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Report of the Panel on Financial Affairs for submission to the Legislative Council

Purpose

This report gives an account of the work of the Panel on Financial Affairs ("the Panel") during the 2020-2021 legislative session. It will be tabled at the meeting of the Legislative Council ("LegCo") of 20 October 2021 in accordance with Rule 77(14) of the Rules of Procedure of LegCo.

The Panel

2. The Panel was formed by a resolution passed by LegCo on 8 July 1998 and as amended on 20 December 2000, 9 October 2002, 11 July 2007 and 2 July 2008 for the purpose of monitoring and examining government policies and issues of public concern relating to financial and finance matters. The terms of reference of the Panel are set out in **Appendix I**.

3. For the 2020-2021 session, the Panel comprised 16 members, with Hon Jeffrey LAM Kin-fung and Hon WONG Ting-kwong elected as Chairman and Deputy Chairman respectively. The membership list of the Panel is in **Appendix II**.

Major work

Macro economy

Hong Kong's economic performance

4. During the 2020-2021 session, the Panel continued to provide a forum for LegCo Members to exchange views with the Financial Secretary ("FS") on matters relating to macro-economic issues. The Panel noted at the meeting on 7 June 2021 that the Hong Kong economy recovered visibly in the first quarter of

2021, led by a robust growth of exports of goods alongside a sharp rebound in global demand with the real Gross Domestic Product ("GDP") registering a strong year-on-year growth of 7.9%. However, the pace of economic recovery was uneven. Some consumer-facing and tourism-related activities were still suffering from the negative impacts of the coronavirus disease 2019 ("COVID-19") pandemic and the overall economic activity remained below the pre-recession level. Domestic demand stayed relatively weak and outbound tourism was severely hindered. On the economic outlook for 2021, Members noted that the real GDP growth was forecast to be 3.5% to 5.5% while the forecast rates of underlying and headline consumer price inflation were 1% and 1.6% respectively. FS stressed that while the Hong Kong economy was expected to recover gradually with the support of the Government's various counter-cyclical measures, the near-term economic outlook would hinge on the development of the pandemic. In order to promote a full-fledged economic recovery, it was pivotal for Hong Kong to contain the pandemic as soon as possible. Only if the community continued to fight the disease together and actively participated in the COVID-19 Vaccination Programme, could favourable conditions be created for restoring normal life, resuming business and tourist travels with the Mainland and the rest of the world, and allowing economic activities to revive to the greatest extent.

Measures to promote economic development

5. Members expressed concern on the possible impact of uncertainties arising from the global economic and political situations on Hong Kong's future economic development, particularly the persistently tense relations between China and the United States ('US"), removal of Hong Kong's special treatment status by the US, and queries raised by some Western countries on the effective implementation of "One Country, Two Systems" in Hong Kong. Members called on the Administration to develop mid-and long-term strategies to promote Hong Kong's economic development including measures to attract and retain talents, and to attract overseas enterprises to set up offices in Hong Kong.

6. Some Members further suggested that Hong Kong should capitalize on the opportunities arising in the Mainland, especially in the Guangdong-Hong Kong-Macao Greater Bay Area ("the Greater Bay Area"), with a view to expediting Hong Kong's economic recovery after the pandemic. These Members enquired about the Administration's measures to facilitate Hong Kong enterprises and support young people to seize the opportunities in the Mainland, in particular to leverage Hong Kong's advantages as an international trade platform and in various sectors such as financial services, innovation and technology ("I&T") and logistics.

7. FS responded that with the unique advantages under the "One Country, Two Systems" arrangement, Hong Kong would continue to benefit from the

Mainland's reform and further opening-up as well as its accelerated economic growth. The Mainland had adopted a new development strategy featuring "dual circulation", which took the domestic market as the mainstay while enabling domestic and foreign markets to interact positively to boost each other. Hong Kong would contribute to and capitalize on the "dual circulation" strategy and proactively becoming a participant in the "domestic circulation". The Administration would continue to assist Hong Kong enterprises in tapping into the Mainland domestic market to leverage the enormous business opportunities presented by the development strategy. For the I&T sector, the Administration would continue to promote the development of Cyberport and the Hong Kong Science Park to help attract professionals and talents to work and settle in Hong Kong. On the financial services sector, Hong Kong's listing regime had been expanded to allow companies with weighted voting rights structures in emerging and innovative sectors and pre-revenue bio-tech companies to be listed in Hong Kong. The Hong Kong Trade Development Council would set up a Small and Medium Enterprise Centre in the Greater Bay Area to provide multi-faceted support to facilitate Hong Kong enterprises to tap into the Mainland domestic market. In addition, to encourage and support young people to work and pursue their career in the Greater Bay Area, the Administration had launched the Greater Bay Area Youth Employment Scheme with 2 000 places to encourage enterprises with operation in both Hong Kong and the Mainland cities of the Greater Bay Area to recruit and deploy local university graduates to work in the Area.

Measures to support enterprises and relieve people's burden

8. Members expressed concerns over the appreciation of Renminbi ("RMB") which had increased prices of raw materials and food items and exerted pressure on the livelihood of the low-income group, the drastic growth in the number of low-income households, and the surge in unemployment rates in the consumption- and tourism-related sector and the construction sector. Members urged the Administration to introduce measures to alleviate financial hardship and improve livelihood of the low-income group, including setting up an unemployment relief fund and continuing investment in capital works in order to stimulate economic recovery.

9. On the trends in inflation, FS advised that the underlying consumer price inflation was close to zero in the first four months of 2021. Despite the appreciation of RMB against the US dollar, the overall import prices only slightly increased by about 1% year-on-year in the first quarter of 2021. As regards the near-term inflation outlook, while local inflation might go up slightly alongside economic recovery, overall price pressures should stay mild for the year as overall economic activity remained below the pre-recession level.

10. Regarding measures to support the unemployed and the low-income group, FS advised that the Administration recognized that while the economy had

recovered visibly in the first quarter of 2021, some consumer-facing and tourism-related activities were still hard hit by the COVID-19 pandemic and the social distancing measures. The combined unemployment rate of the consumption- and tourism-related sectors (i.e. retail, accommodation, and food and beverage services) was 9.9% between February and April 2021. The Administration envisaged that it would take some time before the economic recovery could bring about a more visible labour market recovery. The Administration had stepped up efforts to combat unemployment, including enhancing the Comprehensive Social Security Assistance framework to provide support for the unemployed, creating 30 000 time-limited job opportunities for people with different academic qualifications and skill sets under the second round of the Anti-epidemic Fund, as well as launching the third tranche of the Love Upgrading Special Scheme by the Employees Retraining Board to offer 20 000 retraining places with allowance. The concerted anti-epidemic effort of the community, coupled with the support from the Government's various relief measures, would promote a full-fledged economic recovery that would benefit the low-income group in general.

Tax issues

11. Given the rapid growth in Government recurrent expenditure and the decline in fiscal reserves, some Members urged that the Administration should consider broadening Hong Kong's tax base by introducing new taxes and progressive tax rates. Some other Members however expressed concern that increasing taxes could harm Hong Kong's competitiveness. Noting the proposal by the leaders of the Group of Seven nations in setting a global minimum corporate tax rate of at least 15%, Members also enquired about the possible impact of the measure on Hong Kong's tax regime and business environment.

12. FS advised that the Administration conducted regular reviews on Hong Kong's tax regime. In considering whether to introduce new taxes or adjust the tax rates, the Administration would take into account views and suggestions from the public and various stakeholders as well as all relevant factors in a holistic manner, such as whether such measures would undermine the competitiveness of Hong Kong's business environment and tax regime and whether the measures would help promote market development. FS stressed that thorough discussion and consensus among the community would be required before introducing any substantial changes to the tax regime. On the proposed global minimum corporate tax rate, the Administration would keep in view relevant international developments, and assess possible impacts of the proposal on Hong Kong and devise corresponding measures when further details were available. The Administration had already invited academics, experts and members of the business community who were experienced in the fields of international taxation and economic development to give advice on the matter.

Monetary affairs

13. The Panel continued to receive regular briefings from the Chief Executive of the Hong Kong Monetary Authority ("HKMA") and his colleagues on the work of HKMA. At the briefings during the 2020-2021 session, HKMA exchanged views with Members on a number of subjects including the global and local financial and economic situations, Hong Kong's financial stability, banking supervision, development of the financial infrastructure and financial market, and investment performance of the Exchange Fund ("EF").

Financial and monetary stability of Hong Kong

14. In view of the heightened geopolitical tensions (particularly the conflict between China and the US), concern expressed by some foreign investors about Hong Kong's business environment, and the outbreak of COVID-19 pandemic, Members enquired whether HKMA had observed any abnormal capital flows into and out of Hong Kong.

15. HKMA responded that HKMA had been closely engaging international investors and financial institutions for views on Hong Kong's status as an international financial centre, and had noted that the main consideration of the international community was whether Hong Kong could continue to maintain its financial stability and provide business opportunities (especially in those related to the Mainland). With the various initiatives including the Southbound Bond Connect and the Wealth Management Connect providing ample investment opportunities, it was observed that there was still significant interest within the international community in Hong Kong.

16. As regards capital flows into and out of Hong Kong, HKMA had not observed net outflow of capital as Hong Kong dollar remained on the strong side and bank customers' deposits also continued to rise. Moreover, an annual survey conducted by the Securities and Futures Commission ("SFC") indicated that the assets under management of Hong Kong's asset and wealth management business grew by about 20% in 2019, and it appeared that the growth trend had continued through to the first quarter of 2021. HKMA had been closely monitoring capital flow into and out of Hong Kong, and had strengthened the surveillance framework including putting in place contingency plans and maintaining close communications with banks.

17. In response to some Members' enquiries about the impact of the quantitative easing ("QE") measures implemented by the US on the global and Hong Kong financial markets, HKMA advised that given the dominance of US dollar in the global economy and financial system, the QE measures would inevitably have a bearing on the global market. Investors' search for yield

behaviour driven by the low interest rate environment and abundant liquidity had fuelled rallies in equity markets around the world including Hong Kong. HKMA would continue to closely monitor financial market developments and safeguard financial stability.

Measures introduced by the banking industry to help the public and local enterprises combat the coronavirus disease 2019

18. Members pointed out that as many small and medium-sized enterprises ("SMEs") were still facing a very challenging operating environment due to the negative impact of the COVID-2019 pandemic, HKMA should consider introducing further measures to help SMEs, including extending the principal moratorium arrangement for the 80% and 90% Guarantee Products under the Enhanced SME Financing Guarantee Scheme ("Enhanced SFGS"), extending the repayment schedules of the Special 100% Loan Guarantee Scheme under the Enhanced SFGS, further extending the Pre-approved Principal Payment Holiday Scheme ("PPPHS") to beyond October 2021, and urging banks to adopt a more accommodating attitude in considering extension of borrowers' repayment schedules.

19. HKMA stressed that it would continue to review the existing support measures under the Enhanced SFGS in meeting SMEs' needs. HKMA would also liaise with the industry on the way forward of PPPHS under the Banking Sector SME Lending Coordination Mechanism in around July/August 2021 having regard to the circumstances at the time and the need to balance between flexibility and maintaining the credit quality of banks. HKMA clarified that the extension of PPPHS to October 2021 did not necessarily mean that the principal payment by eligible corporate customers would fall due at that time, as the principal payments would only resume six months after their extension.

The local property market

20. Some Members expressed grave concern about the surge in Hong Kong's household debt-to-GDP ratio from 54.3% in 2005 to 87.7% in the third quarter of 2020 which indicated increasing difficulties for property buyers in taking out mortgage loans. These Members called on HKMA to formulate measures to address the problem including relaxing the caps on the loan-to-value ("LTV") ratio for property transactions in the secondary market to assist property buyers.

21. HKMA explained that changes in the household debt-to-GDP ratio depended on both the debt and GDP levels. The increase in the ratio in the recent year was attributable to an increase in mortgage loans and a decline in Hong Kong's nominal GDP. Although the household debt-to-GDP ratio had been widely used as an indicator in evaluating household financial position, a full assessment required the consideration of the entire household balance sheet

including the amount and composition of assets and liabilities. Hong Kong's household net worth-to-liabilities ratio remained high by international standard which suggested that Hong Kong households were, in general, financially sound and had a strong buffer to cushion potential financial and economic shocks.

22. Regarding residential mortgage loans, HKMA pointed out that putting a cap on the LTV ratio was one of HKMA's countercyclical macroprudential measures and HKMA would continue to review such measures having regard to the latest developments in the property market. HKMA supplemented that under Hong Kong Mortgage Corporation's Mortgage Insurance Programme for completed residential properties, a property valued up to HK$ 8 million could be eligible for a mortgage loan with up to 90% LTV ratio and a property valued up to HK$10 million could be eligible for a maximum LTV ratio of 80%. HKMA would continue to review its various measures for potential room of enhancement.

The Linked Exchange Rate System and the Exchange Fund

23. Members sought HKMA's views on the possible impact of the QE measures implemented by the US on the Linked Exchange Rate System ("LERS"). Some Members further suggested that HKMA should study the feasibility of pegging Hong Kong dollar to a basket of currencies considering that US dollar had been weakened against most currencies after the several rounds of QE measures.

24. HKMA stressed that LERS had served Hong Kong very well in maintaining monetary stability over the years and was the most suitable regime for Hong Kong as an externally-oriented economy. HKMA had no intention or plan to introduce changes to LERS. In other currency arrangements, such as pegging to a basket of currencies, interest rates would still largely follow that of the US since US dollar would still likely account for a large proportion in the basket. Moreover, there would be practical difficulties to peg HK dollar to a basket of currencies under the Currency Board System which underpinned LERS.

25. Pointing out that EF's investment in alternative assets held under the Long-Term Growth Portfolio ("LTGP") had been gaining high return in recent years, some Members enquired whether HKMA would consider increasing the size of LTGP in EF's Investment Portfolio with a view to enhancing EF's investment income and hence fee payment to the Government's fiscal reserves for implementing more relief measures for the general public and local enterprises. Enquiries were also raised about HKMA's precautionary measures to guard against a possible interest rate hike in future as EF's investment mainly involved bonds.

26. HKMA explained that the size of LTGP in EF's Investment Portfolio had been capped at the aggregate of one-third of EF's accumulated surplus and the portion of Future Fund and placements by EF's subsidiaries linked to LTGP in order to ensure EF had sufficient liquidity. That said, there was still room to raise LTGP's size in EF's Investment Portfolio. On precautionary measures against a possible interest rate hike in future, HKMA responded that it could take a number of measures to mitigate potential impact of the shocks, such as adjusting the proportion of bonds versus other assets in EF's Investment Portfolio and increasing the proportion of bonds denominated in US dollar with shorter maturities to reduce the impact of interest rate fluctuation. HKMA would continue to review and adjust EF investments according to market developments.

Development of the electronic mandatory provident funds platform

27. At the meeting on 4 January 2021, the Administration and the Mandatory Provident Fund Schemes Authority ("MPFA") briefed the Panel on the legislative proposals and additional funding requirements for taking forward the project to develop the electronic mandatory provident funds platform ("eMPF Platform"). The legislative amendments[1] would provide the legal basis for the designation of the eMPF Platform as the common gateway for scheme administration processes in the Mandatory Provident Fund ("MPF") System; delineating the respective roles, functions, powers and responsibilities of the Government, MPFA, the eMPF Platform Company ("the Company") (a wholly owned subsidiary set up by MPFA for operating the eMPF Platform) and trustees; and providing "straight pass-on" and "corresponding reduction" requirements for cost saving by trustees. An additional funding of $1,035.646 million would be provided mainly to assist trustees in data cleansing and migration exercise, and to provide uncovered seed money, funding reserve and cash buffer for the Company.[2] It was the Administration's plan to complete the development of the eMPF Platform by the end of 2022 at the earliest. Subject to the orderly transition by trustees in batches starting from 2023, the eMPF Platform would come into full operation in around 2025.

28. Panel members in general supported the legislative proposals for taking forward the eMPF Platform and had no objection to provide additional funding for the Platform. Members urged the Administration to ensure scheme members could benefit from the possible savings in scheme administration costs after the

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1 The Mandatory Provident Fund Schemes (Amendment) Bill 2021 received its First Reading at the Legislative Council ("LegCo") meeting of 14 July 2021. Resumption of the Second Reading debate on the Bill is scheduled for the Council meeting of 20 October 2021.

2 The additional funding was incorporated in the Appropriation Bill 2021 which was passed at the Council meeting of 28 April 2021.

implementation of the eMPF Platform, and to ensure trustees, after reducing the fees under the "straight pass-on" requirement, would not raise the fees again or charge fees on other pretexts.

29. The Administration stressed that the policy objective of the eMPF Platform was to achieve cost savings through standardization, streamlining and automation of the MPF scheme administration processes, thereby enhancing the operational efficiency of the MPF System and creating room for fee reduction for the benefit of scheme members. Two statutory requirements were proposed to achieve the policy objective. Firstly, there should be a statutory requirement that no fee on scheme administration exceeding the eMPF Platform fee (payable by trustees to the Company) could be charged, whether in whole or in part, to the scheme, a constituent fund of the scheme, or a member of the scheme (i.e. the "straight pass-on" requirement). Secondly, with the lowered scheme administration costs due to the eMPF Platform, there should be corresponding reduction in the topline fees of MPF schemes. It was envisaged that the eMPF Platform fee to be charged by the Company in the transitional stage would be in a range of 0.3% to 0.4% out of the asset under management. Depending on the rate of digital take-up and consequential improvement to operational efficiency, it was expected that the eMPF Platform fee would further drop in a gradual and steady manner to 0.2% to 0.25% in about ten years.

30. Noting that the MPF industry had expressed various concerns over the eMPF Platform (including the scheme administration functions to be taken up by the Platform, the Government's over optimistic estimation on the possible cost savings for scheme members, liability of trustees for non-compliance with the statutory requirements arising from the failure of the eMPF Platform/Company), Panel members strongly urged the Government and MPFA to meet with the industry to discuss and clarify the issues raised as well as to address the concerns.

31. The Administration advised that the Government and MPFA had set up the Working Group on eMPF in 2017 to steer the development of the Platform in collaboration with the MPF trustees including formulating a set of common standards and technical specifications covering most areas of MPF scheme administration processes for the tendering exercise of the eMPF Platform. Considering that trustees would incur expenditure for data cleansing and migration in transferring to the eMPF Platform, the Administration had also proposed an additional funding provision of $210 million to facilitate trustees' boarding onto the Platform and managing the associated risks. The Administration further pointed out that implementation of the eMPF Platform would not change the existing relationship between MPFA as a regulator and the trustees as regulatees. Therefore, trustees should continue to owe fiduciary duties to scheme members and would remain legally responsible for the administration of MPF schemes after the implementation of the eMPF Platform. The Administration assured members that the Government and MPFA would

continue to have on-going dialogue with the MPF industry to ensure smooth and secure transition from the existing system to the new eMPF Platform.

Protection of Personal Information on the Companies Register

32. At the meeting on 9 April 2021, the Administration briefed the Panel on its proposal to bring into operation the provisions under the Companies Ordinance (Cap. 622) ("CO") (enacted by LegCo in 2012) for implementing the new inspection arrangements for the Companies Register ("the Register"). Under the new inspection arrangements, 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 Register would be made available for public inspection ("the New Inspection Regime"). As full operation of the New Inspection Regime would involve substantial system and operation modifications to the information systems in Companies Registry ("CR"), the New Inspection Regime would be commenced in three 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. Phase 3 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.[3]

33. Considering 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, Panel members in general supported the regime. Noting that the New Inspection Regime had aroused great public controversies including concerns from the business and labour sectors as well as the media, members stressed the need for the Administration to continue engaging stakeholders and the public to clarify issues and address their concerns, as well as to enhance publicity on the new regime.

34. Some members called on the Administration to develop measures to facilitate access of Protected Information by genuine users with legitimate purposes, such as allowing liquidators to access the Protected Information of the company under liquidation and its related companies, and allowing employees and/or labour unions to access the Protected Information of directors of the

[3] Seven pieces of subsidiary legislation made by the Secretary for Financial Services and the Treasury for implementing the New Inspection Regime in three phases were tabled before LegCo at its meeting of 23 June 2021. Phase 1 of the New Inspection Regime commenced operation on 23 August 2021, whereas Phase 2 and Phase 3 of the Regime will commence operation on 24 October 2022 and 27 December 2023 respectively.

employer companies to facilitate them in recovering wages in arrears. Some other members suggested including professionals, such as lawyers, company secretaries and accountants, in the list of specified persons to facilitate them in providing professional services to their clients.

35. The Administration responded that specified persons would mainly include data subjects, and public officers and individuals who were required to perform statutory duties. 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). For professional bodies/professionals who required access to the Protected Information for discharging their duties, they might make an application to the court for the purpose. An employee in a labour dispute, being a person having sufficient interest, could also make an application to the court for making an order for the disclosure of the Protected Information of the employer. The Administration further advised that CR could disclose the URA of a director if it could not effectively communicate with the director using the correspondence address provided. Government departments and enforcement agencies, including the Labour Department, could also access the Protected Information for the purpose of executing their statutory duties.

36. As the partial IDN, the full Chinese and/or English names of different directors of companies might be identical, a certain number of persons in the Register might match a search under the New Inspection Regime. Members were aware of public concern about the difficulty for searchers to ascertain the identity of the directors and other key officers of companies under the New Inspection Regime. In order to tackle the problem, some members suggested that there should be a mandatory requirement for directors and key officer of companies to use their full Chinese and/or English names as shown in the Hong Kong Identity Cards ("HKIDs") or passports (as appropriate) in the information provided in the Register so as to improve the reliability of the search services under the new regime.

37. The Administration advised that at present, directors and key officers of a company 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. 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). The 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%.

<u>Creation of a supernumerary Chief Superintendent of Police post in and development of a financial data analytical platform for the Hong Kong Police Force</u>

38. The Administration consulted the Panel on its proposals to create a supernumerary Chief Superintendent of Police ("CSP") post for five years for heading the new Financial Intelligence and Investigation Bureau ("FIIB") under the Crime Wing of the Hong Kong Police Force ("HKPF"), and to develop a financial data analytic platform ("FDAP") with an estimated non-recurrent cost of about HK$0.7 billion for the Joint Financial Intelligence Unit (which was under FIIB) at the meetings on 9 April and 5 July 2021 respectively. The proposals aimed to strengthen Hong Kong's anti-money laundering and counter-terrorist financing ("AML/CTF") regime, and developing financial intelligence and harnessing advanced technologies to combat increasingly sophisticated financial crimes.[4]

39. Panel members in general supported the two proposals on consideration that the establishment of FIIB and the development of FDAP would help strengthen HKPF's capacity in combating money laundering and terrorist financing ("ML/TF") related crimes with a view to safeguarding national security and maintaining law and order in Hong Kong. In view of the rapidly increasing number of financial crimes in recent years involving the use of information technologies through internet and social media (e.g. investment scams and crowdfunding activities involving frauds), members also urged the Administration to step up its efforts in preventing and enhancing public awareness of such crimes.

40. The Administration stressed that it had attached great importance to combat internet and social media frauds which were predicate crimes and often complex and cross-border in nature. FIIB would be responsible for conducting investigations and related asset recovery for predicate crimes involving monetary loss. HKPF had also been maintaining close cooperation with the relevant regulatory authorities, including SFC and HKMA, in developing financial intelligence and conducting investigations as well as enhancing public awareness through various channels on the prevention of frauds. In 2020, law enforcement agencies ("LEAs") in Hong Kong had conducted 1 905 investigations and made 66 prosecutions relating to frauds, and the total value of property restrained and confiscated by HKPF amounted to HK$2.6 billion and HK$1.2 billion respectively. To minimize the loss by victims, the Anti-Deception Coordination Centre had been assisting victims to intercept payments to fraudsters.

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4 The Finance Committee ("FC") approved the creation of the supernumerary Chief Superintendent of Police post and the funding for developing the financial data analytic platform at the meetings on 21 May and 16 July 2021 respectively.

Regarding crowdfunding activities, the Administration advised that although currently there was no specific legislation regulating such activities, HKPF would investigate crowdfunding activities involving ML and frauds in accordance with existing legislation and regulations such as the Crimes Ordinance (Cap. 200). Creation of the CPS post to lead the new FIIB would not only allow HKPF to achieve more synergies among its existing units but also elevate the importance and sharpen the focus of its AML/CTF work in a manner that was commensurate with Hong Kong's status as an international financial centre.

41. Regarding the development of FDAP, members enquired how the Platform could enhance HKPF's capability in combating ML/TF, especially in tracing funding sources of terrorist activities, and whether the Platform could obtain information directly from other systems of government departments (e.g. the personal data kept by the Immigration Department) and collect information and exchange intelligence with external parties in Hong Kong (e.g. banks) and overseas (e.g. LEAs in the Mainland and Macau).

42. The Administration explained that FDAP would be equipped with sophisticated AML/CTF analytical tools for performing strategic analysis on intelligence collected by HKPF such as suspicious transactions reports. FDAP would also be equipped with functions like fund flow analysis and network analysis by performing extensive mapping of multiple data sources to help uncover illicit fund flow as well as hidden network, which would help HKPF determine the proper way to handle suspicious transactions in a more efficient and effective manner including informing relevant reporting entities to stop payments to fraudsters. Moreover, FDAP would provide an external user portal for HKPF to exchange criminal intelligence, typologies and trends with other domestic and foreign LEAs. The Administration stressed that other government departments and foreign LEAs would not have direct access to the information held by FDAP. HKPF would need to seek consent/approval from other government departments and relevant external parties for information requests, and foreign LEAs would also need to go through the existing mutual legal assistance process to obtain information.

<u>Regulation of licensed money lenders</u>

43. The Administration updated the Panel on the latest development in the regulation of licensed money lenders at the meeting on 3 May 2021. Members noted that the Registrar of Money Lenders had issued two sets of new guidelines (i.e. the Guideline on Fit and Proper Criteria for Licensing of Money Lenders and the Guideline on Submission of Business Plan by Applicant of a Money Lenders Licence) in January 2021, and imposed new or refined conditions on money lender licences with effect from 16 March 2021. The Administration also proposed to amend the Money Lenders Ordinance (Cap. 163) ("MLO") to lower the statutory interest rate cap and the extortionate rate for money lending from

the existing per annum 60% and 48% respectively to per annum 48% and 36% respectively.

44. Panel members in general welcomed the Administration's proposal to lower the interest rate cap and the extortionate rate under MLO, and enquired how the proposed new interest rate cap of 48% had been worked out and about measures to prevent money lenders from circumventing the new measure by charging high administration fees for loans.

45. The Administration explained that any administration fees for loans charged by money lenders had to be calculated in the interest rates as mandated under MLO. In proposing the new statutory interest rate cap of 48%, the Administration had made reference to the prevailing interest rates charged by the local money lending sector including banks, relevant practices in comparable jurisdictions, as well as views from the community.

46. Regarding the licensing conditions on money lender licences, members sought details on the new condition relating to the affordability assessment of borrowers and the refined condition regarding the use of referees' information by licensed money lenders. Some members further enquired if the Administration would consider specifying a debt servicing ratio to facilitate money lenders' compliance with the licensing condition on the affordability assessment of borrowers.

47. In respect of the new licensing condition on affordability assessment on borrowers, the Administration explained that before reaching a loan agreement with a borrower, a licensed money lender was required to conduct affordability assessment on the borrower, taking into account his/her ability to make repayments affordably, including his/her income, expenditure, the impact of the loan on his/her overall financial situation, etc. The Administration would not set any debt servicing ratio for this licensing condition so as to provide flexibility to money lenders to consider the circumstances of individual cases. As regards the refined licensing condition on the use of referees' information, the Administration pointed out that the licensing condition sought to combat the improper use of personal data of referees to address concern raised by some people that they had been claimed as referees of borrowers without their knowledge. Under the refined licensing condition, if a money lender was informed or aware that the required written consent by a loan referee was in fact not signed by the referee, the money lender should immediately cease to use the information of the referee.

<u>Development of financial technologies</u>

48. At the meeting on 7 June 2021, the Administration briefed the Panel on the latest developments of the financial technologies ("Fintech") landscape in

Hong Kong and the measures to further promote and facilitate Fintech development. The Panel also discussed the Administration's proposal to put in place a new regulatory regime for virtual asset trading platforms ("VATPs") by introducing the relevant amendment bill into LegCo in the 2021-2022 legislative session.

49. While members in general supported the initiative to regulate virtual assets trading activities, they raised concern about whether the proposed regulatory regime could offer sufficient protection for investors and effectively combat ML through such activities, particularly whether the proposed regime could cover new kinds of virtual assets emerging in the market. Some members also called on the Administration to closely monitor the development of VATP regulatory regimes in other jurisdictions in formulating the proposed regime in Hong Kong.

50. The Administration advised that the proposed regulatory regime was developed based on the prevailing international standards which aimed to address the risks of ML and TF of virtual assets activities and to ensure the protection of market integrity and investor interests. Under the proposal, any person seeking to engage in the regulated activity of operating a virtual asset exchange in Hong Kong would be required to apply for a licence from SFC. Licensed virtual asset service providers would be subject to AML and CTF requirements stipulated under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) as well as other regulatory requirements for investor protection purposes as appropriate, including that they could only offer services to professional investors. Apart from introducing the proposed VATP regulatory regime, SFC and the Investor and Financial Education Council would continue to step up investor education on virtual assets to enhance investors' understanding on related issues.

51. As for the coverage of virtual assets, the Administration remarked that under the proposed VATP regulatory regime, both securities-type (e.g. security tokens or crypto funds) or non-securities type virtual assets would be regulated. A virtual asset would be defined as "a digital representation of value that is expressed as a unit of account or a store of economic value; an asset functions (or is intended to function) as a medium of exchange accepted by the public as payment for goods or services or for the discharge of a debt, or for investment purposes; and can be transferred, stored or traded electronically". This definition was consistent with that promulgated by the Financial Action Task Force.

52. Members enquired about the progress and results of HKMA's research on Central Bank Digital Currencies ("CBDCs"), and whether HKMA's study on the technical aspects of retail CBDCs would cover e-CNY. Given the expected growth in popularity of e-CNY after its launch, members considered that the

Administration should step up its work in promoting the use of e-CNY in Hong Kong, which could further help maintain Hong Kong's role as a premier offshore RMB centre.

53. The Administration advised that HKMA commenced studies with the Bank of Thailand on the application of CBDCs to cross-border payments in 2019, and the Central Bank of the United Arab Emirates and the Digital Currency Institute of the People's Bank of China ("PBoC") joined the CBDC Project in 2021. HKMA would release the results of the study in due course. On the development of e-CNY in Hong Kong, HKMA had completed the first phase of technical testing with PBoC in 2020, and was collaborating with PBoC on the next phase of technical testing, including inviting more banks to participate and testing the use of the Faster Payment System ("FPS") to top up e-CNY wallets. It was expected that e-CNY would mainly be used by Hong Kong citizens travelling to the Mainland and Mainland tourists travelling to Hong Kong in making retail payments, and the development of local electronic payment systems would help promote the use of e-CNY.

54. The Panel noted that the COVID-19 pandemic had increased consumer habits in using electronic payment methods in the retail market, and called on the Administration to step up efforts in enhancing Hong Kong's financial infrastructure for launching more Fintech solutions for the general public. The Administration responded that a number of measures had been implemented in promoting the use of electronic payment methods in Hong Kong. For instance, usage of FPS had been expanded to accept various government bill payment at designated counters and self-help kiosks of some departments. The Administration would explore enabling online payments for government services, such as application for licences and certificates, with FPS starting from mid-2022. Furthermore, the launch of the Consumption Voucher Scheme could further encourage more members of the public to use new electronic payment methods.

Development of green and sustainable finance in Hong Kong

55. At the meeting on 6 September 2021, the Panel discussed the Administration's key initiatives to promote green and sustainable finance in Hong Kong including raising the borrowing ceiling of the Government Green Bond Programme ("GGBP") and issuing retail green bonds, enhancing the environmental, social and governance ("ESG") reporting framework administered by the Hong Kong Exchanges and Clearing Limited ("HKEX"), and establishing the Green and Sustainable Finance Cross-Agency Steering Group ("Steering Group") to consolidate and elevate efforts across the financial sector with a view to strengthening Hong Kong's financial ecosystem for a greener and more sustainable future.

56. Panel members stressed the needs for the Administration to work with financial regulators in developing ESG reporting framework to assist issuers to graspe the standards and disclosure requirements in issuing green finance product, and enhancing investors' understanding of such products before making the investment decisions. Some members also enquired about the Administration's measures to develop ESG reporting standards aligning with the relevant international standards to help combat greenwashing by issuers with an attempt to mislead investors into believing that their financial products were genuine green and sustainable products.

57. On the development of ESG reporting, the Administration advised that HKEX had published various guidance materials to help issuers better navigate the evolving standards on ESG reporting, including a guide for boards and directors titled "Leadership role and accountability in ESG" and a step-by-step ESG reporting guidance titled "How to prepare an ESG report". HKEX further launched STAGE in December 2020 to provide an online repository for green finance products, and a resources library providing case studies, webcast videos, guidance materials, research papers and other publications aiming to help market participants enrich their understanding of sustainable finance and green products. For instance, the ESG Academy webinar series was published in May 2021 to deepen ESG understanding and knowledge among listed issuers and the wider business community, and to facilitate the integration of ESG considerations into their decision making processes.

58. Regarding efforts to strengthen climate-related financial risk management, the Administration advised that besides adoption of the Common Ground Taxonomy [5] across the financial sectors to reduce the risk of greenwashing, the Steering Group was pursuing other initiatives including aligning the existing climate-related disclosure requirements of listed companies with those of the Task Force on Climate-related Financial Disclosures ("TCFD") framework for all relevant sectors (e.g. banks and insurance companies) by 2025. The Steering Group also supported the efforts of the International Sustainability Standards Board to develop a new standard to be built on the TCFD framework. SFC and HKEX will collaborate with the Financial Reporting Council ("FRC") and the Hong Kong Institution of Certified Public Accountants to work on a roadmap for evaluating and adopting the new standard.

59. Noting the Mainland's goal of achieving carbon neutrality before 2060, Panel members enquired about Hong Kong's role in this respect and the Administration's measures to support the Mainland's work in the area. The

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[5] The Common Ground Taxonomy is being developed jointly by China and the European Union to help define activities which are considered to contribute significantly to climate change mitigation and adaptation.

Administration pointed out that the Central Government had established the national carbon emissions trading scheme in July 2021 and relevant trading platforms in Beijing and Guangzhou. As an international financial centre, Hong Kong had a unique position in playing a strategic role as the Mainland's gateway and mobilizer of capital in facilitating fulfilment of the national carbon neutrality goals. The Steering Group had recently set up a Carbon Market Work Stream co-chaired by SFC and HKEX to assess Hong Kong's capability in developing as a regional carbon trading centre. The Steering Group would continue to strengthen collaboration with relevant parties in the Greater Bay Area, and explore other opportunities presented by both the compliance carbon market and the voluntary carbon market in China and overseas.

Other work

60. During the 2020-2021 legislative session, the Panel also discussed with the Administration and related bodies on a number of others subjects. The major ones include:

(a) funding proposals for Hong Kong's contribution to the 12th replenishment of the Asian Development Fund,[6] and the 100% Personal Loan Guarantee Scheme;[7]

(b) legislative proposals under the followings bills or subsidiary legislation:

(i) Insurance (Authorization and Annual Fees) (Amendment) Regulation 2021, Insurance (Amendment) Ordinance 2020 (Commencement) Notice and Insurance (Special Purpose Business) Rules;[8]

(ii) Inland Revenue (Amendment) (Tax Concessions for Carried Interest) Bill 2021;[9]

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6 An 11-year encashment schedule will be adopted for Hong Kong's contribution to the 12th replenishment of the Asian Development Fund. Sufficient provision will be included in the draft Estimates of the relevant financial years.

7 FC approved the funding proposal at its meeting of 26 March 2021.

8 The three pieces of subsidiary legislation were tabled for LegCo's negative vetting on 20 January 2021 and 27 January 2021, and commenced operation on 29 March 2021.

9 The Bill was introduced into LegCo in February 2021 and passed at the Council meeting of 28 April 2021.

(iii) Inland Revenue (Amendment) (Miscellaneous Provisions) Bill 2021;[10]

(iv) Limited Partnership Fund and Business Registration Legislation (Amendment) Bill 2021;[11]

(v) Securities and Futures (Amendment) Bill 2021;[12]

(vi) Financial Institutions (Resolution) (Contractual Recognition of Suspension of Termination Rights – Banking Sector) Rules;[13] and

(vii) Financial Reporting Council (Amendment) Bill 2021;[14]

(c) proposed resolutions under section 3(1) of the Loans Ordinance (Cap. 61) to raise the maximum amount of borrowings under the Government Bond Programme and GGBP;[15] and

(d) briefings on the work of the Financial Services Development Council for 2020-2021, and the proposed budgets of SFC, MPFA, FRC, and the Insurance Authority for the financial year 2021-2022.

61. From October 2020 to September 2021, the Panel has held a total of 12 meetings. The Panel has scheduled another meeting in October 2021 to receive a briefing by the Administration on the 2021 Policy Address and a briefing on the work of HKMA.

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[10] The Bill was introduced into LegCo in March 2021 and passed at the Council meeting of 2 June 2021.

[11] The Bill was introduced into LegCo in July 2021 and passed at the Council meeting of 29 September 2021.

[12] The Bill was introduced into LegCo in July 2021 and passed at the Council meeting of 29 September 2021.

[13] The subsidiary legislation was tabled for LegCo's negative vetting on 7 July 2021, and commenced operation on 27 August 2021.

[14] The Bill was introduced into LegCo in July 2021. Resumption of the Second Reading debate on the Bill is scheduled for the LegCo meeting of 20 October 2021.

[15] The proposed resolutions were passed by LegCo at the Council meeting of 21 July 2021.

Joint Subcommittee on Issues Relating to Insurance Coverage for the Transport Sector

62. The captioned Joint Subcommittee was formed under the Panel on Transport and Panel on Financial Affairs in January 2021 to study and follow up on the difficulties encountered by the transport sector in procuring insurance and related issues. The Joint Subcommittee has held a total of five meetings with the Administration, the Insurance Authority and the Hong Kong Federation of Insurers and has invited interested parties to give views on related issues. The Joint Subcommittee has completed its work and submitted its report which was circulated to Panel members on 8 October 2021 (LC Paper No. CB(1)1406/20-21).

Council Business Division 1
Legislative Council Secretariat
12 October 2021

Appendix I

Legislative Council

Panel on Financial Affairs

Terms of Reference

1. To monitor and examine Government policies and issues of public concern relating to financial and finance matters.

2. To provide a forum for the exchange and dissemination of views on the above policy matters.

3. To receive briefings and to formulate views on any major legislative or financial proposals in respect of the above policy areas prior to their formal introduction to the Council or Finance Committee.

4. To monitor and examine, to the extent it considers necessary, the above policy matters referred to it by a member of the Panel or by the House Committee.

5. To make reports to the Council or to the House Committee as required by the Rules of Procedure.

Appendix II

Panel on Financial Affairs

Membership list for 2020 – 2021 session*

Chairman	Hon Jeffrey LAM Kin-fung, GBS, JP
Deputy Chairman	Hon WONG Ting-kwong, GBS, JP
Members	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, GBM, GBS, JP Hon MA Fung-kwok, GBS, JP Hon Christopher CHEUNG Wah-fung, SBS, JP Ir Dr Hon LO Wai-kwok, GBS, 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 CHEUNG Kwok-kwan, JP Hon LUK Chung-hung, JP Hon Kenneth LAU Ip-keung, BBS, MH, JP
	(Total：16 members)
Clerk	Ms Connie SZETO
Legal Adviser	Miss Rachel DAI

* Changes in membership are shown in Annex.

Annex to Appendix II

Panel on Financial Affairs
Changes in membership

Member	Relevant date
Hon IP Kin-yuen	Up to 21 October 2020
Hon SHIU Ka-chun	Up to 21 October 2020
Dr Hon Fernando CHEUNG Chiu-hung	Up to 21 October 2020
Prof Hon Joseph LEE Kok-long, SBS, JP	Up to 2 November 2020
Hon Frankie YICK Chi-ming, SBS, JP	Up to 2 November 2020
Dr Hon Helena WONG Pik-wan	Up to 2 November 2020
Hon Claudia MO	Up to 3 November 2020
Hon LAM Cheuk-ting	Up to 3 November 2020
Hon Charles Peter MOK, JP	Up to 10 November 2020
Hon HUI Chi-fung	Up to 11 November 2020
Hon Jeremy TAM Man-ho	Up to 11 November 2020
Hon James TO Kun-sun	Up to 12 November 2020
Hon WU Chi-wai, MH	Up to 12 November 2020
Hon Andrew WAN Siu-kin	Up to 12 November 2020
Hon KWONG Chun-yu	Up to 12 November 2020
Hon Paul TSE Wai-chun, JP	Up to 2 December 2020
Hon POON Siu-ping, BBS, MH	Up to 2 December 2020
Hon YIU Si-wing, SBS	Up to 2 December 2020
Dr Hon CHIANG Lai-wan, SBS, JP	Up to 3 December 2020
Hon LAU Kwok-fan, MH, JP	Up to 3 December 2020
Hon CHAN Han-pan, BBS, JP	Up to 6 December 2020
Hon Steven HO Chun-yin, BBS, JP	Up to 9 December 2020
Hon Martin LIAO Cheung-kong, GBS, JP	Up to 9 December 2020
Dr Hon CHENG Chung-tai	Up to 25 August 2021

For **changes in LegCo Membership**, please refer to the link below:
(https://www.legco.gov.hk/general/english/members/yr16-20/notes.htm)