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Legislative Council

LC Paper No. CB(1)1024/20-21
(These minutes have been seen by the Administration)

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Panel on Financial Affairs

Minutes of meeting held on
Friday, 9 April 2021, at 10:45 am
in Conference Room 2 of the Legislative Council Complex

Members present	**:**	Hon Jeffrey LAM Kin-fung, GBS, JP (Chairman) Hon WONG Ting-kwong, GBS, JP (Deputy Chairman) Hon Abraham SHEK Lai-him, 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 MA Fung-kwok, GBS, JP Ir Dr Hon LO Wai-kwok, SBS, MH, JP Dr Hon Junius HO Kwan-yiu, JP Hon Holden CHOW Ho-ding Hon SHIU Ka-fai, JP Hon CHAN Chun-ying, JP Hon LUK Chung-hung, JP Hon Kenneth LAU Ip-keung, BBS, MH, JP Dr Hon CHENG Chung-tai
Members absent	**:**	Hon Christopher CHEUNG Wah-fung, SBS, JP Hon CHEUNG Kwok-kwan, JP
Members attending	**:**	Hon Paul TSE Wai-chun, JP Hon Michael TIEN Puk-sun, BBS, JP

Public officers attending : Agenda Item IV

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

Miss Cheryl CHOW
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services) Mandatory Provident Fund Reform

Agenda Item V

Ms CHAN Wing Shiu, May, JP
Deputy Secretary for Financial Services and the Treasury (Financial Services)1

Ms CHEUNG Yi, Eureka
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)5

Mr YIP Wan Lung
Assistant Commissioner of Police (Crime)

Ms LAM Man Han
Chief Superintendent of Police (Narcotics Bureau)

Mr SIN Chor-ka
Chief Inspector of Police (Money Laundering and Terrorist Financing Risk Assessment Unit) (Narcotics Bureau)

Agenda Item VI

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

Ms CHEUNG Yi, Eureka
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)5

Mr LAU Ying Pan, Edmond, JP
Deputy Chief Executive
Hong Kong Monetary Authority

Mr YUEN Chi Choi, Samson
Head (Currency and Settlement)
Hong Kong Monetary Authority

Agenda Item VII

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

Ms LAU Li Yan, Candy
Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)3

Mrs MA CHOW Pui Fun, Dorothy
Assistant Director (Cross-Boundary and International)
Environmental Protection Department

Mr LAU Ying Pan, Edmond, JP
Deputy Chief Executive
Hong Kong Monetary Authority

Mr HUI Wai Chi, Kenneth
Head, Market Development Division
Hong Kong Monetary Authority

Agenda Item VIII

Mr Christopher HUI, JP
Secretary for Financial Services and the Treasury

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

Ms Kitty TSUI
Acting Registrar of Companies

Ms Marianna YU
Registry Manager
Companies Registry

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)674/20-21 — Minutes of meeting on 4 January 2021)

The minutes of the meeting held on 4 January 2021 were confirmed.

II Information papers issued since the meeting on 1 March 2021

(LC Paper No. CB(1)690/20-21(01) — Administration's paper on "Review of the Minimum and Maximum Relevant Income Levels for Mandatory Provident Fund Contributions"

LC Paper No. CB(1)727/20-21(01) — Letter dated 23 March 2021 from Hon Christopher CHEUNG on issues relating to the development of special purpose acquisition companies in Hong Kong

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LC Paper No. CB(1)753/20-21(01) — Administration's paper on "Electricity Charges Subsidy")

2. Members noted the information papers issued since the regular meeting held on 1 March 2021.

III Date of next meeting and items for discussion

(LC Paper No. CB(1)737/20-21(01) — List of outstanding items for discussion

LC Paper No. CB(1)737/20-21(02) — List of follow-up actions)

3. Members agreed to discuss the following items proposed by the Administration at the regular meeting scheduled for 3 May 2021, from 10:00 am to 12:10 pm :

(a) Briefing on the work of Hong Kong Monetary Authority ("HKMA");

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

(c) Regulation of licensed money lenders.

(At the start, the meeting was chaired by the Deputy Chairman; the Chairman took over the chair at 10:50 am.)

IV Proposed retention of a supernumerary directorate post of Administrative Officer Staff Grade C

(LC Paper No. CB(1)737/20-21(03) — Administration's paper on "Proposed Retention of a Supernumerary Directorate Post of Administrative Officer Staff Grade C")

Briefing by the Administration

4. At the invitation of the Chairman, Deputy Secretary for Financial Services and the Treasury (Financial Services)2 ("DS(FS)2") briefed members on the Administration's proposal to retain the supernumerary Administrative Officer

Staff Grade C (D2) post of Principal Assistant Secretary for Financial Services and the Treasury (Financial Services) Mandatory Provident Fund Reform ("PAS(FS)MPF Reform") for three years from 22 June 2021 to 21 June 2024, or with immediate effect upon approval by the Finance Committee ("FC"), whichever was later, in order to continue to provide necessary policy input and support to various reform measures of the Mandatory Provident Fund ("MPF") System, in particular the eMPF Project.

5. DS(FS)2 said that following the award of contract to develop, operate and maintain the eMPF Platform in January 2021 and the establishment of the eMPF Platform Company ("the Company") (a wholly-owned subsidiary of the Mandatory Provident Fund Schemes Authority ("MPFA")) in March 2021, the coming three years from June 2021 would be critical to the success of the eMPF Project. PAS(FS)MPF Reform would be tasked to take forward the eMPF Project, covering areas such as policy and legislative work, monitoring the project progress, providing policy support to MPFA, maintaining liaison with the industry, ensuring delivery of the policy objective to achieve cost savings, and monitoring the operation of the Company. Moreover, PAS(FS)MPF Reform would be responsible for working out with MPFA on the eligibility and implementation details of the Government's initiative to pay 5% MPF contributions for low-income persons as announced by the Chief Executive in January 2020, and policy matters relating to the Occupational Retirement Schemes Ordinance (Cap. 426). After seeking the Panel's view, the Administration would seek endorsement of the Establishment Subcommittee ("ESC") and approval of FC in due course.

Discussion

6. Mr CHAN Kin-por expressed support for the staffing proposal in particular to take forward the eMPF Project which was important in creating room for reducing fees of MPF schemes. With the implementation of the eMPF Platform and the wider use of information technologies, he was of the view that the Administration and MPFA should further streamline the regulatory and operating processes of MPF schemes so that the administration and compliance costs of MPF trustees could be reduced. He stressed that the MPF industry was supportive of the eMPF Project, and urged the Administration and MPFA to continue to maintain close dialogue with the industry in taking forward the Project, particularly in determining the administrative functions to be taken over by the eMPF Platform and the fees charged by the eMPF Platform.

7. DS(FS)2 said that the Administration and MPFA had introduced a number of policies and measures to enhance the operational efficiency of the MPF System since its inception in 2000. The eMPF Project would be a major reform

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initiative to increase operational efficiency and improve cost effectiveness of the scheme administration processes of the MPF System, by providing a common electronic platform to assist MPF trustees in discharging their scheme administration duties through standardization, streamlining and automation of the administration processes. With enhanced efficiency, there would be room to reduce costs of administering the MPF System, including regulatory costs and compliance costs of trustees. It was envisaged that about 30% of the scheme administration processes could be simplified or reduced with the implementation of the eMPF Platform. The streamlined MPF scheme administration work flow and reduced regulatory burden on trustees as a result of the implementation of the eMPF Platform would be reflected in the upcoming second-stage legislative amendments. The Administration and MPFA would continue to engage the industry in taking forward the eMPF Project.

8. Mr Holden CHOW noted that according to the latest projection, the implementation of the eMPF Project could generate cumulative quantifiable cost savings to scheme members in a range of $30 billion to $40 billion in ten years. He enquired how the Administration and MPFA could ensure MPF trustees would reduce their fees and charges so that scheme members could genuinely benefit from the cost savings.

9. Mr LUK Chung-hung commented that the labour sector had expressed concern about the slow progress of the eMPF Project, and urged that PAS(FS)MPF Reform must expedite the hardware and software development of the eMPF Platform with a view to ensuring the full operation of the Platform before 2025, and enabling the abolition of the arrangement of offsetting severance payments and long service payments against MPF accrued benefits to commence as soon as possible which would hinge on the full operation of the eMPF Platform. As MPF trustees would start getting onboard to the eMPF Platform in batches from 2023, Mr LUK enquired about the Administration's or MPFA's actions if MPF trustees failed to migrate to the eMPF Platform according to the development plan. On the cost savings from the implementation of the eMPF Platform, Mr LUK sought information on how the Administration and MPFA would ensure scheme members could benefit ultimately, and asked whether they would consider setting a cap on fees of MPF funds in order to ensure that trustees, after reducing the administration fees with the implementation of the eMPF Platform, would not raise other fees and charges (e.g. management fees) on scheme members in the future. To better protect the interest of MPF scheme members and to further drive down fees and charges, Mr LUK further suggested that the Administration should consider further lowering the fee caps of the two constituent funds under the Default Investment Strategy ("DIS") and providing an investment fund with stable investment return to be managed by the Government or HKMA as an alternative investment for scheme members.

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10. The Chairman stressed that the implementation of the eMPF Platform would enhance operational efficiency of the MPF System, thereby creating room for fee reduction for the benefit of scheme members. He called on PAS(FS)MPF Reform to closely monitor the progress of the eMPF Project to ensure its timely implementation and a smooth onboarding of trustees to the eMPF Platform.

11. DS(FS)2 pointed out that currently, there were 27 MPF schemes operated by 14 trustees under a decentralized landscape, involving 12 scheme administration platforms with different standards. Trustees' onboarding to the eMPF Platform would be a mega exercise of data standardization, cleansing and migration, covering over 10 million of MPF accounts held by about 4.5 million scheme members. With live operation of the MPF System, the risk of trustees' transition to the eMPF Platform could not be underestimated and must be carefully managed. The current target was to complete the hardware and software development of the eMPF Platform by the end of 2022 at the earliest, and MPF trustees would start migrating to the eMPF Platform in batches. Given the massive scale of the exercise and the large amount of data involved, the whole transition of all trustees/schemes was expected to take around two to three years in sequence before the eMPF Platform would become fully functional in around 2025 when all trustees and schemes were migrated. The timetable above was indeed ambitious. Against this backdrop, the transitional arrangement and timetable had struck a balance between the project progress and the need to ensure a smooth, safe and efficient running of the system. He added that the designation of individual trustees and their MPF schemes for the mandatory use of the eMPF Platform would be made by batches. The sequence would be determined after taking into account the trustees' readiness and progress of data migration. The designation would be made by way of notices, which were subsidiary legislation subject to the negative vetting procedures of the Legislative Council ("LegCo").

12. Regarding fees and charges, DS(FS)2 advised that one of the key objectives of the eMPF Project was to achieve cost savings from the enhanced operational efficiency of the MPF System, thereby creating room for fee reduction for the benefit of scheme members. To ensure that any cost savings derived from the Platform operation would be passed directly to scheme members, two limbs of statutory requirements would be proposed in the second-stage legislative amendments. First, there would be a "straight pass-on" statutory requirement that the fee on scheme administration charged by trustees on the constituent fund of the scheme must not exceed the eMPF Platform fee payable by trustees to the Company. Second, there should be corresponding reduction in the total level of fees and charges of MPF schemes to reflect the reduction in scheme administration costs due to the eMPF Platform. In respect of DIS, DS(FS)2 said that DIS was introduced in 2017 and the Administration had

undertaken to review the statutory fee caps on the DIS funds after three years of implementation. The Administration and MPFA were in the process of reviewing the fee cap levels with a view to adjusting them further downward. The Administration would introduce necessary legislative amendments to reflect the outcome of review vide the second-stage legislative amendments for the eMPF Project.

Conclusion

13. The Chairman concluded that the Panel supported the Administration's plan to submit the staffing proposal to ESC and FC for approval.

V Proposal on creation of a supernumerary Chief Superintendent of Police post

(LC Paper No. CB(1)737/20-21(04) — Administration's paper on "Proposal on Creation of a Supernumerary Chief Superintendent of Police Post in the Hong Kong Police Force")

Briefing by the Administration

14. At the invitation of the Chairman, Deputy Secretary for Financial Services and the Treasury (Financial Services)1 ("DS(FS)1") briefed members the Administration's proposal to create a supernumerary Chief Superintendent of Police ("CSP") post for five years with immediate effect upon approval by FC. DS(FS)1 said that the proposed CSP post would head the new Financial Intelligence and Investigation Bureau ("FIIB") to be established under the Crime Wing of the Hong Kong Police Force ("HKPF"), with a view to strengthening Hong Kong's capability in combating money laundering and terrorist financing ("ML/TF") in accordance with the recommendations of the Financial Action Task Force ("FATF"). She added that in the latest round of mutual evaluation conducted by FATF, Hong Kong was the first jurisdiction in the Asia Pacific region to have attained an overall compliant result. FATF also recommended HKPF to establish a dedicated bureau to strengthen its capability in developing intelligence and conducting ML/TF investigations. After seeking the Panel's view on the staffing proposal, the Administration would seek necessary approval from ESC and FC in due course.

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15. Assistant Commissioner of Police (Crime) ("ACP(Crime)") said that for historical reason, formations responsible for anti-money laundering ("AML") work in HKPF, comprising the Financial Investigation Division ("FID"), Joint Financial Intelligence Unit ("JFIU") and Headquarters (Financial Investigation) ("HQ(FI)"), were housed under the Narcotics Bureau. Relevant work was overseen by a CSP, who was also responsible for leading law enforcement efforts in respect of drug-related crimes. Over the years, the financial investigation, intelligence development and risk assessment functions performed by FID, JFIU and HQ(FI) had extended beyond cases involving narcotics only. Moreover, the landscape of the financial market had been fast evolving and financial crimes had become increasingly complex and diverse, which were often cross-border in nature. Placing the AML/counter-terrorist financing ("CTF") arm in the Narcotics Bureau no longer met the strategic priority accorded by HKPF in combating financial crimes and safeguarding the financial system from abuse by criminals. Consolidating FID, JFIU and HQ(FI) into FIIB, which was a specialist bureau, would not only allow HKPF to achieve more synergies among the existing formations but also elevate the importance and sharpen the focus of AML/CTF work in a manner that was commensurate with Hong Kong's status as an international financial centre. Given the strategic importance of FIIB, the increasing complexity and diversity of financial crimes and the need to undergo FATF's further assessments, a high-level steer at directorate level was required to steer the work of FIIB and oversee its management. Such arrangement was also on par with HKPF's other bureau-level formations involved in the investigation of crimes under the Crime Wing.

Discussion

Candidate of the supernumerary post, and the need of creating a permanent post

16. Mr CHAN Chun-ying said that he supported the proposal. Given that the work of FIIB, in particular that relating to developing intelligence and conducting financial investigations, was continuous in nature, he enquired if the Administration had considered creating a permanent CSP post to head FIIB.

17. DS(FS)1 said that as explained in CE's 2020 Policy Address, the Administration was aware that LegCo Members had reservations about creating permanent directorate posts under the current economic environment. The Administration shared the same view that the CSP post was pertinent to enhancing the AML/CTF regime of Hong Kong. Considering the need to create the CSP post, the Administration proposed to create a supernumerary post for five years at this stage. The Administration would take into account Members' suggestion of creating a permanent post in reviewing the way forward of the CSP post in future.

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18. Mr CHAN Kin-por expressed support for the staffing proposal and sought clarification on whether the property restrained and confiscated by FID would be transferred to the Treasury. DS(FS)1 replied in the affirmative.

19. Mr SHIU Ka-fai said that he supported the proposal. He expressed concern about the increasing number of financial crimes in recent years, especially using information technologies and through internet and social media (e.g. investment scams and "naked chat"), and urged that HKPF should step up its efforts in enhancing the public awareness of such forms of deception. He enquired how the Administration would identify a suitable candidate to fill the proposed CSP post given that the officer concerned would need to have in-depth knowledge and experience in both information technologies and financial crimes.

20. ACP(Crime) said that HKPF attached great importance to the growing number of financial crimes and internet and social media frauds, and had been carrying out publicity and education activities through various channels including social media platforms to educate the public on the prevention of such crimes. To minimize the loss by victims, the Anti-Deception Coordination Centre established under the Commercial Crime Bureau ("CCB") had been assisting victims to intercept payments to fraudsters. He added that the investigation of such crimes was complicated and usually took a long time as the fraudsters were mostly in overseas countries. Regarding selection of candidate to fill the CSP post, ACP(Crime) said that the incumbent CSP (Narcotics Bureau) who had profound knowledge and experience in financial intelligence development and financial investigation would be a suitable candidate for the proposed CSP post.

Establishment of the Financial Intelligence and Investigation Bureau

21. Dr CHENG Chung-tai pointed out that the proposal involved not only the creation of the CSP post but also the establishment of FIIB which included creation of 59 new non-directorate posts. He opined that the work of FIIB concerned policies and issues relating to security and sought clarification on whether the proposal would also be discussed by the Panel on Security. He expressed concern that FIIB would undertake political duties, like intervening fundraising and crowdfunding activities organized by political parties, and enquired about the division of work between FIIB and CCB.

22. The Chairman expressed support for the proposal, and considered that the establishment of FIIB could strengthen HKPF's capacity in ML/TF risk assessment, investigation and prosecution, asset recovery and confiscation with a view to safeguarding national security as well as maintain law and order in Hong Kong. He called on HKPF to expedite its work in developing intelligence

and conducting ML/TF investigations and step up its efforts in publicity and public education on risks associated with ML/TF.

23. DS(FS)1 reiterated that the proposed CSP post would head the newly established FIIB which would be a dedicated bureau under the Crime Wing, and this was in line with the recommendations of FATF. She explained that the Financial Services and the Treasury Bureau was responsible for coordinating the efforts of relevant bureaux and departments on policies and matters relating to AML/CTF and it had consulted the Security Bureau before putting forward the staffing proposal concerned. DS(FS)1 and ACP(Crime) stressed that the current formations responsible for AML/CTF work comprised FID, JFIU and HQ(FI) which were housed under the Narcotics Bureau. The proposal involved detaching FID, JFIU and HQ(FI) from the Narcotics Bureau and consolidating them into FIIB, with a view to strengthening HKPF's capacity in identifying ML/TF risks, developing intelligence, particularly from the banking and other financial sectors, conducting financial investigations, as well as recovering crime proceeds.

24. The Chairman said that all LegCo Members had been invited to join the discussion of this agenda item as it involved a staffing proposal.

Duties and responsibilities of the Financial Investigation Division, Joint Financial Intelligence Unit and Headquarters (Financial Investigation)

25. Mr CHAN Chun-ying sought information on parties including overseas counterparts for which HQ(FI) had provided financial investigation and intelligence collection training, and overseas training provided to police officers involved in financial investigation and intelligence work. Moreover, he requested the Administration to provide a breakdown on the number of suspicious transaction reports ("STRs") received by JFIU from various sectors from 2017 to 2020, particularly the number of such reports from the financial sector, including traditional banks and virtual banks.

26. ACP(Crime) responded that HKPF had provided training, including overseas training in Australia and Singapore, on financial intelligence and investigation for police officers. HKPF had also organized similar training programmes in Hong Kong for overseas counterparts, such as neighboring South-east Asian countries. He undertook to provide supplementary information on STRs as requested by Mr CHAN after the meeting.

> (*Post-meeting note:* The Administration's supplementary information was circulated to members vide LC Paper No. CB(1)822/20-21(02) on 22 April 2021.)

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27. Mr LUK Chung-hung expressed concern on the increasing number of financial crimes, investment frauds and crowdfunding activities involving frauds in recent years, which were often complex and cross-border in nature, and enquired if FIIB would handle such cases.

28. Mr Holden CHOW and Ir Dr LO Wai-kwok expressed support for the proposal. They suggested that HKPF should strengthen the work on intelligence collection and investigation in respect of crowdfunding activities involving frauds, particularly activities involving collusion with foreign forces and violation of the national security law in Hong Kong. They also enquired about HKPF's work in combating social media crimes and investment frauds via instant messaging applications. Mr CHOW further sought information on the number of prosecutions resulting from ML investigations conducted by FID in 2020.

29. ACP(Crime) said that fraud cases were predicate crimes. For predicate crimes involving monetary loss, FIIB would be responsible for conducting ML investigations and related asset recovery. He said that in 2020, law enforcement agencies in Hong Kong had conducted 1 905 investigations and made 66 prosecutions, and a total of 450 prosecutions had been instituted from 2016 to 2020. So far over 69 people had been convicted of the offences involved. Owing to the complexity and diversity of the fraud cases which were often cross-border in nature, HKPF took time and encountered difficulties in the investigations of and collecting evidence for the offences. He added that the total value of property restrained and confiscated by FID in 2020 amounted to $2.6 billion and $1.2 billion respectively.

30. As regards crowdfunding activities, ACP(Crime) said that currently there was no specific legislation regulating such activities. That said, HKPF would investigate crowdfunding activities involving ML and frauds in accordance with existing laws and regulations, such as the Crimes Ordinance (Cap. 200). Regarding social media deception and investment frauds via instant messaging applications, DS(FS)1 and ACP(Crime) said that the Administration had been maintaining close cooperation with relevant regulatory authorities, such as the Securities and Futures Commission and HKMA, in developing financial intelligence and conducting investigations, as well as in enhancing public awareness of such crimes.

Conclusion

31. The Chairman concluded that the Panel supported the Administration's plan to submit the staffing proposal to ESC and FC for approval.

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VI Resolution to raise the maximum amount of borrowings under the Government Bond Programme

(LC Paper No. CB(1)737/20-21(05) — Administration's paper on "Resolution to Raise the Maximum Amount of Borrowings under the Government Bond Programme")

Briefing by the Administration

32. At the invitation of the Chairman, Under Secretary for Financial Services and the Treasury ("USFST") briefed members on the Administration's proposal to raise the maximum amount of borrowings under the Government Bond Programme ("GBP") from HK$200 billion to HK$300 billion by way of a resolution to be moved by the Administration under the Loans Ordinance (Cap. 61) ("LO"). The Administration planned to move the proposed resolution for positive vetting by LegCo within the 2020-2021 legislative session.

Discussion

Utilization of the proceeds raised under the Government Bond Programme

33. Mr Holden CHOW asked whether the Administration would make use of the existing extremely low interest rate environment to issue more government bonds to finance large infrastructure works. The Chairman shared Mr CHOW's view. Mr CHOW further enquired whether the Administration had assessed the impact of the proposed increase in the borrowing ceiling of GBP on Hong Kong's credit rating.

34. USFST said that the purpose of GBP and the proposed increase in the borrowing ceiling were to promote the further and sustainable development of the bond market in Hong Kong. He stressed that all proceeds raised under GBP would continue to be credited to the Bond Fund, which did not form part of the fiscal reserves. Hong Kong would continue to maintain its fiscal discipline, and it was unlikely that the proposal of raising the maximum amount of borrowings under GBP would have any negative impact on Hong Kong's credit rating. Deputy Chief Executive, Hong Kong Monetary Authority ("DCE/HKMA") added that as HKMA understood, the major credit rating agencies were aware of the objective of GBP which was to promote the development of Hong Kong's bond market and not to finance the Government's recurrent expenditure.

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35. As regards views on using the proceeds under GBP to finance government infrastructure projects, USFST said that the Government Green Bond Programme ("GGBP") was set up in 2018 to finance or re-finance green public works projects of the Government under the Capital Works Reserve Fund ("CWRF") that had been approved by FC of LegCo.

Development of the retail bond market

36. Mr CHAN Chun-ying expressed support for the Administration's proposal, and considered that the Administration should increase the issuance sizes of future batches of iBond and Sliver Bond. Noting that the percentage of first-time investors for iBond had decreased in recent years while that for the Silver Bond had increased, Mr CHAN enquired whether the Administration had examined the reasons involved. With the proposed increase in the borrowing ceiling under GBP, he also enquired whether the Administration had plans to diversify the types of bond products under GBP, such as bonds for financing large infrastructure works.

37. The Chairman expressed support for the Administration's proposal. Pointing out that both iBond and Silver Bond had provided attractive investment alternatives for the general public under the current extremely low interest rate environment, he commented that many members of the public found it difficult in purchasing bonds owing to their relatively low liquidity and high investment thresholds. He opined that the Administration should formulate measures to promote the development of local retail bond market including encouraging multinational entities to issue bonds with lower investment thresholds.

38. Regarding development of the local retail bond market, USFST advised that since the establishment of GBP, the Administration had issued seven batches of iBond and five batches of Silver Bond, which had met with warm market reception and over-subscription. The Administration planned to issue green bonds for retail investors. The Financial Secretary had also announced in the 2021-2022 Budget of the formation of a steering committee to formulate strategies and a roadmap for promoting the diversified development of Hong Kong's bond market and reinforcing its position as a global bond centre. USFST stressed that in promoting the development of a retail bond market, the Administration had to be mindful of the need to strike a proper balance between market development and investor protection.

39. On the subscription of iBond and Silver Bond, DCE/HKMA explained that the percentage of first-time bond investors for Silver Bond had increased steadily in recent years as the Administration had gradually increased the minimum interest rate of Silver Bond (from 2% for the inaugural Silver Bond

issued in 2016 to 3.5% for the latest batch issued in 2020), which had helped boost the attractiveness of the product to the target investors (i.e. senior citizens aged 65 or above). On the other hand, the target investors of iBond covered a much wider age group of the population. As iBond was re-launched in 2020 after a 3-year suspension from 2017 to 2019, it was reasonable to expect that public attention might take some time to pick up. He added that the Administration would continue to review measures to promote the issuance of iBond and Sliver Bond.

Parameters of the Government Bond Programme

40. Mr MA Fung-kwok said that he supported the Administration's proposal. Noting that most government bonds issued under GBP were denominated in Hong Kong dollar, he enquired whether the Administration would consider issuing government bonds denominated in other currencies including the United States dollar and renminbi ("RMB") and analyze the possible risks involved. In his view, the issuance of RMB bonds under GBP could complement the financial development in the Mainland.

41. USFST reiterated that the policy objective of GBP was to promote the further and sustainable development of Hong Kong's bond market. There was no restriction on the currency denomination of bonds to be issued under GBP, and the feasibility of issuing bonds denominated in other currencies including RMB would hinge on a host of factors including the market appetite and the sustainability of the local bond market. He also pointed out that Hong Kong was currently the world's largest RMB offshore centre accounting for over 75% of the settlement and payment volume of global offshore RMB. DCE/HKMA added that Hong Kong had developed a vibrant market for RMB bonds. Apart from the issuance of dim sum bonds by private entities, the Ministry of Finance and the People's Bank of China had been issuing RMB sovereign bonds in Hong Kong on a regular basis. It was observed that such developments could not only establish a comprehensive benchmark yield curve for offshore RMB bonds in Hong Kong but also meet the current market demand for such bonds.

42. Mr CHAN Kin-por expressed support for the Administration's proposal, and enquired whether the Administration would consider issuing bonds with longer tenors (say 20 years or more) under GBP.

43. DCE/HKMA responded that there had been discussion with some market makers of the institutional part of GBP. While the Administration adopted an open attitude towards the matter, it had to assess whether there was sufficient market demand for such products.

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Conclusion

44. The Chairman concluded that members supported the Administration's proposal to move a resolution at the Council meeting within the 2020-2021 legislative session to raise the maximum amount of borrowings under GBP to $300 billion.

VII Resolution to expand the scope of and raise the maximum amount of borrowings under the Government Green Bond Programme

(LC Paper No. CB(1)737/20-21(06) — Administration's paper on "Resolution to Expand the Scope of and Raise the Maximum Amount of Borrowings under the Government Green Bond Programme")

Briefing by the Administration

45. At the invitation of the Chairman, USFST briefed members on the Administration's proposal to expand the scope of and raise the maximum amount of borrowings under GGBP by way of a resolution to be moved by the Administration under LO. He said that under the proposed resolution, the borrowing ceiling of GGBP would be raised from the current level of HK$100 billion to HK$200 billion. While the green bond proceeds received under GGBP would continue to be used to finance or re-finance green public works projects under CWRF, the scope of such projects would be expanded to cover more types of green projects including minor works projects, major systems and equipment, and capital subventions. The Administration planned to move the proposed resolution for positive vetting by LegCo within the 2020-2021 legislative session.

Discussion

Recognition of green projects under the Government Green Bond Programme

46. Mr CHAN Chun-ying expressed support for the Administration's proposal, and sought comparison on the coverage of green projects under GGBP and the relevant schemes implemented by other comparable jurisdictions. Pointing out that the lack of widely recognized international standards for formulating frameworks, which set out how organizations should issue green

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bonds and what green projects should be funded for improving the environment and facilitating the transition to a low carbon economy, was among the major obstacles in the development of green bond market, Mr CHAN enquired whether the Green Bond Framework ("GBF") developed by the Administration had been recognized by international investors, and Administration's plans to review and update GBF.

47. Mr Holden CHOW expressed support for the Administration's proposal. With the expansion of scope of GGBP, he enquired about the details for determining eligible green projects to be funded by the Programme and whether the Administration would consider formulating indicators in this respect.

48. USFST and DCE/HKMA advised that the Administration had made reference to the Green Bond Principles 2018 of the International Capital Market Association (which was a green bond standard widely recognized by the international community) in developing Hong Kong's GBF. Under the existing mechanism, the green projects would only be considered eligible if they had met the eligibility criteria outlined in GBF. The Administration would also publish a green bond report annually to set out the details and quantifiable positive environmental impacts of the green projects funded by GGBP. Information contained in the green bond reports would be certified by the Hong Kong Quality Assurance Agency, an organization providing third-party conformity assessments for green finance issuers in Hong Kong. USFST further pointed out that the International Platform on Sustainable Finance had set up a working group led by the European Union Commission and the relevant Mainland authorities to formulate a Common Ground Taxonomy ("CGT"). The Administration aimed to adopt CGT with a view to aligning Hong Kong's requirements with those of these major markets.

49. As for the scope of GGBP, DCE/HKMA explained that the proposed resolution would enable GGBP to cover more green projects currently funded under CWRF. Investors would mainly focus on whether the green projects had complied with the relevant standards.

Development of green finance

50. The Chairman expressed support for the Administration's proposal, and considered that Hong Kong could play a key role in assisting the Mainland to develop its green finance. He also suggested that the Administration should examine the feasibility of using GGBP to finance more types of green projects, including those relating to the development of electric vehicles.

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51. USFST reiterated that all eligible green projects under GGBP had to comply with the relevant requirements set out in GBF. Various government bureaux/departments would review whether and how their existing/future projects would comply with the relevant GBF requirements. Assistant Director (Cross-Boundary and International), Environmental Protection Department added that the Mainland and Hong Kong planned to achieve carbon neutrality before 2060 and 2050 respectively. As such, the Environment Bureau ("ENB") would update the existing Hong Kong Climate Action Plan in mid-2021. ENB would also work with the Financial Services and the Treasury Bureau to identify works projects under CWRF that complied with GBF and could be funded by green bonds issued under GGBP. DCE/HKMA said that green bond was a component of green finance. GGBP was launched to promote the development of green finance in Hong Kong.

52. With regard to the Administration's plan to consolidate the Pilot Bond Grant Scheme and the Green Bond Grant Scheme to form the Green and Sustainable Finance Grant Scheme ("GSFGS") for providing subsidies to eligible bond issuers and loan borrowers to cover their expenses relating to bond issuance and external review services, Mr CHAN Chun-ying asked whether the Administration would implement other measures, such as providing tax incentives having regard to similar practices of overseas jurisdictions, to promote the development of green finance in Hong Kong.

53. USFST responded that the Administration would announce the details of GSFGS in due course. He also pointed out that under the Inland Revenue Ordinance (Cap. 112), tax relief would be provided for qualifying debt instruments that had met the relevant eligibility criteria.

Conclusion

54. The Chairman concluded that members supported the Administration's proposal to move a resolution at the Council meeting within the 2020-2021 legislative session to expand the scope of and raise the maximum amount of borrowings to HK$200 billion under GGBP.

(At 12:42 pm, the Chairman ordered that the meeting be extended to 1:30 pm to allow sufficient time for discussion of the remaining discussion item. No members raised objection.)

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VIII Protection of Personal Information on the Companies Register

(LC Paper No. CB(1)737/20-21(07) — Administration's paper on "Protection of Personal Information on the Companies Register")

Briefing by the Administration

55. At the invitation of the Chairman, Secretary for Financial Services and the Treasury ("SFST") briefed members on the Administration's proposal to bring into operation the provisions under the Companies Ordinance (Cap. 622) ("CO") enacted by LegCo in 2012 to implement the inspection arrangements under which correspondence address, instead of the usual residential addresses ("URA"), and partial identification numbers ("IDN"), instead of full IDN, of directors and other relevant individuals in the Companies Register ("the Register") maintained by the Companies Registry ("CR") would be made available for public inspection ("the New Inspection Regime"). SFST mentioned that the New Inspection Regime had undergone extensive consultation in 2009 when the entire CO was consolidated. In recent years, there was rising social concern over whether personal data contained in public registers were adequately protected, especially in the light of increased reported cases of doxxing and personal data misuse. SFST stressed that the New Inspection Regime was comparable to those adopted in other overseas common law jurisdictions, such as the United Kingdom and Australia, and would strike a reasonable balance by continuing to allow adequate public access to the necessary personal information to ascertain the particulars of the directorship and other key officers of companies, and protection of personal privacy.

56. SFST said that the full operation of the New Inspection Regime would involve substantial system and operation modifications of CR's information system and the Administration planned to commence the new regime in phases. Phase 1 would enable companies to withhold from public inspection in their own registers the URA of directors and full IDN of directors and company secretaries. Phase 2 would enable CR to protect from public inspection the URA and full IDN ("Protected Information") contained in all documents filed for registration after commencement of this phase in October 2022. Phase 3, to commence with effect in December 2023, would allow people to apply to CR for protecting from public inspection their Protected Information contained in documents already registered with CR before commencement of Phase 2. SFST added that the phased commencement of the New Inspection Regime would require the making of subsidiary legislation, including the commencement notices and regulations on the administrative, procedural and technical matters, as well as formulating a list of specified persons to access the Protected Information. The specified persons

would cover shareholders of a company; public officers and public bodies including law enforcement agencies such as Labour Department; trustees in bankruptcy; liquidators; and inspectors appointed under the Trustee Ordinance (Cap. 29), CO and the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615), etc. The Administration would table the relevant subsidiary legislations before LegCo for negative vetting in due course.

Discussion

Implementation of the new inspection regime

57. Mr CHAN Kin-por and Mr CHAN Chun-ying expressed support for the proposal as they considered that the New Inspection Regime would strike a reasonable balance between personal data protection and allowing adequate public access to necessary personal information in ascertaining the particulars of the directorship and other key officers of companies. Mr CHAN Kin-por highlighted the importance for the Administration to continue explaining to stakeholders and members of the public on the details of the proposal with a view to addressing their concerns and clarifying any misunderstanding. Mr CHAN Chun-ying enquired if the Administration would consider advancing the commencement of Phase 2 to before October 2022.

58. Mr Michael TIEN and the Chairman pointed out that the New Inspection Regime had aroused great public controversies including concerns from the business and labour sectors, media, etc. They stressed that the Administration should continue to communicate with stakeholders and enhance publicity of the New Inspection Regime, as well as step up its efforts to clarify issues and address public concerns. The Chairman further said that the Administration should collaborate with overseas Economic and Trade Offices, the Hong Kong Trade Development Council and the business sector, to explain to overseas investors the purposes of implementing the New Inspection Regime, in particular enhancement in the protection of personal data in the light of increased reported cases of doxxing, and the arrangements under the new regime, so as to reinforce investors' confidence in the open and transparent systems of Hong Kong.

59. Mr Holden CHOW concurred that the Administration should continue to explain to stakeholders and members of the public the details of the new inspection arrangements, in particular the information that would be opened for public inspection (i.e. the correspondence addresses and partial IDN of directors and company secretaries), and the list of specified persons that could access the Protected Information.

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60. SFST advised that the full operation of the New Inspection Regime would involve substantial system and operation modifications of CR's information system, namely the Integrated Companies Registry Information System ("ICRIS"), which contained voluminous information including information of some 1.4 million registered companies, personal particulars of over 4 million current directors or former directors of live companies and that of over 2 million directors of dissolved companies. It would take time to revamp ICRIS to cater for the implementation of the New Inspection Regime to ensure smooth functioning of the company registration and search services of CR. He further said that the Administration had been maintaining close liaison with the commercial and financial sectors on the New Inspection Regime. It was noted that most business associations in Hong Kong including the Chamber of Hong Kong Listed Companies had indicated support for the New Inspection Regime. The Administration was aware that the public had concerns over the new regime and appreciated that it would take time for the community to understand the operation and new arrangements.

61. Dr Junius HO said that he supported the proposal, and sought clarification on whether companies would still need to file the URA of directors and full IDN of directors and company secretaries to CR after commencement of Phase 1 of the New Inspection Regime. He also enquired how CR would ensure the accuracy and validity of the information filed by companies.

62. SFST responded that Phase 1 of the New Inspection Regime related to the information contained in companies' own registers. The Administration proposed to enable companies to withhold from public inspection in their own registers the URA of directors and full IDN of directors and company secretaries. Deputy Secretary for Financial Services and the Treasury (Financial Services) Special Duties ("DS(FS) Special Duties") added that after commencement of Phase 2 of the new regime, the information that a company was required to file for registration would be classified into two main categories, i.e. information that would be made available for public inspection and the Protected Information. Regarding the information/documents filed to CR, Acting Registrar of Companies advised that it was an offence under CO if a person provided any information to CR that was false or misleading in a material particular, and CR would refer suspicious cases to the Police for investigation.

List of specified persons

63. Mr CHAN Chun-ying said the banking and liquidation/bankruptcy sectors were concerned that the New Inspection Regime might create burden on their work and increase their operating costs. He called on the Administration to develop measures to facilitate access of Protected Information by genuine users

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with legitimate purposes, such as allowing liquidators to access the Protected Information of not only the company under liquidation but also its related companies as such information would be useful for the liquidators in performing their duties.

64. SFST advised that under the New Inspection Regime, the Protected Information would be made accessible to specified persons upon application. Specified persons would include the data subject, a liquidator, a trustee in bankruptcy, a public officer or public body, a law enforcement agency, etc. Hence, financial institutions might obtain consent from the data subjects for accessing the Protected Information when conducting the due diligence procedures.

65. Mr Paul TSE enquired if the Administration would consider including lawyers in the list of specified persons to allow them access to the Protected Information so as to facilitate them in making preparations for legal proceedings. He also sought details on the number of complaints about doxxing received by the Office of the Privacy Commissioner for Personal Data ("PCPD") in recent years.

66. Dr Junius HO concurred that professionals including lawyers, company secretaries and accountants should be included in the list of specified persons to facilitate them in providing professional services to their clients.

67. In respect of complaints received by PCPD, SFST said that from 2010 to 2018, PCPD received about 1 100 to 1 900 complaints under its purview per year. The number of complaints received by PCPD in 2019 and 2020 increased substantially to 9 182 and 4 862 cases respectively, among which 4 370 and 1 036 cases were doxxing cases.

68. Regarding specified persons, DS(FS) Special Duties said that specified persons mainly included data subjects, and public officers and individuals who were required to perform statutory duties. For professional bodies/professionals including lawyers, who required access to the Protected Information for discharging their duties, they might make an application to the court for the purpose. There were provisions under CO empowering the court to make an order for CR to disclose the Protected Information if the court was satisfied that it was appropriate to make the order (e.g. for persons appearing to the court to have a sufficient interest in the matter).

69. Mr LUK Chung-hung stressed the need to allow employees to access the Protected Information of directors of their employer companies in a timely manner. He said that the Protected Information would enable the delivery of notice of hearing to the employer after the filing of a claim to the Labour Tribunal

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("LT") by an employee as the first hearing would usually be fixed within 30 days after filing of the claim. He cautioned that in the absence of the Protected Information of the directors concerned, the process of recovering the outstanding payments for employees and the relevant legal procedures could be delayed. Hence, he suggested that labour unions which often assisted employees in filing claims to LT should be included in the list of specified persons. Alternatively, the Administration should consider empowering LT to obtain the URA of the directors from CR for the purpose. Pointing out that LegCo Members would at times assist parties in handling matters relating to liquidation of companies and labour matters, Mr LUK asked whether LegCo Members were regarded as "public officers" under the definition of specified persons.

70. SFST said that in a labour dispute, it was believed that the employee, being a person having sufficient interest, could make an application to the court for making an order for the disclosure of the Protected Information of the employer. Moreover, CR might disclose the URA of the director if it could not effectively communicate with the director using the correspondence address provided. In addition, government departments and enforcement agencies, including the Labour Department, could also access the Protected Information for the purpose of executing their statutory duties. DS(FS) Special Duties added that the Administration would further discuss with relevant stakeholders including the Labour Department, with a view to developing necessary procedures to facilitate them in accessing the Protected Information in a timely manner. In the course of the discussion, the relevant labour unions would also be consulted as appropriate.

71. Dr CHENG Chung-tai queried the need to tighten public access to the information on the Register as various sectors (e.g. the legal, banking, auditing and real estate sectors) would need to access the Protected Information for legitimate purposes when carrying out their work. He questioned that the Administration had put forward the proposal due to political considerations, and expressed grave concern that the New Inspection Regime would encourage the setting up of shell companies for tax avoidance and money laundering which would have great adverse impact on Hong Kong's status as an international financial centre.

72. Mr SHIU Ka-fai said that he and Mr WONG Ting-kwong were of the view that the New Inspection Regime would enhance the protection of personal data kept in the Register, especially in the light of increased reported cases of doxxing and personal data misuse in recent years. He disagreed with Dr CHENG Chung-tai's comments that the New Inspection Regime would encourage the setting up of shell companies for tax avoidance and money laundering, and stressed that the Protected Information would still be made accessible to the specified persons upon application. He referred to the Administration's

information paper and said that if a company needed to access the Protected Information of the directors of a potential business partner, the company could obtain the necessary consent of the data subject to access the relevant information in the Register.

73. SFST reiterated that in recent years, there was increasing public awareness of the need to protect personal data and hence the Administration considered that there was an imminent need to bring the New Inspection Regime into operation. The new inspection arrangements were comparable to those practiced in other jurisdictions like the United Kingdom and Singapore. He stressed that the Administration was committed to upholding a robust and effective AML/CFT regime, and the Protected Information would still be made available to specified persons upon application, including financial institutions who had obtained consent from the data subjects, and public officers and public bodies overseeing matters and performing duties relating to AML/CFT. A list of specified persons would be set out in the relevant subsidiary legislation which would be subject to LegCo's negative vetting procedures. In response to Mr SHIU Ka-fai's further enquiry, DS(FS) Special Duties advised that public officers included government officers, and officers and staff of statutory regulatory bodies responsible for inspection.

Identification numbers of directors

74. Mr Paul TSE noted the concern expressed by some members of the public and stakeholders that the partial IDN as well as the full Chinese and/or English names of different directors of companies might be identical, so that a certain number of persons in the Register might match a search under the New Inspection Regime and hence it would be difficult for searchers to ascertain the identity of the directors and other key officers of companies. To address the concern, he suggested that the Administration should require company directors and key officers to use the full Chinese and/or English names as shown in their Hong Kong Identity Cards ("HKIDs") or passports as appropriate in the information provided in the Register so as to reduce the number of similar matches during a search and hence would improve the reliability of the search services of the new regime. Mr Michael TIEN and Mr Holden CHOW shared the view.

75. SFST and DS(FS) Special Duties said that CR had recently conducted a stocktaking exercise on the Register in regard to records of current individual directors of live companies holding HKIDs who might have identical full names (including Chinese and/or English) and partial numbers of HKIDs (i.e. the alphabet and the first three numbers). Results showed that, amongst some 588 000 current directors holding HKIDs, only eight pairs of them had identical

Chinese and/or English full names, as well as the same alphabet and the first three numbers of HKIDs, equivalent to a chance of less than 0.003%. DS(FS) Special Duties added that at present, company directors and key officers had to file their Chinese and/or English names as shown in their HKIDs or passports, and they could also include their Christian or given names in the Register.

Conclusion

76. The Chairman concluded that Panel members generally supported the new inspection regime of the Register.

(At 1:24 pm, the Chairman ordered that the meeting be further extended for 15 minutes to 1:45 pm. Members agreed.)

IX Any other business

77. There being no other business, the meeting ended at 1:33 pm.

Council Business Division 1
Legislative Council Secretariat
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