

**Speech**  
**Opening remarks by SFST on financial services at LegCo Finance**  
**Committee special meeting**

Monday, March 31, 2014

Following is the English translation of the opening remarks by the Secretary for Financial Services and the Treasury, Professor K C Chan, on financial services at the Finance Committee special meeting of the Legislative Council (LegCo) today (March 31):

Chairman,

I will briefly introduce the estimates of expenditure for financial services and our key initiatives in 2014-15.

Estimates of Expenditure

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For 2014-15, I have allocated about \$1 billion from my operating expenditure envelope to the Financial Services Branch and departments under its purview. The amount represents an increase of \$120 million over last year.

Key Areas of Work in the Coming Year

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(I) Developing Offshore Renminbi Business in Hong Kong and Enhancing Financial Co-operation with the Mainland

To further strengthen Hong Kong's offshore Renminbi (RMB) business, we are actively strengthening our RMB business links with overseas markets, promoting RMB business between Hong Kong banks and international financial institutions and corporates.

We will continue to negotiate for more access opportunities for Hong Kong's financial institutions and professionals under the Mainland and Hong Kong Closer Economic Partnership Arrangement and regional platforms, which will bring mutual benefits to both places.

(II) Promoting Market Development

On promoting market development, I would like to give a brief account of our priorities.

(i) Fund and Asset Management Business

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We are developing Hong Kong into a full-fledged fund service centre proactively. We have just launched a public consultation on a proposal to introduce an open-ended fund company structure to attract more mutual funds and private funds to domicile in Hong Kong. We will brief Members on the proposal at the Panel on Financial Affairs of LegCo in April.

Meanwhile, we are also preparing legislation to extend the tax exemption for offshore funds to private equity funds.

We have set up a task force to review the requirements under the Inland Revenue Ordinance for interest deductions in the taxation of corporate treasury activities. It is expected that concrete proposals will be put forward to the Financial Secretary within one year.

(ii) Bond Market

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We plan to launch a further issuance of inflation-linked retail bonds (iBond) worth not more than \$10 billion with a maturity of three years. Moreover, the Loans (Amendment) Ordinance 2014 was just enacted by LegCo last week. We will consider issuing sukuk under the Government Bond Programme in the light of prevailing market conditions and needs.

(iii) Captive Insurers

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The Bill for providing tax concession for captive insurers was passed on March 19. We will step up our promotion efforts to attract more enterprises to form captive insurers in Hong Kong.

(iv) Implementing the New Companies Ordinance

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The new Companies Ordinance came into operation on March 3. We will closely monitor its implementation and continue with our publicity campaign to enhance public awareness of the new ordinance.

(v) Improving Corporate Insolvency Law  
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We have commenced the corporate insolvency law improvement exercise to facilitate more efficient administration of the winding-up process and enhance protection for creditors.

(vi) Waiving Stamp Duty for the Trading of All Exchange Traded Funds  
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The exchange traded funds (ETF) market has seen rapid development in recent years. In the face of keen competition in the region, we must make every effort to stay in the lead. We propose to waive the stamp duty for the trading of all ETFs to lower the transaction costs of all ETFs tracking indices that comprise Hong Kong stocks. We plan to introduce the legislative amendments into LegCo in the next legislative session.

(III) Investor Protection

The third key area of work is to enhance investor protection. I would like to highlight some major initiatives.

(i) Enhancing the Mandatory Provident Fund System  
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On the Mandatory Provident Fund (MPF) System, together with the Mandatory Provident Fund Schemes Authority, we are actively pursuing different measures with a view to achieving a substantial reduction in MPF fees and enhancing the system. Our focus includes consulting the public later this year on the proposal of including in each MPF scheme a core fund as the default fund.

(ii) Establishing an independent Insurance Authority  
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We will introduce a bill for establishing an independent Insurance Authority (IIA) into LegCo in the second quarter with a view to passing the Bill within 2015.

(iii) Uncertificated Securities Market  
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Regarding the introduction of an uncertificated securities market regime, we plan to introduce a Bill into LegCo in the second quarter of this year for establishing a broad regulatory framework for enabling the introduction of the regime.

(iv) Regulating Stored Value Facilities and Retail Payment Systems  
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We seek to introduce the Clearing and Settlement Systems (Amendment) Bill into LegCo in the next legislative session to regulate stored value facilities and retail payment systems. We will also brief Members on the proposal at the meeting of the LegCo Panel on Financial Affairs in April.

(v) Manpower training  
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In response to the aspiration of the industry, we will first carry out studies in talent training for the insurance and asset/wealth management sectors, and will maintain close liaison with the industry during the process. Our aim is to complete the studies and submit our recommendations to the Financial Secretary within a year. Meanwhile, the Securities and Futures Commission has made a provision of \$20 million in its 2014-15 budget for talent training for intermediaries in the securities sector, particularly the small and medium-sized firms.

(IV) International regulatory requirements

To take forward international regulatory requirements, we will focus on three priorities in the coming year.

(i) Basel III  
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To align with international regulatory standards for banks, we will introduce into LegCo the relevant subsidiary legislation on the liquidity and capital buffer requirements under Basel III this year.

(ii) Establishing an Effective Cross-sectoral Resolution Regime for Financial Institutions

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To address the risks posed by the failure of systemically important financial institutions and to ensure the continuity of systemically important financial services and clearing and settlement systems, the Government, in conjunction with the financial regulators, launched in January the first stage of a three-month public consultation on establishing an effective resolution regime for financial institutions. We plan to conduct the second stage of the public consultation with more specific details of the resolution regime later this year.

(iii) Auditor Regulatory Reform

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In view of the international trend that the oversight of the regulation of auditors is to be independent of the profession itself, we are discussing with the Financial Reporting Council and the Hong Kong Institute of Certified Public Accountants to explore how to enhance the independence of Hong Kong's regulatory regime for auditors of listed entities. We plan to conduct a public consultation on the reform proposals in the middle of the year.

To conclude, we will continue to keep a close watch on market developments and the trend of market regulation at the international level. We will work closely with the regulators and the industry to implement the above-mentioned working plans. Chairman, my colleagues and I are happy to answer any enquires from Members.

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