

立法會
Legislative Council

LC Paper No. CB(1)2047/02-03(Revised)
(These minutes have been seen by the
Administration)

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Panel on Financial Affairs

**Minutes of special meeting held on
Monday, 28 April 2003 at 2:30 pm
in the Chamber of Legislative Council Building**

- Members present** : Hon Ambrose LAU Hon-chuen, GBS, JP (Chairman)
Hon Henry WU King-cheong, BBS, JP (Deputy Chairman)
Hon James TIEN Pei-chun, GBS, JP
Hon Albert HO Chun-yan
Hon Eric LI Ka-cheung, JP
Hon NG Leung-sing, JP
Hon James TO Kun-sun
Hon Bernard CHAN, JP
Hon SIN Chung-kai
Dr Hon Philip WONG Yu-hong
Hon Jasper TSANG Yok-sing, GBS, JP
Hon Emily LAU Wai-hing, JP
Hon Abraham SHEK Lai-him, JP
- Non-Panel member attending** : Dr Hon David CHU Yu-lin, JP
- Members absent** : Hon Kenneth TING Woo-shou, JP
Hon LEE Cheuk-yan
Dr Hon David LI Kwok-po, GBS, JP
Hon CHAN Kam-lam, JP
Hon MA Fung-kwok, JP

**Public officers
attending**

: Financial Services and the Treasury Bureau

Mr Frederick MA
Secretary for Financial Services and the Treasury

Miss AU King-chi
Deputy Secretary for Financial Services and the
Treasury (Financial Services)

**Attendance by
invitation**

: Securities and Futures Commission

Mrs Alexa LAM
Executive Director
Intermediaries and Investment Products

Mr Leo LEE
Director, Corporate Planning

Hong Kong Exchanges and Clearing Limited

Mr Lawrence FOK
Deputy Chief Operating Officer

Hong Kong Stockbrokers Association Limited

Mr Wilfred WONG
Chairman, Hong Kong Stockbrokers Association
Limited

Mr Kenny LEE
Vice Chairman, Hong Kong Stockbrokers Association
Limited

The Institute of Securities Dealers Limited

Ms CHEN Po-sum
Vice Chairman, The Institute of Securities Dealers
Limited

Mr Kenneth LAM
Vice Chairman, The Institute of Securities Dealers
Limited

The Hong Kong Association of Online Brokers

Mr Stewart SHING
Chairman, The Hong Kong Association of Online
Brokers

Mr Douglas CHEN
Vice Chairman, The Hong Kong Association of Online
Brokers

Clerk in attendance : Ms Connie SZETO
Chief Assistant Secretary (1)4

Staff in attendance : Ms Pauline NG
Assistant Secretary General 1

Mr Joey LO
Assistant Secretary (1)1

Ms Christina SHIU
Legislative Assistant

Action

I Report of the Working Group on the Business Environment of the Stockbroking Industry

Briefing on the Report of the Working Group on the Business Environment of the Stockbroking Industry
(LC Paper Nos. CB(1) 1466/02-03 and 1525/02-03)

Upon invitation of the Chairman, the Secretary for Financial Services and the Treasury (SFST) briefed members on the findings and recommendations of the Report (the Report) of the Working Group on the Business Environment of the Stockbroking Industry (the Working Group). He reaffirmed the financial services industry as one of the important pillars of Hong Kong's economy and commended the securities brokerage firms, especially the small and medium sized (SME) brokers, for contributing to the success of Hong Kong's financial market. He stressed that the Working Group had attached great importance to engaging the stockbroking industry and listening to its views in examining proposals to improve the business environment and enhance competitiveness of the industry, in particular for the SME brokers. He advised that the Working Group had put forward 23 recommendations grouped under eight major categories which were set out in Chapter 4 of the Report. The Administration had prepared a target

implementation timeframe in consultation with the Securities and Futures Commission (SFC), the Hong Kong Exchanges and Clearing Limited (HKEx), and the Hong Kong Monetary Authority (HKMA) to take forward the recommendations. Follow up actions for implementation had immediately started. SFST remarked that the current slack performance in the securities market was a result of cyclic downturn in the global economy. Improvement of the business environment of the stockbroking industry would need the support from the stockbroking industry. Meanwhile, government and regulators would endeavour to improve the quality of market and investors' confidence by enhancing the level of corporate governance.

2. Mrs Alexa LAM, Executive Director of SFC, advised that SFC supported the recommendations in the Report. SFC had been engaging industry associations to discuss details in taking forward the various recommendations. She highlighted that the recommendation to group the existing 70-plus fee items imposed by banks and brokers into broad categories would help investors in comparing fees charged by banks and brokers. Mr Lawrence FOK, Deputy Chief Operating Officer, HKEx also advised that HKEx had set out to implement the various recommendations involving HKEx.

Meeting with deputations

(LC Paper Nos. CB(1) 1525/02-03(02) and (03))

3. Mr Wilfred WONG, Chairman of Hong Kong Stockbrokers Association Limited, and Ms CHEN Po-sum, Vice Chairman of the Institute of Securities Dealers Limited, expressed disappointment towards the Report and the Administration's lack of support for the stockbroking industry. Mr Stewart SHING, Chairman of the Hong Kong Association of Online Brokers remarked that the Association supported the Report and hoped that the recommendations could be implemented as soon as possible.

4. Ms CHEN Po-sum remarked that the Institute of Securities Dealers Limited was grateful for the efforts made by members of the Panel, especially Mr Henry WU, in striving for the rights and interests of the securities brokerage industry. Their efforts had enabled the community to better understand the difficulties facing the industry. Ms CHEN remarked that the Report had served the Administration's interests by upholding the Administration's established policy on the stockbroking industry, whilst proposing a few cosmetic relief measures purporting to help the industry. Ms CHEN said that before demutualization, HKEx provided standardized cash client's agreement for brokers' use. She added that upon the implementation of the Securities and Futures Ordinance with effect from 1 April 2003, SFC should consider giving small brokers some help in providing a standardized client agreement.

Discussion with members

Two-tier commission rate system for the stockbroking industry

5. Mr Henry WU and Mr Wilfred WONG was disappointed that the industry's request for deferring the abolition of the minimum brokerage commission rate after the business environment had improved had not been accepted. They further opined that the proposal of introducing a two-tier commission system was essential for the survival of SME brokers.

6. On the suggestion of a two-tier commission system, SFST advised that this was raised by some members of the stockbroking industry. The Working Group had fully considered and analyzed the pros and cons from various perspectives. It was considered that such a system would not be conducive to improving the competitiveness of the stockbroking industry, especially SME brokers. Besides, the system would be against the interest of the investing public and the spirit of competition in a free market. He added that while the Working Group noted the industry's concern about possible cut-throat price war after removal of the minimum brokerage commission rate, the problem had not materialized after 1 April.

Level playing field between brokers and banks

7. Mr Henry WU echoed the industry's views that no new solutions had been proposed in the Report for solving problems facing the stockbroking industry. He remarked that brokers were disadvantaged in competing with banks since they had to pay registration fees of \$1,790 for each licensed representative they employed vis-a-vis a flat annual charge of \$35,000 per bank for all its securities staff. Furthermore, brokers paid annual licence fees of \$4,740 for the licenced corporation and each responsible officer respectively. Mr WU requested SFC to reduce licence fees to lower the compliance cost on SME brokers. Given that personnel expenses accounted for over 80% of SFC's operating cost, he suggested SFC to reduce its staff cost to relieve the burden on licensees. In addition, Mr WU urged HKMA to step up its regulation on banks' regulated activities to ensure a level playing field between banks and brokers in their conduct of securities business.

8. In respect of concern about regulatory fees for banks, the Deputy Secretary for Financial Services and the Treasury (DS/FST) advised that HKMA and SFC were exploring the feasibility of introducing a sliding scale of registration fees for banks to reflect their size of securities business. She stressed that the Administration was committed to maintaining a level playing field between banks and brokers and assured members that HKMA would adopt the SFC regulatory standards and subject banks to the same disciplinary procedures and sanctions as SFC licensed intermediaries. SFC and HKMA had signed a new Memorandum of Understanding to set out their respective regulatory duties.

9. As regards concern over SFC's fees, Mrs Alexa LAM stressed that SFC had not revised its fees since 1993, which had demonstrated its efforts in reducing compliance cost on intermediaries. She added that in view of the current economic situation, SFC had reduced all existing licensing fees by 3%. Furthermore, existing licensees and exempt persons who migrated to the new licensing regime in the first year of the two-year transitional period would enjoy a further 5% discount in annual fees. As regards concern about SFC's staff cost, Mrs LAM pointed out that SFC had frozen staff salaries since 2001 and with the removal of the variable pay, there had been 8% reduction in pay for staff. On the industry's suggestion for SFC to provide a standardized cash client's agreement, Mrs LAM said that SFC was willing to offer assistance to the industry in this regard.

Relief measures for stockbroking industry

10. Mr Wilfred WONG and Mr Henry WU pointed out that the outbreak of the Severe Acute Respiratory Syndrome (SARS) had hit SME brokers further and called for the Government to help the stockbroking industry by extending the scope of the loan guarantee scheme to cover the industry.

11. In response, SFST stressed that the loan guarantee scheme was designed to help industries badly hit by the SARS outbreak. Owing to resource constraint, the Government had to focus on the four major industries hardest and most directly hit. As such, it would not be advisable to extend the scheme to cover the stockbroking industry. DS/FST supplemented that SME brokers were eligible for financial assistance under the four existing SME Funding Schemes administered by the Trade and Industry Department. The Working Group had promoted those schemes to the industry associations at their earlier meetings and through subsequent correspondence. A summary on the funding schemes was provided at Annex F to the Report.

Reduction of stamp duty for securities transactions

12. Mr Wilfred WONG and Mr Henry WU expressed disappointment that the industry's call for reduction or abolition of stamp duty on securities transactions was not addressed in the Report.

13. In response, SFST said that Hong Kong had been maintaining a simple taxation system with low tax rate to attract overseas investors. Hong Kong did not have capital gain tax nor dividend tax. The stamp duty was the only tax levied on securities transactions. The duty rate had in fact been reduced for more than 60% from 0.6% in 1990 to 0.2% at present. The Financial Secretary had proposed to lower the duty rate in the budget speeches of 2000-01 and 2001-02 in anticipation of the abolition of minimum commission rate by HKEx then. The Administration had taken note of the industry's views and would keep this issue under review.

Measures to help small and medium sized brokers

14. Mr Henry WU and Mr Wilfred WONG were concerned that there were no concrete plans and implementation timetable for the various recommendations. For instance, no firm timetable had been proposed for the implementation of the Investor Participant (IP) account model, which was supported by the industry.

15. On the concern about timetable for implementation of the recommendations, DS/FST pointed out that a target timeframe for implementing the recommendations had been given in the Annex to the Administration's paper (CB(1)1525/02-03(01)). Most of the recommendations were to be implemented within 2003.

16. On the development of IP account, Mr Lawrence FOK said that the Working Group recognized the benefits of the infrastructure to SME brokers which would allow them to compete with large players in the market. As the proposal required substantial investment, HKEx and SFC were working out the design of the technical model, funding and financial arrangements. The target was to implement the proposal in the first half of 2004.

17. Mr NG Leung-sing remarked that it was important to revitalize the market and increase turnover to help SME brokers. He enquired about measures to promote the image of brokers and to diversify their range of products. In promoting brokers' image, DS/FST said this would be mainly done through local and overseas promotional efforts in collaboration with industry associations. Mr Lawrence FOK added that HKEx would soon provide at its website hyperlinks to market participants' websites in order to enhance brokers accessibility to the investors. As regards diversification of investment products, DS/FST advised that the Hong Kong Investment Fund Association and Hong Kong Securities Institute and other relevant organizations had been organizing training courses to enhance brokers' knowledge of new products. Mr Lawrence FOK supplemented that HKEx had endeavoured to develop and launch new products on the stock exchange, such as the equity-linked notes. HKEx also regularly organized free training courses and seminars for brokers on new products.

II Any other business

18. There being no other business, the meeting ended at 3:30 pm.