

**For information  
on 13 January 2003**

## **LEGISLATIVE COUNCIL PANEL ON FINANCIAL AFFAIRS**

### **The Chief Executive 2003 Policy Address**

#### **Initiatives under the Financial Services and the Treasury Bureau**

#### **I. Introduction**

The Chief Executive announced the 2003 Policy Address on 8 January 2003. This paper elaborates on the various initiatives in the Policy Address that relate to the work of the Financial Services and the Treasury Bureau.

#### **II. Financial Services**

2. The Policy Address points out the importance of reinforcing and enhancing our role as a major international financial centre in Asia and the premier capital formation centre of our country. Specific measures include upgrading corporate governance, enhancing investor protection and facilitating the introduction of new investment products in the market.

#### **Corporate Governance**

3. The Corporate Governance Action Plan for 2003 at the Annex focuses on the priority tasks being jointly pursued by the Government and relevant parties in upgrading the quality of the equity market through efforts to bring the corporate governance of companies, in particular the listed companies, in line with international standards. We believe that these tasks

are the key to maintaining our competitiveness as an international financial centre and the preferred support base for companies operating in the Mainland.

### **Facilitate the Development of the Bond Market**

4. To facilitate the development of the bond market, we will be seeking to amend the prospectus-related requirements in the Companies Ordinance. The amendments will streamline the provisions and facilitate the offerings of new debt instruments. We aim to introduce the relevant legislative amendments into the Legislative Council in 2003.

### **Deposit Protection Scheme and Insurance Policy Holders' Protection Fund**

5. The establishment of the Deposit Protection Scheme would render effective protection to small depositors and would also be conducive to maintaining the stability of the banking system. We expect to introduce the relevant Bill into the Legislative Council in the first half of 2003.

6. The Study on the need for and feasibility of setting up an Insurance Policy Holders' Protection Fund would be completed by mid 2003, and the public would be consulted on the findings.

## **III. Treasury**

### **Resolving the budget deficit**

7. The Policy Address points out that solving the deficit problem is Government's top priority.

8. We are implementing measures to control growth in public expenditure in 2003-04 to 2006-07 to ensure that the Budget is balanced and

public expenditure is 20% of GDP or less by 2006-07. We shall maintain our target of reducing expenditure by 1.8% in 2003-04 so that the operating expenditure will be contained at \$210.4 billion. Our present savings target is to reduce our operating expenditure from our present estimate of \$219.8 billion to \$200 billion in 2006-07.

9. We will formulate an effective strategy with the objective of balancing the operating revenue account and expenditure account by 2006-07. This will include levying a tax from early 2004 on all persons departing Hong Kong by land/sea in order to generate revenue to help finance improvement of boundary facilities.

10. We are consulting the transport operators on the collection method for the Boundary Facilities Improvement Tax (BFIT). We plan to introduce into the Legislative Council in March/April the necessary bill which will set out the detailed arrangements including exemptions and tax levels. We expect that BFIT will bring about \$1 billion recurrent revenue which will help meet the expenditure on improving boundary facilities and mitigate the budget deficit.

**Enhance administrative efficiency and effectiveness of bureaux and departments through re-engineering, re-organization and re-prioritization of service delivery**

11. We propose to merge the Government Land Transport Agency, the Government Supplies Department and the Printing Department to form a new Government Logistics Department by July 2003. There will be a reduction of 60 posts and annual savings for \$26.47 million mainly through merging of their administrative, financial management and procurement services. We expect the merger will strengthen operational co-ordination and enhance

efficiency. The reduction in establishment will be carried out through natural wastage, retirement and redeployment. We are consulting the staff of the three departments concerned.

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Financial Services and the Treasury Bureau

13 January 2003

## **Enhancing Corporate Governance**

### **The Mission**

Maintaining and enhancing our competitiveness as a leading international financial centre and the premier capital formation centre for our country.

### **Objective**

To upgrade the quality of our market by bringing our corporate governance standards in line with international standards, and to be the preferred support base for Hong Kong and Mainland companies by providing quality international financial and other professional services.

### **The Corporate Governance Action Plan for 2003**

The Administration has, together with the Securities and Futures Commission (SFC) and the Hong Kong Exchanges and Clearing Limited (HKEx), reviewed the measures proposed by concerned parties to improve corporate governance; and taken the lead in drawing up an Action Plan for 2003 to identify priority areas, assign ownership and devise a timeframe for implementation.

The Administration, SFC and HKEx are fully committed to this Action Plan. Together we shall review progress regularly; and coordinate efforts to close any gaps and remove inconsistencies in implementation.

The Action Plan in no way pre-empts the findings of the Expert Group, and

will be amended and adapted as necessary to meet any structural or procedural changes flowing from those recommendations.

## **Five Priority Areas**

### **Priority I: Upgrading the Listing Rules and Listing Functions**

- By Q2 2003: HKEx to introduce amendments to the Listing Rules and promulgate a revised Code on Best Practice to implement various corporate governance measures consulted since Jan 2002.
- By Q1 2003: HKEx to complete streamlining of the listing process in order to improve quality control at the point of entry by focussing on critical matters.
- By phases, starting from Q2 to Q4 2003: HKEx to amend the Listing Rules to improve the initial and continuing listing requirements and delisting procedures, following consultation started in July and November 2002.
- By Q4 2003: The Administration to follow up recommendations of the FS-appointed Expert Group scheduled for publication in March 2003 with a view to improving Listing Functions; and delineating roles of FSTB, SFC and HKEx under the tiered regulatory structure.

### **Priority II: Tightening the regulation of IPO intermediaries**

- By Q1 2003: HKEx to consult the market on amendments to the Listing Rules to tighten regulation of IPO intermediaries, in particular sponsors

and financial advisors. Target is implementation in H2, 2003.

- By Q1 2003: SFC to put forward proposals to the Standing Committee on Company Law Reform (SCCLR) on amendments to the Companies Ordinance to extend the prospectus-related liability to IPO sponsors, and possibly, other IPO intermediaries, for ensuring quality disclosure to investors.
- By Q3 2003: FSTB, in consultation with the Hong Kong Society of Accountants, to finalise legislative proposals to enhance the regulation of the accountancy profession.

### **Priority III: Effective Roll Out of the Securities and Futures Ordinance**

- By 1 April 2003: SFC to formulate an effective strategy in enforcing the Securities and Futures Ordinance (SFO), in particular with regard to execution of “dual filing”, inquiries into corporate misconduct, regulation of licensed IPO sponsors, cooperation with HKEx in combating pre-IPO market manipulation, etc. SFC to adopt a case specific approach as a corporate regulator under SFO and ‘dual filing’.

### **Priority IV: Successful completion of SCCLR Phase II Corporate Governance Review**

- By Q1 2003: The Administration, SFC and HKEx to render full support to the SCCLR for completion of its Phase II Review, with SFC and HKEx putting forward further proposals to SCCLR, including amendments to the Companies Ordinance on related party transactions,

shareholders' rights, disclosure requirements, liability of professional advisers relating to misstatements in listing documents etc.

**Priority V: Early implementation of SCCLR Recommendations from its Phase I Corporate Governance Review**

- By Q1 2003: FSTB and SFC to release a joint consultation paper on the concept to empower SFC to conduct derivative actions for minority shareholders of a listed company, including legal issues, scope and effectiveness of remedies, and possible implementation arrangements.
- By Q2 2003: FSTB to introduce to LegCo a Companies (Amendment) Bill to enhance corporate governance by implementing SCCLR Phase I recommendations relating to shareholders' remedies.
- By Q4 2003: FSTB, in consultation with the listed sector and the accountancy profession, to finalise and take forward a proposal to establish a Financial Reporting Review Panel to investigate financial statements of companies and enforce changes thereto.