立法會
Legislative Council

LC Paper No. CB(1)899/19-20
(These minutes have been seen by the Administration)

Ref : CB1/PL/FA

Panel on Financial Affairs

Minutes of meeting held on
Monday, 4 May 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 Charles Peter MOK, JP
Hon Alice MAK Mei-kuen, BBS, JP
Hon Dennis KWOK Wing-hang
Hon Martin LIAO Cheung-kong, GBS, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon CHU Hoi-dick
Hon Holden CHOW Ho-ding
Hon SHIU Ka-fai, JP
Hon CHAN Chun-ying, JP
Hon CHEUNG Kwok-kwan, JP

Member attending : Dr Hon CHIANG Lai-wan, SBS, 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 Ms Linda SO Executive Director (Corporate Services) Hong Kong Monetary Authority Agenda Item V Mr TE Chi-wang Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)6 Ms MCKENNA Phyllis Official Receiver Mr Ronald FU Assistant Official Receiver (Case Management) Mr Richard TANG Chief Insolvency Officer (Information Technology & Technical) Official Receiver's Office Mr Lawrence CHOW Systems Manager (Information Technology Management Unit)2 Official Receiver's Office

Agenda Item VI

Mr Laurence Li, SC, JP
Chairman
Financial Services Development Council

Mr Joseph CHAN, JP
Under Secretary for Financial Services and the Treasury

Agenda Item VII

Mr HUI Chark-shum, Sam
Deputy Secretary for Financial Services and the Treasury (Financial Services)3

Attendance by invitation : Agenda Item VII

Dr WONG Tin-yau, Kelvin, JP
Chairman
Financial Reporting Council

Ms WONG Wai-mei, Florence
Acting Chief Executive Officer
Financial Reporting Council

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

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

Ms Sharon CHAN
Legislative Assistant (1)4

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I Confirmation of minutes of meeting and matters arising

(LC Paper No. CB(1)467/19-20	—	Minutes of the meeting on 6 January 2020)

The minutes of the meeting held on 6 January 2020 were confirmed.

II Information paper issued since the regular meeting on 2 March 2020

(LC Paper No. CB(1)475/19-20(01)	—	Fourth quarterly report of 2019 on "Employees Compensation Insurance — Reinsurance Coverage for Terrorism"
LC Paper No. CB(1)537/19-20(01)	—	Administration's paper on "Proposed waiver and reduction of fees under Companies (Fees) Regulation (Cap. 622K)"
LC Paper No. CB(1)537/19-20(02)	—	Administration's paper on "Legislative proposal to extend stamp duty waiver to market makers in the course of creation and redemption of Exchange Traded Funds"
LC Paper No. CB(1)576/19-20(01)	—	Administration's paper on "Rules relating to registration of determinations and orders of Public Interest Entities Auditors Review Tribunal"
LC Paper No. CB(1)576/19-20(02)	—	Administration's paper on "Rules relating to registration of orders of Insurance Appeals Tribunal")

2. Members noted the information papers issued since the regular meeting held on 2 March 2020.

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III Date of next meeting and items for discussion

(LC Paper No. CB(1)564/19-20(01) — List of outstanding items for discussion

LC Paper No. CB(1)564/19-20(02) — List of follow-up actions)

3. Members agreed to discuss the following items proposed by the Administration at the regular meeting scheduled for 1 June 2020:

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

(b) Development of Financial Technologies in Hong Kong.

IV Briefing on the work of Hong Kong Monetary Authority

(LC Paper No. CB(1)564/19-20(03) — Paper provided by the Hong Kong Monetary Authority)

Briefing by the Hong Kong Monetary Authority

4. 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 ("DCE(M)/HKMA") and the Senior Executive Director (Development), Hong Kong Monetary Authority ("SED(D)/HKMA") updated members on the work of HKMA through a powerpoint presentation. Topics included assessment of risks to Hong Kong's financial stability, banking supervision, financial infrastructure, development of the financial market, investment performance of the Exchange Fund ("EF"), and measures implemented by the Hong Kong Mortgage Corporation ("HKMC").

(*Post-meeting note*: The notes of the powerpoint presentation (LC Paper No. CB(1)582/19-20(01)) were issued to members vide Lotus Notes email on 4 May 2020.)

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Discussion

Macroeconomic conditions and measures to help the local economy to combat the coronavirus disease-2019 outbreak

5. The Chairman, Mr Jeffrey LAM, Mr CHAN Chun-ying, Mr CHAN Kin-por, Ir Dr LO Wai-kwok and Mr SHIU Ka-fai commended HKMA for its recent efforts in maintaining Hong Kong's financial stability and helping the local economy to ride through the challenges arising from the outbreak of coronavirus disease-2019 ("COVID-19"). Relief measures introduced by the banking industry included the Special 100% Loan Guarantee ("the 100% LG") under the SME Financing Guarantee Scheme ("SFGS") and the offer of principal payment holiday for various types of borrowers. Mr Jeffrey LAM pointed out that some enterprises were unfamiliar with the details of the relief measures, and urged HKMA to step up publicity to enhance their understanding, and to call on banks to expedite the process of applications for various measures. Mr SHIU Ka-fai called on HKMA to consider whether the application criteria for the 80% Guarantee Product and 90% Guarantee Product under SFGS ("the 80% and 90% guarantee products") could be relaxed so that more enterprises could benefit.

6. In respect of the 100% LG, CE/HKMA said that the banking industry had received over 2 000 applications since its launch on 20 April 2020. Among these, 503 applications had been submitted to HKMC, involving total loan amount of $1.2 billion and an average of $2.5 million per application. To date, 432 applications had been approved, with the majority of them approved within three days (and over 60% approved on the same day). HKMA had been closely working with HKMC and the banking industry on expediting the approval process as far as possible, with a view to providing timely relief to those in need. HKMA was also liaising with the banking industry on further streamlining the approval process of the 80% and 90% guarantee products. CE/HKMA further said that over the past two weeks the banking industry had notified over 60 000 eligible corporate customers about the new Pre-approved Principal Payment Holiday Scheme.

7. Mr Jeffrey LAM stressed the importance to preserve the vitality of the Hong Kong economy as the economic downturn resulting from the outbreak of COVID-19 might persist for a long time. Pointing out that the COVID-19 in the Mainland was largely under control, Ir Dr LO Wai-kwok enquired how Hong Kong could strengthen its cooperation with the Mainland in order to rejuvenate the local economy. Mr Abraham SHEK expressed concern about the decline in Hong Kong's gross domestic product ("GDP") in recent quarters and opined that HKMA should advise the Administration to implement measures that

would help Hong Kong generate wealth. Dr CHIANG Lai-wan cautioned that some manufacturers might face cash flow pressure very soon as they encountered difficulties in delivering their manufactured products to buyers due to the COVID-19 epidemic. Given the high level of deposits maintained by the banking sector in Hong Kong, Dr CHIANG suggested that HKMA should explore measures to facilitate the proper utilization of the deposits, which could help revitalize the Hong Kong economy and further promote its economic development.

8. With regard to some Members' questions on cooperation with the Mainland, CE/HKMA said that HKMA had been working closely with the Mainland authorities on a number of initiatives, including exploring the connection of eTradeConnect, a blockchain-based trade finance platform in Hong Kong, with its counterpart on the Mainland, as well as financial measures for the development of the Guangdong-Hong Kong-Macao Greater Bay Area. Separately, CE/HKMA said that alongside the growth of deposits in the past decade, there had been a steady growth in bank lending to support economic development in Hong Kong.

9. Mr WU Chi-wai requested HKMA to provide information on: (a) the underlying parameters and assumptions adopted by HKMA in its Consensus Forecasts; and (b) the implications of changes in Hong Kong's Purchasing Managers' Index ("PMI") on the economy, particularly the fact that Hong Kong's PMI had stayed around 50 since 2018. Noting that the Mainland might implement quantitative easing ("QE") to boost its economy, Mr WU sought HKMA's assessment on the impact of such development on the Hong Kong and global economies.

10. CE/HKMA said that compared with other major economies, the Mainland had more headroom to implement expansionary monetary and fiscal policies to boost its economy. It was envisaged that the Mainland would aim to stimulate economic growth while managing risks to financial stability when devising the relevant measures. CE/HKMA said that Consensus Forecasts were the forecasts of the market, and he undertook to provide supplementary information about Consensus Forecasts and PMI as requested by Mr WU Chi-wai.

> (*Post-meeting note:* HKMA's supplementary information was circulated to members vide LC Paper No. CB(1)677/19-20(02) on 21 May 2020.)

11. Noting that the Hong Kong dollar ("HKD") had strengthened since early 2020 due to increase in the interest rate spread between HKD and the United States dollar ("USD") and continuous capital inflow into Hong Kong's

stock market, Mr CHAN Chun-ying sought HKMA's assessment on the trend. He enquired about the development in loan growth discounting the impact of principal payment holiday for loans.

12. CE/HKMA said that the two interest rate cuts by the United States ("US") Federal Reserve in the past two months had led to an increase in arbitrage activities to take advantage of the higher HKD interest rates. As the interest rate differentials were expected to narrow following inflows into HKD, such arbitrage activities would likely subside gradually. Apart from arbitrage activities, demand for HKD would also hinge on other relevant factors including initial public offerings and equity-related funding demand by international investors. DCE(B)/HKMA added that the introduction of principal payment holiday only delayed the repayment of principal of loans and so far HKMA observed no impact on loan growth.

13. Mr CHAN Kin-por enquired about the basis for HKMA's assessment on the shortage in USD liquidity, and the possible impacts of such development on Hong Kong.

14. DCE(M)/HKMA responded that global USD liquidity strains had resulted in a surge in USD interest rates, which had in turn kept HKD interest rates elevated. As the US Federal Reserve had taken a number of measures to increase USD liquidity, the tightness in USD liquidity had eased. HKD interest rates also came down as a result.

The property market

15. Mr WONG Ting-kwong sought HKMA's views on the impact of the possible implementation of QE by various major economies on Hong Kong, in particular whether the new round of QE would trigger a further surge in the residential property prices which were already far beyond affordability of the general public. He also asked if HKMA would consider launching further rounds of countercyclical macroprudential measures on residential mortgages. On the other hand, the Chairman enquired if HKMA would consider relaxing such measures to avoid a drastic rise in the number of negative equities in the wake of COVID-19. Mr Abraham SHEK criticized that the demand-side management measures introduced by the Administration had reduced the supply of residential properties, and had subsequently driven up property prices.

16. CE/HKMA said that as the global economy had been hard hit by the COVID-19 pandemic, major central banks around the world had to implement accommodative monetary policies to enable economic recovery, and this was

appropriate at least in the short term. However, there was an issue of how to normalize the monetary conditions in the longer run. As for the local property market, property prices were affected by a host of factors including interest rates, economic environment, land supply, and the demand for and supply of residential flats. There was not yet a clear trend for the local property market at this juncture. HKMA would continue to closely monitor property market developments and would consider any need for an adjustment in its countercyclical macroprudential measures as appropriate should a clear change in the property market cycle be ascertained.

17. Noting that Hong Kong's household debt to GDP ratio had reached a record height of 80.4% in 2019 with the ratio of "loans for other private purposes" (which was a component of the household debt) to GDP on a rising trend, Mr WU Chi-wai enquired whether the increase was caused by rising amount of residential mortgage loans; and if so, the possible impact on borrowers if there was a substantial decline in residential property prices. Mr Kenneth LEUNG enquired whether HKMA had assessed if there was deterioration in (a) the quality of household loans; and (b) the default risk of residential mortgage loans.

18. CE/HKMA said that the rise in household debt to GDP ratio was mainly attributable to an increase in residential mortgage loans and loans for other private purposes, as well as a decline in Hong Kong's GDP since the third quarter of 2019. Among "loans for other private purposes", the majority of them were loans to private banking and wealth management customers. As these loans were secured by financial assets and subject to stringent supervision, the risk was considered manageable. CE/HKMA further said that in Hong Kong, the household balance sheet, covering not only their liabilities but also assets, remained strong by international standard. He added that there had not been a significant increase in the default risk of mortgage loans and personal loans, and HKMA would continue to closely monitor the credit quality.

19. Ir Dr LO Wai-kwok and Mr Abraham SHEK enquired whether HKMA had formulated measures to tackle a possible surge in the number of negative equities, which stood at 384 in the first quarter of 2020.

20. CE/HKMA said that the majority of negative equity cases in Hong Kong were bank staff housing loans and residential mortgage loans under HKMC's Mortgage Insurance Programme ("MIP"). These loans generally had a higher loan-to-value ratio. CE/HKMA added that the objective of MIP was to provide an option for those homebuyers with immediate housing needs and long-term

repayment ability but without a sufficient down payment. Homebuyers applying to use MIP would have to meet a set of established eligibility criteria.

Development of financial infrastructure and application of financial technologies

21. Pointing out that there had been a significant increase in the number of registered accounts in the Faster Payment System ("FPS") in recent months, Mrs Regina IP enquired about the reasons for the average daily transaction volume of FPS remained at a relatively low level. She further enquired whether the Administration could utilize FPS to disburse payment under the cash payout scheme so as to expedite payment to the public. Noting the Administration's plan to develop Electronic Identity ("eID") as a new type of digital signature, Mrs IP enquired whether HKMA had liaised with the Innovation and Technology Bureau on the interface between FPS and eID.

22. Ms Starry LEE opined that the Administration should study measures to streamline the implementation of the cash payout scheme. For instance, HKMA should explore whether members of the public could collect the cash from banks directly instead of requiring them to spend lengthy time to register for the scheme.

23. CE/HKMA responded that since its launch, FPS had recorded more than four million registrations, representing a very high penetration rate in a population of 7.5 million people. The usage of FPS had also increased significantly during the outbreak of COVID-19. HKMA would continue to promote FPS, particularly encouraging more government departments and merchants to accept payments through FPS. On the use of FPS for the cash payout scheme, CE/HKMA and SED(D)/HKMA said that currently FPS only accepted mobile phone numbers, email addresses and FPS identifiers for user identification. As the Administration had to verify an applicant's identity and eligibility for the scheme using the Hong Kong Identity Card number ("ID number"), FPS could not be used for the cash payout scheme at the moment, and members of the public would have to register with banks in order to receive the cash payout. Going forward, HKMA planned to accept ID numbers as an additional FPS proxy identifier, and the relevant preparatory work was underway. CE/HKMA further noted that members of the public had to complete a registration form so as to allow the Administration to obtain their consent in accessing their personal information kept by banks for verification proposes; and to confirm the bank account to receive the cash payout. It was envisaged that the registration process could be expedited if it was conducted through electronic means. SED(D)/HKMA said that HKMA had been exploring with the Innovation and Technology Bureau on the possibility to adopt eID as another FPS proxy identifier when eID was launched in the future, but this would require the public to first register the eID.

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24. Dr CHIANG Lai-wan opined that electronic payment methods could help contain the spread of COVID-19 as they reduced the use of cash and social contact in making payments. However, she expressed concern that merchants were discouraged from installing electronic payment devices owing to high installation costs and administration fees charged by system operators. She called on HKMA to tackle the issue. CE/HKMA said that HKMA would step up publicity efforts to increase merchants' acceptance of FPS which would incur relatively lower fees.

25. Noting that some economies including the Mainland had plans to develop Central Bank Digital Currency ("CBDC"), Mr Charles Peter MOK was concerned that CBDC could be used as a surveillance tool if sufficient measures were not in place to protect privacy. He enquired whether Hong Kong had plans to develop CBDC, and if so, what measures HKMA would take to protect privacy; and whether HKMA had assessed the possible impact on Hong Kong, in particular the impact on stored value facilities operators, if the Mainland launched CBDC in full steam.

26. CE/HKMA said that many economies were examining the feasibility of using digital currencies according to their own circumstances. In the case of Hong Kong, given the wide variety of efficient electronic payment methods available, HKMA did not see a case for introducing CBDC at the retail level. On the other hand, HKMA saw more potential of CBDC for cross-border payments and had initiated a pilot project with the Bank of Thailand to explore the possibility of using CBDC to facilitate cross-border payments in a more cost-effective manner.

27. In response to Mr Kenneth LEUNG's enquiry about cooperation with other bodies on the development of private equity and green finance, CE/HKMA said that HKMA had been in close collaboration with other financial regulators and relevant parties including the Securities and Futures Commission, the Insurance Authority, and the Financial Services Development Council ("FSDC") on these initiatives.

28. The Chairman enquired about the timetable for launching the Southbound Trading of Bond Connect, and HKMA's assessment on Macao's initiative to establish a bond clearing house. Mr CHAN Chun-ying enquired about the progress of introducing more credit reference agencies for the banking sector.

29. On the launch of the Southbound Trading of Bond Connect, CE/HKMA said that HKMA had been liaising with the People's Bank of China on the matter.

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As regards Macao's initiative to establish a bond clearing house, HKMA welcomed the proposal as the bond markets in two places could complement each other. On the introduction of more credit reference agencies for the banking sector, DCE(B)/HKMA said that a number of technical and implementation issues had to be resolved. HKMA had been working closely with the banking industry in taking forward the initiative.

30. Pointing out that banks in Hong Kong were required to adopt the International Financial Reporting Standards ("IFRS") 9 for determining their provisions, Mr Kenneth LEUNG enquired whether HKMA considered the relevant standards adopted by the European Union ("EU") a better alternative.

31. DCE(B)/HKMA said that IFRS 9 used the "expected credit loss" model in making loss provisions. It was considered a more forward-looking approach than the "incurred loss" model which recognized impairment losses only when they were actually incurred. The "incurred loss" model had been widely adopted before the 2008 global financial crisis, but the crisis had revealed its inadequacies in providing sufficient loss provisions. HKMA had been requiring banks to continue adopting IFRS 9, and there was no plan to introduce any relaxation despite the COVID-19 situation.

The Linked Exchange Rate System and the Exchange Fund

32. Given that the Administration had been using its fiscal reserves to finance the Anti-epidemic Fund, Mr Jeffrey LAM expressed concern whether there would be adverse impact on Hong Kong's Linked Exchange Rate System ("LERS") and the stability of HKD. Dr CHIANG Lai-wan enquired whether HKMA would consider pegging HKD to a basket of currencies as the US was expected to launch a new round of QE which could increase the volatities of USD.

33. CE/HKMA said that COVID-19 presented unprecedented challenges to the global economy, and the governments in many parts of the world had launched various relief measures in an effort to support their economies. Hong Kong was no exception. Over the past years, Hong Kong had built up sizeable fiscal and foreign exchange reserves, as well as strong capital and liquidity buffers in the banking sector. The Administration's relief measures would not affect market confidence in LERS. CE/HKMA stressed that LERS had been working very well in maintaining monetary stability in Hong Kong, and the HKMA had no plan or intention to change it.

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34. Mr CHAN Kin-por enquired about the reason for EF incurring loss in foreign exchange investment in recent years, and measures HKMA had taken to address the situation.

35. CE/HKMA said that USD had been strong in recent years, resulting in a negative currency translation effect when translating foreign currency assets into HKD. To mitigate the impact of a strong USD, HKMA had gradually reduced the holdings of non-HKD, non-USD assets to less than 10% of EF assets. Going forward, HKMA would remain agile in managing EF's investments in response to changes in market conditions. DCE(M)/HKMA added that EF's gain and loss in foreign exchange since 2017 were more or less balanced out.

V Funding proposal of the Official Receiver's Office for implementation of an Electronic Submission System

(LC Paper No. CB(1)365/19-20(05)	—	Administration's paper on "Funding proposal of the Official Receiver's Office for implementation of an Electronic Submission System")

Briefing by the Administration

36. At the invitation of the Chairman, Official Receiver ("OR") briefed members on the funding proposal of the Official Receiver's Office ("ORO") for the implementation of an Electronic Submission System ("ESS"). She said that ORO performed various statutory duties relating to bankruptcy and winding-up, with about one half of the bankruptcy cases administered in-house. To cope with the caseload, ORO had been outsourcing self-petitioned summary bankruptcy cases and summary court winding-up cases to Private Sector Insolvency Practitioners ("PIPs") since 2008 and 2000 respectively. In respect of both in-house and outsourced cases, creditors, bankrupts and PIPs were obliged to submit various documents and forms to ORO. However, currently, electronic system was not available to automate the processing of some 180 000 documents and forms received annually. ORO completed a feasibility study in 2018, which recommended the implementation of ESS to provide a one-stop portal to receive and time-stamp electronic submissions of documents and forms from various stakeholders with a view to enhancing the public services provided by ORO and its operational efficiency. ESS would be implemented in phases, with phase one covering documents and forms submitted by bankrupts and phase two covering

those submitted by PIPs and creditors. The implementation of ESS would incur a total capital expenditure of $37.986 million and entail a non-recurrent staff cost of $5.247 million from 2020-2021 to 2024-2025. The staff cost would be absorbed within the existing resources of ORO. After the implementation of ESS, it would require an indicative annual recurrent expenditure of $10.094 million and would bring about an annual notional savings in staff effort of $8.987 million from 2025-2026 onwards.

Discussion

37. Mr Kenneth LEUNG said that he supported the proposal. He pointed out that various government departments (such as the Inland Revenue Department and the Companies Registry) and the Judiciary were developing and operating different information systems to facilitate electronic submission of documents and forms from their stakeholders, and expressed concern that stakeholders, particularly professional service providers, might need to develop and operate different systems to cater for different information systems of departments and courts, which might increase their operating cost. He enquired how the Administration would facilitate stakeholders in handling their tasks in a more efficient and coordinated manner.

38. OR said that ESS would be an electronic system specifically developed to facilitate ORO in discharging its regulatory roles and statutory duties. The automated process was in line with the "Smart Government" initiative, and ESS (including the electronically-submitted documents and forms) would be generally compatible with other Government's electronic record keeping systems.

39. Mr Charles MOK said that many government departments would still require stakeholders/general public to submit physical documents after completing online registrations/applications. As Hong Kong was yet to implement eID for its residents, there would be difficulties in authenticating the electronically-submitted documents and verifying the identity of the person submitted the documents. Mr MOK enquired if ORO would allow users to submit documents through ESS without the need to provide physical documents for verification afterwards. He also enquired if ORO would adopt the Government Cloud Infrastructure Services ("Government Cloud") to accommodate ESS.

40. OR explained that the implementation of ESS would offer a convenient e-option to ORO's stakeholders including creditors, bankrupts and PIPs, to submit various documents and forms required by ORO in discharging its statutory duties. According to the feasibility study completed in 2018, stakeholders, including

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PIPs and major creditors, had in general expressed support for implementing ESS. Given that the users of ESS would be ORO's stakeholders, ORO did not envisage there would be problems in identifying the identities of the users and authenticating the documents that were obliged to be submitted by the stakeholders. PIPs would be required to use ESS (e.g. the requirement could be stipulated in the tender documents). Yet, during the initial stage of implementation, ESS would be operated in parallel with the traditional manual processes. Training would be provided to PIPs to ensure the smooth operation of ESS and that the systems of PIPs should be compatible with ESS. OR confirmed that ORO intended to use the Government Cloud to accommodate ESS.

VI Work of the Financial Services Development Council

(LC Paper No. CB(1)526/19-20(03)	—	Administration's paper on "Work of the Financial Services Development Council"
LC Paper No. CB(1)526/19-20(04)	—	Updated background brief on Financial Services Development Council prepared by the Legislative Council Secretariat)

Briefing by the Administration

41. At the invitation of the Chairman, Chairman of Financial Services Development Council ("C/FSDC") briefed members on the work accomplished by FSDC in 2019-2020 (i.e. the first full year after FSDC had become an incorporated entity) which included publication of six research reports and papers, promoting Hong Kong's unique advantages as an international financial centre, and human capital development targeting industry players, students of tertiary institutions and young graduates.

42. Under Secretary for Financial Services and the Treasury ("USFST") said that FSDC operated as a company limited by guarantee with staff of its own in 2019-2020. The Government continued to provide funding for FSDC in the form of annual subvention and appoint members to the Board of Directors of FSDC. On the work of FSDC, he said that since its establishment, FSDC had published 41 research reports and papers, organized or participated in over 70 promotional events, held over 110 outreach meetings with industry players and more than

50 seminars and talks relating to the development of human capital. The Government, relevant regulators and stakeholders were actively studying and taking forward proposals put forth by FSDC, particularly in areas of wealth management, financial technologies and green finance. Under the leadership of its Chairman, FSDC would continue to further enhance its work in policy research, market promotion and human capital development.

Discussion

Resources and corporate governance of the Financial Services Development Council

43. Mr CHAN Chun-ying enquired about the timetable for FSDC to recruit its new Executive Director after the appointment of Mr Christopher HUI Ching-yu, FSDC's first Executive Director, as the Secretary for Financial Services and the Treasury ("SFST") in April 2020. He also expressed concern about the adequacy of resources for FSDC to support its various functions and manpower needs as he noted that FSDC's Budget for 2020-2021 had only increased slightly over that for 2019-2020.

44. C/FSDC said that FSDC aimed to recruit a new Executive Director as soon as possible, and had placed a recruitment advisement within one week after the announcement of Mr HUI's new appointment. Also e-recruitment services had been employed with a view to identifying prospective candidates in a more effective and efficient manner. As regards FSDC's budgets, C/FSDC said that because of the cancellation of some promotional activities either hosted by FSDC or organized by other bodies which FSDC planned to join, there was operating surplus for the year 2019-2020, and hence the annual budget for 2020-2021 had only increased slightly to $34.3 million, or about 7% increase over that of last year.

45. Mr Abraham SHEK sought clarification on whether FSDC was under the purview of the Audit Commission and whether its financial statements and records would be audited by the Director of Audit. He also enquired if FSDC, similar to other subvented bodies, would submit annual work report to the Legislative Council ("LegCo").

46. C/FSDC advised that FSDC was a company limited by guarantee and its Board of Directors (comprising SFST as an ex-officio director and other 16 directors appointed by the Chief Executive) was responsible for steering its work. FSDC had set up a Corporate Governance Committee under the Board to oversee FSDC's internal policies and procedures. Moreover, the Financial

Services and Treasury Bureau continued to oversee FSDC's work as before. Furthermore, the Audit Commission could also monitor the performance of FSDC. In line with current arrangements, FSDC would continue to brief the Panel on Financial Affairs on its work at Panel meeting annually so that LegCo and the public could monitor the performance of FSDC. USFST supplemented that the Government would provide funding to FSDC in the form of annual subvention. FSDC would be required to submit its annual work plans, budgets, annual reports and audited annual financial statements to the Government. FSDC would also need to adopt appropriate accountability and transparency measures in accordance with the prevailing Government guidelines on the management and control of funding for subvented organizations.

47. Mr Kenneth LEUNG noted that over 70% of FSDC's budget for 2020-2021 would be to cover staff, accommodation and other administrative costs (i.e. $25.6 million). He enquired about the current number of staff responsible for conducting research for FSDC, and whether the Government would consider providing office accommodation for FSDC in government office buildings so as to save rental costs. He also expressed concern whether FSDC had adequate resources to undertake its research and market promotion work, in particular FSDC might need to host large-scale signature events in the coming year to raise external parties' understanding of the market situation of Hong Kong and their awareness of the competitive advantages and latest developments of Hong Kong as an international financial centre.

48. C/FSDC responded that at present nearly half of FSDC's staff was providing support on research work under the direction and guidance of FSDC's Board members who were seasoned practitioners of major sectors of the financial services industry. As regards resources for market promotion, C/FSDC said that the estimate of $6.1 million for market promotion was a conservative projection given FSDC had limited experience in hosting high-profile events. If it turned out that the estimate was insufficient, FSDC would consider seeking additional funding from the Government where necessary. USFST took note of Mr LEUNG's views for the Government to provide office accommodation for FSDC. FSDC was operating as a company limited by guarantee and had a rental contract for its office premises. He assured members that the Government would continue to provide necessary resources to support the work and development of FSDC.

Research work of the Financial Services Development Council

49. Mr CHAN Chun-ying expressed support for FSDC's key research themes in 2020-2021. He expressed concern that FSDC's activities like engagement

meetings, roundtables and thematic forums for exchanging views with stakeholders and related organizations in Hong Kong and overseas might not be taken forward due to the Government's order to prohibit group gatherings in public places under the Prevention and Control of Disease (Prohibition on Group Gathering) Regulation (Cap. 599G) in order to curb the spread of COVID-19. He asked whether FSDC would consider other channels for seeking views from stakeholders and related organizations.

50. C/FSDC said that owing to the spread of COVID-19, FSDC had been using video conferencing to communicate with industry practitioners. According to FSDC's experience so far, more lead time would be required for making preparations, such as setting up video conferences, and it was also a challenge in leading attendees to express their views during such conferences. FSDC was aware that more firms in the private sector had been using video conferencing services to communicate with their international stakeholders, and FSDC was exploring the feasibility of using such services to help carrying out its research and market promotion work.

51. Mr Abraham SHEK declared that he was a shareholder of HSBC Holdings plc ("HSBC"). He referred to the recent incident that the Board of HSBC had decided to cancel the fourth interim dividend in respect of 2019 upon request by its regulator in the United Kingdom, and enquired whether FSDC would look into the incident, particularly issues relating to the integrity of listed companies in Hong Kong. Moreover, as some IFRS, such as the mark-to-market accounting method, might not be adopted in Hong Kong, he asked whether FSDC would consider conducting studies on the Hong Kong Financial Reporting Standards. He also sought FSDC's view on over and under regulation of the Hong Kong financial markets.

52. C/FSDC said that FSDC was a high-level, cross-sectoral advisory body to engage the financial services industry in formulating proposals to promote the further development of the industry in Hong Kong. FSDC was not in an appropriate position to comment on the integrity of individual company though he noted that some investors had expressed views on HSBC's recent decision to cancel its dividend payment. As regards market regulation, C/FSDC was of the view that regulators, in general, would consider the risk taking level of local and international investors on one hand, and the competitiveness of Hong Kong as an international financial centre on the other.

53. Mr Dennis KWOK pointed out that the Hong Kong Exchanges and Clearing Limited had recently updated its Environmental, Social and Governance ("ESG") Reporting Guide to require Hong Kong-listed companies to disclose

their policies and develop measures to review their employment practices to avoid human trafficking and forced labour. Noting that ESG was among the key broad themes of FSDC's research work in 2020-2021, Mr KWOK asked if FSDC would explore the feasibility of incorporating human trafficking and forced labour avoidance measures in Hong Kong's ESG investment standards given that over 60% of the victims of human trafficking and forced labour were found in Asia.

54. C/FSDC said that ESG investment standards had been gaining more and more traction globally and there was international consensus that climate change, environmental protection and diversity issues, which were the main concerns of policymakers and investors, be given priorities for inclusion in ESG investment standards. He personally shared Mr Dennis KWOK's concerns on the problem of human trafficking and forced labour in Asia and agreed to look into them when formulating the scope of FSDC's ESG study.

55. The Chairman urged FSDC to conduct studies and recommend policies and measures to facilitate the development of small and medium-sized enterprises in the financial services industry and enhance their competitiveness. C/FSDC took note of the Chairman's views.

VII Annual briefing on the work of the Financial Reporting Council

(LC Paper No. CB(1)564/19-20(04)	—	Financial Reporting Council's paper on "Progress Report on the work of the Financial Reporting Council"
LC Paper No. CB(1)564/19-20(05)	—	Updated background brief on the work of the Financial Reporting Council prepared by the Legislative Council Secretariat)

Briefing by the Financial Reporting Council

56. Upon invitation, the Chairman, Financial Reporting Council ("C/FRC") and Acting Chief Executive Officer, Financial Reporting Council ("ACEO/FRC") briefed members with the aid of a powerpoint presentation on the work of the Financial Reporting Council ("FRC") from 1 April 2019 to 31 March 2020, its work plan for 1 April 2020 to 31 March 2021, and its up-to-date funding arrangement and financial position.

(*Post-meeting note*: The notes of the powerpoint presentation (LC Paper No. CB(1)582/19-20(02)) were issued to members vide Lotus Notes email on 4 May 2020.)

(*At 12:00 noon, the Chairman announced that the meeting be extended for 25 minutes to 12:25 pm in order to allow sufficient time for discussion. No members raised objection*.)

Discussion

Manpower and budget of the Financial Reporting Council

57. Noting that the number of staff in the Department of Investigation and Compliance had dropped by over 20% since the commencement of the new regulatory regime for auditors of public interest entities ("PIE") on 1 October 2019, Mr CHAN Chun-ying was concerned whether FRC had sufficient manpower to discharge its various functions under the new regime, and enquired whether FRC had set any establishment targets.

58. C/FRC said that two staff members had been promoted and transferred from the Department of Investigation and Compliance to the Department of Oversight, Policy and Governance and the Department of Inspection during the said period. As regards FRC's total headcount, it was expected to reach 52 by end-2020 and 63 by end-2021 which would be the optimal level. FRC attached importance to recruiting quality and competent staff for discharging its various functions. It had successfully recruited 8 new staff for the Department of Inspection as at 31 March 2020 and there would be 13 staff for that Department by end-May 2020. FRC would continue to recruit from the market to scale up its talent pool.

59. In response to Mr Kenneth LEUNG's enquiry about the progress in the recruitment of FRC's new CEO, Deputy Secretary for Financial Services and the Treasury (Financial Services)3 ("DS(FS)3") said that a global open recruitment exercise had been conducted for the post. The recruitment board had already completed the interview procedure, and vetting on the potential candidate to be appointed was underway. It was envisaged that the new CEO could report duty upon completion of the relevant administrative processes.

60. Mr CHAN Chun-ying suggested that FRC should refine the presentation of its financial position as shown in page 29 of the powerpoint. For instance, FRC might set out its annual budgeted expenditure, operating

expenditure, capital expenditure and anticipated deficit separately, and explain how the deficit could be covered.

61. C/FRC took note of Mr CHAN Chun-ying's view. ACEO/FRC said that the item "grant income" was money from the Government's seed capital, and FRC would not collect the new levies until 1 January 2022. As FRC's operations during the levy exemption period would be financed by the grant income, no surplus or deficit would be recorded in the period.

Access to audit working papers located in the Mainland

62. Mr Kenneth LEUNG enquired how far the signing of the Memorandum of Understanding ("MOU") between FRC and the Ministry of Finance of the People's Republic of China ("MoF") in May 2019 had helped FRC's access to audit working papers located in the Mainland for conducting its investigation work.

63. ACEO/FRC advised that FRC had continued its liaison with MoF after the signing of MOU. While MoF had obtained certain audit working papers located in the Mainland, its work was affected by the outbreak of COVID-19. It was envisaged that the process of obtaining audit working papers would resume normal when COVID-19 outbreak subsided.

International collaboration of the Financial Reporting Council

64. Mr Kenneth LEUNG enquired about FRC's progress in applying for the membership of the International Forum of Independent Audit Regulators ("IFIAR"), and its liaison with EU in pursuing the European Commission ("EC") adequacy status.

65. C/FRC said that FRC had formally submitted its membership application to IFIAR in November 2019, and was in close liaison with the IFIAR Secretariat to follow up on the matter. As regards the pursuit of EC adequacy status, C/FRC and DS(FS)3 said that Hong Kong had discussed the matter with the EU during the recent EU-Hong Kong Annual Structured Dialogue. The Government would follow up the matter with the EU through the Hong Kong Economic and Trade Office in Brussels.

Action

VIII Any other business

66. There being no other business, the meeting ended at 12:25 pm.

Council Business Division 1
Legislative Council Secretariat
20 July 2020