

## **Press release**

### **Government proposes establishment of Investor Education Council and Financial Dispute Resolution Centre**

Tuesday, February 9, 2010

The Secretary for Financial Services and the Treasury, Professor K C Chan, said the Financial Services and the Treasury Bureau had published a consultation document on the "Proposed Establishment of an Investor Education Council and a Financial Dispute Resolution Centre" today (February 9). He invited the public and relevant professions to submit their views during the three-month consultation period, which will end on May 8.

Giving an outline of the consultation document at a press conference, Professor Chan stressed that the Government attached great importance to the protection and education of investors. With the development of more complex investment products that cut across the traditional boundaries of the banking, insurance and securities sectors in the financial market, the Government proposed the establishment of an Investor Education Council (IEC) to enhance the financial literacy of the public, and also proposed the setting up of a Financial Dispute Resolution Centre (FDRC) to help resolve monetary disputes between an individual consumer and a financial institution, Professor Chan said.

On the proposal to establish the IEC, he said, "The proposed IEC will holistically oversee the needs of investor education and delivery of related initiatives. It will aim to improve the financial literacy and capability of the general public by influencing their fundamental financial attitude and behaviour, with a view to assisting them to make better financial decisions.

"We attach great importance to investor education. It not only helps protect investors themselves, but also enhances investor confidence in the financial system and the effectiveness of their dealings with financial service providers. This is also conducive to maintaining the stability of Hong Kong's financial services industry."

The Government proposes to set up the IEC as a company wholly owned by the Securities and Futures Commission (SFC). The SFC will fully fund the operation of the IEC. No extra levies and charges will be imposed on investors.

"At present, outside of the courts, there is no independent mechanism in place to settle a dispute between a consumer and a financial service provider. We therefore propose the introduction of a 'Financial Dispute Resolution Scheme' to provide a one-stop, independent and affordable avenue for consumers to resolve monetary disputes with the financial service providers. This offers an alternative to litigation, which may be disproportionately costly and protracted for consumers.

"Under the proposed scheme, financial institutions, such as banks or brokers, that are licensees or regulatees of the SFC and the Hong Kong Monetary Authority (HKMA) should join as members of the scheme. They would be required to follow an individual customer's wish and the scheme's procedures to enter into mediation and arbitration if it has established business connection with that customer and fails to settle internally a dispute that has come up.

"The scheme is to be operated by the FDRC which will be established as a company limited by guarantee. The Board of Directors will be appointed by the Government to ensure the independence and impartiality of its dispute resolution procedures," Professor Chan said.

Mediation is a voluntary process. An independent and neutral mediator may assist the claimant to mediate with the financial institution if the claimant so wishes. The aim of mediation is to reach a solution that both parties can agree. The agreement is confidential. Overseas experience shows that the successful mediation rate could be as high as 80% or more.

Where mediation is unsuccessful, the FDRC may assist the claimant to bring the case further to arbitration if the claimant so wishes. An arbitrator should decide the claim. An arbitration award is final and binding on both parties.

"We propose that the maximum claimable amount under the scheme be set at HK\$500,000. This would cover more than 80% of the monetary disputes currently handled by the HKMA. The mediation fees of the majority of the cases are within a few hundred dollars and we think this is affordable to the public. Financial institutions, however, have to pay a higher level of the case fees so as to encourage them to do their utmost in handling complaints.

"As regards the fixed operating costs of the mediation centre, the Government, the HKMA and SFC are prepared to provide the set-up costs and recurrent costs of the FDRC in the first three years because we acknowledge that the FDRC is contributing to an important public policy function of investor protection. Afterwards, the fixed costs of the FDRC should ultimately be funded by the financial industry," Professor Chan said.

The above-mentioned consultation document will be uploaded onto the Financial Services and the Treasury Bureau's website ([www.fstb.gov.hk/fsb/ppr/consult/consult\\_iec\\_fdrc.htm](http://www.fstb.gov.hk/fsb/ppr/consult/consult_iec_fdrc.htm)). Interested persons are welcome to view the document and submit their written comments by mail to the Financial Services and the Treasury Bureau, 18/F, Tower I, Admiralty Centre, 18, Harcourt Road, Hong Kong; or by mail to [iec\\_consultation@fstb.gov.hk](mailto:iec_consultation@fstb.gov.hk) for views on the IEC, or to [fdrc\\_consultation@fstb.gov.hk](mailto:fdrc_consultation@fstb.gov.hk) for views on the FDRC.

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