

# 立法會 *Legislative Council*

LC Paper No. CB(1)1630/03-04

(These minutes have been seen  
by the Administration)

Ref : CB1/PL/FA/1

## **Panel on Financial Affairs**

**Minutes of meeting  
held on Monday, 1 March 2004 at 10:00 am  
in the Chamber of the Legislative Council Building**

**Members present** : Hon Henry WU King-cheong, BBS, JP (Deputy Chairman)  
Hon James TIEN Pei-chun, GBS, JP  
Dr Hon David CHU Yu-lin, JP  
Hon Albert HO Chun-yan  
Hon LEE Cheuk-yan  
Dr Hon Eric LI Ka-cheung, GBS, JP  
Hon NG Leung-sing, JP  
Hon James TO Kun-sun  
Hon CHAN Kam-lam, JP  
Hon SIN Chung-kai  
Dr Hon Philip WONG Yu-hong, GBS  
Hon Jasper TSANG Yok-sing, GBS, JP  
Hon Emily LAU Wai-hing, JP  
Hon Abraham SHEK Lai-him, JP

**Members absent** : Hon Ambrose LAU Hon-chuen, GBS, JP (Chairman)  
Hon Kenneth TING Woo-shou, JP  
Dr Hon David LI Kwok-po, GBS, JP  
Hon Bernard CHAN, JP

**Public officers attending : Agenda Items IV and V**

Mr Tony MILLER  
Permanent Secretary for Financial Services and the Treasury  
(Financial Services)

Ms Edna WONG  
Principal Assistant Secretary for Financial Services and the  
Treasury (Financial Services)

**Agenda Item VI**

Mr Richard YUEN  
Commissioner of Insurance

Mr Alan LO  
Principal Assistant Secretary for Financial Services and the  
Treasury (Financial Services)

Mr Ros LAM  
Assistant Commissioner of Insurance

**Agenda Item VII**

Mr Edmond LAU  
Principal Assistant Secretary for Financial Services and the  
Treasury (Financial Services)

Mr CHOI Yiu-kwan  
Executive Director  
Banking Supervision Department  
Hong Kong Monetary Authority

Mr Nelson MAN  
Division Head  
Banking Supervision Department  
Hong Kong Monetary Authority

**Attendance by invitation : Agenda Item IV**

Securities and Futures Commission

Mrs Alexa LAM  
Executive Director  
Intermediaries and Investment Products

Mr Stephen PO  
Senior Director  
Intermediaries and Investment Products

**Agenda Item V**

Securities and Futures Commission

Mr Peter AU-YANG  
Executive Director and Chief Operating Officer

Mr Keith LUI  
Commission Secretary

**Agenda Item VI**

PricewaterhouseCoopers

Mr Peter WHALLEY  
Partner/Financial Services Division

Mr Lloyd BRYCE  
Partner/Financial Services Division

**Agenda Item VII**

Wing Hang Bank

Mr Patrick FUNG  
Chairman & Chief Executive

Mr Frank WANG  
Executive Director & Deputy Chief Executive

Mr Stanley YUEN  
Assistant General Manager & Chief Financial Officer

Chekiang First Bank, Limited

Mr Leo KUNG  
Director & Deputy Chief Manager

A.T. Kearney

Mr William TURNER  
Vice President

KPMG

Mr Charles KINSLEY  
Principal

Freshfields Bruckhaus Deringer

Mr Robert ASHWORTH  
Partner

Mr Brian Yoonsuk SNUG  
Associate

**Clerk in attendance :** Miss Salumi CHAN  
Chief Council Secretary (1)5

**Staff in attendance :** Ms Pauline NG  
Assistant Secretary General 1

Ms Connie SZETO  
Senior Council Secretary (1)4

Mr Joey LO  
Council Secretary (1)1

Ms May LEUNG  
Legislative Assistant

**Agenda Item VII**

Ms Bernice WONG  
Assistant Legal Adviser 1

The Deputy Chairman informed members that the Chairman was out of town and that he would preside over the meeting on his behalf.

**I. Confirmation of minutes of meetings**

(LC Paper No. CB(1)1095/03-04 — Minutes of meeting on 5 January 2004

LC Paper No. CB(1)1096/03-04 — Minutes of special meeting on 15 January 2004)

2. The minutes of the meetings held on 5 and 15 January 2004 were confirmed.

**II. Information papers issued since last meeting**

3. Members noted the following information papers issued since the last regular meeting held on 2 February 2004:

- (a) Information note and consultation paper relating to review of disclosure requirements/standards for Mandatory Provident Fund investment funds (LC Paper Nos. CB(1)928/03-04(01) and (02));
- (b) Securities and Futures Commission Quarterly Report for October to December 2003 (LC Paper No. CB(1)989/03-04); and
- (c) Mandatory Provident Fund Schemes Statistical Digest — December 2003 (LC Paper No. CB(1)1038/03-04).

**III. Date of next meeting and items for discussion**

(LC Paper No. CB(1)1094/03-04(01) — List of outstanding items for discussion

LC Paper No. CB(1)1094/03-04(02) — List of follow-up actions)

4. The Deputy Chairman reminded members that as the first Monday of April 2004 was the Ching Ming Festival, the regular meeting for April had been rescheduled for Friday, 2 April 2004. He then informed members that the Administration had proposed the following five items for discussion at the meeting:

- (a) Regulation of the accounting profession;

- (b) Regulation of listing;

- (c) Plan for the 2006 Population By-census;
- (d) Review of disclosure requirements/standards for Mandatory Provident Fund (MPF) investment funds; and
- (e) Progress of the review of the Companies Ordinance.

5. On paragraph 4(a) and 4(b) above, the Deputy Chairman informed members that the Administration would report to the Panel on the outcome of the public consultation and consult members on the way forward. On paragraph 4(c), the Administration would brief the Panel and consult members on the proposed project plan for the Population By-census to be conducted in 2006. The Administration planned to seek funding approval from the Finance Committee in June or July 2004. On paragraph 4(d), the Administration would brief the Panel on the proposals developed by the Mandatory Provident Fund Schemes Authority (MPFA) to improve the disclosure of fees, charges and performance of MPF funds. MPFA planned to implement the proposals through the issuance of a code in June 2004. As regards paragraph 4(e), the Deputy Chairman pointed out that at the Panel meeting on 6 November 2003 when the Administration updated members on the progress of the Corporate Governance Action Plan, Ms Emily LAU had expressed concern about the progress of the comprehensive review of the Companies Ordinance (CO) (Cap. 32) and the Administration had agreed to report the outcome of the review to the Panel within the first quarter of 2004. As the comprehensive review had not yet been completed, the Administration proposed to report the progress of the review to the Panel. He further advised that the Administration originally planned to model the review of CO on a relevant White Bill in the United Kingdom (UK). Since the introduction of the White Bill had been deferred, the Administration had to reconsider the approach to be taken for the review.

6. Ms Emily LAU was concerned that there would not be sufficient time for the Panel to discuss five items at a regular meeting. The Deputy Chairman proposed and members agreed that the four items mentioned in paragraph 4(a) to (d) above be placed on the agenda for the Panel meeting to be held on 2 April from 10:00 am to 1:00 pm and that the Administration be invited to provide an information paper on the progress of the review of CO to facilitate the Panel to decide the timing for the discussion of the item.

**IV. Briefing on the Report of the Securities and Futures Commission on the Recommendations made by the Working Group on Review of the Financial Regulatory Framework for Licensed Corporations**

(LC Paper No. CB(1)1094/03-04(03) — Paper provided by the Administration

LC Paper No. CB(1)1094/03-04(04) — Report of the Securities and Futures Commission on the Recommendations made by the Working Group on Review of the Financial Regulatory Framework for Licensed Corporations)

7. The Deputy Chairman pointed out that at the meeting on 7 July 2003, the Panel had been briefed on the progress of the review conducted by the Working Group on the Review of the Financial Regulatory Framework for Intermediaries convened by the Securities and Futures Commission (SFC) in May 2002. The Working Group was subsequently renamed to “Working Group on Review of the Financial Regulatory Framework for Licensed Corporations” (the Working Group). Taking into account members’ views expressed at the meeting on 7 July 2003, the Working Group had further examined different proposals and agreed on some recommended measures. The Working Group’s report was submitted to the Panel on 23 February 2004 to seek members’ views before conducting a public consultation exercise.

Briefing on the Working Group’s recommendations

8. At the invitation of the Deputy Chairman, Mrs Alexa LAM, Executive Director for Intermediaries and Investment Products, SFC briefed members on the Working Group’s recommendations and the proposed way forward. She highlighted the following points:

- (a) The main task of the Working Group was to recommend effective measures for managing default risks in the securities industry, in particular those arising from pooling and re-pledging margin clients’ securities collateral as seen in the default of C.A. Pacific in 1998. Such measures were important in enhancing investor protection and the quality of Hong Kong’s securities market, and reinforcing Hong Kong’s position as an international financial centre.
- (b) The Working Group recommended two core measures to address pooling and re-pledging risks. First, it recommended the imposition of a limit on the amount of clients’ collateral that a securities margin finance (SMF) provider could re-pledge to secure its borrowing. As proposed by the Working Group, a limit within the range of 130% to 150% of the



total loans lent by a SMF provider might be considered. This core measure, which was modelled on the practice in the United States (US), would result in SMF providers re-pledging a smaller proportion of clients' collateral with banks, thus increasing the amount of clients' collateral available for distribution in the event of the firm's collapse. The measure would also prevent SMF providers from over-borrowing against clients' collateral, thereby encouraging them to adopt more cautious lending and borrowing practices. To allow flexibility for SMF providers, the re-pledging limit would be calculated on the total loans lent by a firm instead of on an individual client basis as in the case of the US.

- (c) Secondly, the Working Group recommended an increase in the haircut percentage rates prescribed in the Financial Resources Rules (FRR). FRR haircut percentages on clients' collateral were used to calculate the amount of liquid capital a SMF provider was required to maintain as buffer against market and liquidity risks. The Working Group considered that the current haircut percentages did not reflect market and volatility risks and therefore recommended increases in the percentages, as follows -

<b>Stocks and warrants</b>	<b>Existing FRR haircut %</b>	<b>Proposed new FRR haircut %</b>
HSI/HSHK LargeCap Index	15%	20%
HSHK MidCap	20%	40%
MSCI HK/ MSCI China Index	N/A	40%
Other Hang Seng Composite Index constituents	30%	60%
All other stocks	30%	80%
Warrants	40%	100%

The proposed new FRR haircut percentages would still be significantly lower than the average haircut percentages used by banks and brokerages. The measure would not affect the haircut rates on collateral set by SMF providers with their clients; nor would it stop an investor from trading in any stocks, or a broker from lending against any stocks. The measure was designed to encourage SMF providers to adhere to prudent lending ratios by collecting adequate collateral from margin

clients. SMF providers that lent at high lending ratios would be required to use their own capital so that market and credit risks would be borne by SMF providers instead of their clients.

- (d) The Working Group also recommended two supplementary measures. The first measure was to improve the Code of Conduct disclosure obligations by requiring SMF providers to disclose additional information to its clients and/or the regulator. The second measure was to step up investor education on the risks of pooling and re-pledging of securities collateral.
- (e) According to the studies conducted by SFC, the two core measures would affect only a small number of firms. With the recent increase in market turnover and improved profit levels, SFC believed that these firms should be in a better position to achieve compliance. Moreover, the Working Group recommended a 12-month transitional period for licensed corporations to attain full compliance with the proposed measures. SFC was prepared to work closely with any affected firms to resolve their problems during the transitional period.
- (f) SFC planned to commence a public consultation exercise on the Working Group's recommendations in the second quarter of 2004. Subject to the public comments received, SFC would consult the Administration on the proposed legislative amendments before consulting Legislative Council (LegCo) Members at the next legislative session. SFC maintained an open mind on the recommendations and welcomed views from Members, market and the investing public.
- (g) The Working Group had included in the Report its own views on some of the key long-term issues, including the need to converge with international standards of achieving complete segregation of non-borrowing margin clients' collateral and the consideration of tiering capital requirements to levels commensurate with the risks assumed by firms. Moreover, SFC also took the view that more could be done to minimize the risk of brokerage failure. It proposed that an internal working group be established to examine the complex issue arising in the context of appointing a manager to take over and manage the business of a firm which was considered likely to default on its obligations. SFC would report the outcome of the review to the Panel in due course.

9. The Permanent Secretary for Financial Services and the Treasury (Financial Services) (PS/FST(FS)) advised that the Administration welcomed the Working Group's recommendations which were in the right direction in enhancing investor protection and facilitating the healthy development of Hong Kong's securities market.

He stressed that the Administration maintained an open mind on the recommendations and looked forward to views from Members and the public.

(*Post-meeting note:* The presentation material provided by SFC and Mrs Alexa LAM's speaking note were circulated to members and non-Panel Members vide LC Paper Nos. CB(1)1179/03-04(01) and (02) on 5 March 2004 respectively.)

## Discussion

### *Pooling and re-pledging collateral of non-borrowing margin clients*

10. Mr CHAN Kam-lam welcomed the proposed core measures and urged that the measures be implemented as soon as practicable. However, Mr CHAN considered that as a matter of principle, SMF providers should not be allowed to re-pledge the collateral of the clients who had not borrowed from the providers. Pointing out that it was unfair to the clients concerned, Mr CHAN stressed the need to protect their interests.

11. Mrs Alexa LAM shared Mr CHAN Kam-lam's view that the re-pledging of non-borrowing margin clients' collateral was unfair to them. She pointed out that the Working Group recognized the need to address the issue in the long run, as the existing infrastructure of the market did not permit segregation of margin clients' collateral. As an interim measure, the Working Group considered the proposed imposition of a re-pledging limit a viable option to address the risks concerned because at least a portion of clients' collateral would not be re-pledged. Mrs LAM stressed that it remained the long-term goal of SFC to achieve complete segregation of non-borrowing margin clients' collateral so as to comply with international standards.

12. Mr Albert HO, on behalf of the LegCo Members of the Democratic Party, expressed support for the proposed measures to enhance investor protection. Sharing Mr CHAN Kam-lam's view that SMF providers should not be allowed to re-pledge the collateral of non-borrowing margin clients, Mr HO considered that the ultimate solution to the problem was to prohibit SMF providers from pooling such collateral at the outset.

13. Mrs Alexa LAM explained that unless authorized by their clients, SMF providers were not permitted to pool and re-pledge clients' collateral. As clients usually borrowed and re-paid their margin loans frequently, it would be very difficult and would involve costs for SMF providers to differentiate the collateral of borrowing clients from that of non-borrowing clients.

14. Noting that re-pledging of non-borrowing margin clients' collateral was not permitted in other major international financial centres, Ms Emily LAU stressed the importance for Hong Kong to meet international standards so as to enhance investor

protection and reinforce Hong Kong's position as an international financial centre. In this connection, she enquired about the arrangement for segregation of non-borrowing clients' collateral in other financial centres and suggested that SFC should expedite its study in this respect.

15. Mrs Alexa LAM explained that other major international financial centres required brokerages to segregate and keep the collateral of non-borrowing margin clients in safe custody. However, re-pledging of clients' collateral was a practice historically permitted in Hong Kong for SMF providers to finance their working capital. While the Working Group recognized that segregation of non-borrowing margin clients' collateral was the best international practice, it also noted that the requirement would impose financial burden on most firms in Hong Kong, in particular the small ones. For example, firms would be required to acquire and maintain sophisticated information technology systems to differentiate the collateral of borrowing clients from that of non-borrowing clients. It would also involve costs for the firms to move securities in and out of accounts held with banks to which the non-borrowing clients' collateral was re-pledged. Mrs LAM further pointed out that other financial centres were able to implement segregation of non-borrowing margin clients' collateral because SMF providers used their own capital to finance loans to margin clients instead of relying on re-pledging of clients' collateral as a resource of funding. Mrs LAM reiterated that it was the long-term goal of SFC to achieve complete segregation of non-borrowing margin clients' collateral so as to meet international standards. SFC would explore with the market the possible means to improve the present infrastructure to facilitate segregation of clients' collateral. It would also reflect members' views in this regard to the public during the public consultation exercise to be conducted later.

16. The Deputy Chairman noted from the Report that members of the Working Group had different views on whether re-pledging of non-borrowing margin clients' collateral should be allowed. He doubted why SFC had concluded that achieving complete segregation of non-borrowing margin clients' collateral was the way forward for Hong Kong. He also remarked that some members of the Working Group were concerned that the restrictions imposed on pooling and re-pledging of clients' collateral might drive small brokers out of business, which would be detrimental to the long-term development of the market.

17. Mrs Alexa LAM advised that a few members of the Working Group had expressed strong support for the complete segregation of non-borrowing margin clients' collateral. SFC shared their view because the re-pledging of non-borrowing margin clients' collateral was unfair to the clients concerned and not in line with international practice. Mrs LAM also stressed that the purpose of regulating pooling and re-pledging activities of SMF providers was for the healthy development of the market. There was no intention to drive small brokers out of business. SFC recognized that the vast majority of SMF providers had been conducting their business prudently. They financed their lending business with their own funds and did

not re-pledge client's collateral. However, other SMF providers who did re-pledge could re-pledge all available clients' collateral. The proposed measures aimed to require those small number of imprudent SMF providers to cut down their aggressive re-pledging activities.

18. Noting that SFC had stepped up regulatory measures on SMF activities after the C.A. Pacific incident in 1998, the Deputy Chairman enquired how far these measures had helped address the risks of pooling and re-pledging of clients' collateral.

19. Mr Stephen PO, Senior Director of Intermediaries and Investment Products, SFC advised that under the Securities (Margin Financing) (Amendment) Ordinance passed in 2000, all SMF providers, including unregulated finance companies, were brought under the regulatory framework of SFC. Moreover, SMF providers were required under the non-statutory Code of Conduct to limit the amount of borrowings secured by pledging of clients' collateral to not more than 120% of the total margin loans granted to all clients. Given that the latter measure was not effective, SFC introduced in May 2002 two new financial requirements, i.e. the 65% gearing ratio adjustment and the illiquid collateral haircut. These were designed to be interim measures pending the study of the Working Group on the long-term measures to manage margin financing risks. Mrs Alexa LAM added that while the interim measures had reduced margin financing risks to some extent, SMF providers might still re-pledge all clients' collateral and use the borrowings for different purposes. If an SMF provider adopted aggressive lending and re-pledging practices, in the event of its default, the disastrous outcomes of C.A. Pacific collapse where there were serious losses by clients and systemic risks on the market could recur.

20. The Deputy Chairman considered that SFC should study how far the measures implemented after the C.A. Pacific incident had addressed the problems related to the incident and how recurrence of similar incidents could be prevented. He pointed out that it might not be appropriate to follow the international regulatory standards, as the situations in Hong Kong's market were different from those in other jurisdictions. Mr Abraham SHEK also considered that the practices in other jurisdictions might not be suitable for Hong Kong. He urged SFC to develop regulatory measures catering for the situations in Hong Kong's market.

*Transitional period for the two core measures*

21. Mr CHAN Kam-lam was concerned whether the proposed 12-month transitional period was adequate for licensed corporations to attain full compliance with the two core measures. Mrs Alexa LAM said that the public would be consulted on the 12-month transitional period recommended by the Working Group. She also pointed out that only a small number of firms would be affected by the measures. With the recent increase in market turnover and improved profit levels, there should be no great problems for these firms to achieve full compliance by the end of the transitional period. In this connection, it was revealed from SFC's studies that the

turnover for types B and C brokers had improved by three and four times respectively as compared to the levels a year before. To assist SMF providers to comply with the measures, SFC had started discussion with the likely affected providers to help them sort out related operational problems.

*Timetable for implementing the two core measures*

22. Mr SIN Chung-kai enquired about the timetable for implementing the proposed core measures. Mrs Alexa LAM advised that implementation of the measures would involve amendments to FRR and the Client Securities Rules (CSR), and both of them would be subsidiary legislation under the Securities and Futures Ordinance (SFO) (Cap. 571) subject to negative vetting of LegCo. SFC planned to consult the public on the Working Group's recommendations and the proposed amendments to FRR and CSR in the second quarter of 2004. The consultation would last for about a month. SFC would then consult the Administration on the proposed amendments before consulting Members in the next legislative session. Subject to public comments received during the consultation period and Members' views, SFC envisaged that the proposed measures could be implemented in the fourth quarter of 2004.

23. The Deputy Chairman considered it more appropriate for SFC to draft the proposed amendments after the outcome of the public consultation was known. Mrs Alexa LAM advised that as revealed from past experience, market practitioners preferred to be consulted on the proposed measures and the drafting of any proposed amendments at the same time. Where considered appropriate, SFC would revise the drafting of the proposed amendments in the light of the comments received during the consultation stage to facilitate compliance by market practitioners.

*Composition of the Working Group*

24. Noting that ten of the 13 members of the Working Group were representatives from the securities industry, Ms Emily LAU was concerned whether the Working Group was able to represent the interests of investors. Ms LAU considered that in future, SFC should ensure that composition of its working groups had a balanced representation.

25. In response, Mrs Alexa LAM advised that the ten members from the securities industry were appointed to the Working Group because of their experience and expertise in the industry. SFC recognized the important roles played by both market and non-market representatives in the Working Group. In the past 22 months, the Working Group had held 14 meetings. All members had worked together to formulate proposals that would enhance investor protection against risks of pooling and re-pledging of clients' collateral while imposing the least burden on the industry.

26. The Deputy Chairman considered that the Working Group had a broad based membership and was well-balanced in representation. The ten market members were from securities firms of different scale, while the three non-market members were from the academia, the Hong Kong Investment Funds Association and the Consumer Council. He stressed that the financial services industry strove to protect the interests of the investing public, as enhancement of investor protection would benefit the long-term development of the industry and the market. While the industry recognized the need to regulate imprudent margin lending and excessive re-pledging practices of some SMF providers, it stressed that regulatory measures should not adversely affect the operation of the vast majority of firms which had been conducting their business prudently.

27. Mr James TIEN considered the appointment of ten market members to the Working Group acceptable if they could represent different categories of securities firms.

**V. The Securities and Futures Commission Budget for the Financial Year 2004-05**

(LC Paper No. CB(1)1094/03-04(05) — Paper provided by the Administration)

Briefing on SFC budget for 2004-05

28. At the invitation of the Deputy Chairman, Mr Peter AU-YANG, Executive Director and Chief Operating Officer, SFC compared SFC's approved budget for 2003-04 with the revised estimates and presented the main features of the budget for 2004-05. He highlighted the following points:

- (a) The revised estimates for the 2003-04 budget prepared in October 2003 had revealed significant growth in SFC's revenue which mainly resulted from the increase in levy income due to robust market activities since the second half of 2003. The revised estimates for 2003-04 had therefore turned from an estimated deficit of about \$93 million into an estimated surplus of about \$50 million. On the revenue side, 90% of the increases had come from the increase in levy income while there would be an approximately 7% increase in fees and charges compared with the approved level. On the expenditure side, SFC had continued to implement stringent cost control measures to contain the expenditure at the level of the approved budget. The total operating expenditure for 2003-04 was projected at \$408 million, which was comparable with the approved budget. On the financial position of SFC, a surplus of \$97 million was recorded for the first ten months of the financial year of 2003-04. The actual average daily market turnover for the period was \$13.7 billion, which was higher than the level of \$12.4 billion used in the

revised estimates. The average daily market turnover for February 2004 was even higher at \$19.5 billion. It was envisaged that the expected surplus for 2003-04 would allow SFC to replenish its reserves which had decreased by a total of \$113 million over the last two years.



- (b) As regards the budget for 2004-05, SFC proposed a surplus budget of about \$4 million with a moderate increase of about 2% in estimated operating expenditure, and a reduction of about 8% in estimated revenue as compared with the revised estimates for 2003-04. The average daily market turnover for 2004-05 was projected to be \$11 billion. Income on fees and charges was expected to decrease by about \$5 million owing to continued consolidation of businesses by existing licensees. Personnel expenses would be maintained at the 2003-04 level. Premises expenses would be 7% lower than the revised estimates for 2003-04. SFC had provided a larger budget for professional services, information and system services, general office and insurance services, as well as staff training and development uses. It also proposed to increase ten posts to cope with its increasing workload. The total establishment would become 402 comprising 394 permanent established posts and 8 temporary established posts.
- (c) With the surplus budget and a reasonable size of reserves, which was estimated to amount to \$615.56 million (as at 31 March 2004) and to increase to \$619.49 million (as at 31 March 2005), SFC had for the twelfth consecutive year not requested for government funds. It was estimated that the annual government grant foregone for 2004-05 would be about \$86 million, and that the total annual grant foregone since 1993-94 would amount to \$968 million. Moreover, SFC had decided not to revise its fees and charges in 2004-05, the levels of which would remain the same as at those in 1993-94. SFC would continue to freeze staff salaries in 2004-05. Staff had not received any variable pay award since 2001-02, which represented an average of 8% reduction in the overall take home pay for staff compared to the 2000-01 level.

*(Post-meeting note: The speaking note of Mr Peter AU-YANG was circulated to members and non-Panel Members vide LC Paper No. CB(1)1179/03-04(03) on 5 March 2004.)*

29. PS/EST(ES) advised that the Administration noted that SFC had prepared its budget for 2004-05 on the basis of a relatively conservative forecast. Given the unpredictability of the market conditions, the Administration supported SFC's prudent approach. SFC was encouraged to continue with its conscious efforts in controlling expenditure while maintaining effective performance.

## Discussion

### *Proposed increase in staff establishment of SFC*

30. Mr SIN Chung-kai expressed concern about the proposed increase in the staff establishment of SFC, which was against the general trend of downsizing in the public and private sectors. In particular, he queried the need of turning the three temporary posts in the Chairman's Office into permanent posts.

31. Pointing out that personnel expenses still amounted to 80% of the operating expenditure of SFC, Mr CHAN Kam-lam considered that SFC should step up efforts in controlling its staff establishment and staff costs. The Deputy Chairman shared Mr CHAN's view.

32. On the proposed increase in staff establishment, Mr Peter AU-YANG advised that the decision was made after careful examination of the existing manpower position and exploring the feasibility of re-deployment of existing staff. The proposed increase was necessary to cope with the increase in workload from dual filing, which was a new responsibility taken up by SFC under SFO, and to cope with new market and product developments. Despite the increase in staff establishment, the personnel expenses for 2004-05 would be maintained at the 2003-04 level of \$327 million. As regards the proposal of turning the three temporary posts in the Chairman's Office to permanent posts, Mr AU-YANG explained that one of the posts was required to cope with the on-going and increasing needs related to international regulatory policy work, while the remaining two were responsible for China-related work. Apart from assisting the Chairman, these staff members were also required to provide services to the Commission as a whole, including all its operating divisions.

33. Ms Emily LAU expressed concern about the proposed increase in SFC's staff establishment. Referring to paragraph 24 of the paper, she noted that the Administration had expressed concern to SFC about the proposed staff increase despite the general trend of downsizing in the public and private sectors. Ms LAU sought the Administration's clarification on its stance on the proposal.

34. In reply, PS/EST(FS) said that in examining SFC's 2004-05 budget, the Administration had discussed with SFC the reasons for the increase in its headcounts and expenditure. Having considered SFC's response, the Administration was satisfied that the additional posts were necessary for performing the new responsibilities taken up by SFC. Nonetheless, it remained the Administration's position that public funded bodies should, same as Government departments, exercise stringent control on their expenditure and explore measures to cut costs. As such, the Administration had urged SFC to be more vigilant in managing its staff resources.

#### *SFC's fees and charges*

35. Ms Emily LAU pointed out the industry's concern that the present level of SFC's fees and charges was on the high side. As it was the target of SFC to recover full cost in provision of services, Ms LAU urged that SFC should exercise stringent control on its costs.

36. Mr Peter AU-YANG advised that despite SFC had adopted the principle of full cost recovery, some divisions, such as the Enforcement Division and the Legal Services Division, were not recovering their costs at all. The overall cost recovery rates achieved by those divisions of SFC which were recovering costs were about 70% to 80%. As regards the feasibility of reducing fees and charges, Mr AU-YANG advised that SFC had no such plan at the moment and that the current rates would be maintained in 2004-05. Indeed, SFC had not revised the rates since 1994.

37. Ms Emily LAU noted from paragraph 5 of the paper that SFC had made two attempts in 1997 and 1998 to adjust the levels of fees and charges to achieve full cost recovery but were rejected by the then Provisional Legislative Council (PLC). She requested the Administration/SFC to provide details of the fees and charges adjustment exercises in 1997 and 1998, including the reasons for the adjustments, proposed levels of increases, cost recovery rates resulting from the proposed adjustments, and reasons of rejection by the then PLC. Mr Peter AU-YANG undertook to provide the required information.

*(Post meeting note: The information was circulated to members and non-Panel Members vide LC Paper No. CB(1)1395/03-04(01) on 26 March 2004.)*

38. In response to further enquiry by Ms Emily LAU, Mr Keith LUI, Commission Secretary, SFC confirmed that SFC had not received any complaints from the market about the level of fees charged for authorization of investment products and applications for merger and acquisitions. Mr Peter AU-YANG also pointed out that SFC had lowered the licensing fees for market intermediaries by 3% under the new regulatory regime enshrined under SFO since commencement of the Ordinance in April 2003. To encourage early transfer of existing licensees to the new regulatory regime, an additional 5% discount in licensing fees was offered for licensees who transferred to the new regime during the two-year transitional period.

39. The Deputy Chairman pointed out that as licensing fees under the new regulatory regime were calculated on the basis of the number of regulated activities conducted by licensees, the industry had expressed concern about the increase in licensing fees in the long run. Ms Emily LAU requested the Administration and SFC to take account of the concern of the industry.

Admin  
SFC

*Proposed increase in professional fees*

40. Responding to Mr CHAN Kam-lam, Mr Keith LUI explained that the proposed increase in professional fees of \$6.21 million in 2004-05 was due to the increase in legal fees in anticipation of more market manipulation and corporate misconduct cases. Given that one of the major targets of SFC in 2004-05 was to strengthen enforcement against market misconduct involving listed companies, there would be an increase in the expenditure related to investigation and legal advice. As SFC did

not have adequate expertise in dealing with enforcement relating to market misconduct cases, external professional services would be engaged to cope with the anticipated increase in workload.

*SFC's reserves*

41. Ms Emily LAU noted from paragraph 25 of the paper that as provided under SFO, SFC levies might be reduced if SFC had accumulated reserves equivalent to twice its annual operating expenses. While respecting the levy revision mechanism stipulated in SFO, Ms LAU asked whether there was room for SFC to review its levies, given that its reserves were expected to reach \$619.49 million on 31 March 2005, which would be equivalent to 17 months of the proposed annual operating expenses for 2004-05.

42. Mr Peter AU-YANG pointed out that in view of the uncertainty in market conditions, SFC considered it prudent to maintain adequate reserves as buffer against possible deficits. He stressed that despite there would be a surplus of about \$50 million in 2003-04 budget, the amount would only offset part of the accumulated deficits of the previous two years.

43. Given that the Government's fiscal reserves were maintained at a level equivalent to 12 months of Government expenditure, Mr CHAN Kam-lam, Mr James TIEN and the Deputy Chairman queried the justifications for maintaining SFC's reserves at a level equivalent to twice its annual operating expenses. They requested the Administration to consider lowering the threshold to a level equivalent to SFC's annual operating expenses. The Deputy Chairman considered it necessary for the Administration to review the existing mechanism for review of levy rate under SFO.

44. PS/EST(FS) believed that the two-year benchmark was set against the general philosophy behind the establishment of independent regulators that they should remain sufficiently well-funded to sustain their operation without the need for the Government to constantly inject funds. Volatility in the market as evidenced by the fluctuations in SFC's levy income in the past few years had demonstrated the need for SFC to keep sufficient amount of reserves to weather such volatility.

45. On the mechanism for reduction of levy under SFO, PS/EST(FS) clarified that section 396 of the Ordinance provided that, if during a financial year of SFC its reserves, after deducting depreciation and all provisions, were more than twice its estimated operating expenses for the financial year, and it had no outstanding borrowings, SFC "shall" consult FS with a view to recommending to the Chief Executive in Council that the rate or amount of a levy be reduced under section 394 of the Ordinance. The Administration was conscious that in a period of volatile market activities, SFC's reserves would easily reach the trigger point. The Administration would keep in view the reserves level of SFC and review the level of levies once the threshold had been reached.

46. In view of the concern expressed by members at the meeting, Ms Emily LAU requested the Administration to provide a paper to explain the existing mechanism for reduction of levy under SFO, to provide justifications for the existing threshold for reduction of levy, and to address some members views that the existing threshold should be lowered to the effect that levy might be reduced if SFC had accumulated reserves equivalent to or more than its annual operating expenses. PS/FST(FS) agreed to provide the required information.

*(Post meeting note: The Administration's information paper was circulated to members and non-Panel Members vide LC Paper No. CB(1)1395/03-04(01) on 26 March 2004.)*

*Estimates in average daily market turnover*

47. Mr James TIEN said that LegCo Members of the Liberal Party considered that SFC had adopted an overly conservative approach in preparing its budget for 2004-05. Given the robust market situation since the second half of 2003 and the expected sustained growth in 2004, SFC should set a higher average daily market turnover than the figure of \$11 billion used in the 2004-05 budget. Mr TIEN also considered that SFC should make more efforts to control its operating costs.

48. Mr Peter AU-YANG said that the securities market suffered from serious downturn during the outbreak of the Severe Acute Respiratory Syndrome (SARS) in March 2003 and the significant surge in market activities with daily market turnovers over \$10 billion were only seen in recent few months. Taking the average daily market turnovers of about \$9 billion in the past five years as reference, SFC considered it appropriate to set the estimated average daily market turnover for 2004-05 at \$11 billion. He stressed that as the turnover of the Hong Kong market and hence SFC's revenue was dependent on the performance of Hong Kong's economy and major external markets, which were subject to considerable uncertainties and beyond SFC's control, it was necessary to adopt a prudent approach in setting the estimated average daily market turnover.

49. Pointing out that the average daily market turnover from April 2003 to January 2004 stood at \$13.7 billion and that the figure for February 2004 even reached \$19.5 billion, Mr James TIEN considered that SFC should make reference to the figure of \$13.7 billion instead of the average daily market turnovers of the past five years in working out the average daily market turnover for 2004-05. He further enquired about the impact on SFC's revenue if the higher estimated average daily market turnover of \$13.7 billion was used.

50. Mr Peter AU-YANG explained that when SFC prepared the 2004-05 budget in October 2003, it had made reference to the actual average daily market turnover of about \$10 billion recorded in the previous six months. Taking into account the

adverse impact of SARS on market performance during the period, SFC had also made reference to the actual average daily market turnovers in the past five years. As regards the impact of the average daily market turnover on SFC's budget, Mr AU-YANG advised that any change of \$1 billion in the average daily market turnover would result in a fluctuation of about \$25 million in the total levy received by SFC. It demonstrated that volatility in the market would have significant impact on the revenue and the reserves position of SFC.

*Presentation of SFC's budget to the Panel*

51. Mr SIN Chung-kai commended SFC for presenting its budget to the Panel for information. He welcomed such practice, which could enhance the transparency of SFC's operation and its accountability to the public. He suggested that the same arrangement should be made for the budget of the Hong Kong Monetary Authority (HKMA). Ms Emily LAU shared his view. They sought the Administration's views on their suggestion.

52. PS/FST(FS) pointed out that the Financial Secretary (FS) had already responded to the same suggestion at the Panel meeting on 2 February 2004. He considered it inappropriate for him to add further to the answer given by FS. Being not satisfied with the response, Mr SIN Chung-kai urged the Administration to reconsider the issue. PS/FST(FS) agreed to convey members' views to FS.

Admin

**VI. Study on the feasibility of establishing Insurance Policyholders' Protection Funds in Hong Kong**

(LC Paper No. CB(1)1094/03-04(06) — Paper provided by the Administration

LC Paper Nos. CB(1)606/03-04(01) — Public Consultation Paper on  
and (02) Feasibility of Establishing  
Policyholders' Protection Funds in  
Hong Kong with a copy of the letter  
dated 16 December 2003 from the  
Commissioner of Insurance)

Briefing by the Administration and its consultant

53. Upon the Deputy Chairman's invitation, Commissioner of Insurance (C of I) briefed Members on the background on the public consultation on the feasibility of establishing insurance policyholders' protection funds (PPFs) in Hong Kong. He advised that in the wake of the insolvency of three insurers of the HIH Group in 2001, the Administration, noting the concerns expressed by Members, saw the need to study the feasibility of establishing PPFs in Hong Kong with a view to enhancing the protection of policyholders and promoting the stability of the insurance industry. In

late 2002, the Office of the Commissioner of Insurance (OCI) engaged PricewaterhouseCoopers (PwC) to conduct a feasibility study on establishing PPFs in Hong Kong. The study was divided into two stages. Stage One covered a review of the current regime locally and overseas, an evaluation of feasibility of establishing PPFs, and the identification of options regarding PPF design. Stage Two (if proceeded) would focus on matters relating to the implementation of PPFs. Following the completion of Stage One of the study, the Administration had published a public consultation paper on 17 December 2003 to seek public views on the way forward. The consultation period would end on 31 March 2004. Subject to the outcome of Stage One of the Study, the Administration would decide whether to proceed with Stage Two.

54. C of I stressed that PPFs were not substitutes for prudential supervision of the insurance industry. Nor could PPFs guarantee that no insurer insolvency would occur. On the other hand, there were arguments against the PPF concept, such as concerns over the financial costs and the risk of moral hazards. The Administration maintained an open mind on whether and how PPFs should be introduced in Hong Kong. It welcomed views from Members, the industry and the public on the subject. It would consider views collected carefully before deciding on the way forward.

55. Upon the Deputy Chairman's invitation, Mr Peter WHALLEY and Mr Lloyd BRYCE, partners of PricewaterhouseCoopers (PwC), presented the major findings of the consultancy study. They highlighted the following points:

- (a) On international research on PPFs, the consultant had studied the models and practices of PPFs in Australia, Japan, Singapore, South Korea, the UK and several other European jurisdictions, Canada and five selected states of the US. As regards local research, the consultant had examined the existing protection on insurer insolvency, and interviewed 60 stakeholders from 20 different organizations to analyze the pros and cons of establishing PPFs in Hong Kong, as well as to identify the possible PPF models for Hong Kong.
- (b) At present, if an insurer was insolvent, compensation funds were in place to cover Employees Compensation and Motor Vehicle third party claims only. These were pre-funded schemes without compensation limits. On the other hand, there were no compensation funds/PPF for life insurance and other types of general (i.e. non-life) insurance.
- (c) PPFs were seen as a final safety net in most advanced economies while their design features varied considerably. The functions of a PPF could include paying compensation to policyholders and providing incentive payments, financing, or reinsurance to the troubled insurer, a new special purpose insurer, or a potential buyer of the portfolio.



- (d) On funding arrangements, PPFs in other jurisdictions were typically funded by the industry. Life PPFs were usually post-event funded. While most non-life PPFs were post-event funded, several were pre-funded, or a mixture of both. Levies for PPFs were often set at a percentage of premiums.
- (e) The key questions identified by the consultant included:
  - Whether PPFs should be introduced in Hong Kong taking into consideration the potential benefits and costs?
  - If a PPF was to be introduced, should it cover all/most policies or only some? Should corporate policyholders be protected? What compensation limits should be adopted? Whether it should be pre-event or post-event funded? In setting the level of levies, whether consideration should be given to insurers' financial strength?
- (f) The consultants had set out various PPF options at Appendices A and B of the consultation paper for public comments. These options showed separate funds for life and non-life insurance sectors. Two main options were illustrated under each fund, i.e. the Broader scheme covering a wider range of products and providing more generous compensation, and the Limited scheme covering a narrower range of products and with less compensation. In general, the Broader scheme would incur higher costs than the Limited scheme.

*(Post-meeting note: The presentation material was circulated to members and non-Panel Members vide LC Paper No. CB(1)1179/03-04(04) on 5 March 2004.)*

## Discussion

### *Need for establishing PPFs*

56. Whilst appreciating that the establishment of PPFs in Hong Kong would enhance the protection of policyholders and promote the stability of the industry, Mr NG Leung-sing expressed concern that as PPFs would serve as a safety net of the last resort for the protection of policyholders, the Government might be required to provide funds for PPFs should there be shortfalls to meet claims. Pointing out that the industry should provide sufficient protection for policyholders, Mr NG questioned the need to set up PPFs by the Government.

57. In response, C of I pointed out that the insurance industry in Hong Kong operated under a free market. Experience in other parts of the world, including some of the more advanced insurance markets, had showed that notwithstanding a comprehensive and effective regulatory regime, there was no guarantee that insurer insolvency would not occur. The main purpose of PPFs was to enhance the protection

of policyholders in the event of insurer insolvency, hence boosting the confidence of policyholders to avoid causing unnecessary panic. He stressed that the establishment of PPFs would not replace prudential supervision of the industry. It remained OCI's responsibility to regulate and supervise the industry for the promotion of its general stability and for the protection of policyholders.

58. As regards the need for the Government to inject funds in case of shortfalls in PPFs, C of I advised that PPFs in several overseas jurisdictions had features to deal with it. For instance, priority systems were implemented to give priority to insurance claimants, or the Governments might provide funds first and recover the amount from PPF levies later.

59. Mr Peter WHALLEY supplemented that in the jurisdictions covered by the study, regardless of the funding methods of PPFs, there was no need for Governments to provide financial support for the funds. Levies were collected from the industry in advance under a pre-funding scheme. Under a post-funding scheme, normally there would be sufficient time to collect levies from the industry because there was a time lag between the default of an insurer and the actual payment of compensation.

60. Responding to Mr NG Leung-sing, C of I advised that the collapse of an insurer should not have adverse impact on other insurers. The insolvency of three insurers of the HHH Group in 2001 was the result of the insolvency of their parent company in Australia. He re-iterated that, other than protecting policyholders, the purpose of PPFs was to strengthen policyholders' confidence in the insurance system to avoid massive withdrawal of policies by policyholders in the event of insurer insolvency, so as to maintain the stability of the industry.

61. Responding to Mr NG Leung-sing's further enquiry, C of I said that some insurance companies had, in response to the consultation paper, expressed support for the proposal with a view to enhancing the protection of policyholders, and promoting the stability and development of the industry. However, some respondents had reservations on the proposal. They had expressed concern that PPFs might encourage imprudent operation of insurers and that policyholders might be less prudent in selecting their insurers. C of I added that in order to address the problem of moral hazards, other jurisdictions had implemented PPFs with compensation limits.

#### *PPF levies*

62. Pointing out that PPFs would usually be funded by the insurance industry in the form of levies, Mr NG Leung-sing expressed concern about the impact of levies on insurance premiums. C of I explained that the impact on insurance premiums would depend on the features of PPFs, such as compensation level and funding method. For instance, PPFs in the UK were operated on a mixture of pre-event and post-event funding mechanism and the maximum levy was set at 0.8% of insurance premiums. In Hong Kong, the average annual premiums paid for a life insurance policy was

estimated to be not more than \$10,000. If PPF levy was to be set at 1% of the premiums, the amount would only be about \$100 per year.

63. Mr SIN Chung-kai asked whether consideration would be given for the PPF levies to be linked with the level of business risks undertaken by insurers. In response, C of I advised that categorization of PPF levies on the risk levels of the insurance companies was a relatively new concept. While it might seem more equitable to collect PPF levies from insurers according to their risk levels, such a system would be complicated and difficult to operate because ratings on their risk levels changed from time to time.

*Report on the consultation exercise*

64. Mr SIN Chung-kai expressed the support of LegCo Members of the Democratic Party for the proposal of setting up PPFs in Hong Kong. They however maintained an open mind on the various options for implementing PPFs. They also considered it necessary for the Administration to consult the Panel on the detailed proposal after the consultation exercise.

Admin

65. In reply, C of I re-iterated that the consultation exercise was to gauge the views of the public and the industry on whether PPFs should be established in Hong Kong and if they should, how they were to be implemented. He assured Members that the Administration would consider views collected carefully and consult the Panel on the way forward after the public consultation exercise.

**VII. Briefing on the draft Wing Hang Bank Limited (Merger) Bill**

(LC Paper No. CB(1)1094/03-04(07) — Information note (including the draft Bill) provided by Dr Hon David LI)

Briefing on the draft Bill

66. At the invitation of the Deputy Chairman, Mr NG Leung-sing gave a brief introduction on the draft Wing Hang Bank Limited (Merger) Bill. Mr NG advised that the Bill would be a Member's Bill to be introduced by Dr David LI into the Legislative Council in March/April 2004. Dr LI, who was out of town, had invited him to brief the Panel on the Bill on his behalf. Mr NG pointed out that the Bill provided for the merger of Wing Hang Bank Limited (Wing Hang) with Chekiang First Bank, Limited (CFB). Following Wing Hang's acquisition of all of the outstanding shares of CFB on 30 September 2003, CFB and its subsidiaries became members of the Wing Hang Group. The proposed merger would enable the two banks to consolidate their banking businesses and realize the full benefits of the acquisition.

67. The Deputy Chairman then invited Mr Patrick FUNG, Chairman & Chief Executive of Wing Hang Bank, to brief members on the draft Bill. Mr Patrick FUNG

pointed out that the Bill provided for the transfer and vesting of the undertakings of CFB to and in Wing Hang on the appointed day. He highlighted the following points:

- (a) The merger would bring a wide range of benefits to customers and the community at large. These would include: access to a wider branch network, the creation of a larger, stronger and more unified business, as well as cost reduction brought about through economies of scale and enhanced efficiency. The combined bank after the merger would have assets of about \$85 billion;
- (b) The Administration and the relevant parties had been consulted on the draft Bill. They were satisfied that the draft Bill was fair and appropriate; and
- (c) The reasons for and impact of the merger would be explained to customers in writing. A telephone line would be set up to answer customers' enquiries on the merger.

68. At the invitation of the Deputy Chairman, the Principal Assistant Secretary for Financial Services and the Treasury (Financial Services) (PAS/FST(FS)) briefed members on the Administration's views on the draft Bill. He advised that it was the Government's policy to support consolidation of the banking sector in Hong Kong to improve the efficiency of the sector and the stability of the banking system. As part of this policy, the Administration promoted and facilitated bank mergers where reasonable proposals were submitted for consolidation. In line with this policy, the Administration was in support of the Bill. The Executive Director (Banking Supervision) of Hong Kong Monetary Authority (ED(BS)/HKMA) also confirmed that HKMA was in support of the Bill.

## Discussion

### *Impact on tax receivable by the Government*

69. Responding to Ms Emily LAU's enquiry, Mr Frank WANG, Executive Director and Deputy Chief Executive, Wing Hang Bank confirmed that the merger would not have any impact on the tax receivable by the Government. PAS/FST(FS) also confirmed that clauses 8 and 9 of the draft Bill, which provided for the accounting treatment and taxation arrangements after the merger were considered acceptable by the Financial Services and the Treasury Bureau and Inland Revenue Department. As CFB did not have any accumulated losses for tax assessment purposes, the proposed merger would not result in any loss of Government revenue.

### *Impact on staff*

70. Referring to paragraph 8(j) of the information note, Ms Emily LAU noted that former employees of CFB and existing employees of Wing Hang would continue to enjoy the same rights following the transfer as before under their respective pension schemes. Responding to Ms LAU's enquiry, Mr Frank WANG confirmed that the employees concerned would continue to enjoy the same rights and benefits following the transfer as before. He also pointed out that having reviewed the human resource policies of the two banks, it was decided that when there were two different policies for the employees, the better of the two would be taken for the combined bank. He assured members that no Wing Hang or CFB employee would be disadvantaged by any change in the human resource policies as a result of the merger.

71. Referring to paragraph 11 of the information note where it was stated that the merger itself would not result in any material level of employee redundancies, Ms Emily LAU was concerned about the number of staff who would be made redundant. In response, Mr Frank WANG pointed out that it was inevitable that there would be a few redundancies after the merger. While Wing Hang would try to redeploy the surplus staff as far as practicable, it was estimated that 2% of staff would be potentially subject to redundancies. Ms LAU pointed out that 2% of the 1 950 staff concerned (1 326 employed by Wing Hang and 624 by CFB) was not a small number. She was concerned whether the staff had been consulted on the merger and whether they were in support of it.

72. Mr Patrick FUNG advised that in relation to the merger, five bank branches would be closed to avoid duplication of resources in the same areas while three to four new branches would be opened in areas where there were no branches prior to the merger. Efforts would be made to match the timing for the closure and opening of branches to avoid staff redundancies. Mr FUNG also pointed out that as a result of the merger and the expansion in scope of business, it was envisaged that there would be a net increase of 18 posts by the end of 2004. Mr Frank WANG added that the staff had been informed of the relevant arrangements. They were by and large supportive of the new policies which provided better benefits. The management of Wing Hang and CFB had maintained constant communication with the staff to make sure that they would be notified in advance of any changes affecting them to avoid any uncertainties.

73. Ms Emily LAU considered it more appropriate for Wing Hang and CFB to consult the staff concerned on the arrangements about the merger, including the redeployment arrangements, and to explain to them the impact of the merger on them. She requested the merging entities to provide through the Administration information on staff consultation on the proposed merger, including the outcome of staff consultation, and information on the redeployment plan for the staff affected by the proposed merger.

*(Post-meeting note: The Wing Hang Bank Limited's written response was circulated to members and non-Panel Members vide LC Paper No. CB(1)1299/03-04 on 16 March 2004.)*



*General views*

Admin

74. Mr Abraham SHEK and Mr NG Leung-sing indicated their support for the draft Bill. Mr NG opined that in general, bank merger activities would be beneficial to the development and expansion of the banking industry, leading to better services to be provided to customers and better employment prospects for the staff concerned. Mr NG suggested that the Administration should gather information on the benefits brought about by bank mergers in recent years for the information of Members and the public.

75. On behalf of Members of the Democratic Party, Mr SIN Chung-kai expressed support for the draft Bill. He however reiterated his concern raised at previous Panel meetings that bank mergers in Hong Kong were normally effected through the introduction of a Member's bill while merger of other types of companies were not. He considered that the Administration should review the need for amending the Banking Ordinance (BO) (Cap. 155) to facilitate bank mergers.

Admin

76. PAS/FST(FS) advised that the Administration (including HKMA) adopted an open mind and would study this issue by making reference to overseas practice. In some overseas jurisdictions such as UK, bank mergers were effected through the introduction of a Member's bill on a case-by-case basis. In some other jurisdictions, however, generic legislation was in place to deal with bank mergers. Responding to Mr SIN Chung-kai's enquiry on the timetable for the study, PAS/FST(FS) said that it would take time for the Administration to complete the study. ED(BS)/HKMA added that HKMA had already commenced the study. If the outcome of the study was in support of amending BO for dealing with bank mergers, suitable amendments would be introduced to the Ordinance in due course. Mr SIN suggested that the Administration should inform the Panel of the progress of the study in the next legislative session.

**VIII. Any other business**

77. There being no other business, the meeting ended at 1:10 pm.