

立法會
Legislative Council

LC Paper No. CB(1)953/19-20
(These minutes have been seen
by the Administration)

Ref : CB1/PL/FA

Panel on Financial Affairs

**Minutes of meeting held on
Monday, 1 June 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 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

Public officers attending : Agenda Item IV

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

Mr Andrew AU Sik-hung, JP
Government Economist

Mr Willy TSOI
Administrative Assistant to Financial Secretary

Agenda Item V

Mr Sam HUI
Deputy Secretary for Financial Services and the
Treasury (Financial Services)

Mr Chi-wang TE
Principal Assistant Secretary for Financial Services and
the Treasury (Financial Services)

Mr Charles NG
Associate Director-General of Investment Promotion
InvestHK

Mr King LEUNG
Head of Fintech
InvestHK

Mr Colin POU
Executive Director (Financial Infrastructure)
Hong Kong Monetary Authority

Attendance by invitation : Agenda Item V

Ms Clara CHIU
Director of Licensing and Head of Fintech Unit,
Intermediaries
Securities and Futures Commission

Mr Tony CHAN
Associate Director (Policy and Development)
Insurance Authority

Mr Peter YAN
Chief Executive Officer
Hong Kong Cyberport Management Company Limited

Mr Eric CHAN
Chief Public Mission Officer
Hong Kong Cyberport Management Company Limited

Mr Albert WONG
Chief Executive Officer
Hong Kong Science and Technology Parks

Mr George TEE
Chief Technology Officer
Hong Kong Science and Technology Parks

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)629/19-20 — Minutes of the meeting on
2 March 2020)

The minutes of the meeting held on 2 March 2020 were confirmed.

II Information papers issued since the regular meeting on 4 May 2020

(LC Paper No. CB(1)595/19-20(01) — Hong Kong Monetary
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- LC Paper No. CB(1)635/19-20(01) — Letter dated 4 May 2020 from Chinese Asset Management Association of Hong Kong (Chinese version only)
- LC Paper No. CB(1)635/19-20(02) — Letter dated 13 May 2020 from Hong Kong Securities & Futures Employees Union (Chinese version only)
- LC Paper No. CB(1)642/19-20(01) — First Quarter Economic Report 2020 and the press release
- LC Paper No. CB(1)691/19-20(01) — Process Review Panel for the Financial Reporting Council 2019 Annual Report
- LC Paper No. CB(1)695/19-20(01) — Administration's paper on update on the implementation of the eMPF Platform)

2. Members noted the information papers issued since the regular meeting held on 4 May 2020.

III Date of next meeting and items for discussion

- (LC Paper No. CB(1)674/19-20(01) — List of outstanding items for discussion
- LC Paper No. CB(1)674/19-20(02) — List of follow-up actions)

3. Members were informed that the Administration had not proposed items for discussion at the regular meeting scheduled for 6 July 2020; and if no members suggested discussion items for the meeting, the meeting on 6 July 2020 would be cancelled.

4. Mr WU Chi-wai expressed concern that the national security legislation to be enacted by the Standing Committee of the National People's Congress for Hong Kong ("the proposed NSL") and the possible sanctions to be imposed on Hong Kong by the United States ("US") as a result would have serious impact on

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the Hong Kong economy and Hong Kong's status as an international financial centre. He considered that the Panel should monitor the relevant developments, and hold meeting to discuss related issues if necessary. Ms Alice MAK was of the view that even if the regular meeting in July 2020 was cancelled, the Panel could arrange a special meeting if members had issues to discuss.

5. The Chairman said that if members did not propose items for discussion at the regular meeting on 6 July 2020 later, he would consider cancelling the meeting.

(Post-meeting note: Members were informed vide LC Paper No. CB(1)814/19-20 issued on 29 June 2020 on the cancellation of the regular meeting scheduled for 6 July 2020.)

IV Briefing by the Financial Secretary on Hong Kong's latest overall economic situation

(LC Paper No. CB(1)674/19-20(03) — Administration's paper on Hong Kong's recent economic situation and near-term outlook)

Briefing by the Administration

6. At the invitation of the Chairman, the Financial Secretary ("FS") briefed members on Hong Kong's latest overall economic situation and short-term economic forecasts. FS said that since the beginning of 2020, the threat of the coronavirus disease-2019 ("COVID-19") had seriously disrupted a wide range of local economic activities and supply chains in the Asian region. The economy contracted sharply by 8.9% in the first quarter from a year earlier, and by 5.3% on a seasonally adjusted quarter-to-quarter comparison. Both rates of decline were the steepest for a single quarter on record. Considering the sharp economic contraction in the first quarter, the high uncertainties surrounding the development of the epidemic which had evolved into a pandemic in March 2020, the austere global economic situation, yet against the cushioning effect of a series of relief measures of unprecedented scale rolled out by the Administration, the real Gross Domestic Product ("GDP") growth forecast for 2020 as a whole was revised downwards to the range between -4% and -7% at end of April 2020.

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(Post-meeting note: The press release containing the speaking note of FS (Chinese version only) was issued to members vide LC Paper No. CB(1)708/19-20(01) on 1 June 2020.)

7. The Government Economist gave a powerpoint presentation on Hong Kong's recent economic situation and near-term economic outlook.

(Post-meeting note: The powerpoint presentation materials (LC Paper No. CB(1)706/19-20(01)) were issued to members vide Lotus Notes email on 1 June 2020.)

Discussion

Impact of the proposed National Security Law

8. Mr CHAN Chun-ying noted that FS, the Secretary for Financial Services and the Treasury, and the Chief Executive of the Hong Kong Monetary Authority ("HKMA") had dispelled rumours relating to possible sanctions by the US Government in light of the proposed NSL, in particular the possible impact on the Linked Exchange Rate System ("LERS") and the free flow of capital. He enquired about the Administration's further actions to refute such rumours.

9. Mr CHAN Kin-por expressed concern on the spread of misleading information relating to LERS such as the need to obtain US' consent for its implementation in Hong Kong, and stressed the need for the Administration to take prompt actions to refute such rumours. He sought the Administration's explanation regarding the continuous implementation of LERS in Hong Kong.

10. Mr Holden CHOW pointed out that the proposed NSL would help restore social and political stability in Hong Kong, which was pivotal to people's livelihood and recovery of the Hong Kong economy, and would be conducive to maintaining a favorable business and investment environment, which in turn would help consolidate Hong Kong's position as an international financial centre. Mr CHOW further enquired how the Administration would defend LERS.

11. Mr Kenneth LEUNG considered that the Administration should give an open commitment to maintain LERS. He enquired about concrete actions the Administration would take to defend LERS, and the amount of liquid assets held in Hong Kong's foreign exchange reserves.

12. As regards capital and foreign exchange controls, FS highlighted to Members that Article 112 of the Basic Law stipulated that no foreign exchange

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control policies shall be applied in the Hong Kong Special Administrative Region, the Hong Kong dollar shall be freely convertible, markets for foreign exchange, gold, securities, futures and the like shall continue, and the free flow of capital within, into and out of Hong Kong shall be safeguarded. That was the case and would continue to remain the case in Hong Kong. Indeed, HKMA and the banking sector also did not observe any noticeable capital outflow from Hong Kong recently.

13. As for LERS, FS said that it was introduced in Hong Kong in 1983 while the US-Hong Kong Policy Act was enacted by the US Congress in 1992. Therefore, LERS had no correlation with the US-Hong Kong Policy Act, and the continuous implementation of LERS in Hong Kong was not subject to US' consent. LERS had proven to be a strong anchor amid countless challenges over time, and the mechanism was underpinned by Hong Kong's strong foreign reserves position of over US\$440 billion, which was more than two times of Hong Kong's monetary base. Moreover, the Hong Kong banking system remained healthy and strong, with the capital adequacy ratio and liquidity ratio stood at about 20% and 160% respectively vis-à-vis the global standard of 8% and requirement of 100%. Also the classified loan ratio stayed at a low level of 0.6% which reflected a very high quality of the banking asset. The total level of deposits in the Hong Kong banking system was over HK\$13 trillion, among which close to HK\$7 trillion was Hong Kong dollar deposits. Meanwhile, Hong Kong dollar loans and advances to customers amounted to some HK\$6.1 trillion. FS further stressed that the Administration and financial regulators had been closely monitoring the operation in financial markets (including reviewing and analyzing the daily transactions and short-selling positions of stocks, futures, derivatives and options, as well as transactions in foreign exchange) and had not observed any irregularities up to the moment. Furthermore, the financial regulators would endeavour to ensure the dissemination of accurate information by banks and brokerage firms, and would continue to take regular and special supervisory checks on their regulatees. In addition, the HKMA had put in place a swap arrangement with the People's Bank of China ("PBoC"), which was a one-way arrangement allowing HKMA to swap in US dollar from PBoC using Hong Kong dollar if any such need arise. With the support of the Central Government and Hong Kong's own financial resources, the Administration was determined and had the confidence and capability to defend LERS.

14. Mr SHIU Ka-fai, Mr Holden CHOW, Mrs Regina IP and the Chairman opined that the possible sanction by the US Government of charging additional tariff on goods manufactured in Hong Kong and exported to US would have limited impact on Hong Kong given that US had huge economic interests in

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Hong Kong (including the earnings from trade surplus), and that most Hong Kong manufacturers had set up their production lines in the Mainland. Mr SHIU and Mr CHOW asked if the Administration had assessed the possible impacts of US' sanctions on Hong Kong. Mrs IP further enquired if the Administration would conduct econometric studies on such impacts, particularly the impacts on the financial services sector in Hong Kong. The Chairman expressed concern about the onset of a financial and/or monetary war between China and US, and stressed the need for the Administration to ensure the financial stability in Hong Kong including the security and stability of the trading and settlement systems in the financial markets.

15. Mr Jeffrey LAM expressed support for the proposed NSL in safeguarding national security and restoring stability in Hong Kong. He opined that NSL would only target an extremely small minority engaging in illegal or criminal acts or activities. He pointed out that only groups and individuals colluding with foreign forces in interfering with Hong Kong's affairs would oppose to the proposed NSL.

16. FS said that cancellation of Hong Kong's special status as a separate customs and travel territory and imposition of additional tariff on Hong Kong manufactured goods exported to US were possible measures the US Government had claimed to impose on Hong Kong. He considered that such measures would have limited impact on Hong Kong. Manufacturing only accounted for 1% of Hong Kong's GDP. The total value of Hong Kong manufactured goods exported to US in 2019 was about HK\$3.7 billion and the amount only accounted for less than 0.1% of Hong Kong's total value of exports in that year. On the other hand, it was worth noting that US had very substantial business interests in Hong Kong. On the trade front, over the past decade, US had a positive trade balance with Hong Kong of about US\$300 billion, and Hong Kong was US' third largest market for wine exports and fourth largest market for beef and beef products. Besides, US had very strong professional and financial services representation in Hong Kong that generated substantial economic benefits. Any restriction measures by the US would at the same time harm the interests of US' enterprises in Hong Kong. Though it would be inappropriate to speculate on the possible actions to be taken by the US Government, the Administration would keep in view the latest development including the sanctions imposed by the US Government on other countries and economies, and take precautionary actions when necessary. As regards maintaining Hong Kong's financial stability, FS took note of the Chairman's views on the importance of ensuring smooth operation of the securities market in Hong Kong and protecting the security of the trading and settlement systems.

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17. While Mr WU Chi-wai noted that the Administration was relatively optimistic about the possible adverse impacts of US' sanctions on Hong Kong, he pointed out that there was an increasing number of Hong Kong people applying for British National (Overseas) Passports after the National People's Congress's decision to introduce NSL in Hong Kong. He sought the Administration's view on the phenomenon and its possible impact on the Hong Kong economy and community. Moreover, he sought the Administration's view on the recent comments made by the former Chief Executive, Mr LEUNG Chun-ying, urging account holders of the Hongkong and Shanghai Banking Corporation Limited ("HSBC"), especially Hong Kong officials and delegates to Mainland parliamentary bodies, to be cautious because HSBC had yet to express its position on the proposed NSL. He was concerned about the implication of such comments on Hong Kong's reputation as an international financial centre.

18. Mr CHU Hoi-dick queried why HSBC and foreign banks in Hong Kong were required to express their positions on the proposed NSL. He noted from Ming Pao's recent opinion poll that 63.7% of the interviewees considered the proposed NSL would affect Hong Kong's status as an international financial centre. Also, some people had serious concern about the proposed NSL imposing restrictions on their freedom of speech and expression, and hence they might resort to more drastic actions in response or consider leaving Hong Kong.

19. FS said that there had been widespread discussions in the society on the proposed NSL over the past week. The overall reaction of the business and banking sectors was positive, and both sectors had shown understanding about the background as well as the importance of safeguarding national security, restoring public safety and social stability which was crucial to maintaining a good business and living environment in Hong Kong, as well as consolidating Hong Kong's position as an international financial centre. FS stressed that the implementation of NSL was essential in the midst of persistently heightened economic, trade and political relations between China and US, and would not undermine Hong Kong's status as an international financial centre. Meanwhile, it was understandable that many were concerned about the details of the legislation, which were yet to be announced, and that it would take time for the local and international communities to understand the details. While this might bring some uncertainties to the local economy, FS stressed that upon the enactment of NSL, Hong Kong people could still exercise their legitimate rights and enjoy free flow of information as well as freedom of speech. The Central Government would continue to support the economic and trade development of Hong Kong as well as cultural exchanges between Hong Kong and other jurisdictions. As Hong Kong was a free and open society, it was normal to see people migrating to and emigrating from Hong Kong.

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20. Pointing out that the revised real GDP growth forecast of -4% to -7% for 2020 was made in April 2020 and had not taken into account the effect of possible sanctions by the US Government arising from the proposed NSL, Mr CHAN Chun-ying asked if the Administration would consider reviewing the economic forecasts for 2020.

21. FS advised that when updating the real GDP growth forecast at end of April 2020, the Administration had already taken into consideration the uncertainties surrounding the development of the COVID-19 pandemic as well as the austere global economic situation. The Administration considered it prudent to maintain the current forecast of -4% to -7% real GDP growth rate for 2020 in the meantime, but would keep in view the latest development on the proposed NSL and actions that might be taken by the US Government.

Measures to revive the local economy and support enterprises to combat the coronavirus disease-2019 pandemic

22. Mr SHIU Ka-fai said that the retail and catering businesses had been hard hit by the COVID-19 pandemic and the social distancing measures. Given the travel restrictions and border control measures implemented worldwide which had brought tourism to a standstill, Mr SHIU called on the Administration to introduce measures to boost local consumption, particularly riding on the \$10,000 disbursed to Hong Kong residents under the Cash Payout Scheme ("CPS"). FS took note of Mr SHIU's views.

23. Ir Dr LO Wai-kwok welcomed the series of relief measures implemented by the Administration including the two rounds of measures under the Anti-epidemic Fund ("AEF") and the relief package in the 2020-2021 Budget in response to the extremely austere economic environment. In view of the surging unemployment and underemployment rates in the construction sector, Ir Dr LO urged the Administration to develop measures to revive the economy and expedite the implementation of works projects. Noting that the latest manufacturing Purchasing Manager's Index ("PMI") and services PMI in the Mainland had shown signs of improvement, Ir Dr LO called on the Administration to introduce measures to facilitate Hong Kong enterprises in capitalizing the opportunities arising from the development of the Guangdong-Hong Kong-Macao Greater Bay Area ("the Greater Bay Area") and the latest amendments to the Agreement on Trade in Services of the Mainland and Hong Kong Closer Economic Partnership Arrangement, in particular the further opening up of the services market in the Mainland.

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24. Mr Holden CHOW, Mr Jeffrey LAM and the Chairman expressed concern that the local economy was hard hit by the social incidents involving violent acts and the COVID-19 pandemic resulting in sharp contraction in real GDP and surge in unemployment. Mr CHOW and Mr LAM enquired about the measures to be taken by the Administration to revive the economy. The Chairman welcomed the Administration's relief measures which had helped various sectors, including the securities industry, tide over the difficult times.

25. Mr Martin LIAO noted that the COVID-19 pandemic had seriously disrupted a wide range of trading activities and supply chains in the Asian region including Hong Kong. He asked if the Administration had information on the enterprises in the trading and supply chain management sectors being affected, and whether the Administration would consider introducing specific support measures targeting the sectors in addition to the two rounds of measures under AEF.

26. FS advised that a series of relief measures of unprecedented scale had been rolled out in order to safeguard jobs, support enterprises, stabilize the economy and protect people's livelihood. The two rounds of measures under AEF and the relief package under the 2020-2021 Budget involved some \$290 billion in total. The first round of measures under AEF covered a one-off subsidy for construction workers registered with the Construction Industry Council. The second-round of AEF included the \$81 billion Employment Support Scheme, which aimed to preserve employment and assist the self-employed irrespective of sectors with a view to providing extra relief to sectors hard hit by the pandemic and paving the way for post-pandemic economic recovery. As regards opportunities in the Mainland, FS said that PBoC and the relevant financial regulators had recently issued an opinion with 30 specific measures to spur cross-border financial services, transactions and investments with a view to promoting financial opening and innovation as well as deepening the financial cooperation between Hong Kong, Macau and nine Guangdong provincial cities. In addition, in view of the tense economic and political relations between China and the US, many Mainland companies listed in the US were considering returning to the Hong Kong stock market for listing. The Administration would continue to facilitate Hong Kong enterprises and professional sectors to tap into business opportunities in the Mainland.

27. Mr CHAN Chun-ying enquired if the Administration would consider implementing an economic reform making reference to the reform in South Korea after the financial tsunami in 2008 in order to create more employment opportunities for local professionals and workers. FS responded that the

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Administration would continue to promote and facilitate diversification of the Hong Kong economy.

28. Mr WU Chi-wai noted that owing to the trade conflict between China and US, US and other countries such as Japan were providing incentives to encourage enterprises and manufacturers to relocate their production lines from China back to their home countries. He expressed concern on the challenges brought by the China-US trade conflict and possible subsequent economic restructuring for Hong Kong.

29. Mr Martin LIAO pointed out that enterprises were considering relocating their production lines away from the Mainland to other emerging Asian economies. He enquired about Trade Development Council's ("TDC") policies and measures to assist Hong Kong enterprises to cope with the challenges brought by the possible restructuring in the global supply chain.

30. FS said that the Administration and TDC would render necessary assistance to Hong Kong enterprises to help them tide over the challenges ahead. For instance, TDC had been providing Hong Kong manufacturers wishing to relocate their operations from the Mainland with consultation services. TDC, in collaboration with the Commerce and Economic Development Bureau, had also been organizing missions for Hong Kong enterprises and manufacturers to various regions with a view to enhancing their understanding of the local economic policies and development opportunities. FS added that it might not be feasible for enterprises to relocate their production lines away from the Mainland completely in a short period of time as they still had to rely on the equipment and facilities as well as talents in the Mainland for their production. It was more likely that enterprises would consider gradually relocating part of their production processes to other emerging Asian economies, while continue to keep the Mainland as their major production bases.

31. With a budget deficit forecast for 2020-2021, Mr Kenneth LEUNG asked whether Administration would consider adjusting the forecast taking into account the latest economic situation, including the increasing expenditure of and reducing revenue for the Government amid an economic downturn.

32. FS advised that the Administration had forecasted a fiscal deficit of over HK\$280 billion for 2020-2021. As revenue from taxes and land sales were the major sources of Government income and the outturn of which would only become clearer towards the end of each financial year, it might not be useful to adjust the budget forecast in the coming few months.

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33. Mrs Regina IP referred to the report published by the Independent Police Complaints Council ("IPCC") in May 2020 on the public order events arising from the Fugitive Offenders Bill since June 2019 and the police actions in response, which recommended that the Administration should conduct an econometric study to help policy making in the future and public understanding of the long term damage that the violent protests over the past months would bring to the community. She enquired if the Administration had plans to conduct the study.

34. FS responded that the Office of the Government Economist had published in January 2020 an article on the possible economic losses caused by the recent social incidents. The article provided crude estimates on the possible economic losses arising from the additional decline in businesses of the retail, restaurant and accommodation sectors as well as that in other tourists' consumption expenditure due to the social incidents involving violent acts. The Administration would consider if an econometric study should be conducted in view of IPCC's recommendation.

V Development of Financial Technologies in Hong Kong

(LC Paper No. CB(1)674/19-20(04) — Administration's paper on "Development of financial technologies"

LC Paper No. CB(1)674/19-20(05) — Updated background brief on development of financial technologies in Hong Kong prepared by the Legislative Council Secretariat)

Briefing by the Administration and relevant parties

35. At the invitation of the Chairman, Deputy Secretary for Financial Services and the Treasury (Financial Services) ("DS(FS)) updated the Panel with the aid of a powerpoint presentation on the development of the financial technologies ("Fintech") landscape in Hong Kong and the measures to promote and facilitate Fintech development. Associate Director-General of Investment Promotion, InvestHK, Chief Executive Officer, Hong Kong Cyberport Management Company Limited and Chief Executive Officer, Hong Kong Science and Technology Parks highlighted the relevant initiatives implemented by InvestHK, the Hong Kong Cyberport Management Company Limited

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("Cyberport") and the Hong Kong Science and Technology Parks in facilitating and promoting Fintech development in Hong Kong.

(Post-meeting note: The powerpoint presentation materials (LC Paper No. CB(1)706/19-20(02)) were issued to Members vide Lotus Notes e-mail on 1 June 2020.)

Discussion

Challenges in the development of Fintech

36. Referring to the statement made by the Secretary of State of the US to the US Congress on 27 May 2020 that Hong Kong did not continue to warrant treatment under the US laws in the same manner as the laws were applied to Hong Kong before July 1997 because Hong Kong no longer maintained a high degree of autonomy from China, Mr CHAN Chun-ying was concerned that Hong Kong would face difficulties in the import of high-tech products from the US vital for Fintech development. He enquired whether the Administration had assessed if Hong Kong could obtain suitable substitutes from other jurisdictions. Ir Dr LO Wai-kwok also expressed concern about the potential adverse impacts arising from the recent tension between China and the US on the development of Fintech in Hong Kong, and enquired whether the Administration had sought the industry's views on the matter.

37. DS(FS) responded that the Administration would closely monitor the development on the international trade front. Generally speaking, Fintech companies and start-ups tended to apply existing technologies like artificial intelligence and blockchain in developing their products and solutions. As existing technologies should have multiple sources, it was not envisaged that Hong Kong's Fintech development would be significantly affected as a result. He added that Fintech development was mainly driven by market demand, and substantial Fintech adoption was already witnessed in the private sector in recent years.

38. Mr Charles Peter MOK was concerned that dim global economic outlook and escalating tension between China and the US would create financing difficulties of some local start-ups. DS(FS) responded that the Administration was mindful of the situation. AEF launched by the Government had included a number of measures to provide financial assistance or relief to enterprises which covered eligible Fintech companies and start-ups.

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39. In response to Ir Dr LO's enquiry about measures taken by the Administration to enhance cybersecurity in developing Fintech, DS(FS) stressed that the Administration, as well as financial regulators, attached great importance to strengthening cybersecurity in Fintech development. In fact, cybersecurity was a new business opportunity in itself.

Promoting Fintech development in Hong Kong

40. Mr Charles Peter MOK called on the Administration to step up its efforts in taking the lead to adopt Fintech in various government operations and processes (including CPS, the Individual-based Work Incentive Transport Subsidy Scheme and relevant plans under the SME Financing Guarantee Scheme administered by the Hong Kong Mortgage Corporation). He further opined that the Financial Services and the Treasury Bureau should take a more active role in co-ordinating the work of relevant bureaux/departments ("B/Ds") in promoting the use of new technology products. Mr Holden CHOW echoed that the Administration should apply Fintech in CPS, which would expedite the process in disbursing money to the public.

41. DS(FS) advised that the Administration was aware of the importance in taking lead in adopting new technology solutions, and would continue to promote new payment channels (e.g. e-wallets) for various government fees and charges. For instance, from November 2019 onwards members of the public could settle taxes, rates and water charges bills through the Faster Payment System ("FPS"). On the use of Fintech in CPS, DS(FS) explained that as the Administration did not hold information on the bank accounts of members of the public, registration was a necessary first step. That said, the Administration would examine ways to enhance the efficiency of similar schemes in the future including promoting the greater use of Fintech.

42. Mrs Regina IP stressed that the Administration and HKMA should expand the scope of FPS and e-wallets in Hong Kong (e.g. to facilitate cross-border payments and CPS). She also enquired whether the Administration had any plans to launch central e-wallets.

43. DS(FS) said that operators of stored value facilities in Hong Kong were actively expanding service and customer reach to various sectors. For instance, at least two e-wallet operators had extended the use of their Hong Kong e-wallets to facilitate retail payment in the Mainland. It was noted from a recent survey conducted by Visa that the Hong Kong people generally had a higher preference using traditional payment methods including cash, Octopus cards and credit cards to e-wallets which had explained the gradual pace in the adoption of new

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electronic payment methods at the retail level in Hong Kong. DS(FS) also advised that while the Administration did not have any plan to develop central e-wallets currently, FPS itself served as a central payment platform to connect different stored valued facilities and banks. For instance, the public could now settle the bills issued by some Departments through mobile banking apps and e-wallets that supported FPS payment. The Administration would continue to promote the use of new electronic payment methods, and was planning to accept payments through FPS at counters and self-help kiosks of certain Departments on a pilot basis.

44. Referring to PBoC's plan of launching the Digital Currency Electronic Payment ("DCEP") (a type of Central Bank Digital Currency ("CBDC")), Mr CHAN Chun-ying enquired about the progress of developing CBDC in Hong Kong.

45. Executive Director (Financial Infrastructure), Hong Kong Monetary Authority responded that DCEP, which was to be introduced at the retail level in the Mainland, was still at a trial stage. HKMA would focus on the application of CBDC for cross-border payments, and was conducting Project Inthanon-LionRock with the Bank of Thailand in taking forward the development.

Regulation for virtual assets

46. Mr Holden CHOW noted that the international community had not yet reached consensus on the regulation of virtual assets including digital tokens, and enquired about the latest regulatory framework for such assets in Hong Kong.

47. Director of Licensing and Head of Fintech Unit, Intermediaries, Securities and Futures Commission ("D/SFC") advised that SFC issued licensing and supervisory frameworks for virtual asset funds and trading platforms in November 2018 and November 2019 respectively. SFC had so far granted a licence to a company managing virtual asset funds and was currently processing licensing applications from a number of interested trading platforms.

Fintech development in the insurance and securities sectors

48. Mr CHAN Kin-por declared that he was a Director and the Chief Executive of the Well Link Insurance Group Holdings Ltd. He enquired about the Insurance Authority's ("IA") progress in adopting Regtech with a view to reducing the compliance cost of the insurance industry. He also enquired about how IA would assist small and medium-sized insurance companies which had

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limited resources to conduct pilot trials of Fintech initiatives in IA's regulatory sandbox.

49. Associate Director (Policy and Development), Insurance Authority ("AD/IA") said that IA had taken a number of measures including launching a regulatory sandbox to promote the development of Fintech in the insurance industry. In response to the outbreak of COVID-2019, IA introduced temporary facilitative measures in February 2020, allowing insurance companies and intermediaries to sell Qualifying Deferred Annuity Policy ("QDAP") and Voluntary Health Insurance Scheme ("VHIS") products online provided that they had duly performed upfront disclosure of important information with their clients, and extended the cooling-off period for insurance products from 21 to 30 calendar days. In March 2020, IA rolled out the second phase of temporary facilitative measures extending the eligible insurance products to cover additional protection type products on top of QDAP and VHIS until end-June 2020. Furthermore, IA introduced a new electronic Continuing Professional Development ("CPD") regime that would facilitate insurance intermediaries to fulfill their CPD requirements through e-learning activities. Regarding the need of small and medium-sized life insurance companies, AD/IA pointed out that the Hong Kong Federation of Insurers was contemplating the establishment of a virtual onboarding platform for such companies. Pilot trials of the platform might be conducted in IA's regulatory sandbox.

50. The Chairman expressed concern about the slow progress in taking forward the remote onboarding initiatives (including the use of online client identity verification and biometric authentication) in the securities industry, which would help the local securities industry to promote business in the Mainland, particularly the Greater Bay Area. He pointed out that the local securities industry had been pursuing the initiatives for some years and called on the Administration and regulators to expedite their liaison with the Mainland counterparts on the matter and formulate concrete measures including developing relevant software to facilitate the industry in adopting the new technology.

51. DS(FS) stressed that the Administration attached importance to the matter, and an obstacle was the different regulatory regimes of Hong Kong and the Mainland. D/SFC added that SFC issued on 28 June 2019 a circular on remote onboarding of overseas individual clients which covered, inter alia, the use of biometric data in passports for identity authentication.

(At 12:58 pm, the Chairman ordered that the meeting be extended for 15 minutes to 1:15 pm to allow sufficient time for discussion.)

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VI Any other business

52. There being no other business, the meeting ended at 1:16 pm.

Council Business Division 1
Legislative Council Secretariat
1 September 2020