LCQ5: Measures to mitigate impacts of Sino-US trade conflicts

Following is a question by the Hon Wong Ting-kwong and a reply by the Acting Secretary for Commerce and Economic Development, Dr Bernard Chan, in the Legislative Council today (October 31):

Question:

Since July this year, the United States (US) Government has imposed, one after another, three tranches of additional tariff measures on imports from Mainland China of a total worth of US$250 billion. In response, the Government of China has concurrently imposed additional tariff measures on imports from US of a total worth of US$110 billion. There are comments that the Sino-US trade conflicts may last for a protracted period of time, and their impacts on Hong Kong's economy are expected to surface gradually from the third quarter of this year. In this connection, will the Government inform this Council:

(1) of the outcome of the latest assessment of the impacts of the Sino-US trade conflicts on Hong Kong's economy; the mitigation measures implemented by the authorities at the international level and the progress of such measures;

(2) of the respective numbers of applications received and approved by the authorities so far since the enhancement measures for the "Dedicated Fund on Branding, Upgrading and Domestic Sales" were rolled out in August this year, as well as the average amount of grant and average processing time taken for each approved application; whether the authorities will raise the ceiling of the ratio of grant under the SME Export Marketing Fund to the expenditure incurred for export promotion activities, as well as provide financial assistance in respect of expenses on production line relocation; if so, of the details; if not, the reasons for that; and

(3) as the Financial Secretary has pointed out that the Sino-US trade conflicts may affect Hong Kong's banking sector through the credit and liquidity risk channels, whether the authorities have reviewed the capability of Hong Kong's financial system to withstand such challenge and made good preparation for that; if so, of the details; if not, the reasons for that?

Reply:

President,

Since the beginning of this year, the United States (US) has initiated conflicts in international trade, trade protectionism has risen, and the trade conflict between China and the US has been escalating. The Government has been closely monitoring developments and their impact on Hong Kong economy, maintaining close communication and exchanging information with the

trade, responding promptly to their need with the introduction of various support measures.

Our replies to the three parts of the question are as follows:

(1) As a result of the "Section 301 investigation" report concerning the Mainland's intellectual property issues, the US has, in tranches, imposed additional tariffs at 10 per cent or 25 per cent on a total of US$250 billion worth of Mainland imports. In response, the Mainland has imposed additional tariffs at 5 per cent, 10 per cent or 25 per cent on US$110 billion worth of US imports. In respect of the US' and Mainland's tariff lists, a total of HK$185.7 billion of the concerned products were re-exported via Hong Kong, accounting for 4.8 per cent of Hong Kong's total exports of goods in 2017. Apart from re-export trade, the tariff measures also affect Hong Kong's offshore trade involving goods of Mainland origin destined to the US as well as other economic activities supporting China-US trade.

Apart from the direct impact on trade in goods, the impact of the China-US trade conflict on Hong Kong as a whole and on the global economy has begun to emerge. The uncertainties of the external environment have increased markedly, while the global economy as well as trade and investment sentiment have also deteriorated. Although the current economic data are still good, the outlook is not optimistic. Many institutions have lowered their forecasts for global economic growth next year and Hong Kong economy cannot stay immune. We estimate that the impact of China-US trade conflict on Hong Kong economic growth this year should be relatively limited. However, there will be significant impact on the economy in 2019.

In the past few months, the Government has announced and implemented a number of targeted measures, including strengthening various SME funding schemes to assist the trade in market promotion and development of the Mainland and the Association of Southeast Asian Nations (ASEAN) markets; enhancing the special concessionary measures of the SME Financing Guarantee Scheme operated by the HKMC Insurance Limited to further alleviate the financing burden of local enterprises; strengthening protection of Hong Kong exporters affected by the US tariff measures through the Hong Kong Export Credit Insurance Corporation; and assisting the trade to develop markets and transfer production base through the Hong Kong Trade Development Council.

At the international level, the Government will continue to adopt a multi-pronged strategy to explore more opportunities for Hong Kong, leveraging on our unique advantages under "one country, two systems". We will continue to actively forge free trade agreements (FTAs) and investment agreements with our trading partners. We have already signed FTAs with ASEAN and Georgia respectively and have concluded negotiations with the Maldives. Our bilateral negotiations with Australia are ongoing, and we will explore FTAs with the United Kingdom and the Pacific Alliance and seek accession to the Regional Comprehensive Economic Partnership. We will also expand our network of Economic and Trade Offices (ETOs), and we expect to set up the ETO in Bangkok early next year and the ETO in Dubai as soon as possible. We will continue our discussion with the respective governments on setting up the ETOs in Moscow, Mumbai and Seoul. In addition, we will actively attract

foreign investors to Hong Kong, and grasp the opportunities brought by the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Greater Bay Area, in order to diversify Hong Kong's economy.

(2) The Government has advanced the launch of the enhancement measures to the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) to August 2018, including the launch of the ASEAN Programme under the BUD Fund to provide funding support to individual non-listed Hong Kong enterprises in carrying out projects that aim to enhance their competitiveness and further business development in the ASEAN markets. We have also enhanced the Mainland Programme under the BUD Fund, including doubling the cumulative funding ceiling per enterprise, to strengthen support to SMEs.

The trade responded positively to the enhancement measures. As at September 30, the ASEAN Programme received 75 applications, with the funding amount sought in the range of about $17,000 to $1 million. The enhanced Mainland Programme received 273 applications in the third quarter, representing a substantial increase of 58 per cent as compared to the preceding quarter, with the funding amount sought in the range of about $6,000 to $1 million. The Programme Management Committee (PMC) approved the first application at its meeting in end September and the approved funding (about $130,000) represented 100 per cent of the amount sought. As applications for the BUD Fund are processed within 60 working days upon the quarterly application deadline, processing of the other applications will be completed by end December. To expedite the vetting process under the ASEAN Programme, the PMC will approve straightforward cases by circulation.

The Government has also advanced the launch of the enhancement measures to the SME Export Marketing Fund (EMF) to August 2018, including doubling the cumulative funding ceiling per SME and the maximum funding per application. The maximum amount of grant that SMEs can receive per application under the EMF is 50 per cent of the total approved expenditure, with a view to encouraging SMEs to consider the appropriateness and cost-effectiveness of the promotion activities while exploring and developing export markets. Upon the launch of the enhancement measures, the EMF received 1 609 applications in August and September, an increase of 20 per cent as compared to the same period last year.

We will continue to review the SME support measures from time to time to ensure that appropriate assistance is provided.

(3) The escalation of China-US trade conflict will inevitably affect Hong Kong's financial markets. Nevertheless, Hong Kong’s financial system has withstood crises one after another. With our resilient regulatory regime, Hong Kong can cope with market volatility. The banking system in Hong Kong is highly resilient. At the end of June 2018, major banks' average liquidity coverage ratio stood at 157 per cent, and their average capital adequacy ratio was over 19 per cent, well above the minimum regulatory requirements. The Hong Kong Monetary Authority (HKMA) has conducted a series of stress tests to assess the ability of the Hong Kong banking sector to withstand the impact of the rising trade tensions between the US and China. The results indicate that even in extremely adverse situations, banks

will still be able to meet the relevant capital and liquidity supervisory requirements.

As regards the securities and futures markets, the Securities and Futures Commission (SFC) monitors the market with vigilance, including the financial positions, operations and settlement status of brokers, as well as their ability to deal with different market situations. The SFC also works closely with the Stock Exchange of Hong Kong (HKEX) and the HKMA to address potential systemic issues in case they arise, in particular, ensuring that the trading and risk management systems of the HKEX can adequately handle shocks under extreme market situations.

The Government and the financial regulators will continue to closely monitor the developments and the financial market situation, with a view to ensuring financial stability.

LCQ3: Classification of articles by Obscene Articles Tribunal

Following is a question by the Hon Ma Fung-kwok and a reply by the Acting Secretary for Commerce and Economic Development, Dr Bernard Chan, in the Legislative Council today (October 31):

Question:

The Obscene Articles Tribunal (OAT) gave Killing Commendatore, a literary work newly released by a renowned Japanese writer, an interim classification as a Class II (Indecent) article and made that classification official on July 12 and 26 this year respectively. The incident has aroused heated discussions among the culture and publication sectors as well as the public. In this connection, will the Government inform this Council:

(1) given that the OAT shall give notice in newspapers after it has made an interim classification in respect of an article and any person who submitted, or would have been entitled to submit, the article may require the OAT to review that interim classification within five days of that interim classification taking effect, but such time limit may not be adequate for the persons concerned who are in places outside Hong Kong to learn of that interim classification and require a review, whether the Government will improve the relevant arrangements; if so, of the details; if not, the reasons for that;

(2) whether it will make public the reasons for the OAT to classify Killing Commendatore as a Class II article, and enact legislation to require that the reasons for the OAT to classify an article as Class II or III be made public; if so, of the details; if not, the reasons for that; and

(3) given that the Government, upon reviewing the Control of Obscene and Indecent Articles Ordinance, proposed in 2015 an array of improvement measures (including increasing the minimum number of adjudicators at each the OAT hearing from two to four and increasing the total number of adjudicators from 500 to 1 500), of the reasons why such measures have not yet been implemented and when they will be implemented?

Reply:

President,

The Control of Obscene and Indecent Articles Ordinance (Cap. 390) (COIAO) establishes the Obscene Articles Tribunal (OAT). The OAT is a specialised tribunal under the Judiciary. One of its functions is to classify whether an article is obscene or indecent. The OAT comprises a presiding magistrate and adjudicators drawn from a panel of adjudicators. Adjudicators are members of the public appointed by the Chief Justice so as to reflect the standards of morality, decency and propriety generally accepted by the community. The COIAO provides avenues for review and appeal for those who may be aggrieved by a decision of the OAT.

My reply to the various parts of the question raised by the Hon Ma Fung-kwok is as follows:

(1) Pursuant to section 13(1) of the COIAO, the author, printer, manufacturer, publisher, importer, distributor or owner of the copyright of any article or any person who commissions the design, production or publication of any article may submit that article for classification by the OAT. The OAT shall, within five days of that submission, make an interim classification in respect of that article (with Class I being neither obscene nor indecent, Class II being indecent, and Class III being obscene).

Under the existing legislation, any author, printer, manufacturer, publisher, importer, distributor or owner of the copyright of the article concerned or any person who commissions the design, production or publication of the article concerned may require the OAT to review an interim classification within five days of that interim classification taking effect. The review is conducted at a full hearing in public.

As section 15 of the COIAO requires that a request to review an article's interim classification be made "within five days of that interim classification taking effect", the Government and the OAT cannot make any other arrangements. Any changes to the above require amendments to the relevant legal provisions.

(2) The OAT strictly follows the provisions in the COIAO when handling the classification of articles. Pursuant to section 10(1) of the COIAO, when classifying whether an article is obscene or indecent, the OAT shall have regard to standards of morality, decency and propriety that are generally accepted by reasonable members of the community; the dominant effect of an article or of matter as a whole; the location where and the persons to whom the article is published or the matter is displayed; and whether the article

or matter has an honest purpose.

Section 14(1) of the COIAO stipulates that when the OAT is considering an article for the purpose of making an interim classification, it shall do so in private and without the attendance of the applicant or any other person. According to section 14(3)(a) of the COIAO, the OAT shall not be required to give any reasons for any interim classification.

(3) Since the Government proposed legislative amendments concerning the regulatory framework under the COIAO in 2015, we have been liaising with the relevant government departments and the Judiciary on the proposed legislative amendments to the COIAO over the past three years with a view to resolving the relevant legal issues. Regarding the proposal to increase the total number of adjudicators from 500 to 1 500, the Judiciary originally planned to implement it upon enactment of the legislative amendments. In view of the latest developments, the Judiciary is now considering various suggestions to enhance the representativeness of the OAT.

Besides, the Office for Film, Newspaper and Article Administration has also been actively organising publicity and public education programmes relating to the COIAO over the past several years.

As for the way forward of the review of the COIAO, in line with the Secretary for Commerce and Economic Development's response to a Member's enquiry at last week's meeting of the Panel on Information Technology and Broadcasting, the Government is currently reviewing whether the legislative amendments proposed in 2015 could fully address recent concerns raised by members of the public over the regulatory framework and the adjudicatory system under the COIAO. We plan to discuss the relevant issues in detail with the Panel on Information Technology and Broadcasting.

LCQ18: Lion dance permit

Following is a question by the Hon Jeremy Tam and a written reply by the Secretary for Security, Mr John Lee, in the Legislative Council today (October 31):

Question:

Lion dance, dragon dance and unicorn dance sports (dragon and lion dance sports) have been included in the Intangible Cultural Heritage Inventory of Hong Kong. The Convention for the Safeguarding of the Intangible Cultural Heritage stipulates that governments should safeguard intangible cultural heritage (ICH), that is, to take measures, including identification, documentation, research, preservation, protection, promotion, enhancement, transmission and revitalisation, to ensure the viability of ICH. On the other

hand, under section 4C of the Summary Offences Ordinance (Cap. 228), any person who organises or participates in a lion dance, dragon dance or unicorn dance, or any attendant martial arts display in a public place is guilty of an offence, unless the person has been issued with a permit or granted an exemption by the Commissioner of Police. Some members of the public have relayed that the procedure for handling permit applications and the documents required to be submitted by applicants vary among the divisional police stations, leaving the public unsure of what to do. Some parents have also relayed that on the eve of their young children's participation in dragon and lion dance sports, they received phone calls from the Police enquiring about their children's detailed information (e.g. hobbies, personalities, family backgrounds and academic achievements); such an act by the Police may arouse unnecessary worries among parents, thereby making them unwilling to allow their children to continue to participate in such sports. In this connection, will the Government inform this Council:

(1) as the Government indicated in its reply to a question raised by a Member of this Council on June 11, 2014 that given the unique nature of dragon and lion dance sports, it was necessary for the Government to ensure that the sports would not disturb public order or jeopardise public safety, and the permit system helped ensure that the sports would not be used by lawbreakers to carry out illegal activities, (i) in what way the nature of such sports is unique, and (ii) how such a nature may lead to such spots disturbing public order or jeopardising public safety;

(2) of the respective numbers of permit applications received and rejected by the Police in each of the past five years; among the cases rejected, the respective numbers of applications rejected on the grounds that such activities, in the Police's judgment, (i) might disturb public order or jeopardise public safety and (ii) might be used by lawbreakers to carry out illegal activities;

(3) of the respective numbers of people in each of the past five years who were arrested, prosecuted and convicted for committing criminal offences during their participation in dragon and lion dance sports (with a breakdown by offence), as well as the punishments imposed on those convicted;

(4) of the channels, apart from checking if the participants have any records of criminal convictions, through which the Police vet their backgrounds when processing permit applications, as well as the details of such work; whether such channels include making phone calls to the parents of young participants;

(5) whether the Police will issue or update the internal guidelines for handling permit applications, including standardising the handling procedure and the documents required to be submitted by applicants, and ensuring that the various divisional police stations will act in strict compliance with the guidelines; if so, of the details; if not, the reasons for that; and

(6) whether it has reviewed if the current policies and measures regulating dragon and lion dance sports are contrary to the obligation to safeguard ICH;

if it has, of the outcome; if not, whether it will conduct a review immediately; of the measures the Government will take to mitigate the negative labelling effect on dragon and lion dance sports brought about by the current policies and measures, so as to avoid deterring members of the public who aspire to preserve and promote such a traditional culture from participating in such sports?

Reply:

President,

Section 4C of the Summary Offences Ordinance (Cap. 228) stipulates that any person who organises or participates in a lion dance, dragon dance, unicorn dance (lion dance), or any attendant martial arts display in a public place, save for persons exempted by the Commissioner of Police (CP), shall be subject to the conditions of the permit issued by the CP. The purpose of this policy is to prevent the involvement of lawbreakers in lion dance activities and to ensure that such activities will not cause public disorder, including traffic congestion, noise nuisance or other inconvenience to the public, or affect public safety. For scrutiny of the applications, the Police require all applicants and participants of such activities to authorise the Police to check their criminal conviction records.

My reply to Hon Tam's questions is as follows:

(1) to (3) There are lawbreakers who solicit red packets from shops or members of the public through lion dance activities during festivals, and most of the persons convicted of the offence of "participating in a lion dance in a public place without a permit" in recent years had a number of previous convictions for robbery, claiming to be members of triad societies, wounding, blackmail, etc. In additional, fighting and wounding had occurred in the past as a result of the rivalry between lion dance troupes. Over the past five years, the Police successfully prosecuted 18 persons for the offence of "participating in a lion dance without a permit" according to Section 4C of the Summary Offences Ordinance (Cap. 228). The persons concerned were placed on probation orders or sentenced to a fine.

The issue of lion dance permits by the Police helps prevent lawbreakers from using such sports for illegal activities. As at August 2018, the figures on the applications for lion dance permits received by the Police are as follows:

Year	Number of applications for permits	Number of permits issued	Number of exemptions granted
2015	2 473	2 461	12
2016 (Note 1)	2 340	2 332	7

2017 (Note 2)	2 355	2 349	5
2018 (January to August)	2 124	2 119	5

Note 1: One application was rejected since the location of the activity and the arrangement of the performance would affect traffic safety.
Note 2: The applicant of one application withdrew his application afterwards.

(4) to (6) The Police have established procedures and guidelines for processing applications for lion dance permits, and will assess each and every application. The Police will consider various relevant factors, including the venue, time and nature of the activity organised, the impact on traffic and residents, the background of the organiser and its past record, whether the activity will be used for illegal purposes, etc. If the Police are satisfied that the activity does not involve lawbreakers and will not jeopardise public order and public safety, a permit will be issued.

In case the applicant or participants of an activity have criminal conviction records, the Police shall, taking into account the nature and gravity of their convictions, consider whether the purpose of such activity is to cover up illegal activities. This does not imply that persons with criminal conviction records will automatically be banned from taking part in these activities. Upon scrutiny, the Police shall reject applications for activities which are considered to be seriously affecting public order or public safety, or suspected to be related to illegal activities. The Police may, having regard to the participants and arrangement of each activity, exempt appropriate activities from application for the permit. If necessary, the Police will contact the applicant or participants to verify their information.

The Police have been continually reviewing the existing mechanism and maintaining close liaison with the sector to refine the application procedures for lion dance permits. To expedite the procedures for approving applications for exemption, since September this year, the Police have extended the power to approve exemptions from the Police Licensing Office to regional and district commanders, and advised the front-line districts and regions to consider approving exemptions for appropriate activities to simplify the application procedures. In addition, the Police are proactively examining the feasibility of allowing submission of lion dance permit applications and uploading of the necessary documents through electronic means, with a view to saving the time needed for applicants to submit applications in person at police stations. Depending on the progress of system development, the online application system is expected to commence operation in 2020.

In addition, the Police Licensing Office liaises with regions and districts regularly to ensure that lion dance permit applications are processed in accordance with the established procedures, while maintaining close communication with the sector to refine the application procedures for

permits.

It is necessary for the Police to ensure that public order and public safety are not affected when lion dance activities are conducted in public places. The Police continually review the relevant mechanism and the refinements made so as to allow the development of lion dance activities on the one hand, and ensuring that these activities will not be used by lawbreakers for illegal purposes on the other. Organisers of such activities are only required to submit applications to the Police when their performances are to be held in public places. The Police will consider granting exemption to facilitate applicants if they are satisfied that the lion dance activities do not involve any lawbreakers and will not jeopardise public order and public safety.

LCQ22: Retention period of movement records

Following is a question by the Hon Cheung Kwok-kwan and a written reply by the Secretary for Security, Mr John Lee, in the Legislative Council today (October 31):

Question:

In August this year, a Hong Kong resident, who was serving a life sentence handed down by a local court in the Philippines many years ago for alleged drug possession, requested through his family members the Immigration Department (ImmD) to provide his immigration records 18 years ago as evidence for the purpose of lodging an appeal to the Supreme Court of the Philippines. However, ImmD was unable to provide the relevant information because the immigration records of Hong Kong people would be retained for 10 years only and would all be destroyed thereafter. In this connection, will the Government inform this Council:

(1) of (i) the time when ImmD started implementing the arrangement of retaining immigration records for 10 years and (ii) the reasons for implementing the arrangement;

(2) whether ImmD has assessed if there will be practical difficulties for extending the retention period for immigration records; if ImmD has assessed, of the outcome;

(3) whether it knows other jurisdictions' retention periods in general for the immigration records of their nationals and visitors; and

(4) whether ImmD will draw experience from this incident and review the

relevant retention period; if so, when the review will be conducted; if not, of the reasons for that?
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Reply:

President,

My consolidated reply to Hon Cheung Kwok-kwan's question is as follows:

According to the records management policy of the HKSAR Government, to ensure systematic planning of records disposal after records have been kept for an appropriate period of time, bureaux/departments are required to develop retention and disposal schedules for their programme records and to specify the retention period and disposal arrangements of records, taking into account the administrative, operational, fiscal and legal requirements as well as the archival value of records. The retention period of records should meet the purposes they are created and comply with relevant legal or statutory requirements. In addition, if the records contain personal data, bureaux/departments should consider the retention period of the personal data in accordance with the requirements as stipulated in Section 26 and Data Protection Principle 2 of the Personal Data (Privacy) Ordinance, i.e. personal data should not be kept longer than necessary to fulfil the purpose for which it is used.

Movement records are a kind of programme records of the Immigration Department (ImmD). In drawing up retention and disposal schedules for various kinds of programme records (including movement records), ImmD will take into account all of the above factors and submit the draft retention and disposal schedules to the Government Records Service (GRS) for approval pursuant to the requirements under the records management policy with a view to ensuring creation and collection of adequate but not excessive records and striking a balance between proper maintenance of records and retention of records of archival value. The retention period of movement records is 10 years, thus the time-expired records will be destroyed as required after obtaining the prior agreement of the GRS.

ImmD will regularly review the retention and disposal requirements for movement records in accordance with the guidelines of the GRS and the actual operational needs to ensure proper records management. In consideration of the purpose and practical need to keep the travellers' movement records, as well as the above-mentioned principles, ImmD in general maintains the current retention period for the said records. Should situation warrant, for example under special circumstances involving the case of Hong Kong residents being arrested or detained outside Hong Kong where the need to keep an individual's movement records for longer period arise, ImmD will handle the matter on a case-by-case basis.

ImmD does not have information on the general retention period of the movement records of nationals and visitors of other jurisdictions.

LCQ11: Investments and assets of Long Term Growth Portfolio of Exchange Fund

Following is a question by the Hon James To and a written reply by the Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (October 31):

Question:

In reply to a question I raised in May this year about the investments made by the Hong Kong Monetary Authority (HKMA) in the infrastructure projects of the countries and regions along the Belt and Road (B&R), the Government indicated that HKMA had all along been actively sourcing investment opportunities globally, including B&R-related projects, and that infrastructure was a key asset class of the Long Term Growth Portfolio (LTGP) of the Exchange Fund. Besides, the Financial Secretary (FS) stated in September this year in his blog article on B&R development that "with the support of the State-owned Assets Supervision and Administration Commission of the State Council, the HKMA is exploring cooperation with some state-owned enterprises to jointly look for attractive overseas projects with stable returns, and to consider investing in these projects as equity investors." On the other hand, the authorities have capped the proportion of the market value of the LTGP in the accumulated surplus of the Exchange Fund at one-third. Also, 50% of the capital of the Future Fund, which was set up by the Government in 2016, has been placed in LTGP. In this connection, will the Government inform this Council:

(1) of the details of each of the B&R-related projects joint-investment into which the HKMA is exploring with state-owned enterprises (joint-investment projects), including the form, size, region and horizon of the investments; and the earliest time anticipated for investing in the first project;

(2) given that the average annual internal rate of return of the LTGP was 13.7% from 2009 to 2017, whether the authorities anticipate that the average internal rate of return of joint-investment projects will be higher than that figure; of the factors which the HKMA will consider in determining whether to invest in joint-investment projects and whether those factors include the said rate of return;

(3) of the approach currently adopted by the HKMA for exploring cooperation with state-owned enterprises and for performing due diligence in respect of joint-investment projects, so as to minimise investment risks; whether the HKMA will make the investments itself or through investment managers; should it be the latter, of the selection criteria (including their experience and track records) for investment managers;

(4) given that the risks involved in equity investment are generally higher than those associated with loans and other forms of investments, whether the HKMA will invest in joint-investment projects in the form of loans or through other forms of investments; if so, of the respective numbers of projects to be invested in different forms in the coming three years, as anticipated by the HKMA;

(5) whether the HKMA will, in respect of joint-investment projects, (i) establish a mechanism to minimise investment risks, (ii) request that terms for protecting its investments be included in investment agreements, and (iii) contain potential losses (e.g. capping the investment amounts);

(6) as the Deputy Chief Executive of the HKMA has indicated that the HKMA will maintain the requisite governance rights in various types of investment projects under the LTGP, so as to ensure its ongoing right to monitor such investment projects, otherwise it will consider abandoning the relevant projects, whether such principle applies to joint-investment projects; if so, how the HKMA will manifest the requisite governance rights;

(7) whether there will be differences between joint-investment projects and other types of investment projects under LTGP in respect of matters relating to business strategy, personnel appointment powers, etc.;

(8) whether the HKMA has set ceilings in respect of (i) the amount of its investment in individual joint-investment projects, (ii) the total amount of investments in joint-investment projects, and (iii) the proportion of the total amount of investments in joint-investment projects in the LTGP or the Exchange Fund; if so, of the details; if not, the reasons for that;

(9) of the circumstances and mechanism under which the HKMA may revise the ceiling of the proportion of the market value of the LTGP in the accumulated surplus of the Exchange Fund; apart from the money that has been set aside for the Future Fund, whether there is a mechanism to enable the Government to invest additional amount of funds from fiscal reserves in the LTGP; and

(10) given that according to the Exchange Fund Ordinance (Cap. 66), the Exchange Fund is under the control of FS and in exercising such control, he is required to consult members of the Exchange Fund Advisory Committee who are appointed by the Chief Executive, how the authorities will resolve the differences in the event that members of that Committee, FS or the HKMA have diverse views on investments in B&R-related projects or joint-investment projects; whether FS is authorised by the law to make the final decision?

Reply:

President,

The Exchange Fund (EF) started investing in private equity and real estate (commonly known as "alternative investments") under the Long-Term Growth Portfolio (LTGP) in 2009, with an aim to diversify its portfolio, spread investment risks associated with traditional assets (primarily bonds

and equities), and enhance long-term return. To further diversify the asset classes, the EF has started to invest in infrastructure projects under the LTGP in recent years.

Infrastructure investments provide relatively stable cashflows with lower loss ratios. As infrastructure is an essential part of people's livelihood, returns on infrastructure investment are less affected by economic cycles and have lower correlation with those of traditional assets. The inclusion of infrastructure investments could enhance the portfolio's resilience to economic shocks and reduce volatility of the overall return. Owing to these considerations, many medium- and long-term institutional investors who seek to achieve stable long-term returns like the EF, such as sovereign wealth funds, pension funds and insurance companies, have increased their allocation to infrastructure investments in recent years.

To ensure the EF has sufficient liquidity for maintaining monetary and financial stability, investments under the LTGP were capped at one third of the Accumulated Surplus of the EF at its initial establishment. Subsequently, since part of the Future Fund's capital has been placed with the LTGP, the total amount of capital available for investment under the LTGP has increased accordingly. As at the end of 2017, the total market value of investments under the LTGP reached HK$235.6 billion, or about 5.9% of the total assets of the EF.

The EF observes the usual principle of prudence when investing in infrastructure projects. Appropriate risk management measures have been implemented having regard to the characteristics of individual projects in order to assess, mitigate and prevent potential risks. These measures include:

(a) Appropriate allocation: The EF's total infrastructure investments (including commitments) amount to about US$2.2 billion currently, accounting for only a small portion of the LTGP;

(b) Diversified portfolio: The EF seeks to build a diversified portfolio of infrastructure investments spanning across different regions, sectors, capital structures and partners to avoid undue concentration;

(c) Due diligence: Before committing to an investment, the EF must conduct rigorous due diligence to assess carefully its financial conditions, growth potential, exit mechanism, risks and other factors, to ensure the project is commercially viable. Priority is accorded to jurisdictions with proper governance and environmental protection framework;

(d) Selection of partners: The EF seeks to partner with reputable and experienced institutional investors and asset managers to capitalise on their broad and deep expertise. The EF will also ensure that its partners are those with good integrity and governance standards, and are trustworthy long-term partners of the EF;

(e) External advisors: The EF engages external advisors to provide

independent and professional opinions on tax, legal, regulatory and environmental issues;

(f) Stress testing: The EF conducts stress testing on the financial assumptions and models to ensure investments remain resilient even when confronted with unfavourable market conditions;

(g) Risk mitigation: The EF assesses if appropriate risk mitigation measures should be adopted for investment projects. At the negotiation stage of legal documentation, the EF will also secure the requisite governance rights in the projects, including their funding arrangements, operating budgets, investment and operation strategies, senior personnel appointments, as well as the right to participate in devising asset disposal plans;

(h) Reference check: The EF conducts reference checks with peer investors to understand and validate the capability of partners and viability of projects; and

(i) Post-investment monitoring: Post-investment monitoring is as important as pre-deal due diligence. The EF maintains regular contact with its partners and closely monitors the progress of projects to identify any potential issues at an early stage.

The Belt and Road covers more than 80 countries including many with strong demand for infrastructure investments. The EF is open to infrastructure investment opportunities along the Belt and Road. As regards investment partners, whilst the EF has yet to partner with any state-owned enterprises in any infrastructure investment, enterprises with sound track records in investing, building and operating overseas infrastructure projects could be potential partners of the EF. As explained above, when considering investment in infrastructure projects, the EF will focus on whether an individual project is commercially viable, its investment return reasonable and the associated risks well-managed. All projects, regardless of location or nature of business partnership, must go through rigorous, professional and objective due diligence processes and risk management mechanisms to be considered for investment.

Under the Exchange Fund Ordinance, the Financial Secretary (FS) will consult the Exchange Fund Advisory Committee (EFAC), of which he is the ex-officio chairman, in exercise of his control of the EF. Currently, the EFAC consists of 16 non-official members with knowledge and experience in the financial and professional services sectors. They are appointed in their personal capacity to advise the FS on the investment policies and strategies of the EF.