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## *Financial Services Bureau*

In the past year, we have been working on 53 pledges, of which :

- we have completed 20;
- we are on schedule with 19;
- one is under review;
- we are taking active measures to speed up the progress on six which are behind schedule; and
- we are pressing ahead with seven on-going commitments.

The following sets out the detailed report for each main programme area.

### **The Banking Sector**

<i>Year</i>	<i>Pledge</i>	<i>Present Position</i>
<b>Action Completed</b>		
1997	1. To ensure our banking supervisory framework keeps pace with new international standards by implementing the market risk capital charge framework in line with the Basle Committee's recommendation with effect from 31 December 1997.	We implemented the market risk regime on 31 December 1997. Locally incorporated Authorised Institutions (AIs) now report their capital adequacy ratios incorporating market risks on a quarterly basis.
1997	2. To study the possibility of setting up a facility for joint clearing of Hong Kong dollar cheques between Hong Kong and other financial centres in the Mainland such as Shenzhen.	A joint facility for clearing Hong Kong dollar cheques issued by banks in Hong Kong and presented in Shenzhen has been set up and commenced operation in January 1998.

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| 1996 | 3. | To promote banking and monetary stability and facilitate the development of a secondary mortgage market by establishing a Mortgage Corporation in 1997, initially owned by the Government through the Exchange Fund. | The Hong Kong Mortgage Corporation Limited commenced operation in October 1997. |
| 1996 | 4. | To issue Chinese translation of supervisory guideline and instructions for banking returns in early 1997.  | The Chinese guideline and instructions were issued to AIs in February 1998.     |

#### Action in Progress : On Schedule

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| 1997 | 5. | To introduce measures to reduce the pressure on credit expansion of the banking system and on the payment system arising from heavily over-subscribed Initial Public Offer of securities on the Stock Exchange of Hong Kong (SEHK). | In order to improve further the mechanism, we are considering the feasibility of accepting electronic application for new shares.  |
| 1997 | 6. | To ensure our banking supervisory framework keeps pace with new international standards by complying with the Basle Committee's Core Principles for Effective Banking Supervision.  | The legislation will be introduced into the Legislative Council in early 1999 after consultation with the banking industry in the last quarter of 1998.  |
| 1997 | 7. | To ensure that AIs take necessary steps to achieve Year 2000 compliance.  | We have stepped up supervisory efforts in relation to Year 2000 compliance obligations of AIs, including conducting independent assessments (e.g., through on-site examinations) of measures taken by AIs to address their Year 2000 compliance obligations and requiring the chief executives of AIs to provide a formal, bi-monthly statement of progress with Year 2000 compliance. |

- 1997 8. To study the impact of the development of electronic banking on the banking system and banking supervisory policies in 1998.
- We have studied the security issues relating to the development of electronic banking, and the Hong Kong Monetary Authority has issued a circular letter to the AIs to inform them about the supervisory policies in respect of electronic banking services. We will develop, together with the Information Technology and Broadcasting Bureau, a proper technological and legal infrastructure to facilitate the development of electronic commerce.
- 1997 9. To collaborate with the Hong Kong Interbank Clearing Limited to enhance back-up facilities so as to minimise possible disruption to the payment system in 1998.
- We will complete all preparatory work for enhancing the back-up facilities before end 1998.
- 1997 10. To reduce the settlement risk in foreign exchange transactions by pursuing the establishment of a Payment versus Payment link between the local payment system and those in the Mainland, Australia and New Zealand.
- Preparations have been made for implementing the Cross Currency Payment Matching Processor by 1999.
- 1996 11. To improve communication between the Hong Kong Monetary Authority and AIs, including the electronic submission of prudential returns, by introducing an electronic network in 1997.
- The electronic transmission system was launched in December 1997. 75% of AIs have signed up for participation in the system.

Good progress has been made with the following commitments in the past year. We will continue to work on them on an on-going basis.

<i>Year</i>	<i>Pledge</i>
1996	12. To strengthen our banking supervisory framework by the use of external auditors on a more regular basis to examine the internal control systems of authorised institutions.
1995	13. To strengthen further our liaison with the People's Bank of China on cross-boundary bank licensing issues.
1995	14. To strengthen both our bilateral and multilateral contacts with overseas central banks and supervisory authorities.

### The Security, Futures and Debt Markets

<i>Year</i>	<i>Pledge</i>	<i>Present Position</i>
	<b>Action Completed</b>	
1997	1. To pursue the concept of "Asia Clear" to facilitate debt settlements across countries in the region by establishing bilateral linkages connecting Hong Kong's Central Moneymarkets Unit with corresponding central securities depositories of a number of central banks in the region in 1998.	Bilateral links with Australia and New Zealand have been established. We will continue to establish bilateral links with other central securities depositories in the region.
1997	2. To collaborate with the Hong Kong Capital Markets Association to develop a debt securities lending programme in 1998 to enhance the settlement efficiency and secondary market liquidity of Hong Kong dollar denominated debt securities.	The debt securities lending programme was introduced on 1 December 1997.

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| 1997 | 3. | To set up a secure intranet linking regulators and regulated institutions in 1998 as a first step towards straight through processing across the financial system. | A secure intranet has been set up to link the Hong Kong Monetary Authority and the AIs under its supervision.  |
| 1997 | 4. | To explore, in 1998, the feasibility of introducing Delivery versus Payment for share transactions.  | The technical details for the interface configuration between the shares settlement system (CCASS) and the interbank money settlement system for the implementation of real time Delivery versus Payment (RDvP) for shares transactions were finalised in early 1998, and the operation of RDvP commenced on 8 May 1998. |
| 1996 | 5. | To encourage, in 1997, the Hong Kong Securities Clearing Company (HKSCC) to improve its services under the CCASS with a view to enhancing investor protection.     | To enhance investor protection, the HKSCC introduced the Investor Participation Scheme on 8 May 1998. The Scheme has an initial capacity for handling about 5 000 accounts, which can be increased readily in response to market demand.   |

#### Action in Progress : On Schedule

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| 1997 | 6. | To encourage SEHK to study the feasibility of developing a venture board in Hong Kong to help small and medium enterprises raise capital. | Public consultation on the establishment of a Second Market (venture board) was conducted from 31 May to 31 July 1998. Comments received are being studied to assess the level of support for such a market in Hong Kong and options for prospective implementation and regulation. |
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| 1997 | 7. | To support the Securities and Futures Commission (SFC) and the two Exchanges to establish an Investor Resources Centre to enhance investor education in 1998. | Arrangements have been made to include the Investor Resources Centre (IRC) as part of the Land Development Corporation's redevelopment project at Jubilee Street. The inclusion of the IRC in the development has been approved by the Town Planning Board, but works may not proceed pending the Board's approval to the entire redevelopment proposal. |
| 1997 | 8. | To conduct a detailed study in 1998 on measures to enhance the competitiveness of Hong Kong as a funding centre for Mainland enterprises.                     | A study on the currency denomination for the trading and settlement of "H" shares has been conducted. The preliminary findings are being considered by the relevant authorities.   |
|      |    |   | Data collection on the use of Hong Kong's bond market by Mainland enterprises is in progress. An analysis of the factors affecting the choice of Mainland enterprises will commence when the data is available.  |

#### Action in Progress : Behind Schedule

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| 1995 | 9. | To consolidate all securities and futures-related ordinances to remove inconsistencies and improve the regulatory framework. To this end, to issue a White Bill for public consultation in 1996. | The SFC issued a draft bill for public consultation in April 1996. Discussion is on-going in the light of recent market developments. The aim is to introduce the Bill in 1999. |
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Good progress has been made with the following commitment in the past year. We will continue to work on it on an on-going basis.

*Year*

*Pledge*

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| 1996 | 10. | To encourage the SEHK to develop new products and facilities in 1997. |  |
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<b>Mandatory Provident Fund Schemes</b>
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<i>Year</i>	<i>Pledge</i>	<i>Present Position</i>
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Action in Progress : On Schedule

1997	1. To take steps to establish the Mandatory Provident Fund (MPF) Schemes Authority as soon as the relevant legislation is enacted.	The legislative process was completed in April 1998. The MPF Schemes Authority was formally established in September 1998 with its directors appointed by the Chief Executive. Staff recruitment and other preparation work is being undertaken to ensure that the MPF Schemes Authority will be fully operational in 1999.
1997	2. To promulgate guidance notes for service providers to ensure effective implementation of the MPF System as soon as the relevant legislation is enacted.	Guidance notes for service providers will be finalised by the end of 1998, taking into account regulatory provisions enshrined in the MPF legislation enacted in April.

Good progress has been made with the following commitment in the past year. We will continue to work on it on an on-going basis.

<i>Year</i>	<i>Pledge</i>
1997	3. To launch public education and publicity programmes to enhance employers' and employees' awareness of their rights and obligations under the MPF System.

<b>Insurance Companies and Occupational Retirement Schemes</b>
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<i>Year</i>	<i>Pledge</i>	<i>Present Position</i>
<i>Action Completed</i>		
1997	1. In 1998, to encourage the insurance industry to strengthen the self-regulatory measures such as the development of an illustration standard for non-investment-linked life insurance policies to enhance the level of information provided in the proposal documents so as to enable policy holders to make better informed choices.	The insurance industry has strengthened its self-regulatory measures. The Code of Practice for the Administration of Insurance Agents was updated in January 1998. Meanwhile, policy holders are now able to make better informed choices following the revision of the Customer Protection Declaration Form in April 1998 and the introduction of an illustration standard for non-investment-linked life insurance policies in September 1998.
1997	2. In 1998, to review and update the forms for application for authorisation to carry on insurance business in Hong Kong with a view to enhancing the level of information for the proper assessment of the application.	The application forms for authorisation have been updated. The updated forms are more user-friendly and transparent on the information required for the proper assessment of applications.



- 1996 3. To promote the development of the reinsurance market. We will consult representatives of the industry on possible promotional measures in 1997.
- The Working Group comprising industry representatives has accomplished its tasks and submitted, in February 1998, a final report with recommendations to the Financial Secretary. As a result, legislative amendments to give tax concessions to offshore reinsurance business and regulatory concessions to captives have been enacted. The Insurance Institute of Hong Kong is working on a local professional insurance qualification which will be recognised internationally. A degree level programme in Risk Management and Insurance will be offered by the Lingnan College in the 1998-1999 academic year. We have also developed and distributed promotional materials and taken every opportunity to introduce the Hong Kong insurance market to the international financial community by way of roadshows and seminars in major overseas cities.

#### Action in Progress : On Schedule

- 1997 4. To regulate MPF Scheme businesses operated by authorised insurers so as to protect the interests of employees covered by such schemes.
- A professional team will be created in the Office of the Commissioner of Insurance upon introduction of the MPF schemes. The Office will continue to liaise with the MPF Schemes Authority in order to effectively supervise those insurers which operate MPF schemes.

- 1997 5. To ensure that the computer systems of all insurers and insurance brokers are Year 2000 compliant by the year 1998.
- Two surveys on insurers have been conducted. On-site inspections have been made of about 80% of insurers to monitor progress with their compliance projects. On the request of the Insurance Authority (IA), the two approved bodies of insurance brokers have conducted similar surveys of their members. The IA will continue its efforts to monitor progress with Year 2000 compliance.

#### Action in Progress : Under Review

- 1996 6. To consider in 1997 the establishment of the IA as an independent regulatory body.
- The establishment of the MPF Schemes Authority will impact on the organisation of the Office of the Commissioner of Insurance because the statutory functions regarding the registration of occupational retirement schemes will be transferred to the MPF Schemes Authority. The proposal to turn the Office of the Commissioner of Insurance into an independent IA will be considered after these functions have been transferred and the staffing implications properly assessed.

<b>The Business Environment</b>
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<i>Year</i>	<i>Pledge</i>	<i>Present Position</i>
<b>Action Completed</b>		
1997	1. To implement new procedures for individual voluntary arrangements by debtors and automatic discharge of bankruptcy when the Bankruptcy (Amendment) Ordinance 1996 and the subsidiary legislation are brought into operation.	The Bankruptcy (Amendment) Ordinance 1996 and subsidiary legislation commenced on 1 April 1998. The new procedures have been implemented for individual voluntary arrangements and automatic discharge of bankrupts.
1996	2. To make all company forms bilingual and user-friendly. Work on the major forms will be completed by the end of 1996.	Revision work on the major forms was completed before the end of 1996 and 13 new forms were introduced in February 1997. The revision of the remaining forms was completed by March 1998 and 26 new forms were introduced on 1 May 1998.
1996	3. To encourage more firms to join the scheme for contracting out of compulsory insolvency work and seek to expand the scheme in 1997 to include other suitably qualified, experienced insolvency practitioners.	A Pilot Scheme to contract out summary cases commenced in September 1997. More firms have joined the two contracting-out schemes operated by the Official Receiver's Office. At present, there are 14 and 16 accountancy firms on the two administrative Panels respectively.
1996	4. To streamline procedures in 1996-1997 for processing bankruptcy cases by introducing amendments to rules under the Bankruptcy Ordinance.	The Bankruptcy (Amendment) Rules 1998 were passed in February 1998 and brought into operation on 1 April 1998.
1994	5. To complete a review of the Trustee Ordinance in 1996.	The review was completed in December 1996.

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| 1994 | 6. | To conduct a comprehensive review of the Companies Ordinance over the next two to three years (1994 to 1997). | The review was completed in March 1997 and the Consultancy Report released in May 1997. |
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#### Action in Progress : On Schedule

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| 1996 | 7. | To improve the administration of insolvent estates in 1996 by reviewing and updating the Insolvency Practice Manual and make internal documents and non-statutory forms easier to use. | The Insolvency Practice Manual has been updated but requires further revision to include the Bankruptcy (Amendment) Ordinance 1996 and subsidiary legislation, which commenced on 1 April 1998. A review of internal documents and non-statutory forms to make them more user-friendly was completed in July 1998. |
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#### Action in Progress : Behind Schedule

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| 1997 | 8.  | To introduce remote, on-line access to key information on companies, thereby obviating the need for users to visit the Companies Registry in 1998.  | The introduction of the on-line system has been deferred to mid-1999 because more time was required to complete the tendering procedures.  |
| 1997 | 9.  | To commence a feasibility study to enhance and modify the management information system in the Official Receiver's Office to meet increasing operational needs and to introduce a bilingual public search facility in 1998. | The feasibility study commenced in May 1998 and has been completed in August 1998. Subject to funding approval, tenders will be invited and the expected implementation date of the proposed systems has been deferred to 1999.  |
| 1996 | 10. | To update the statutory framework for the winding-up of companies under the Companies Ordinance based on a review to be completed in 1997 by the Law Reform Commission (LRC).   | The completion date of the LRC review has been deferred to 1998. A Consultation Paper was issued in April 1998 for comments by end of July. The LRC Insolvency Sub-Committee will review the submissions and present a report to the full LRC for consideration. It is expected that the final report will be issued by the end of 1998. |

1996	11.	To introduce legislation in 1996-1997 to facilitate the administration of companies in financial trouble.	Subject to the incompatibilities with existing legislation being resolved, we aim to introduce the legislation into the Legislative Council in 1999.
1995	12.	To introduce legislation in the 1995-1996 session to provide statutory immunity for auditors of listed companies who report suspected illegal acts by their clients.	We and SFC are now studying a proposed amendment to the original Securities and Futures Commission (Amendment) Bill 1997 and expect to consult the market in the last quarter of 1998.

### Economic Analysis and Statistics

<i>Year</i>	<i>Pledge</i>	<i>Present Position</i>
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#### Action Completed

1997	1.	To enhance statistical systems related to the area of services sector.	As from the reference year 1996, operating statistics have been completed for additional service industries. The first set of enhanced statistics was published in the third quarter of 1998.
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#### Action in Progress : On Schedule

1997	2.	To complete the investigatory study on the compilation of Balance of Payments (BoP) statistics and based on its results, to establish a new statistical system to compile a complete BoP account and to enhance certain existing statistical systems to improve the timeliness of various economic indicators, in order to fully comply with the Special Data Dissemination Standard by the end of 1998.	The investigatory study has been completed. Work has started on setting up the BoP statistical system, with a view to releasing the first set of BoP statistics with broad components in early 1999 for the reference year 1997. Work has also been completed in respect of improvement to the timeliness of various economic indicators.
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Good progress has been made with the following commitments in the past year. We will continue to work on them on an on-going basis.

<i>Year</i>	<i>Pledge</i>
1997	3. To support the promotion of the services sector by providing more statistics on trade in services in 1997-1998.
1997	4. To enhance public access to government statistics in 1997 by improving their availability on the Internet.

### Financial Infrastructure

<i>Year</i>	<i>Pledge</i>	<i>Present Position</i>
<b>Action Completed</b>		
1996	1. To refine the population and other related projections in 1997 based on the 1996 By-census.	The compilation work has been completed.

### Action in Progress : On Schedule

1997	2. To engage consultants in the last quarter of 1997 to examine ways to enhance the financial infrastructure by integrating and upgrading the systems of various exchanges and clearing systems to improve system security and efficiency. They will be tasked to ensure that, at a later stage, this system could link up the banking, securities and futures trading systems to facilitate straight through processing of transactions.	The Hong Kong Monetary Authority completed an initial study on the financial technology infrastructure for Hong Kong in December 1997. We have finalised the scope of a further study to enhance the financial infrastructure and to facilitate straight through processing. Preparation work for the engagement of consultants for the detailed study is in progress.
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- 1997 3. To commence in the last quarter of 1997 a study on the necessity and feasibility of establishing a Financial Services Institute to provide personnel of the right calibre, equipped with appropriate training to meet the needs of Hong Kong and enhance the standard of quality and professionalism in financial services.
- We set up a steering committee in December 1997 to consider the necessity and feasibility of establishing a Financial Services Institute. Consultants have been appointed to conduct a study on the human resources development needs of the financial services sector. We aim to deliver a detailed report in March 1999.
- 1997 4. To house all major financial institutions under one roof in the future Hong Kong International Finance Centre, which will be strategically located at the Central Waterfront.
- We are monitoring the progress of the development closely to ensure timely input into the planning process. The project is making good progress.