

Press release

SFST's speaking notes (financial services areas) tabled at LegCo Finance Committee Special Meeting
Wednesday, March 7, 2012

Following is the English translation of the speaking notes (financial services areas) of the Secretary for Financial Services and the Treasury, Professor K C Chan, tabled at the Special Meeting of the Legislative Council Finance Committee today (March 7):

Chairman,

I will briefly introduce the estimates of expenditure for financial services and our key initiatives in 2012-13.

Estimates of Expenditure

For 2012-13, I have allocated about \$850 million from my operating expenditure envelope to the Financial Services Branch and departments under its purview. The amount represents a decrease of more than \$200 million over last year.

Key Areas of Work in the Coming Year

We will focus our work in respect of financial services in the coming year on leveraging our competitive advantages to sustain stable development of the financial services and reinforce Hong Kong's status as an international financial centre. The key areas of work include further enhancing financial co-operation between Hong Kong and the Mainland, promoting market development and improving market quality.

(I) Enhancing Financial Co-operation between Hong Kong and the Mainland

In support of the National 12th Five-Year Plan, we will leverage our advantage of having close ties with our motherland to continue enhancing financial co-operation between Hong Kong and the Mainland. We will, through the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) and other regional co-operation platforms (including the ones between Hong Kong and Guangdong and Hong Kong and Shanghai, as well as Qianhai), foster collaboration between financial institutions in Hong Kong and the Mainland, as well as exchanges of financial products, capital and talents between the two places.

Last year, the Vice-Premier of the State Council, Mr Li Keqiang, announced over 30 measures to support social and economic development in Hong Kong. Most of those aimed at promoting financial development have been implemented, including the promulgation of the administrative rules on Cross-border Renminbi (RMB) Foreign Direct Investment (RFDI) and the RMB Qualified Foreign Institutional Investor (RQFII) scheme. We will continue to attract more overseas corporations and financial institutions to use Hong Kong's RMB clearing platform; enhance Hong Kong's RMB capital formation platform by, for example, encouraging more Hong Kong, foreign and Mainland institutions and enterprises to issue RMB-denominated bonds in Hong Kong; promote the development of more innovative RMB-denominated products; and expand and deepen the connectivity between Hong Kong's offshore RMB market and the onshore markets in the Mainland to promote the cross-border use and circulation of RMB funds, thereby further reinforcing Hong Kong's position as an offshore RMB business centre.

(II) Promoting Market Development

On promoting market development, we will focus on four priorities, namely consolidating our position as a global platform to raise capital, fostering the growth of our asset management industry, expanding the bond market and developing an Islamic financial platform in Hong Kong.

(i) Capital Formation Platform

Hong Kong has been the most active market for initial public offerings (IPOs) globally for the third consecutive year, raising a total of \$225 billion last year, more than any other bourse in the world. For the first time, enterprises from Italy, Switzerland and Kazakhstan came to list in

Hong Kong last year. We will continue to work with the Stock Exchange of Hong Kong to promote Hong Kong's strengths as the premier capital formation centre to overseas countries, including BRICS countries and other emerging markets. Hong Kong Exchanges and Clearing Limited is reviewing and planning to conduct a consultation on the conditions for overseas companies to seek primary or secondary listings in Hong Kong. The aim is to further facilitate the listing of overseas companies in Hong Kong without compromising investor protection.

(ii) Asset Management Industry

To further strengthen the competitiveness of our asset management industry, we will continue to take multi-pronged measures, such as entering into more comprehensive agreements for the avoidance of double taxation, continuing to develop an Islamic financial platform, modernising the Trustee Ordinance and stepping up overseas promotion.

(iii) Bond Market

The inaugural iBond issuance launched last year was well received. We plan to launch a further issuance of iBond worth not more than \$10 billion with a maturity of three years to further enhance retail investors' understanding of and interest in bond investment, thereby fostering the sustainable development of our retail bond market.

(iv) Islamic Finance

We are close to finalising the draft amendments to the relevant legislation with a view to levelling the playing field for common types of Islamic bonds (i.e. sukuks) vis-à-vis their conventional counterparts as far as profits tax, property tax and stamp duty are concerned. To ensure that our legislative proposals are practicable and meet the latest market development needs, we will consult the market this month on the draft amendments. We plan to introduce the Bill into the Legislative Council (LegCo) for scrutiny in the next legislative session.

(III) Improving Market Quality

The third key area of work is to improve market quality by refining

the regulatory regime. I would like to highlight some major initiatives.

(i) Revamp of Companies Ordinance

We introduced the Companies Bill into LegCo for scrutiny in January last year. We are now working closely with the LegCo Bills Committee with a view to passing the Bill within the current term of LegCo.

In addition, we have launched an exercise to modernise Hong Kong's corporate insolvency law to facilitate more efficient administration of the winding-up of companies, enhance the protection of creditors, and provide for a new statutory corporate rescue procedure.

(ii) Amendment to the Trust Law

We are working on the amendment of the trust law in order to strengthen the competitiveness of our trust services industry. We will start a consultation on the specific amendment proposals this month. Our aim is to introduce an amendment bill into the LegCo in the next legislative session.

(iii) Introduction of a Statutory Regime Obliging Listed Companies to Disclose Price Sensitive Information

In June 2011, we introduced a legislative proposal to the LegCo obliging listed companies to disclose price sensitive information (PSI) in a timely manner to raise market awareness of timely disclosure of PSI and to enhance market transparency and quality. The Bills Committee has largely completed the deliberation of the Bill. The legislative process is expected to complete shortly, and the new regime will come into effect in the first quarter of 2013.

(iv) Regulation of the Over-the-Counter Derivatives Market

We are working with the Securities and Futures Commission (SFC) and the Hong Kong Monetary Authority (HKMA) to develop a regulatory regime for the over-the-counter (OTC) derivatives market. In line with the objectives of the G20 Commitments, the proposed regulatory regime aims to enhance the overall transparency of the OTC derivatives market and minimise the

systemic risk of the financial system. The SFC and the HKMA consulted the market on the proposed regulatory framework in the fourth quarter of 2011. We are going to report the latest progress to the Panel on Financial Affairs of the LegCo in due course and put forward our proposals for the LegCo's consideration within this year.

(v) Establishment of an Independent Insurance Authority

The proposal to establish an independent Insurance Authority (IIA) is supported by the public in general. The IIA will not only enable the Administration to have greater nimbleness in responding to new regulatory challenges but also enhance protection for policyholders. We are preparing draft key legislative provisions based on the consultation conclusions and detailed proposals published in mid-2011. Our target is to make them available for further consultation with stakeholders in mid-2012.

(vi) Establishment of a Policyholders' Protection Fund

The consultation conclusions and final proposals of the establishment of a Policyholders' Protection Fund (PPF) were announced in January this year. We have embarked on the preparation of the enabling legislation, and aim to introduce the relevant bill into the LegCo in the 2012-13 legislative session, with a view to establishing the PPF as soon as possible, to provide better protection for policyholders in the event of insurer insolvency.

(vii) Enhanced Regulation of Mandatory Provident Fund Intermediaries/Optimisation of Mandatory Provident Fund System

As regards the Mandatory Provident Fund (MPF) System, with the implementation of various measures to increase market transparency and competition, the average Fund Expense Ratio of MPF schemes has been lowered from 2.1 per cent in early 2008 to 1.77 per cent in January 2012, representing a reduction of 15 per cent. The Government introduced a bill on enhancing the regulation of MPF intermediaries into the LegCo in December 2011, and will work closely with the Bills Committee to facilitate its deliberation. We aim to have the bill enacted within the current legislative session, with a view to better protecting MPF scheme members' interests and paving the way for the implementation of the Employee Choice Arrangement in November 2012.

Moreover, we plan to introduce into the LegCo the subsidiary legislation on an automatic levy suspension and resumption mechanism for the Mandatory Provident Fund Schemes Compensation Fund in the second quarter of 2012. Based on the latest estimates, the Mandatory Provident Fund Schemes Authority (MPFA) may suspend levy collection under the mechanism. This measure will help reduce the expenditure of MPF schemes.

Concurrently, the MPFA is conducting a series of reviews to enhance the MPF System. They include the public consultation on the withdrawal of MPF accrued benefits, the consultancy study on trustees' administrative costs and the feasibility study on the establishment of a central database. We will continue to liaise closely with the MPFA on the above issues and take appropriate follow-up actions.

(viii) Enhanced Regulation of Short Selling

In Hong Kong, there are stringent measures to regulate short selling. They include the prohibition of naked short selling and short selling below the best current ask price. The SFC has earlier concluded a public consultation on the introduction of a short position reporting regime to further enhance the effectiveness of market surveillance. We will work with the regulator to amend the legislation as soon as possible in a bid to impose the new reporting regime in the first half of the year.

(ix) Strengthening of Investor Protection

Providing sufficient protection for investors is one of our policy priorities. We are preparing for the establishment of a cross-sectoral investor education body to enhance the financial literacy of the investing public in Hong Kong. We introduced into the LegCo in June 2011 the Securities and Futures (Amendment) Bill 2011 to empower the SFC to establish an investor education council.

In addition, we have obtained funding approval from the LegCo for the establishment of a Financial Dispute Resolution Centre (FDRC) by mid-2012. The FDRC will provide an independent and affordable avenue for resolving monetary disputes between individual clients and financial institutions.

To conclude, we will continue to work closely with the regulators and the industry to implement the abovementioned working plan, and foster the sustained development of the financial services of Hong Kong. Chairman, my colleagues and I are happy to answer any inquiries from Members.

Ends