

**OFFICIAL REPORT OF PROCEEDINGS****Wednesday, 8th January 1975****The Council met at half past two o'clock****PRESENT**

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)  
SIR CRAWFORD MURRAY MACLEHOSE, KCMG, MBE  
THE HONOURABLE THE COLONIAL SECRETARY  
MR DENYS TUDOR EMIL ROBERTS, CBE, QC, JP  
THE HONOURABLE THE FINANCIAL SECRETARY  
MR CHARLES PHILIP HADDON-CAVE, CMG, JP  
THE HONOURABLE THE ATTORNEY GENERAL  
MR JOHN WILLIAM DIXON HOBLEY, QC, JP  
THE HONOURABLE THE SECRETARY FOR HOME AFFAIRS  
MR DENIS CAMPBELL BRAY, JP  
THE HONOURABLE JAMES JEAVONS ROBSON, CBE, JP  
SECRETARY FOR THE ENVIRONMENT  
DR THE HONOURABLE GERALD HUGH CHOA, CBE, JP  
DIRECTOR OF MEDICAL AND HEALTH SERVICES  
THE HONOURABLE IAN MACDONALD LIGHTBODY, CMG, JP  
SECRETARY FOR HOUSING  
THE HONOURABLE DAVID HAROLD JORDAN, MBE, JP  
DIRECTOR OF COMMERCE AND INDUSTRY  
THE HONOURABLE LI FOOK-KOW, CMG, JP  
SECRETARY FOR SOCIAL SERVICES  
THE HONOURABLE DAVID AKERS-JONES, JP  
SECRETARY FOR THE NEW TERRITORIES  
THE HONOURABLE DAVID WYLIE MCDONALD, JP  
DIRECTOR OF PUBLIC WORKS  
THE HONOURABLE KENNETH WALLIS JOSEPH TOPLEY, JP  
DIRECTOR OF EDUCATION  
THE HONOURABLE IAN ROBERT PRICE, TD, JP  
COMMISSIONER FOR LABOUR  
DR THE HONOURABLE CHUNG SZE-YUEN, CBE, JP  
THE HONOURABLE WILSON WANG TZE-SAM, OBE, JP  
THE HONOURABLE LEE QUO-WEI, OBE, JP  
THE HONOURABLE OSWALD VICTOR CHEUNG, OBE, QC, JP  
THE HONOURABLE ROGERIO HYNDMAN LOBO, OBE, JP  
THE HONOURABLE MRS CATHERINE JOYCE SYMONS, OBE, JP  
THE HONOURABLE PETER GORDON WILLIAMS, OBE, JP  
THE HONOURABLE JAMES WU MAN-HON, OBE, JP  
THE HONOURABLE HILTON CHEONG-LEEN, OBE, JP  
THE HONOURABLE LI FOOK-WO, OBE, JP  
THE HONOURABLE JOHN HENRY BREMRIDGE, JP  
DR THE HONOURABLE HARRY FANG SIN-YANG, OBE, JP  
THE HONOURABLE MRS KWAN KO SIU-WAH, MBE, JP  
THE HONOURABLE LO TAK-SHING, JP  
THE HONOURABLE FRANCIS YUAN-HAO TIEN, OBE, JP

**ABSENT**

THE HONOURABLE LEWIS MERVYN DAVIES, CMG, OBE, JP  
SECRETARY FOR SECURITY

**IN ATTENDANCE**

THE CLERK TO THE LEGISLATIVE COUNCIL  
MR KENNETH HARRY WHEELER

**Papers**

The following papers were laid pursuant to Standing Order 14(2): —

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Subsidiary Legislation:	
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(No 2) Order 1974 .....	264
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Hong Kong Airport (Control of Obstructions) Ordinance. Hong Kong Airport (Control of Obstructions) (Amendment) Order 1974.....	273
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Sessional Paper 1974-75:	
No 25—Report of the University and Polytechnic Grants Committee of Hong Kong July 1972 to June 1974 (published on 8.1.75)	

### **Oral answers to questions**

#### **Civil service housing**

1. MR F. W. LI asked: —

Sir, has Government come to a decision on whether it will inaugurate a loan scheme for middle-income civil servants who are neither entitled to allocation in public housing nor are given Government accommodation or housing allowances by reason of their income bracket?

THE COLONIAL SECRETARY: —No, Sir.

#### **Termination of UK Sterling Guarantee**

2. DR CHUNG asked: —

In view of the termination of the UK Sterling Guarantee at the end of last year and the recent floating of the HK dollar against the US dollar, will Government make a statement on the situation of these developments and their effect on commerce and industry in Hong Kong?

THE FINANCIAL SECRETARY: —Sir, as honourable Members are aware, the United Kingdom Government was not called upon to implement the sterling guarantee for the period 1st April to 31st December 1974. This was because compensation became payable only if sterling's effective (that is to say trade-weighted) depreciation against a

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basket of currencies since the Smithsonian agreement in December 1971 averaged more than 18.35% over the nine-month period of the guarantee. The effective depreciation was 16.8% at the beginning of the period and 21.4% at the end, but the average was only 18.15%.

The United Kingdom Government did, of course, have to pay out compensation under the five year Sterling Guarantee Agreement ending on 24th September 1973 and under the unilateral guarantee offer covering the period from 25th September 1973 to 31st March 1974. The terms of this latter offer differed from the terms of the previous bilateral agreement in two respects: first, only the sterling assets of the Government and the Exchange Fund were covered (that is to say the banks' sterling assets were excluded); and, secondly, the guarantee rate was not a fixed rate between sterling and the US dollar but, instead, it was the average rate between sterling and the US dollar over the period. The total compensation received by this Government under these two guarantee arrangements amounted to £ 25 million.

The likelihood that the guarantee applicable to the last nine months of 1974 would not be implemented became apparent to us towards the end of October. The average effective depreciation of sterling by 31st October was only 17.53% and it seemed unlikely that the rate would weaken so sharply in the following two months so as to bring the average effective depreciation over the nine-month period up to 18.35%. Then came the announcement by the Chancellor of the Exchequer on 12th November that the guarantee would not be further extended after it expired on 31st December. This confirmed my view that there was no longer any justification for maintaining our sterling holdings at or above the required figure of 70% of total official external reserves at 31st March 1974. Before sterling reached its largest depreciation in mid-December we had already reduced the sterling proportion of our external reserves to below 70% and subsequent movements have reduced the proportion to around 50%. I would prefer not to specify any particular proportions for the various currencies in which we would ultimately aim to hold our external assets. These will need to vary as a matter of day to day management in the light of our judgment of prevailing exchange risks, the yields available in different centres and on different types of monetary assets, the need to provide cover against future foreign exchange commitments and the availability of assets suited to our needs. Needless to say, the way in which we manage our external assets must also have regard to the state of the foreign exchange markets from time to time.

Turning now, Sir, to the other aspect of my honourable Friend's question: whilst the termination of the sterling guarantee does not itself have any direct bearing on commerce and industry in Hong Kong, the floating of the Hong Kong dollar is, of course, significant if it results in large fluctuations in the external value of our currency. I am very conscious of the adverse impact of an appreciation of the Hong Kong dollar on those concerned with exports, particularly to the United States. However, as our exports generally have a large import content, there is an offsetting gain in the cost of raw materials once existing inventories have been used up. Moreover, the strength of the Hong Kong dollar in relation to currencies as a whole is rather exaggerated by the prevailing rate against the US dollar, which has tended to be weak itself against almost all other major currencies.

In the event, the exchange rate against the US dollar moved back closer to its previous levels in the last week or two of 1974, though it has strengthened again recently. On 31st December the rate was only 1 $\frac{3}{4}$ % higher than a week before we floated, and our trade-weighted index showed that the overall effective value of the Hong Kong dollar was not very different from a year ago.

A floating rate reduces the potential profit to be made from speculation and, provided interest rates do not encourage flows of interest-sensitive funds, then the rate will automatically come to a level appropriate to our balance of payments situation. That is to say, if we cannot export competitively at any particular rate, then the absence of foreign exchange proceeds from exports will automatically weaken the Hong Kong dollar in terms of other currencies. The banks have shown their readiness to change their interest rates quickly. This has clearly had some effect in discouraging short term inflows which were one feature of the exceptional supply and demand position which began to emerge in mid-November and which made it necessary eventually to float. And the large reduction in the banks' lending rates has been of substantial benefit to manufacturers and traders.

Having said all this, Sir, in the circumstances of our externally oriented economy and our flexible cost/price structure, I do recognize the advantage to traders of having a fixed exchange rate framework. I announced at the time of the float that the Government would consider re-fixing as soon as conditions permitted. However, conscious as I am of the desirability of re-fixing, I must say, here and now, that re-fixing is not just dependent on the rate for the Hong Kong dollar in the market settling at a given level for a reasonable period of time. For a fixed parity to have any credibility, after floating has become so

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common, it will be necessary for a degree of stability in the international monetary system as a whole to have been re-established.

DR CHUNG: —Sir, may I ask my honourable Friend what was the total exchange loss incurred over the period from the beginning of the sterling guarantee, that is from 24th September 1968 until the end last year?

THE FINANCIAL SECRETARY: —Sir, it is really quite impossible to calculate such a figure satisfactorily by simply comparing the Hong Kong dollar value of our overseas assets at the beginning of the period with the value at the end (or by using any other numeraire for that matter). The fact is there are so many ways in which a loss so calculated can be assessed and the loss cannot be divorced entirely from the contractual obligation the Exchange Fund had to compensate the banks for their losses in Hong Kong dollar terms in the five years up to 24th September 1973. Nor can the loss be divorced from the differential yield on sterling assets. Furthermore any loss can only be assessed in terms of possible losses which might be incurred under other courses of action such as investment in US dollar denominated assets or a retreat back into Hong Kong dollar which would have affected the external value of our currency to the detriment of our exporting interests. So a simple answer, Sir, to my honourable Friend's question is just not possible and could indeed be highly misleading.

DR CHUNG: —Sir, may I further ask my honourable Friend what is the total value of the Government's external assets and what proportion are they of the total external assets of the whole Colony?

THE FINANCIAL SECRETARY: —Sir, we do not know what external assets are held privately by individuals and companies, but I estimate that the Government's and the banks' assets taken together amounted to the equivalent of US\$2,350 million at the end of December 1974. The value of the assets owned by the Government was the equivalent of about US\$1,000 million and I would stress here that as with the bank's assets, the Government's assets are largely held against local liabilities, particularly those of the Exchange Fund, the Coinage Security Fund and the Rehabilitation Loan Sinking Fund.

DR CHUNG: —Sir, may I ask my honourable Friend my last supplementary to this question? What is the value of the reserves available for spending on public services if necessary?

THE FINANCIAL SECRETARY: —Sir, as at the 1st April 1974, as I explained in my budget speech, our fiscal reserves—or if you like our free surplus—in both overseas and local assets amounted to the equivalent of HK\$2,800 million; but, as a result of this year's very heavy seasonal deficit and a further weakness in the guilt edged market in London, I estimate that this figure had declined to about HK\$2,000 million at the 31st December 1974, though of course I expect some recovery before the end of this financial year.

### Postage stamp issues

3. MRS SYMONS asked: —

Sir, (a) Will Government say how many special postage stamps are to be issued in 1975?

(b) Will local designers be commissioned?

SECRETARY FOR HOME AFFAIRS: —Sir, we normally confine commemorative stamp issues to three in any one year. There is flexibility to recognize very special events and a fourth issue to commemorate the Queen's visit is planned for this year. The other issues for 1975 are: the Lunar New Year: this is the ninth in a twelve-year cycle; traditional festivals in Hong Kong; and Hong Kong birds.

The three issues originally planned for 1975 are all of local design in accordance with the policy laid down by the Stamp Advisory Committee. The Royal Visit stamp has had to be done in London because of time and the fact that much of the approved material for use in a stamp of this nature is not available in Hong Kong. But it will be designed in accordance with guidelines prepared here.

DR CHUNG: —Sir, may I ask my honourable Friend if he can indicate when these special postage stamps will be issued during the year 1975?

SECRETARY FOR HOME AFFAIRS: —Sir, the Lunar New Year and the Royal Visit stamps will be issued shortly before these events in February and in May. The other two will be issued in accordance with progress on the design. The dates are not yet fixed.

**Oral answers****Hong Kong shipping register**

4. MR WU asked: —

Sir, could Government indicate the present position regarding the establishment of a Hong Kong shipping register?

THE FINANCIAL SECRETARY: —Sir, Hong Kong already maintains, of course, a Register of Shipping as a British Port of Registry. The purpose of the discussions which have been going on with the British Government is to see whether the conditions for registration can be made more flexible in certain respects to reflect the different situation in Hong Kong as compared with the United Kingdom, while maintaining of course essential standards. Our aim is to persuade more Hong Kong shipowners to register their ships in Hong Kong rather than under flags of convenience.

These discussions are continuing on various issues which it is necessary to resolve before agreement can be reached on the new conditions to be applied.

There are in fact two main issues involved. The first is the possibility of examinations which might be introduced to test serving officers on Hong Kong owned ships who hold foreign certificates of competency in order to qualify them to serve on ships registered in Hong Kong. And the second is the procedure for approval of certain types of ships' equipment and materials, mainly safety equipment, on ships built for Hong Kong owners.

**Administrative appeals tribunal**

5. MR CHEUNG asked: —

Sir, what progress has been made towards setting up an administrative appeals tribunal?

THE ATTORNEY GENERAL: —None, Sir, of any significance.

MR CHEUNG: —Sir, this matter was being given urgent attention by the Government a year ago according to Hansard. Could my Friend elucidate what has happened in the interval?

THE ATTORNEY GENERAL: —Sir, even urgency is relative (*laughter*). However the honourable Mr CHEUNG does have me slightly on the defensive here (*laughter*) as action in this matter has rested largely with my office. However he knows that it is a complex matter and I think I must say that the Government has not yet accepted in principle the desirability of establishing such a tribunal. I hesitate to say that the matter is still being examined, but the fact is that it is—this time I make no forecast as to the outcome.

MR CHEUNG: —My Friend may like to enlist the help of Unofficial Members who give a slightly different definition to the word "urgent"?

### Recreation and sport

6. MR CHEONG-LEEN asked: —

Sir, which Government department is principally responsible:

- (a) for the co-ordination of recreation and sport at the CDO district level and
- (b) for encouraging more participation by district community leaders in the work of the District Recreation and Sports Councils?

SECRETARY FOR HOME AFFAIRS: —Sir, if I may I propose to take the two parts of my honourable Friend's question and reply to them together as they are related.

The Recreation and Sports Officers of the Education Department are responsible for organizing and co-ordinating physical recreation and sports activities at the district level, while advice on the formulation of policies relating to the promotion of recreation and sport generally is the responsibility of the Council for Recreation and Sport, of which I am the Chairman. So far, six Recreation and Sports Officers have been appointed to six districts. More will be appointed in future when funds become available.

The Recreation and Sports Officers work closely with City District Officers and Community Youth Officers. They meet regularly to ensure that there is no duplication of effort within a district in organizing activities. In some cases where a sports association or a youth council or a similar body exists in a district it offers a convenient forum for the Recreation and Sports Officer to work on. I take it that it is these bodies that my honourable Friend is referring to in the second

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part of his question, as there are no District Recreation and Sports Councils as such. Members of the sports associations and youth councils all come from within the districts. Here again, the Recreation and Sports Officers in conjunction with the City District Officers and Community Youth Officers, through their respective contacts in the districts, do their best to encourage as wide a local community participation as possible in the work of these district bodies.

MR CHEONG-LEEN: —Sir, since the need for setting up district recreation and sports councils has been expressed in some quarters, will my honourable Friend consider the feasibility of setting up such district recreation and sports councils, not so much for the formulation of policies but more by way of co-ordinating district recreation activities, and bearing in mind the need for active non-official participation in such councils?

SECRETARY FOR HOME AFFAIRS: —Sir, I think the bearing in mind is rather more important than the formation of the councils. The Recreation and Sports Officers are proceeding informally for the most part at present. I am sure that this is right until things settle down a bit rather than proceeding with the formal establishment of councils.

### **Overhead transportation**

7. DR FANG asked: —

Sir, (a) Will Government provide details of the study which is currently being carried out in the Secretariat on possible overhead means of transport?

(b) Could this take the place of the mass transit railway?

SECRETARY FOR THE ENVIRONMENT: —Sir, I believe that my honourable Friend is referring to the proposal for a monorail rapid transit system which, as honourable Members know, was recently submitted to Government and considered by Executive Council.

No study of this monorail is currently being carried out in the Secretariat but it has been agreed that the promoters, the Hong Kong Aerial Rapid Transport System Limited, can do so and that if the study demonstrates to Government the feasibility of the system then

the company would be permitted to design, construct and operate the rapid transit system as a private venture without financial assistance from the Government.

The suggested and tentative alignment for the monorail system is from Tsim Sha Tsui to the Airport via the new Hung Hom Railway Station with possible extensions to Choi Hung and Kwun Tong. A feasibility study is necessary to appraise in particular: —

- (a) whether the detailed alignment of the monorail is, or could be made, physically compatible with other activities along the monorail's route;
- (b) whether the technical performance of the type of monorail which has been proposed would be satisfactory for the service which it was intended to provide; and
- (c) how the service to be provided can be best integrated with that provided by surface buses and the proposed underground railway.

In submitting its proposals the company indicated its willingness to have such a feasibility study conducted by consulting engineers acceptable to Government who would be required to liaise closely with Government officials when conducting the study. But the company made it clear that, before it would be prepared to embark upon this costly study, it would require certain assurances from Government.

I have written conveying the Executive Council's decision to the company and I now await a letter from the company indicating whether, on the strength of the assurances which Government is prepared to give, it proposes to go ahead with the feasibility study.

As regards the second part of my honourable Friend's question, the answer is that because the proposed monorail is a rapid transit system, not a mass transit system, it is not considered as an alternative to the underground railway. Nevertheless, although the monorail's carrying capacity of around 8,000 persons per hour is small in relation to the 45,000 hourly capacity of the East Kowloon Line of the proposed underground railway, it could be built quickly—probably at least 8 to 10 years before the underground line—and will continue to provide an invaluable service even if the East Kowloon Underground Railway is built. It also seems probable that the carrying capacity of the monorail could be expanded if the demand justified this.

[THE SECRETARY FOR THE ENVIRONMENT] **Oral answers**

In short, the two systems are, basically, complementary in both the short and long term. The monorail passengers would tend to be tourists, people using the Airport and people from areas immediately adjacent to the route, whereas the underground railway (when it comes to be built) will cater mainly for commuters.

I should perhaps add, Sir, it is hoped that the feasibility study will confirm the preliminary indications that the monorail system proposed, known as the ROMAG system, is capable of providing services to areas, such as Mid-Levels, which are inaccessible from traditional mass transit systems.

DR CHUNG: —Sir, may I ask my honourable Friend what are the assurances which Government is prepared to give the company?

SECRETARY FOR THE ENVIRONMENT: —The assurances are, Sir, that if the feasibility study indicates that the overhead railway will provide the service which the promoters claim and we accept that it is a feasible system which will not for instance create undue obstruction on the roads, then we would allow the developers to develop the railway. We would not be prepared to give an assurance that they could charge what fares they would like. We feel that this is a matter which Government must make the final decision on.

### **Vacant flats in housing estates**

8. MR CHEONG-LEEN asked: —

Sir, what are the plans to reduce to a lower figure the 11,000 vacant flats in Housing Authority estates which have a potential of \$1.2 million in monthly revenue?

SECRETARY FOR HOUSING: —Sir, the number of Housing Authority flats standing vacant today is just under 8,000, that is, it has been reduced substantially from the figure of 11,000 flats mentioned by my honourable Friend. This process is continuing.

When I answered a question on this subject on 8th May last year I explained that these reservations have to be made to meet various rehousing commitments and I gave an assurance that they would be carefully watched to ensure that any empty units not needed because of changing circumstances would be allocated without further delay.

As part of the effort to keep these vacancies to the minimum, the Housing Department recently introduced more flexible centralized arrangements for allocating flats to the various eligibility categories, and this should help in identifying reserved flats available for reallocation as a result of changed clearance or other commitments. This system is still settling down and should demonstrate its full capabilities in the next few months.

### **US Trade Bill**

9. MR TIEN asked: —

Sir, in view of the enactment of the US Trade Bill, will Government say whether full details of the new law have been received and, if so, what is the likely effect of its provisions on Hong Kong's trade and industry?

MR JORDAN: —No, Sir, the full text of the Trade Act isn't available yet. This is because the final version was agreed by the Senate-House conference only just before Christmas. I have of course asked our Counsellor for Hong Kong Commercial Affairs in Washington to send us a copy as soon as the Act is published.

So I can't say at the moment what the precise effects on Hong Kong's trade and industry are likely to be. I can only make two general comments.

The first is that now that the Act has given the United States Administration authority to negotiate reductions in tariffs and other obstacles to trade, the GATT Multilateral Trade Negotiations can get under way. The aim of these negotiations is to achieve further expansion and liberalization of world trade by reducing tariffs and other trade barriers. Since the concessions made in these negotiations will be made on the "most-favoured-nation" basis, that is they must be applied to all GATT members without discrimination, Hong Kong will benefit from them too, as we benefitted from the trade expansion generated by the tariff reductions agreed in the Kennedy Round in 1967.

Another part of the Trade Act is of particular interest to us. This is the section that authorizes the United States Administration to establish a Generalized Scheme of Preferences, to permit duty free entry to the United States of certain products exported by those countries and territories that are accorded beneficiary status under the Scheme. We intend to apply for beneficiary status for Hong Kong.

[MR JORDAN] **Oral answers**

However, we cannot assess the effect of the Scheme yet since it has not yet been announced which products will be included in it. But we do know some of what won't be. The products entirely excluded from the Scheme include all textiles and clothing and most footwear.

**Statement**

**Proposals concerning the financial sector**

THE FINANCIAL SECRETARY: —Sir, I wish with your permission to make a statement about the Government's intentions in the related areas of bank licensing policy, protection of investors and the control of finance companies. My answers to questions in this Council during the past two years, and my references in the budget debate last year, will have led honourable Members to expect such a statement long ago, but there has had to be a long and complicated process of consultation which has only now reached the point where proposals can be made. Even so, as I shall explain, my proposals are of an interim nature only.

I shall begin by sketching in the background. As regards bank licensing policy, the total embargo on new licences imposed in 1965, and only marginally relaxed since, was intended to provide for a period of consolidation after the introduction of the 1964 Banking Ordinance and after the banking difficulties of the 1960s. It has become increasingly difficult to justify the effect it has of excluding some of the most reputable international banks and of preventing reputable local groups from graduating to licensed bank status. Yet the 74 existing licensed banks ought to be sufficient to meet the needs of Hong Kong's population, and its industry and commerce, for the kind of "retail" branch banking which the Banking Ordinance is intended to regulate. And in fact it has emerged during discussions with prospective applicants that much of the pressure for new banking licences arises from a wish not so much to conduct this kind of banking as to do "wholesale" banking business and to be able simply to be a bank—that is to say, to use the word bank or something similar in the title. This latter wish arises because there are benefits in operating under a well-known and respected name and as a recognized bank: money is available more easily and cheaply, and access to the interbank market might be obtained.

The need for measures for the protection of depositors was raised in the First Report of the Companies Law Revision Committee in 1971. At present, any person or company can solicit deposits relatively freely, subject only to limitations imposed by the Banking Ordinance on what

is defined as banking business. The Government accepted the need for small depositors to be protected, and proposed to achieve this by providing that small deposits could be held only with licensed banks. A bill to this end was prepared some months ago, but it has been held up because of the pressure for still stricter control of finance companies.

The need for control of finance companies has been urged on me partly as a matter of directly protecting depositors and partly to protect the general health of Hong Kong's financial system: that is to say, to guard against the possibility that failures among finance companies might start a chain reaction which could damage the banks, and hence depositors indirectly; and to protect the banks from unfair competition. Little information is available about the number of deposit-taking companies operating in Hong Kong or the scale of their operations. It is difficult, therefore, to assess the extent of the problem or of the resources which might need to be employed to cope with it.

Soon after last years' budget debate, I set in motion an examination of these three problems, as a result of which the administration formed the following views. First, there was no case for a change in bank licensing policy which would substantially increase the number of banks licensed to conduct all forms of banking business. The "retail" banking sector is of such importance to the economy that it must be closely supervised and controlled, so as to ensure prudent conduct; while, at the same time, it is entitled to some protection against unbridled competition in return. Secondly, however, the pressure for new banking licences could be relieved by allowing controlled access to what has come to be known as "wholesale" banking: in particular, borrowing and lending funds on a large scale and money market activity generally. Thirdly, this concept of a wholesale banking sector would provide a means we thought of bringing the larger and more important finance companies under close control. Fourthly, the proper way to protect small depositors we thought was to confine the taking of small deposits to the existing licensed banks. Fifthly, we considered the Government had no duty to protect the larger depositor in a way that might limit his freedom, at his own risk, to seek the best returns or generally to do what he likes with his own money. He should be expected to be capable of judging the risk or of obtaining competent advice. Sixthly, the employment of substantial resources in the close control of finance companies which were barred from taking small deposits would probably in our view not be justified, but such companies we thought should be registered, and required to satisfy at least certain minimum capital requirements and to provide information which would allow a better assessment of the need for their regulation.

[THE FINANCIAL SECRETARY] **Statement**

The method of giving effect to these views was to have been the division of the deposit-taking financial sector into three categories. The first category would have been fully licensed banks, comprising essentially the existing licensed banks, which would have been able to accept deposits of any size and term from anybody, as at present. The second category would have been "wholesale" banks with a new kind of limited licence, which would have been able to accept short-term deposits of large sums only, and the longer-term deposits of medium or large sums. The third category would have been registered deposit-taking companies, allowed to accept only longer-term deposits above a certain minimum size.

By mid-summer of last year we had elaborated these ideas into fairly detailed proposals and we then held formal discussions in the Banking Advisory Committee and informal discussions with banks and finance houses. However, before agreement could be reached in these inevitably complicated and certainly protracted consultations, the financial strains in the world, which had been brought about by inflationary pressures and the oil crisis, became steadily more apparent. Hong Kong's own licensed banks were strong, and remain so, thanks to an effective Banking Ordinance and to conservative and prudent management attitudes instilled, perhaps, by memories of difficulties in earlier years. Elsewhere, however, there were increasing signs of stress as liquidity squeezes became more apparent causing falls in property and share values; and to these problems were added some very large losses on foreign exchange trading. It was pressed on me, and I reluctantly accepted, that this was not a time to bring about radical change in Hong Kong's financial structure. Consequently, I do not propose to proceed to seek authority at present for the introduction of a new, limited class of banking licence. Moreover, because the pressure for the granting of new banking licences will not be thereby relieved and because it would be invidious to select from the large number of prospective applicants for the very small enlargement of the "retail" banking sector that could, possibly, have been contemplated, it is not intended to grant any new licences at all for the time being.

This is, I must confess, an unhappy outcome of months of thought and discussion, for ourselves, and even more for those who hoped to be able to participate more fully in Hong Kong's financial development. The proposals formed an integrated solution to many of the difficulties we had identified and seemed to offer some benefits to all parties. However, while they are to be put in abeyance for the time being, this

does not mean that they have been abandoned. When more settled conditions return, we shall resurrect them.

But I do intend to proceed with measures for the protection of small depositors and the registration of deposit-taking companies, with provisions to ensure that such companies have a reasonably sound footing and that they do not channel their lending too narrowly. To this end I propose to seek the advice of Your Excellency in Council on a Deposit-Taking Companies Bill which would contain five sets of provisions.

First, no company or person other than a licensed bank will be allowed to accept deposits smaller than \$50,000. This minimum deposit is intended to set the lower boundary for what would be regarded as funds of the larger depositor, to whom, individually, the Government considers it owes no duty of protection, and who should be expected to assess his own risk. The choice of the figure is necessarily arbitrary: the banks have pressed that it should be higher, at \$100,000 or even \$200,000; and the finance companies have argued that it should be lower, at \$20,000. The figure proposed is frankly a compromise, but it appears to represent a fair view of what can reasonably be called a small depositor in Hong Kong's circumstances. To set the figure too high could bring about the very situation we are trying to guard against, through an inability of deposit-taking companies to continue funding their longer-term lending operations and thus becoming insolvent. I should mention here, parenthetically, that it is not our intention to prevent companies which have traditionally accepted sums on deposit from their employees for safe keeping from continuing to do so and we are considering how such in-house savings schemes can be monitored.

Secondly, deposits of \$50,000 or more will be accepted only by licensed banks or (subject to the existing limitations in the Banking Ordinance) by companies registered with the Commissioner of Banking. The registration of deposit-taking companies would be essential as a basis for ensuring compliance with the requirements imposed on them. It would also be the basis for improving Government's knowledge about their number and the scale of their operations.

Thirdly, registration of deposit-taking companies will provide for such companies to have a minimum capital of \$5 million issued, of which a minimum of \$2½ million shall be paid up. These minima are again to some extent arbitrary. They need to be high enough to give reasonable assurance of financial solidity and substance, and also to deter merely frivolous or precautionary applications for registration.

[THE FINANCIAL SECRETARY] **Statement**

But they should not be so high as to drive companies out of business while at the same time being unable to realize their assets; or to cause existing depositors to withdraw their funds because the companies seem unlikely to be able to meet the requirements. The finance companies have urged that the figures should be lower in order not to drive a large number of firms out of business: they have proposed that the figures for minimum issued and paid-up capital should be \$2 million and \$1 million respectively. On the whole, however, it seems best to specify the higher figures proposed just a moment ago, and to mitigate their disadvantages by providing for a long transitional period—say, two years. The companies will be required to provide annual audited accounts to the Commissioner of Banking, which will be available for inspection by the public and will have to be displayed also at each company's place of business. An annual fee for registration will be payable.

Fourthly, the Commissioner of Banking will have the power to call for information from all or individual registered deposit-taking companies, certified by their auditors, additional to that contained in their annual accounts. This additional information would be such as to allow him to check compliance with the provisions as to term and minimum size of deposit, or with the other provisions of the proposed ordinance, without the need to make inspections such as are carried out under the Banking Ordinance. Inspections would strain the Commissioner's resources and, more important, they would place him and the Government in a position of responsibility for the prudential conduct of business by companies, which it is not intended to accept. However, the power proposed would give the Commissioner the opportunity to call company representatives in to see him for informal examination and remonstrance.

Fifthly, registered deposit-taking companies will be subject to restrictions on their lending similar to the provisions of sections 23 and 24 of the Banking Ordinance, that is to say, not more than 25% of paid-up capital and reserves may be lent to any one person or company, and not more than the same amount lent in aggregate on an unsecured basis to directors and relatives and their associated companies. Companies' auditors will be required to certify compliance with these provisions. I recognize that they will have an onerous effect for some companies: but they are provisions which the licensed banks have to accept, and I do not see why finance companies should be allowed to operate to lower standards in this particular respect.

Subject to Your Excellency in Council's direction, a bill incorporating these provisions will be published within a few weeks as drafting is already well in hand.

Most reputable deposit-taking companies of substance will be conforming already to standards higher than the ones I have outlined. It may appear, when we have better information, that more stringent controls are required. I am not anxious, however, to have an elaborate machinery of statutory control, and I would much rather see a voluntary system of self-regulation and the maintenance of a code of practice by an association within the industry, commanding the respect of its members. I therefore welcome the recent formation of a Steering Committee for Non-bank Financial Institutions and I hope that, in due course, there will be a channel through which these institutions can offer their formal advice to the Government on matters affecting their business. Meanwhile the Steering Committee has been able to influence our thinking, even if not to its entire satisfaction.

### **Government business**

#### **Motions**

#### **REVENUE REWARD FUND**

THE FINANCIAL SECRETARY moved the following motion: —

That—

(a) in this resolution, unless the context otherwise requires—

"contraband" means any goods liable to forfeiture under the Import and Export Ordinance or the Dutiable Commodities Ordinance;

"Fund" means the Revenue Reward Fund operated immediately before the commencement of this resolution in accordance with the provisions of the resolution of the 20th May 1953;

"Resolution of the 20th May 1953" means the resolution of this Council made and passed on the 20th May 1953 and published as Gazette Notice No. A. 88 of 1953;

(b) the Fund shall be operated in accordance with the provisions of this resolution;

**[THE FINANCIAL SECRETARY] Motions**

- (c) all proceeds of sale of forfeited contraband, and all fines imposed for offences under the Dutiable Commodities Ordinance shall be paid into the fund;
- (d) subject to paragraph (e), rewards for information leading to the seizure of contraband may be paid to informers who have given information in cases where—
  - (i) the contraband has been forfeited; or
  - (ii) any person has been convicted of an offence in relation to the contraband;
- (e) rewards paid under paragraph (d) shall not in any one case exceed—
  - (i) the sum of \$25,000, without the consent of the Financial Secretary;
  - (ii) the sum of \$50,000, without the consent of the Finance Committee of the Legislative Council;
- (f) in any application to the Financial Secretary or to the Finance Committee under paragraph (e) it shall not be necessary to disclose the name of any informer;
- (g) in cases where forfeited contraband is issued to a Government department for use or consumption—
  - (i) the estimated value of the contraband shall be debited to the appropriate departmental vote and credited to the fund; and
  - (ii) the annual audited statement of the fund shall be drawn up so as to distinguish clearly between the proceeds of sales and the credits arising from issues to Government departments;
- (h) where at the end of any month the balance in the accounts of the fund exceeds \$200,000, the amount in excess of \$200,000 shall be paid from the fund to the Development Loan Fund during the following month;
- (i) the resolution of the 20th May 1953 is cancelled.

He said: —Sir, I move the first resolution standing in my name in the Order Paper.

Provisions for the retention and operation of the Revenue Reward Fund were formally introduced by resolution made by this Council on 20th July 1949 and subsequently replaced by a revised resolution on 20th May 1953.

This resolution seeks to replace the existing one. The purpose is to enable a monthly transfer from the fund of any sum in excess of \$200,000 to the Development Loan Fund rather than to General Revenue so as to enable such excess to be used by the Development Loan Fund as and when required. As the Revenue Reward Fund can be regarded as a windfall to public revenue and as the Development Loan Fund is in need of funds from various sources, it is both logical and convenient to transfer excess sums to the Development Loan Fund.

The opportunity is also taken to update and to tidy up other provisions in the current resolution. First, the word "contraband" is redefined as any goods liable to forfeiture under the Import and Export Ordinance or the Dutiable Commodities Ordinance. Secondly, the limits for rewards for information are revised so that rewards paid in any one case may not exceed \$25,000 without the consent of the Financial Secretary and \$50,000 without the consent of the Finance Committee of this Council. The present limits of \$250 and \$10,000 respectively were set exactly 25 years ago to the day in 1949.

*Question put and agreed to.*

### **INLAND REVENUE ORDINANCE**

THE FINANCIAL SECRETARY moved the following motion: —

In exercise of the powers conferred by proviso (a) to section 28(1) of the Inland Revenue Ordinance, that the said proviso be amended by deleting "five" and substituting the following—

"four and one half".

He said: —Sir, I move the second resolution standing in my name in the Order Paper.

A proviso to section 28 of the Inland Revenue Ordinance exempts from tax any interest paid, or payable, by a licensed bank which accrues at a rate not higher than a figure declared from time to time by resolution of this Council. Interest payable by the Government or by certain public utility companies is subject to the same proviso. The tax

[THE FINANCIAL SECRETARY] **Inland Revenue Ordinance**

exempt rate currently stands at 5% per annum, by a resolution made on 31st July last.

The tax exempt rate has historically been linked with the rate paid by licensed banks on savings accounts. This is because the purposes of the exemption are to encourage small savings and to avoid the administrative problem, and cost, of dealing with tax on a very large number of small interest payments, the recipients of which would almost all be eligible for refunds under the provisions for personal assessment.

The Exchange Banks' Association reduced the interest rate on savings accounts from 5% to 4½% per annum with effect from 1st January this year. It is desirable that the exemption rate for interest tax should follow suit, because otherwise some banks might continue to pay interest on savings accounts at 5%, and this would strengthen any tendency for savings accounts to attract funds for which the exemption is not intended.

*Question put and agreed to.*

**FACTORIES AND INDUSTRIAL UNDERTAKINGS  
ORDINANCE**

MR PRICE moved the following motion: —

That the Factories and Industrial Undertakings (Amendment) Regulations 1975, made by the Commissioner for Labour on the 9th December 1974, be approved.

He said: —Sir, the purposes of these regulations, which are in no way contentious, are first, to rationalize the reporting of accidents, by bringing into greater conformity the different procedures at present required under the Factories and Industrial Undertakings Ordinance and under the Workmen's Compensation Ordinance; second, to obviate the necessity for making two separate reports of an accident to two units of the Labour Department under two different ordinances. New regulation 17(4) makes clear that one written report under section 15 of the Workmen's Compensation Ordinance will suffice. This has to be made within seven days of the accident.

The present requirement under regulation 17 of the Factories and Industrial Undertakings Regulations that death should be reported within

24 hours is retained. It is now proposed that serious bodily injury should also be reported within the same time limit. Either an oral or written report will be acceptable and it should be made to a factory inspector, or, in the case of a quarry, to the Superintendent of Mines.

Prompt reporting of serious accidents is essential if they are to be investigated quickly to prevent the occurrence of similar accidents.

The present requirement that fatalities must also be reported to the police within twenty-four hours of death is retained in new regulation 17(3)(b).

These amendments while somewhat lengthy, and apparently complicated, are simple in principle and will make the reporting of industrial accidents easier and more efficient for all concerned. Adequate publicity will be given to the changed procedures which I intend to bring into force from 1st April 1975.

Question put and agreed to.

### **First reading of bills**

#### **EXCHANGE FUND (AMENDMENT) BILL 1975**

#### **LANDLORD AND TENANT (CONSOLIDATION) (AMENDMENT) (NO 2) BILL 1975**

#### **ACETYLATED SUBSTANCES (CONTROL) BILL 1975**

*Bills read the first time and ordered to be set down for second reading pursuant to Standing Order 41(3).*

### **Second reading of bills**

#### **EXCHANGE FUND (AMENDMENT) BILL 1975**

THE FINANCIAL SECRETARY moved the second reading of: —“A bill to amend the Exchange Fund Ordinance.”

He said: —Sir, section 3 subsection 2 of the Exchange Fund Ordinance authorizes the Financial Secretary to buy and sell currencies for immediate delivery only. The bill before Council seeks to amend the principal Ordinance by removing the delivery restriction thereby permitting the Exchange Fund to operate in the forward foreign exchange market.

[THE FINANCIAL SECRETARY] **Exchange Fund (Amendment) bill—second reading**

The proposal which is designed to provide the Exchange Fund with additional weapons to protect the exchange value of the currency follows a recommendation of the Exchange Fund Advisory Committee.

*Motion made.* That the debate on the second reading of the bill be adjourned—THE FINANCIAL SECRETARY.

*Question put and agreed to.*

**LANDLORD AND TENANT (CONSOLIDATION)  
(AMENDMENT) (NO 2) BILL 1975**

SECRETARY FOR HOUSING moved the second reading of: —"A bill to amend the Landlord and Tenant (Consolidation) Ordinance."

He said: —Sir, honourable Members will recall that the Financial Secretary gave notice in his 1974 budget speech that, because of the deferment of revaluation, he intended to propose an increase in the general rate for 1975-76. Rates basically are a tax on occupiers of premises and so provision was made in the 1973 tenure and rent controls—which apply to post-war domestic premises—for landlords to increase the rent by an amount equal to any increase in rates. However, in the case of pre-war premises no such provision exists and, therefore, should there be an increase in rates for the coming financial year, those landlords who accept responsibility for the payment of rates would be unable to pass the increase on to their tenants. The purpose of this bill is to amend the principal ordinance to permit landlords and principal tenants of pre-war premises to recoup from their tenants and sub-tenants any increase in rates imposed; thus bringing them into line with other rated premises. I must emphasize, Sir, that an increase this year will arise only if there is an increase in the percentage rate.

Much of the bill covers the administrative machinery necessary to give effect to any increase in rent of tenancies or sub-tenancies stemming from an increase in rates, and is fully explained in the memorandum attached to the bill. Provision is made for the Commissioner of Rating and Valuation to assist by apportioning or aggregating rateable values where premises are sub-let or are in more than one occupation. The bill also covers the position where rates are imposed for the first time, as, for instance, in the New Territories. In addition, the opportunity has been taken to expand and clarify the existing similar provisions

in Part II of the ordinance dealing with post-war domestic premises.

*Motion made. That the debate on the second reading of the bill be adjourned*—SECRETARY FOR HOUSING.

*Question put and agreed to.*

### **ACETYLATED SUBSTANCES (CONTROL) BILL 1975**

THE ATTORNEY GENERAL moved the second reading of: —"A bill to control acetylating substances."

He said: —Sir, heroin has been manufactured illegally in Hong Kong for many years in considerable quantities. Its manufacture involves the use of an acetylating agent. The one invariably used is acetic anhydride, though I understand that acetyl chloride and acetyl bromide may also be used. Acetic anhydride manufactured overseas is normally used, but such is the demand for it that it has also been manufactured here.

The import of acetic anhydride is already controlled under the Import and Export Ordinance, but this is not enough. Whilst it is thus an offence to import this chemical without a licence, it is not an offence to be in possession of it thereafter, nor is it an offence to manufacture or deal in it. Acetyl chloride and acetyl bromide are not subject to any statutory control.

Accordingly, Sir, the bill aims to bring these substances under strict controls, similar to those applying to heroin and other dangerous drugs under the Dangerous Drugs Ordinance. The maximum penalties proposed on conviction for the major offences under the bill are severe, though I might add that they are not as severe as those under the dangerous drugs legislation.

Sir, there is no industrial use here for acetylating substances and none is manufactured locally by normal industrial process. No difficulty is, therefore, seen in the way of introducing the wide controls which are proposed.

*Motion made. That the debate on the second reading of the bill be adjourned*—THE ATTORNEY GENERAL.

*Question put and agreed to.*

**RATING (AMENDMENT) BILL 1975****Resumption of debate on second reading (18th December 1974)**

*Question proposed.*

*Question put and agreed to.*

Bill read the second time.

*Bill committed to a committee of the whole Council pursuant to Standing Order 43(1).*

**INTERPRETATION AND GENERAL CLAUSES  
(AMENDMENT) BILL 1975****Resumption of debate on second reading (18th December 1974)**

*Question proposed.*

*Question put and agreed to.*

Bill read the second time.

*Bill committed to a committee of the whole Council pursuant to Standing Order 43(1).*

**MARRIAGE (AMENDMENT) BILL 1975****Resumption of debate on second reading (18th December 1974)**

*Question proposed.*

*Question put and agreed to.*

Bill read the second time.

*Bill committed to a committee of the whole Council pursuant to Standing Order 43(1).*

**FIXED PENALTY (TRAFFIC CONTRAVENTIONS)  
(AMENDMENT) BILL 1975****Resumption of debate on second reading (18th December 1974)**

*Question proposed.*

*Question put and agreed to.*

Bill read the second time.

*Bill committed to a committee of the whole Council pursuant to Standing Order 43(1).*

**LANDLORD AND TENANT (CONSOLIDATION)  
(AMENDMENT) BILL 1975**

**Resumption of debate on second reading (18th December 1974)**

*Question proposed.*

*Question put and agreed to.*

Bill read the second time.

*Bill committed to a committee of the whole Council pursuant to Standing Order 43(1).*

**Committee stage of bills**

Council went into Committee.

**RATING (AMENDMENT) BILL 1975**

Clause 1

THE FINANCIAL SECRETARY: —Sir, I move that clause 1 be amended as set out in the paper before honourable Members.

The present amendment is to enable section 4 to come into operation on the date to be appointed by the Governor. The present percentage rate charges are contained in sections 18 and 19 of the principal ordinance. These sections are to be repealed by clause 4 of the bill and new rate charges will be introduced by resolution of this Council. However such a resolution can only be made after the bill becomes law. The proposed amendment will enable the Commissioner of Rating and Valuation to apply the percentage rate charges under the existing ordinance during the period between the enactment of the bill and the making of the relevant resolution.

*Proposed amendments**Clause*

1 That clause 1 be deleted and the following substituted—

"Short title and commencement. 1. (1) This Ordinance may be cited as the Rating (Amendment) Ordinance 1975.

(2) Sections 1, 2, 3, 5, 6 and 7 shall come into operation on the expiration of the day next preceding the day of publication of this Ordinance.

(3) Section 4 shall come into operation on a day to be appointed by the Governor by notice in the *Gazette*.

The amendments were agreed to.

Clause 1, as amended, was agreed to.

Clauses 2 to 7 were agreed to.

**INTERPRETATION AND GENERAL CLAUSES  
(AMENDMENT) BILL 1975**

Clauses 1 to 5 were agreed to.

**MARRIAGE (AMENDMENT) BILL 1975**

Clauses 1 and 2 were agreed to.

**FIXED PENALTY (TRAFFIC CONTRAVENTIONS)  
(AMENDMENT) BILL 1975**

Clauses 1 to 6 were agreed to.

**LANDLORD AND TENANT (CONSOLIDATION)  
(AMENDMENT) BILL 1975**

Clauses 1 to 7 were agreed to.

Council then resumed.

### **Third reading of bills**

THE ATTORNEY GENERAL reported that the

Rating (Amendment) Bill

had passed through Committee with amendment and that the

Interpretation and General Clauses (Amendment) Bill

Marriage (Amendment) Bill

Fixed Penalty (Traffic Contraventions) (Amendment) Bill

Landlord and Tenant (Consolidation) (Amendment) Bill

had passed through Committee without amendment and moved the third reading of each of the bills.

*Question put on each bill and agreed to.*

Bills read the third time and passed.

### **Unofficial Member's bill**

#### **Second reading of bill**

#### **GIRL GUIDES ASSOCIATION (HONG KONG BRANCH) (AMENDMENT) BILL 1975**

#### **Resumption of debate on second reading (18th December 1974)**

*Question proposed.*

*Question put and agreed to.*

Bill read the second time.

*Bill committed to a committee of the whole Council pursuant to Standing Order 43(1).*

### **Committee stage of bill**

Council went into Committee.

**GIRL GUIDES ASSOCIATION (HONG KONG BRANCH)  
(AMENDMENT) BILL 1975**

Clauses 1 to 3 were agreed to.

Council then resumed.

**Third reading of bill**

MR CHEUNG reported that the

Girl Guides Association (Hong Kong Branch) (Amendment) Bill

had passed through Committee without amendment and moved the third reading of the bill.

*Question put and agreed to.*

Bill read the third time and passed.

**Adjournment and next sitting**

HIS EXCELLENCY THE PRESIDENT: —In accordance with Standing Orders I now adjourn the Council until 2.30 p.m. on Wednesday the 22nd of January.

*Adjourned accordingly at twenty-five minutes to four o'clock.*