

For information  
on 28 April 2003

**The Legislative Council  
Panel on Financial Affairs**

**Recommendations of the Working Group on the  
Business Environment of the Stockbroking Industry**

**Purpose**

This note seeks to brief Members on the major recommendations made by the Working Group on the Business Environment of the Stockbroking Industry and the way forward.

**Background**

2. On 15 January 2003, the Secretary for Financial Services and the Treasury (SFST) announced the establishment of a tripartite forum, thereafter formally named as “the Working Group on the Business Environment of the Stockbroking Industry” (“the Working Group”), to examine with the local stockbroking industry ways to enhance the competitiveness of the small and medium sized stock brokerage firms, and asked the Working Group to submit to him a report in three months’ time.

3. The Working Group submitted its Report to SFST on 15 April 2003. The Report was distributed to Members of this Panel with a covering note entitled “Report of the Working Group on the Business Environment of the Stockbroking Industry” on 16 April 2003 and released to the public immediately thereafter.

**Deliberations of the Working Group**

4. The Working Group attached great importance to engaging the stockbroking industry and listening to the industry’s views in examining proposals to improve the business environment and enhance competitiveness of the industry, in particular the small and medium sized brokerage firms.

5. Following the establishment of the Working Group in mid January, the Working Group immediately arranged meetings with members of the industry. After the first round of meetings, the relevant industry associations were invited to send in written submissions and comments to the Working Group. Upon receiving the industry associations' suggestions and completion of preliminary analysis thereof, the Working Group arranged a second round of meetings with the associations in March 2003 to follow up on the various issues raised at the first round of meetings and discussed further the suggestions raised in their written submission. Opportunities were also taken to consult the industry associations on other initiatives that were not raised by the associations, but which the Working Group considered worth exploring with them to enhance the competitiveness of the small and medium sized stockbrokers.

6. To take forward the industry's views and suggestions, and explore ways to improve the business environment of the stockbroking industry, the Working Group has engaged relevant parties, including the regulators, government departments and financial industry organisations to address the issues of concern and consider possible solutions.

7. A chronology of these events is set out at Annex C of the Report.

### **Recommendations of the Working Group**

8. The Working Group's recommendations, as set out in Chapter 4 of the Report, can be broadly grouped into the following eight major categories

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- (a) to enhance transparency of fees and charges imposed by banks and brokers, including efforts to group the existing 70-plus fee items into broad categories, in order to discourage any anti-competitive pricing behaviour and assist brokers in explaining their fees and charges to their clients;
- (b) to promote image building of brokers and market awareness amongst investors;
- (c) to level the playing field between brokers and banks through effective enforcement of "cold calling" regulation and rationalisation of regulatory fees paid by banks for conducting securities business;

- (d) to rationalise the fees imposed by the Hong Kong Exchanges and Clearing Ltd (HKEx) that are duplicative with those of the Securities and Futures Commission (SFC), including removal of 10 fee items imposed on brokers ranging from \$100 to \$12,000 per item;
- (e) to minimise compliance burden on the small and medium sized brokers through a flexible and pro-compliance approach adopted by SFC in facilitating brokers' compliance with the Securities and Futures Ordinance, and lowering re-entry arrangements for stockbrokers;
- (f) to expedite the development of the enhanced IP account model so that smaller brokers can be better positioned to compete with larger ones, including efforts to be made by the SFC to lower the capital requirements for brokers opting for the model, and by the Hong Kong Monetary Authority (HKMA) to promote fair and transparent pricing for effecting money transfers to IP accounts by banks;
- (g) to promote diversification of products offered by smaller brokers, including partnerships between the Hong Kong Securities Institute, Hong Kong Investment Funds Association, stockbroking associations and the SFC on retail funds; and
- (h) to enhance training opportunities of brokers, including efforts made by the Hong Kong Securities Institute, SFC and HKEx, and promoting brokers' use of funds available through the various Small and Medium Enterprises funding schemes administered by Government.

9. On the suggestion of a two-tier commission system raised by some members of the stockbroking industry, the Working Group has fully considered and analysed 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 the small and medium sized brokerage firms. Besides, the system would be against the interest of the investing public and the spirit of competition in a free market. The Working Group set out its view in paragraphs 3.14 to 3.18 of the Report.

## **Way forward**

10. To implement the recommendations, SFST has invited the regulators, namely the SFC and the HKMA, and the market operator, i.e. the HKEx, to take follow up actions as soon as possible. He has also appealed to the stockbroking industry associations for their support and collaboration in taking forward the relevant recommendations with their members. Successful implementation of the recommendations require the joint efforts of the regulators, the market operator and, most importantly, the stockbroking industry.

11. In consultation with the SFC, HKMA and HKEx, we have prepared a target implementation timeframe at the Annex.

Financial Services Branch  
Financial Services and the Treasury Bureau  
25 April 2003

**Recommendations of  
the Working Group on the  
Business Environment of the Stockbroking Industry**

**Target implementation timeframe**

The Working Group made 23 recommendations, as set out in Chapter 4 of its Report. These are grouped into eight categories below, with reference to the paragraph numbers in the Report. Implementation of these recommendations requires the joint efforts of the regulators including the SFC, HKMA; the market operator, namely the HKEx; and most importantly, the stockbroking industry.

	<b>Categories of Recommendations</b>	<b>Target Timeframe</b>
1.	To enhance transparency of fees and charges imposed by banks and brokers, including efforts to group the existing 70-plus fee items into broad categories, in order to discourage any anti-competitive pricing behaviour and assist brokers in explaining their fees and charges to their clients. (paragraphs 4.5 – 4.6 of the Report)	Q4/2003
2.	To promote image building of brokers and market awareness amongst investors. (paragraphs 4.8 – 4.9 of the Report)	H2/2003
3.	To level the playing field between brokers and banks through <ul style="list-style-type: none"><li>• Effective enforcement of “cold calling” regulation and</li><li>• Rationalisation of regulatory fees paid by banks for conducting securities business.</li></ul> (paragraphs 4.10 – 4.11 of the Report)	Ongoing  Q1/2004
4.	To rationalise HKEx fees that are duplicative with those of SFC, including removal of 10 fee items imposed on brokers ranging from \$100 to \$12,000 per item. (paragraphs 4.14 – 4.15 of the Report)	H2/2003

5.	<p>To minimise compliance burden on the small and medium sized brokers through a flexible and pro-compliance approach adopted by the SFC in –</p> <ul style="list-style-type: none"> <li>• facilitating brokers' compliance with the Securities and Futures Ordinance and</li> <li>• re-entry arrangements for stockbrokers.</li> </ul> <p>(paragraphs 4.18 – 4.20 of the Report)</p>	<p>Q2/2003</p> <p>Q4/2003</p>
6.	<p>To expedite the development of the enhanced IP account model so that smaller brokers can be better positioned to compete with larger players, including efforts to be made by the SFC to lower the capital requirements for brokers opting for the model, and by the HKMA to promote fair and transparent pricing for effecting money transfers to IP accounts by banks.</p> <p>(paragraphs 4.22 – 4.24 of the Report)</p>	<p>H1/2004</p>
7.	<p>To promote diversification of products offered by smaller brokers, including partnerships between the Hong Kong Securities Institute, Hong Kong Investment Funds Association, stockbroking associations and the SFC on retail funds.</p> <p>(paragraphs 4.25 – 4.26 of the Report)</p>	<p>Ongoing</p>
8.	<p>To enhance training opportunities of brokers, including efforts made by the HKSI, SFC and HKEx, and promoting brokers' use of funds available through the various Small and Medium Enterprises funding schemes administered by Government.</p> <p>(paragraphs 4.27 – 4.30 of the Report)</p>	<p>Ongoing</p>

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