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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 2022 legislative session. It will be tabled at the meeting of the Legislative Council ("LegCo") of 7 December 2022 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, 2 July 2008 and 26 October 2022 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 1**.

3. For the 2022 session, the Panel comprised 19 members, with Hon Jeffrey LAM Kin-fung and Dr Hon Stephen WONG Yuen-shan elected as Chairman and Deputy Chairman respectively. The membership list of the Panel is in **Appendix 2**.

Major work

Macro economy

Hong Kong's economic performance

4. During the 2022 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. At the meeting on 6 June 2022, the Panel noted that the Hong Kong economy saw a marked deterioration in the first quarter of 2022 owing to the fifth wave of the Coronavirus Disease 2019

("COVID-19") epidemic and tightened social distancing measures which weighed heavily on a wide range of economic activities as well as economic sentiment. Externally, slower global demand growth and epidemic-induced cross-boundary transportation disruptions also posed significant drags to exports. Real Gross Domestic Product ("GDP") contracted by 4.0% from a year earlier, reversing the growth trend in the previous four quarters. On the economic outlook for 2022, Members noted that the real GDP growth forecast for 2022 was revised down to 1%-2%, from 2%-3.5% as announced in the 2022-2023 Budget, while the forecast rates of underlying and headline consumer price inflation were 2% and 2.1% respectively, the same as those announced in the Budget. FS remarked that as long as the epidemic remained under control and social distancing measures could progressively be relaxed as planned, economic activities should show some revival in the rest of the year.

Risk management measures amidst the volatile external economic environment

5. Members enquired about the Administration's risk management measures to consolidate Hong Kong's financial market against shockwaves arising from the turbulent geopolitical and economic climate. Some Members expressed concern that under the Linked Exchange Rate System ("LERS"), Hong Kong might have to follow the interest rate hikes of the United States ("US") at the expense of economic recovery, and asked whether the Administration had any plans to change LERS.

6. FS stressed that financial security was an integral part of national security, and the Administration had made great efforts to boost the resilience of the Hong Kong financial market, including putting in place a cross-sectoral co-ordination mechanism with financial regulators to monitor closely different sectors of the Hong Kong financial market in a comprehensive manner, including the stock market, the foreign exchange and money market, as well as the banking sector. An important part of this co-ordination mechanism was the Council of Financial Regulators chaired by FS, with representatives from the Hong Kong Monetary Authority ("HKMA"), Securities and Futures Commission ("SFC"), Insurance Authority ("IA"), Mandatory Provident Fund Schemes Authority ("MPFA"), Accounting and Financial Reporting Council, and Financial Services and the Treasury Bureau ("FSTB"), to facilitate effective co-operation and co-ordination among regulators in monitoring the Hong Kong financial market. Amidst the complex geopolitical environment including the China-US trade tensions and the Russia-Ukraine conflicts, the Administration had drawn up and had been reviewing contingency plans and indicators associated with different risk scenarios regularly. The Administration had also been keeping a close watch over the activities of different market participants, such as hedge funds, for any market abnormalities, as well as closely communicating with the Mainland regulators.

7. As regards LERS, FS said that under LERS, Hong Kong dollar ("HKD") interbank rates normally tracked their US dollar ("USD") counterparts whilst also being influenced by the supply and demand of HKD in the local market. Experience from the last interest rate hike cycle in 2015-2018 had shown that the HKD interbank rates might not necessarily follow closely the USD interest rates. As there was ample liquidity in Hong Kong's banking system, it was expected that the HKD interbank rates might lag the USD interest rates in the current interest rate hike cycle but the pace of interest rates lag might be quicker than that in the last cycle. LERS had been under smooth implementation and proven to be very effective with the support from the vast foreign currency reserves. With the local financial and banking systems maintaining high stability, and a strong foreign currency reserve of over US$465 billion, a safe buffer and strong defence mechanism had been built up against monetary and financial market risks.

Measures to assist small and medium-sized enterprises

8. Members expressed concern about the significant drop in overall investment spending in terms of gross domestic fixed capital formation recorded in the first quarter of 2022 indicating worsening business sentiment, and enquired about measures to assist small and medium-sized enterprises ("SMEs") to tide over the current economic doldrums. Moreover, Members sought information on the benefits to SMEs brought by the introduction of the Temporary Protection Measures for Business Tenants (COVID-19 Pandemic) Ordinance (Cap. 644) ("the Ordinance") which came into effect on 1 May 2022.

9. FS remarked that domestic consumption, domestic fixed capital investment and exports which were the three major pillars of the Hong Kong economy were under much downward pressure in the first quarter of 2022. While the Government had taken the lead to increase public expenditure on fixed capital investment, fixed capital investment by the private sector was equally important. It was noted that private fixed capital investment grew by around 10% in 2021, and was envisaged to improve in the second half of 2022 along with the gradual revival of the local economy. Regarding the Ordinance, FS said that it provided incentives for landlords and tenants to negotiate a deal, and hence a much needed breathing space for the tenants. The Ordinance was particularly welcomed by the food and beverage sector as well as the retail sector.

Labour market situation

10. Members noted with concern the increase in the unemployment rate of higher-skilled workers to 3.4% in February to April 2022 and the draining of talent and capital from Hong Kong. Members enquired about the measures to tackle these problems, and whether the Administration would develop key performance indicators ("KPIs") for reducing unemployment.

11. FS advised that despite the socio-political woes in the past few years, the Government remained optimistic about Hong Kong's economic outlook due to the steadfast support from the Mainland and the normalization of relation between the Administration and the Legislature. It was envisaged that continued economic development would bring enormous career opportunities for those who stayed, attract new talent and even induce those who had departed to return to Hong Kong. While it was natural that there were some capital outflows from Hong Kong associated with departures of people, total deposits in the banking system actually grew rather than shrank during the past few years. On the unemployment situation, FS said that the seasonally adjusted unemployment rate in February to April 2022 was 5.4%. Though the unemployment rate of some sectors remained high, labour supply was tight in certain sectors such as the health care sector. The overall unemployment rate was expected to improve when the labour market continued to stabilize. As far as economic development and employment were concerned, instead of focusing only on quantitative indicators, the Administration strived to create quality employment opportunities, for example, through the development of the innovation and technology industry. The Administration would consider Members' suggestion of adopting KPIs in assessing the performance of various policy areas.

The property market

12. Members pointed out that the index of home purchase affordability remained elevated at around 71% in the first quarter of 2022, which was significantly above the long-term average of 49% over 2002-2021. Should interest rates rose by three percentage points, the index would soar to 93%. Members opined that the Administration should assess the impact of interest rate hikes on the property market and tackle the associated risks.

13. FS responded that interest rate was but one of the factors influencing the property market. Other relevant factors included the demand supply and mortgage situation, as well as economic and employment conditions. Whilst the Administration recognized that the index of home purchase affordability was high and had been remaining on an elevated level for a prolonged period, HKMA had been implementing prudent measures for residential mortgage loans including stress test on borrowers' debt servicing ability. With an average loan-to-value ("LTV") ratio of new residential mortgage loans of 56% and debt servicing ratio (monthly repayment amount as a percentage of monthly income) of 36%, an assumed increase in mortgage interest rate by 3% would remain acceptable under the stress test. While it was expected that there would be some lag in the HKD interbank rates vis-à-vis the USD interest rates in the current interest rate hike cycle, the interest rate risk was a subject to be kept in close watch.

Monetary affairs

14. The Panel continued to receive regular briefings from the Chief Executive of HKMA and his colleagues on the work of HKMA. At the two briefings held in February and May 2022, HKMA exchanged views with members on a number of subjects including Hong Kong's financial stability, interest rate movements, development of the financial infrastructure and financial market, and management of the Exchange Fund ("EF").

Financial stability and interest rate movements

15. Members sought HKMA's assessment on the trend of the Aggregate Balance in the Hong Kong banking system which was an important indicator of HKD liquidity and interest rate movements of HKD. Some members expressed concern about the impact of the interest rate hikes by the US Federal Reserve on the HKD interbank rates and the stability of the banking system, and enquired about HKMA's response measures.

16. On the trend of the Aggregate Balance, HKMA said that it would be influenced by a number of factors, including the pace and magnitude of interest rate hikes in the US and the demand and supply situation of HKD. As regards the interest rate hikes in the US, under LERS considerable differentials in the USD and HKD interbank rates would incentivize market participants to conduct carry trades and lead to fund flowing out from the HKD market. The reduced liquidity would in turn lead to an increase in HKD interest rates in line with the interest rate automatic adjustment mechanism under LERS. Banks would decide on the timing of and magnitude for adjusting their interest rates having regard to their own commercial considerations. HKMA would keep the public informed of latest developments to facilitate their risk management arrangements.

17. Noting that Hong Kong's total household debt as a percentage of GDP stood at a high level of about 93%, members expressed concern about the impact of rising interest rates on the stability of the property market and the banking sector, especially given that some mortgage loans had relatively high LTV ratios.

18. HKMA pointed out that total household debt as a percentage of GDP had been rising, but had since levelled off somewhat. The more rapid increase in recent years was also partly attributable to the slowdown in the economy. Among the components of household debt, residential mortgages accounted for a significant portion, and these were subject to stringent regulatory requirements, including debt servicing and stress test requirements. Regarding the impact of rising interest rates, HKMA stressed that interest rate was one of the many factors that could affect the property market. Mortgage loans with a high LTV ratio comprised only a small portion of mortgage loans in Hong Kong, and a lot of these mortgage loans were covered by the Mortgage Insurance Programme

operated by the Hong Kong Mortgage Corporation Limited. As such, the impact of rising interest rates on the property market and banking sector should be manageable. HKMA would continue to monitor the property market closely and adjust its countercyclical measures on mortgage loans as necessary.

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

19. With the Hong Kong economy hit hard by the COVID-19 epidemic and many SMEs facing operational difficulties, members considered that the Administration and HKMA should implement measures promptly to assist such enterprises including further extending the Pre-approved Principal Payment Holiday Scheme ("PPPHS"). Members also called on HKMA to examine some banks' actions of tightening their credit facilities to SMEs, and stressed the need for HKMA to urge the banking sector to adopt an accommodative attitude in handling cases of late payment by individuals/enterprises affected by COVID-19 epidemic.

20. HKMA recognized the difficulties faced by local enterprises, particularly SMEs, and would endeavour to assist and support them during this challenging time including in determining the way forward of PPPHS. HKMA would discuss related matters with relevant parties under the Banking Sector SME Lending Coordination Mechanism, and call on banks to continue to render feasible assistance and flexible treatment to SMEs and individual customers facing temporary financial or liquidity difficulties, subject to prudent risk management principles.

21. In response to members' enquiries about the default rate of the Special 100% Loan Guarantee under the SME Financing Guarantee Scheme, and whether HKMA would consider expanding the scope of the Scheme, HKMA said that the cumulative default rate as at mid-January 2022 was around 0.5%, which was within expectation. HKMA would continue to monitor developments and review the Scheme as appropriate.

The Exchange Fund

22. Members noted that HKMA had replaced the market value cap for managing the size of the Long-Term Growth Portfolio ("LTGP") of EF by a target asset allocation that was determined concurrently with that of other asset classes, subject to prudent risk management principles. They enquired: (a) whether there were limits on the respective proportions of investment in private equities ("PEs") and real estate under LTGP; (b) whether HKMA would update its guideline to LTGP's external investment managers in the light of the impending US interest

rate hikes; and (c) the defensive measures taken or planned by HKMA in managing EF amidst the volatile market conditions.

23. HKMA responded that the indicative proportions of PEs and real estate in LTGP were roughly 70% and 30% respectively, subject to market conditions. On HKMA's guidance to the external managers, taking PE investments as an example, HKMA would seek to engage high quality external managers which focused on enhancing corporate management and governance of those entities they invested in. Regarding the defensive measures, HKMA said that it had been managing EF flexibly in response to fluctuations in global market conditions, and adjusting EF's asset allocation in a timely manner. For example, HKMA had been adjusting the holdings of floating-rate bonds to offset the impact of rising interest rates, appropriately adjusting its foreign exchange exposures arising from non-USD assets to reduce potential losses from a further strengthening of USD, and increasing the size of LTGP to diversify investments.

Review of the rating system

24. At the meeting on 4 April 2022, the Administration consulted the Panel on its proposals to introduce a progress element to the rating system for domestic properties and implement a new rates concession mechanism. Panel members in general supported the proposals on consideration that they could better reflect the "affordable users pay" principle and ensure fairness when providing rates concession. Members sought details on the proposed progressive rating scale including how the proposed three rates bands were developed.

25. The Administration said that rates had been charged to properties at a flat rate of 5% of the annual rateable value since 2000. Having considered the affordability of ratepayers and the additional revenue that could be generated, a progressive rating scale with three rates bands was proposed and the rates percentage charge(s) for the three rates bands would be set at 5%, 8% and 12%. Domestic properties with rateable value of $550,000 (equivalent to monthly rental of around $46,000) or below would not be affected and would continue to be subject to rates levied at 5% of their rateable values. It was envisaged that the proposed progressive rating system would not have any adverse impact on the competitiveness of Hong Kong's tax regime.

26. As regards the new rates concession mechanism, some members were of the view that the Administration should consider allowing an owner to enjoy rates concession for more than one domestic property if the holding of the property was to meet different needs (such as one for self-use and another for use by family members), as well as exempting elderly people from payment of rates for their self-occupied domestic properties. Some other members on the other hand opined that the Administration should consider applying higher rates percentage

charge(s) (i.e. a progressive rating scale) to owners holding more than one domestic property.

27. The Administration advised that the proposed new rates concession mechanism was consistent with the "affordable users pay" principle by limiting the provision of rates concession to one tenement to be elected by an eligible owner including elderly people, and the Government's objective of targeting the concessionary measure at those most in need while maintaining a simple rating system that was easy to administer. Providing rates concession to multiple domestic property owners and rates exemption to elderly owner-occupiers would complicate the rates concession mechanism. With the implementation of the new rates concession measures, it was expected that about 70% of domestic ratepayers would be eligible for applying for rates concession for their elected domestic property.

28. In response to members' enquiry about provision of rates concession for co-owned domestic properties, the Administration explained that under the proposed new rates concession mechanism, rates concession in respect of a domestic tenement would only be granted on election by a natural person. Eligible co-owners could make their own arrangement for one of them to apply for rates concession in respect of the co-owned property. If one of the co-owners had applied for rates concession in respect of the co-owned property, the other co-owner(s) could still apply for rates concession in respect of his/her other domestic tenement so long as he/she fulfilled the eligibility criteria.

Proposed tax concession for family offices

29. At the meeting on 4 April 2022, the Administration consulted the Panel on the legislative proposals to provide tax concession for eligible family-owned investment holding vehicles ("FIHVs") managed by single family offices ("SFO") in Hong Kong. Considering that the Administration's initiative would further attract family offices to establish in or relocated to Hong Kong, Panel members supported the proposals in general.

30. Members noted that under the tax proposal, FIHVs would enjoy profits tax exemption for qualifying transactions, i.e. transactions in specified assets currently provided in Schedule 16C to the Inland Revenue Ordinance (Cap. 112) ("IRO") for the purposes of unified profits tax exemption regime for privately and publicly offered funds. The specified assets mainly covered securities and other kinds of financial products commonly invested by funds. To qualify for the proposed tax concession, an FIHV must only serve as investment vehicle for holding and administering assets for the single family, and must not directly engage in activities for general commercial or industrial purposes.

31. Some members expressed concern about the competitiveness of the proposal and called on the Administration to consider relaxing certain requirements of the proposal to increase its attractiveness, including relaxing the substantial activities requirements on FIHVs and providing permanent resident status for members of the family offices established in Hong Kong.

32. The Administration responded that the current tax concession proposal, and the on-going measures implemented by Invest Hong Kong (e.g. establishing a dedicated team to provide one-stop services for family offices), were among the multi-pronged strategy of the Government to enhance Hong Kong's competitiveness as a family office hub and attract more family offices to set up and operate in Hong Kong, which would be vital in promoting the growth of asset and wealth management businesses. In developing the tax proposal, the Administration was mindful of the need to strike a proper balance of various policy objectives including attracting more family offices to set up in Hong Kong, bringing businesses to the local financial and related professional services sectors in Hong Kong, and aligning with international tax standards. Under the current proposal, FIHVs could be exempted from tax in respect of their assessable profits earned from any qualifying transactions and incidental transactions (subject to the 5% threshold). Regarding the proposed requirement for an FIHV to employ not less than two full-time employees in Hong Kong and incur not less than HK$2 million operating expenditure each year, the Administration explained that it aimed to ensure that the FIHV would carry out its core income generating activities ("CIGAs") in Hong Kong. On immigration policies for the members of the family offices, the Administration had introduced the immigration policies for talent, professionals and entrepreneurs available for family offices, including the General Employment Policy, Admission Scheme for Mainland Talents and Professionals, and Quality Migrant Admission Scheme.

33. On some members' view that the Administration should consider extending the proposed tax concession to FIHVs managed by multi-family offices ("MFOs"), the Administration advised that for FIHVs to qualify for the proposed tax concession, they had to meet a minimum asset threshold requirement and carry out their CIGAs in Hong Kong. This requirement was subject to the scrutiny of Organisation for Economic Co-operation and Development's Forum on Harmful Tax Practices. MFOs were generally independent service providers not exclusively owned by any single family and they might also engage in the provision of investment management services for FIHV(s) owned by different families as well as other investment entities. If MFOs were to be covered in the proposal, there would be practical difficulties in allowing the combined assessment of aggregate average value of specified assets of multiple FIHVs managed by the same SFO and outsourcing of the FIHV's CIGAs to the SFO. As such, the Administration had no plan to cover FIHVs managed by MFOs under the current proposal.

Progress update on the eMPF Platform Project

34. The Administration and MPFA briefed the Panel on the latest development of the eMPF Platform Project ("the Project") at the meeting on 4 April 2022. The objective of the eMPF Platform was to enhance the efficiency of the Mandatory Provident Fund ("MPF") system, thereby providing more room for fee reduction to benefit scheme members. According to the Administration's estimate, the average MPF administration fee would reduce by around 30% in the first two years when the eMPF Platform was in place, and the total cumulative quantifiable cost savings would possibly be in a range of $30 billion to $40 billion in 10 years of operation of the Platform. Members enquired how the Administration and MPFA would ensure a high digital take-up rate when the eMPF Platform become fully operational in 2025, and urged the Administration and MPFA to closely monitor the development progress of the Project to ensure its timely completion.

35. The Administration explained that as stipulated in the tender documents and contract for the development and operation of the eMPF Platform, it was the contractual responsibility of the Platform contractor to achieve a 90% digital take-up rate in five years after operation of the Platform. Regarding cost savings, the Administration advised that to ensure that any cost savings derived from the operation of the eMPF Platform would be passed directly to scheme members, the statutory requirements of "straight pass-on" of cost savings and "corresponding fee reduction" had been incorporated in the Mandatory Provident Fund Schemes Amendment Bill 2021 which was passed by LegCo in October 2021. Upon implementation of the eMPF Platform, it was expected that the average administration fees of MPF funds would be reduced by around 30% in the first two years of operating the Platform during the transitional period, while the overall industry-wide fund expenses ratio would be lowered by more than 10%.

36. Members noted that MPF trustees and their schemes would get onboard to the eMPF Platform in an ascending order of their asset-under-management ("AUM"), i.e. schemes with smaller AUM would get onboard first. The Administration had also set aside $210 million to support the handling of data cleansing and migration work by the early adopters who were willing to get onboard to the eMPF Platform early. Members sought information on the five early adopters and how would MPFA determine the amount of financial support to each adopter.

37. The Administration advised that invitation had been extended to all trustees to be early adopters and MPFA had accepted five applications from trustees. The current target was to enable the MPF schemes elected by the five early adopters to start migrating to the eMPF Platform from around

end-April 2023 onwards. As regards the funding provision of $210 million for the early adopters, each of the eligible early adopters would be allocated with a sum of about $30 million to $42 million to facilitate their transition process and management of risks arising from the connection of their systems to the Platform at an early stage. In a bid to better manage risks and ensure a smooth transition without affecting the day-to-day live administration of the MPF schemes, the sequence of trustees' onboarding would be determined by their AUM in ascending order.

<u>Development of financial technologies in Hong Kong and measures to tackle financial fraud</u>

38. At the meeting on 6 June 2022, the Administration updated the Panel the latest developments and the relevant measures of financial technologies ("Fintech") of Hong Kong, progress on the regulation of virtual assets ("VAs"), and measures to tackle financial fraud.

39. Panel members expressed concern about the rising number of social media ramp-and-dump scams, and urged the Administration to step up investigation and enforcement against the fraudsters, including the management of the listed companies concerned. Members enquired about the measures to deal with financial fraud involving overseas online trading platforms, and whether the Administration had plans to amend the Securities and Futures Ordinance ("SF Ordinance") (Cap. 571) to enhance enforcement against online financial fraud and scams.

40. The Administration advised that SFC had worked in collaboration with the Hong Kong Police Force ("HKPF") and other local and overseas regulatory authorities to combat financial fraud, including conducting joint operations against ramp-and-damp syndicates. Moreover, joint press conferences had been held to remind the public about stock trading scams and risks involved in VA trading on unregulated platforms. On the enforcement front, SFC also froze the assets of securities accounts suspected to be related to ramp-and-damp syndicates by issuing restriction notices under sections 204 and 205 of SF Ordinance.

41. Noting the fast-paced development of e-CNY with 261 million e-CNY wallets opened as at end-2021, members enquired about the measures to expedite the development of e-HKD and the relevant implementation timetable.

42. The Administration advised that HKMA published the initial findings of the technical aspects of the study on e-HKD in the form of a technical whitepaper in October 2021 for public consultation. A discussion paper on key policy and design issues was published in April 2022 to invite views. HKMA would collate the comments received including members' suggestion and offer initial thoughts on the development of e-HKD in Hong Kong later this year. On e-CNY, HKMA

and the Digital Currency Institute of the People's Bank of China completed the first phase of technical testing of using e-CNY for making cross-boundary payments in Hong Kong in December 2020, and were discussing arrangements for the next phase of the technical testing, which would include the involvement of more banks in Hong Kong and the use of the Faster Payment System to top up e-CNY wallets.

43. In response to members' enquiry on measures to attract overseas Fintech companies and talents to Hong Kong, the Administration advised that apart from nurturing talent through the Fintech training programmes operated by the Cyberport and other related organizations, it also helped Fintech companies in Hong Kong recruit overseas talent through the Talent List of Hong Kong and the Quality Migrant Admission Scheme. As regards attracting overseas companies to Hong Kong, the Administration pointed out that the dedicated Fintech team under InvestHK assisted 45 overseas companies to establish in Hong Kong in 2021, involving an investment amount totaling HK$1 billion and creation of 400 new jobs. To further expand the business and commercial use of Fintech in Hong Kong, the Fintech team would launch a new round of the Global Fast Track programme to enable business matching between local and global Fintech companies, and local and Asia-Pacific corporations and investors.

Regulation of Qualifying Deferred Annuity Policies

44. At the meeting on 4 July 2022, the Panel discussed with the Administration the regulatory requirements for qualifying deferred annuity policies ("QDAPs"). Panel members noted that under IRO, a QDAP had to be certified by IA for its compliance with the relevant guidelines (i.e. GL19 – Guideline on Qualifying Deferred Annuity Policy ("GL19")) before it would be eligible for tax deductions. Before launching a QDAP, the insurer would be required to submit an application to IA demonstrating that the policy had met various requirements, including those on the minimum total premiums, premium payment period, length of annuity period and age of annuitization. GL19 also laid down the disclosure requirements applicable to QDAPs.

45. Noting that one of the objectives of introducing tax concessions for QDAPs was to encourage the development of the deferred annuity market, members enquired if the Administration had reviewed whether the objective had been achieved, and whether it had plans to further develop the market.

46. The Administration advised that there were currently 23 QDAPs offered by 19 insurers in the market, and a total deduction amount of about HK$14.6 billion had been allowed to about 280 000 counts of taxpayers for premiums paid to QDAPs for the years of assessment 2019-2020 and 2020-2021. The number of annuity policies issued had also risen from 63 000 in 2012 to 104 000 in 2021. The data reflected that the tax deduction arrangements had

been well received by the insurance sector and the public, and that QDAPs had significantly encouraged the development of the deferred annuity market. To cater for the evolving market, the Administration would continue to collaborate with IA and the insurance industry in monitoring market development, and consider possible modifications in the eligibility criteria as needed.

47. Members noted that the HKMC Annuity Plan underwritten by HKMC Annuity Limited was not a QDAP eligible for tax deductions, and asked if the Administration and HKMA would consider refining the HKMC Annuity Plan, in particular turning it into a tax-deductible QDAP. Some members suggested that HKMA should consider issuing a QDAP denominated in Renminbi, with a view to strengthening Hong Kong's position as an international offshore Renminbi business hub.

48. The Administration explained that there were two major types of annuity, i.e. immediate annuity and deferred annuity. While QDAPs were deferred annuities which aimed to encourage members of the public to make early and regular savings for post-retirement income stream, the HKMC Annuity Plan was a form of immediate annuity that would provide applicants, who must be 60 years old or above, an income stream immediately after a single premium payment. The two types of products served different objectives and target groups. FSTB would collaborate with HKMA in considering members' suggestions to refine the HKMC Annuity Plan.

49. Members sought information on the channels adopted by the regulators and investor education bodies in disseminating relevant information on annuity products to policyholders. Members further suggested: (a) including anti-deception messages in the public education materials designed for retirees; (b) conducting evaluations on the effectiveness of the current promotion strategies for deferred annuities; and (c) stepping up efforts to educate the younger population on the benefits of deferred annuity products.

50. IA advised that it had been disseminating QDAP-related publicity and educational materials through its website, videos, publications and public seminars. IA and the Investor and Financial Education Council had also jointly developed an educational website to provide educational information about QDAPs including anti-deception tips. IA would continue to use different channels, such as social media platforms and the radio, to effectively promote public education messages to target clients of QDAPs in different age groups. The Administration added that IA was developing and designing an enhanced list of QDAPs for its website which would further help the public understand and compare QDAP products. The enhanced list was expected to be available in the first quarter of 2023.

Development of green and sustainable finance in Hong Kong

51. At the meeting on 3 October 2022, the Panel discussed the Administration's key initiatives in developing green and sustainable finance in Hong Kong, including the progress in developing Hong Kong into a global, high-quality voluntary carbon market ("VCM").

52. Members urged the Administration to strengthen its liaison with the relevant Mainland authorities, including the Guangdong-Hong Kong-Macao Greater Bay Area ("Greater Bay Area"), to attract more municipal governments and corporates in the Mainland to use Hong Kong's platform to issue green bonds, as well as introduce facilitative measures (e.g. by reducing overly complicated application procedures and overly stringent regulatory requirements) to help issuers launch different types of green and sustainable financial products in Hong Kong, so as to facilitate the participation of retail investors and small and medium-sized securities firms, and further promote market diversification.

53. The Administration assured members that it would continue to promote the development of green and sustainable finance through various channels, including maintaining liaison with other cities of the Greater Bay Area and promoting the Green and Sustainable Finance Grant Scheme to encourage more Mainland entities to use Hong Kong's platform for green and sustainable financing and certification. Regarding green and sustainable financial products, as at the end of June 2022, there were about 135 retail "environmental, social and governance" ("ESG") funds in the Hong Kong market with a market value of about US$162 billion, and more than half of the constituent funds of MPF schemes were invested in ESG products amounting to a market value of HK$15.6 billion. In addition, the Government issued the inaugural retail green bond totaling HK$20 billion in May 2022. The Administration and SFC would continue to communicate with the industry and enhance the approval procedures for relevant products.

54. Highlighting the importance for Hong Kong to capitalize on its advantages as an international financial and risk management centre by developing a VCM to facilitate the trading of carbon credits and related products, members enquired about the carbon market opportunities for Hong Kong and the way forward, including the roadmap and timetable for developing Hong Kong into a global, high-quality VCM, and the Administration's facilitative measures in promoting the development of the carbon market.

55. The Administration and the Hong Kong Exchanges and Clearing Limited ("HKEX") pointed out that as a financial centre connecting the Mainland and the rest of the world, Hong Kong was well-positioned to develop a local VCM providing an additional trading channel for buyers of carbon credits from the Mainland and overseas. HKEX had been taking forward a number of measures

proactively to promote the development of the carbon market, including signing a Memorandum of Understanding ("MoU") with the Guangzhou-based China Emissions Exchange in March 2022 to jointly explore the development of a voluntary carbon emission reduction programme in the Greater Bay Area, and signing an MoU with the Guangzhou Futures Exchange in August 2021, with a view to driving a green and low-carbon market and promoting the development of related futures products in the Greater Bay Area. Besides, HKEX launched the Hong Kong International Carbon Market Council in July 2022 in collaboration with a number of Mainland China and international corporates and financial institutions to explore carbon opportunities in the region and facilitate the development of an efficient and effective Hong Kong-based international carbon market.

56. Members asked whether the Administration had plans to collaborate with the financial regulators in the Mainland in developing a set of certification standards for green bonds and other green financial products, with a view to developing Hong Kong into a regional certification hub.

57. The Administration advised that the Mainland and the European Union were working jointly on the Common Ground Taxonomy ("CGT"). The Green and Sustainable Finance Cross-Agency Steering Group ("Steering Group") formed by relevant government bureaux and financial regulators would, with the aim of aligning with CGT, explore developing a green classification framework for adoption in the local market. The work would be guided by the principles of interoperability, comparability and inclusiveness, taking into account other definitions of green, transitional activities, and local considerations. The Steering Group would continue to engage the industry and other relevant stakeholders to better understand the features and relevant challenges, and work towards proposing the structure and core elements of the local green classification framework for consultation.

Other work

58. During the 2022 legislative session, the Panel also discussed with the Administration and related bodies a number of other subjects. The major ones are:

(a) legislative proposals, including;

(i) amendments to the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) to enhance Hong Kong's regulatory regime for combating money laundering and terrorist financing in fulfilment of its obligations under the Financial Action Task Force;[1]

(ii) amendments to the Professional Accountants Ordinance (Cap. 50) and the Professional Accountants By-laws (Cap. 50A) to revise the election arrangements of the Council of the Hong Kong Institute of Certified Public Accountants ("HKICPA") and enhance HKICPA's administrative procedures;[2]

(iii) subsidiary legislation for implementing the new regulatory regime for the accountancy profession;[3]

(iv) proposed resolution to amend the Mandatory Provident Fund Schemes (General) Regulation (Cap. 485A) to facilitate MPF investment in debt securities issued in the Mainland;[4]

(v) amendments to IRO to introduce a new foreign-sourced income exemption regime for offshore passive income;[5] and

(vi) proposal to exempt the stamp duty on stock transfers for specified transactions conducted by market makers for dual-counter stocks;

(b) the work of the Financial Services Development Council in 2021-2022 and its work plan for 2022-2023; and

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1 The Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Bill 2022 received its First Reading at the LegCo meeting of 24 June 2022. Resumption of the Second Reading debate on the Bill is scheduled for the LegCo meeting of 7 December 2022.

2 The Professional Accountants (Amendment) Bill 2022 was passed at the LegCo meeting of 13 July 2022.

3 The three pieces of subsidiary legislation were tabled for LegCo's negative vetting on 11 May 2022, and the new regulatory regime commenced on 1 October 2022.

4 The proposed resolution under section 46 of the Mandatory Provident Fund Schemes Ordinance (Cap. 485) to seek LegCo's approval of the Mandatory Provident Fund Schemes (General) (Amendment) Regulation 2022 was passed at the LegCo meeting of 1 June 2022.

5 The Inland Revenue (Amendment) (Taxation on Specified Foreign-sourced Income) Bill 2022 received its First Reading at the LegCo meeting of 2 November 2022.

(c) the proposed budget of SFC for the financial year 2022-2023.

59. From January to November 2022, the Panel has held a total of nine meetings. The Panel has scheduled another meeting for 5 December 2022 for FS to brief Members on Hong Kong's latest overall economic situation and consult Members on the 2023-2024 Budget, as well as for the Administration to consult the Panel on the proposed enhancements to the position limit regime for the derivatives market in Hong Kong.

Council Business Division 1 and Public Complaints Office
Legislative Council Secretariat
28 November 2022

Appendix 1

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 2

Panel on Financial Affairs

Membership list for 2022 session*

Chairman	Hon Jeffrey LAM Kin-fung, GBS, JP
Deputy Chairman	Dr Hon Stephen WONG Yuen-shan
Members	Hon Tommy CHEUNG Yu-yan, GBM, GBS, JP Hon Starry LEE Wai-king, GBS, JP Hon CHAN Kin-por, GBS, JP Hon Mrs Regina IP LAU Suk-yee, GBM, GBS, JP Hon CHAN Chun-ying, JP Hon Robert LEE Wai-wang Dr Hon Johnny NG Kit-chong, MH Hon LAM San-keung, JP Hon Duncan CHIU Hon Rock CHEN Chung-nin, SBS, JP Hon CHAN Pui-leung Hon Sunny TAN Dr Hon Kennedy WONG Ying-ho, BBS, JP Hon Edmund WONG Chun-sek Hon TANG Ka-piu, BBS, JP Hon Louis LOONG Hon-biu Dr Hon TAN Yueheng, JP
	(Total：19 members)
Clerk	Ms Connie SZETO
Legal Adviser	Mr Mark LAM

* Changes in membership are shown in Annex.

Annex to Appendix 2

Panel on Financial Affairs
Changes in membership

Member	**Relevant date**
Prof Hon Nelson LAM Chi-yuen, JP	Up to 18 June 2022

For **changes in LegCo Membership**, please refer to the link below:
(https://www.legco.gov.hk/en/members/legco-members/changes-in-legco-membership.html)