Press release

LCQ6: Demands of small and medium securities dealers

Wednesday, December 19, 2012

Following is a question by the Hon Christopher Cheung and a reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (December 19):

Question:

Some small and medium securities dealers have relayed to me that they have recorded significant losses in their businesses. They have raised with the Government their numerous demands and concerns, including the request for the re-introduction of the minimum brokerage commission rule and the concern about unfair practices of banks in conducting securities businesses, etc. but such demands and concerns were not given due regard. In this connection, will the Government inform this Council:

(a) given that in reply in the debate on the motion moved by me in this Council on the 6th of this month, the Secretary for Financial Services and the Treasury had pointed out that should the minimum brokerage commission rule be re-introduced, the burden of investors would be increased, of the reasons why the Government merely revoked the minimum brokerage commission rule as a means to relieve investors' burden, and refuses to consider, as measures to further reduce investors' burden, abolishing the stamp duty on stock transfers or requiring the Securities and Futures Commission (which had a surplus of $7.5 billion in 2011-2012) to reduce the transaction levies;

(b) as some comments have pointed out that banks are at present employing cut-throat competition tactics to compete for securities businesses, whether it has assessed if such tactics are against the principle of fair competition; and there are also comments that it is a current global trend to require banking businesses be separated from securities businesses, whether the Government will examine the introduction of a requirement for separating these two types of businesses; and

(c) as some securities dealers have pointed out that after the Hong Kong Exchanges and Clearing Limited (HKEx) has implemented the arrangement of shortening the lunch break and extending the trading hours, the volume of transactions of securities has not increased as a result, but the arrangement has affected the operation of the trade, whether the Government will ask HKEx to review such an arrangement in response to the motion passed by this Council on the 6th of this month; how the authorities will monitor HKEx to ensure that it will take into consideration the overall interests of the trade and will not neglect the business difficulties of small and medium securities dealers when formulating policies?

Reply:

President,

As I have mentioned during the motion debate on "Supporting the development of the securities industry" held on December 6, when the Administration considers and formulates policies relating to the securities industry, the policy objectives have always been promoting the efficiency, competitiveness, transparency and fairness of the securities sector. The issues raised by the Hon Christopher Cheung today are also considered in accordance with the same objectives.

My reply to the three parts of the question is as follows:

(a) The Administration and the Securities and Futures Commission (SFC) pay a lot of attention to the operating environment of the industry. Regarding the levy rate imposed by SFC, SFC has reduced its levy twice – by 40% in aggregate over the past 6 years. The current levy is 0.003%, ie $0.3 for every $10,000 in value of transactions. According to SFC's analysis, even a further reduction in levy is unlikely to result in any increase in turnover, or otherwise assist market intermediaries or investors in a material way. In this connection, SFC did not suggest reducing the levy rate in its 2012/13 Budget. Nonetheless, in view of the uncertain global economic outlook, which we understand posed difficulties to the operating environment of the market participants, SFC granted a two-year license annual fee waiver to existing licensees from April 1, 2012, with a view to relieving the operating pressure of brokers.

As regards stamp duty, the Administration reduced stamp duty for securities from 0.25% by 10% to 0.225% in April 2000, and further reduced it to 0.2% in September 2001, ie the buyer and seller each pay 0.1%, and this amounted to a 20% reduction. This is to reduce the transaction costs of stocks, so as to enhance the competitiveness of the Hong Kong stock market.

(b) The Administration is committed to promoting competition with a view to raise economic efficiency and create better business environment so as to benefit the market and its participants. In the securities market, all intermediaries, including both brokers and banks, compete by way of providing high quality services and competitive prices.

Intermediaries have to develop their service and price strategies by taking into account investors' needs, market conditions and their own modes of operation. This enables investors to have more choices, and thus help promote the development of the entire market.

Securities business in both banks and securities brokerages are regulated by SFC, while the Hong Kong Monetary Authority (HKMA) is the frontline regulator of banks. Both SFC and HKMA aim at protecting investors and maintaining the overall stability of the financial system. They communicate regularly with each other on regulatory issues, including licensing, inspection, investigation, enforcement and punishment. For example, SFC and HKMA have jointly carried out a mystery shopper programme in respect of intermediaries' sales practices of unlisted securities and futures products.

As securities business offered by banks can provide an additional investment means for the public, we do not consider it necessary to require banks to segregate their businesses. We will continue to monitor the developments in both the local market and international regulatory arena.

(c) I have responded to this issue in the motion debate, and I shall make a brief response here. As stipulated in the Securities and Futures Ordinance (SFO), the Hong Kong Exchanges and Clearing Limited (HKEx) is required to uphold the principle of safeguarding the public interest, having particular regard to the interests of the investing public. This is to ensure that in the event a conflict between the public interest and the interests of HKEx arises, HKEx will accord priority to public interest. SFC also supervises the operation of HKEx and the market in accordance to SFO. When HKEx launches any new measures, HKEx will assess the market impact and consult the market, and also keep in close communication with SFC. When SFC scrutinises and approves the new measures proposed by HKEx, SFC will assess the impact of these measures on the competitiveness of the Hong Kong financial market and issues concerning from risk management, including the impact on different stakeholders.

The extension of trading hours can reduce the time gap between the opening time of the Hong Kong market and our regional competitors, in turn enhance HKEx's competitiveness. Since the extension of the trading hours, HKEx noted that the interaction between the Hong Kong and Mainland markets has increased. Recently, RQFII A-share Exchange Traded Funds (ETFs), listed in Hong Kong and cross-border ETFs listed in the Mainland were successfully launched against the background of the complete overlapping of the trading hours of our market those of the Mainland's.

We have already conveyed to SFC that there is a need for SFC to review from time to time the market reform measures introduced by HKEx in light of the actual situation and their effectiveness, and to take follow up actions as appropriate to refine these measures in order to meet market development needs.

To conclude, we believe that the best way to support local small and medium-sized brokerage firms is to continue providing a fair and conducive business environment for all market participants, enhancing the quality of the market and the overall securities industry. We will continue to maintain close contact with the industry, and strive together to create a business environment that is conductive to the sustainable development of the industry.

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