he said that it was still uncertain if all vacancies could be filled in 2020-2021.

Office rental

46. Noting that office rental was another major expenditure item in the budget of IA for 2020-2021 and that the current lease of IA's office premises was due for renewal in July 2020, Mr CHAN Kin-por enquired whether IA expected any upward rental adjustment.

47. C/IA advised that IA had budgeted for office rental based on market data and did expect adjustment upon the expiry of the current lease in July 2020. However, a cap on the rate of rental increase had already been built into the current lease to limit the exposure of IA, while rental levels were generally on the decline. C/IA assured members that IA would negotiate for the best possible terms in the process of lease renewal.

Operating expenditure

48. Ir Dr LO Wai-kwok considered that the 28.7% increase of operating expenditure in 2020-2021 over the revised estimate for 2019-2020 was substantial and enquired about the reason.

49. C/IA advised that since IA took over the responsibilities from the three former SROs in September 2019, it had acquired additional manpower and developed IT systems for the licensing and regulation of over 110 000 insurance intermediaries. IA also had to deploy resources to monitor fulfillment of stipulated requirement on Continuous Professional Development by insurance

Action

intermediaries and secure office premises both to accommodate an expanded staff team and to provide a back-up facility for better risk management.

50. C/IA added that IA was engaging three insurance groups to map out a group-wide supervisory framework, an arduous task not previously anticipated but crucial to the status of Hong Kong as an international financial hub. On the other hand, CEO/IA was elected to sit on the Executive Committee of the International Association of Insurance Supervisors and participated in the formulation of global standards which demanded input of substantial time and resources. Nonetheless, the amendment bill on group-wide supervision being prepared by the Government in consultation with IA would include provisions for cost recovery from the insurance groups.

Capital injection to the Insurance Authority

51. Mr CHAN Chun-ying considered that as a regulator, it was undesirable for IA to have an operating deficit of \$195.1 million in 2020-2021. He enquired when the \$300 million capital injection pledged by the Government would be provided to IA.

52. C/IA replied that the capital injection of \$300 million by the Government was essential for IA to tide over the projected cash shortfall, and he had confidence that the sum would be provided to IA in a timely manner after clearing the necessary procedures.

Levy rates on insurance premiums

53. Mr CHAN Chun-ying asked that with the volume of business generated by Mainland visitors severely affected by social events happening in Hong Kong, whether IA would review the levy rate to ensure a stable source of income.

54. C/IA replied that as the premium levies were implemented through an incremental approach, they would take up an increasing share of income received by IA and set the scene for a review of the established mechanism.

Relief measures for the insurance industry during the coronavirus disease-2019 outbreak

55. Mr CHAN Kin-por expressed concern about the challenges faced by the insurance industry amidst the outbreak of COVID-19. He enquired, apart from enhancing e-services, whether IA would implement targeted measures to alleviate hardship of the insurance industry.

Action

56. C/IA responded that IA had to strike a pragmatic balance between business development and policyholders' protection. In view of the challenges posed by the outbreak of COVID-19, IA had rolled out the first batch of temporary facilitative measures for selected products and would explore with the industry other feasible ways to sustain market vibrancy while ensuring that customers were treated fairly.

V Any other business

Date of next meeting

57. The Chairman reminded members that the next regular meeting would be held on 16 April 2020, at 10:45 am.

58. There being no other business, the meeting ended at 12:51 pm.

Council Business Division 1
Legislative Council Secretariat
29 June 2020