LCQ18: Management of the Tracker Fund of Hong Kong

Following is a question by the Hon Luk Chung-hung and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (February 3):

Question:

The objective of the Tracker Fund of Hong Kong (TraHK) is to provide investment results that closely correspond to the performance of the Hang Seng Index (HSI). As provided in the prospectus of TraHK, its manager seeks to achieve the investment objective by investing all, or substantially all, of TraHK's assets in shares in the constituent companies of HSI in substantially the same weightings as they appear in HSI. However, State Street Global Advisors Asia Limited (SSGA), the manager of TraHK, issued a notice on the 11th of last month to inform unitholders that, as affected by the executive order signed by the President of the United States, TraHK would not make any new investments in those constituent companies of HSI which were sanctioned entities (the companies concerned) with immediate effect (the decision). Two days later, SSGA issued another notice stating that it would resume investments in the companies concerned on the next day. Some investors have pointed out that the tracking error occurred during the period when TraHK ceased making investments in the companies concerned may affect the Fund's investment returns. In this connection, will the Government inform this Council:

(1) whether it has assessed if the decision has gone against the investment objective of TraHK;

(2) whether it knows if the regulatory authorities have gained an understanding and requested an explanation from SSGA immediately after the decision was made, and assessed the impacts of the decision on the securities market and investors; and

(3) whether it will request the Hong Kong Monetary Authority and TraHK Supervisory Committee to review the aforesaid incident, including considering (i) if SSGA's making the decision constitutes an act of misconduct and has violated the relevant codes/professional conduct, (ii) if SSGA can still effectively perform its duties and responsibilities as a manager, and (iii) if there is a need to replace the manager to ensure effective management of TraHK, thereby restoring investor confidence?

Reply:

President,

In 1999, the Government disposed of the shares it acquired in the stock market operation in 1998 in the form of a unit trust scheme, i.e. the "Tracker Fund of Hong Kong" (TraHK). TraHK, a product which has been authorised by the Securities and Futures Commission (SFC) for sale to the public in Hong Kong and is listed on the Stock Exchange of Hong Kong, is a popular passive fund among the public. As a licensed corporation regulated by the SFC, the State Street Global Advisors Asia Limited (SSGA) has been the fund manager of TraHK (the Manager) since 1999. A Supervisory Committee has been set up for TraHK to supervise the trustee and manager in relation to the management and administration of TraHK.

SSGA announced on January 11, 2021 that TraHK would, with effect from the same date, not make any new investments in the Hang Seng Index constituent stocks that were sanctioned by the United States (US) and that TraHK would no longer be appropriate for US person to invest. Subsequently, the company announced on January 13, 2021 that TraHK would resume investment in the sanctioned Hang Seng Index constituent stocks.

Having consulted the SFC and the Hong Kong Monetary Authority (HKMA), my reply to the three parts of the question is as follows:

(1) According to the prospectus of TraHK, "TraHK's investment objective is to provide investment results that closely correspond to the performance of the Hang Seng Index (Index)…… The Manager seeks to achieve TraHK's investment objectives by investing all, or substantially all, of TraHK's assets in shares in the constituent companies of the Index in substantially the same weightings as they appear in the Index…" If there is any significant deviation between the TraHK's portfolio and the composition and weighting of the Index, the Manager will, having considered the transaction costs and the impact, if any, on the market, adjust the TraHK's portfolio when it considers appropriate. Under the "risk disclosure" part of the prospectus, it is also suggested that TraHK's return may deviate from that of the Index due to the tracking strategy adopted by the Manager.

If the Manager does not invest in certain constituent stocks of the Hang Seng Index on a long-term basis, there is a chance that the investment objective of TraHK would be compromised. The extent of the impact would vary depending on various factors, for example, the number of constituent stocks that the Manager no longer invests in, their shares in the Hang Seng Index, the price movement of different constituent stocks and the adjustments to the Manager's investment strategies, etc.

Investors who participate in the trading of TraHK generally expect that the fund can closely resemble the performance of the Hang Seng Index. The hasty announcement by the Manager about its investment decision, and that such decision was then altered within a short period of time have inevitably caused confusion to the public. Although the announcements did not bring any material impact on the investors of TraHK, they have given rise to unnecessary market chaos. The Government has expressed deep concern over the situation and requested the HKMA and the Supervisory Committee of TraHK to take follow-up actions seriously to address the public concern.

(2) The SFC and the HKMA have, as soon as they were informed of such investment decision, contacted the Manager to understand the justifications and specific arrangements of its decision. Since the Manager is a licensed corporation regulated by the SFC, it has to comply with the Fund Manager Code of Conduct (the Code). The Code has prescribed certain restrictions and requirements for fund managers in relation to investment management, including making adequate disclosure of information (as well as any material changes to the information) on the fund which is necessary for investors to be able to make an informed decision about their investment in the fund.

The SFC has maintained effective regulatory communication with the Manager, and has urged the Manager to comply with the Code and make all decisions in an honest, fair and diligent manner taking into account investor protection and market integrity. The SFC will continue to closely monitor the situation to ensure that the market would operate in an orderly manner and that investors would be adequately protected.

(3) Once the HKMA and the Supervisory Committee of TraHK were informed of the decision of the Manager, they have immediately got in touch with the Manager and requested it to explain the reasons of the decision, adopt measures to mitigate the impact to investors, and review their decision. Since SSGA announced resumption of relevant investment on January 13, 2021, the HKMA has continued to closely follow up with the Supervisory Committee of TraHK and that company. The HKMA understands that the follow-up work by the Supervisory Committee of TraHK is still ongoing.

LCQ11: Continuing Education Fund

Following is a question by the Hon Martin Liao and a written reply by the Secretary for Labour and Welfare, Dr Law Chi-kwong, in the Legislative Council today (February 3):

Question:

The Government set up the Continuing Education Fund (CEF) in 2002 to provide adults with learning aspirations with subsidies for pursuing continuing education and training. Due to the epidemic, some of last year's face-to-face classes of the courses covered by CEF had to be changed to online classes. The Government issued notices in March and December last year setting out the special arrangements, for those courses affected by the epidemic during the period from January 1 last year to April 30 this year, under which face-to-face classes may be changed to online classes, subject to the number of hours for the latter accounting for no more than 70 per cent of the total number of teaching hours (cap on online-class proportion). In this connection, will the Government inform this Council:

(1) of the number of applications for reimbursement of course fees made to

CEF in each of the past five years; the percentage of approved applications in the total number of applications, and the average amount of subsidy for each approved application, with a breakdown by course type;

(2) given that a course provider changed all face-to-face classes of a course to online classes, thus exceeding the cap on online-class proportion which resulted in the relevant course participants not being eligible for CEF's reimbursement of the course fees, of the number of this type of complaints received by the Government last year and the number of course providers involved;

(3) as online classes have become a new norm amid the epidemic, whether the Government will consider further relaxing the cap on online-class proportion; if so, of the details; if not, the reasons for that;

(4) of the measures put in place to ensure that the quality of CEF courses in terms of contents, teaching methods, etc. will not be undermined by the fact that their face-to-face classes are changed to online classes, so as to safeguard the interests of course participants; and

(5) as quite a number of members of the public have relayed that the current scope of CEF courses is too narrow, making them unable to find a suitable course, whether the Government will review the scope of the courses covered by CEF; if so, of the details; if not, the reasons for that?

Reply:

President,

The Government established the Continuing Education Fund (CEF) in April 2002 to provide subsidies to adults with learning aspirations to pursue continuing education and training to facilitate Hong Kong's transition to a knowledge-based economy and adaptation to an increasingly globalised economy. Hong Kong residents, irrespective of their education level, employment and financial status, are eligible to apply for opening CEF accounts. The Government injected an additional $10 billion into CEF in May 2018 and implemented a series of enhancement measures on April 1, 2019, including doubling the subsidy ceiling to $20,000 per person, lifting the restriction of four-year validity period for CEF accounts and reactivating frozen CEF accounts so that learners may fully utilise the additional subsidy ceiling, raising the age limit to 70, expanding the scope of CEF courses and implementing measures to enhance course quality and protect applicants. My reply to various parts of the Member's question is as follows:

(1) The number of applications for reimbursement of course fees, the approval percentage, the average subsidy amount and breakdown by course scope in the past five years is set out in Annex.

(2) To cater for situations of suspension or cancellation of classes of CEF courses due to the novel coronavirus epidemic, the Government implemented special arrangements from January 1 to August 31, 2020. Under the special arrangements, CEF course providers may deliver a maximum of 70 per cent of

the total approved teaching hours of their courses on an online platform; the attendance requirement of CEF learners was lowered from 70 per cent to 60 per cent. Course providers who could not fulfil the above requirements (e.g. the total online teaching hours exceeded 70 per cent) are required to arrange make-up classes, arrange deferment for learners to the next cohort, or refund learners in accordance with established procedures. From January to December 2020, the Labour and Welfare Bureau and the Office of the CEF (OCEF) received 12 complaints involving nine course providers concerning face-to-face teaching arrangements. After OCEF's follow-up, all cases were resolved in accordance with the aforesaid mechanism.

(3)&(4) To cater for the latest situation of novel coronavirus epidemic, the Government has implemented, from December 8, 2020 to April 30, 2021, a new round of special arrangements which are the same as the previous round. To cater for advancement in technology and changes in learning mode in the longer run, the Government also plans to recognise online courses under CEF so as to provide learners with more diversified ways of continuing learning. The Government is now formulating the framework and operational details, including requiring that a course be provided by a local course provider and registered under the Qualifications Register (QR); imposing ceilings on online teaching hours having regard to the nature and assessment arrangements of the course and requiring course providers to set up common systems for authorities to collect learners' attendance record/monitor online teaching. The Government will consult stakeholders on the above in due course.

(5) Since April 2019, the Government has added, on top of the original nine course domains under CEF, courses of 14 classified areas of study and training registered under the QR. As at end December 2020, CEF offers about 10 000 registered courses by over 300 course providers covering 23 areas, providing more choices for learners. Course providers may design and offer new courses and apply for registration under CEF to meet market demand. Recently registered CEF courses cover areas such as gemstone identification, property management, arboriculture and horticulture, fitness trainer, dance teaching and medical care support, etc.

LCQ21: Government bonds

Following is a question by the Hon Chan Hak-kan and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (February 3):

Question:

Since 2011, the Government has issued a number of rounds of retail bonds, including seven rounds of inflation-linked bonds and five rounds of Silver Bonds. In this connection, will the Government inform this Council:

(1) of the total amount of interests and administrative costs (including fees payable to agents) involved in the issuance of the aforesaid bonds;

(2) of the uses of the funds raised through issuing the aforesaid bonds, as well as the relevant total profit and loss figures;

(3) whether it has assessed the benefits brought by issuing the aforesaid bonds to Hong Kong in aspects such as the Gross Domestic Product, job creation, development of the bond market, tax revenue, as well as creation of wealth effect, and provide the relevant data; and

(4) whether it has assessed what benefits the issuance of bonds will bring to public finance under the situation of fiscal reserves being still ample?

Reply:

President,

(1) and (2) From July 2011 to January 22, 2021, seven batches of iBond and five batches of Silver Bond have been issued under the retail part of the Government Bond Programme, involving total interest expenses of HK$6.53 billion and other expenses (including issuance-related expenses) of HK$0.23 billion. Proceeds raised from the issuance of institutional bonds and retails bonds under the Government Bond Programme are credited to the Bond Fund established pursuant to the Public Finance Ordinance. The Bond Fund is placed with the Exchange Fund for investment purposes. Money from the Bond Fund is to be expended only for the purpose of repaying the principal, paying interest and paying the expenses incurred in relation to the borrowing and the investment. The total investment income of the Bond Fund from the financial year of 2011-12 (the financial year when the first iBond was issued) to the financial year of 2019-20 is HK$38.9 billion.

(3) The objective of the Government Bond Programme is to promote the further and sustainable development of the local bond market through systematic issuance of government bonds. The Programme is conducive to providing more diversified investment products and financing avenues to attract outside capital, thereby reinforcing Hong Kong’s position as an international financial centre. The past 12 issuances of retail bonds were all well received by the public with over-subscription recorded for every issuance. For instance, the total application amount of the seventh batch of iBond was 3.8 times its target issuance size, while that of the fifth batch of Silver Bond was 4.3 times its target issuance size. Also, past issuances of retail bonds have been able to attract participation from first-time bond investors, indicating that the Programme could indeed enhance the public’s interest in and familiarity with bond investment and promote the development of the local bond market. The issuance of Silver Bond under the Government Bond Programme aims to provide senior citizens with an investment product with steady returns to manage their capital. It also encourages the financial sector to tap into the immense potential of the silver market by introducing a larger spectrum of appropriate investment products.

(4) As mentioned above, the objective of the Government Bond Programme is to promote the further and sustainable development of the local bond market. Pursuant to the resolution passed under section 29 of the Public Finance Ordinance, proceeds raised under the Government Bond Programme are credited to the Bond Fund for the purpose of repaying the principal, paying interest and paying the expenses incurred in relation to the borrowing and the investment. The Bond Fund does not form part of the fiscal reserves and is managed separately from other Government accounts.

LCQ17: Operation of RTHK

Following is a question by the Hon Chan Han-pan and a written reply by the Secretary for Commerce and Economic Development, Mr Edward Yau, in the Legislative Council today (February 3):

Question:

Regarding the programme quality, governance and development of Radio Television Hong Kong (RTHK), will the Government inform this Council:

(1) given that the Communications Authority (CA) received in the past two years quite a number of complaints about RTHK's programmes, and the CA determined that some of the programmes had contents that had failed to meet the requirements on objectivity, impartiality and accuracy in information, whether the Government has put in place new measures to prevent the occurrence of similar incidents; if so, of the details; if not, the reasons for that;

(2) of the progress of the work to review the governance and management of RTHK carried out by the dedicated team since it commenced work in July last year, and the expected dates for the dedicated team to submit and publish its review report; whether, before the recommendations put forward in the review report are implemented, the Government has short-term measures in place to step up its monitoring of RTHK's governance and management; if so, of the details; if not, the reasons for that;

(3) as there are views that as the dual roles of RTHK as a public service broadcaster and a government department conflict with each other from time to time, RTHK should be privatised, whether the Government will consider afresh the disestablishment of RTHK from the government structure and transforming RTHK into a private organisation; if so, of the details and timetable; if not, the reasons for that; and

(4) as some members of the public have relayed to me that the television documentary "All About the Chinese Style – Kenya", produced by RTHK itself

and broadcast in the year before last, had biased contents, and may be in breach of the programming objective to "give emphasis to the provision of accurate, impartial and objective public affairs programming" as set out in the Charter of Radio Television Hong Kong, whether it knows if the CA has received any related complaints; if the CA has, whether the CA has conducted an investigation; if the CA has investigated, of the outcome; if the CA has not investigated, the reasons for that?

Reply:

President,

Radio Television Hong Kong (RTHK), as a public service broadcaster, must fully abide by the Charter of RTHK (Charter). The Charter specifies that while RTHK is editorially independent, it should adhere to the following editorial principles:

(1) be accurate and authoritative in the information that it disseminates;
(2) be impartial in the views it reflects, and even-handed with all those who seek to express their views via the public service broadcasting platform;
(3) be immune from commercial, political and/or other influences; and
(4) uphold the highest professional standards of journalism.

The Director of Broadcasting as the Editor-in-chief is responsible for ensuring that a system of editorial control in accordance with RTHK's Producers' Guidelines is in place to provide accurate, impartial and objective news, public affairs and general programming that inform, educate and entertain the public. As the Editor-in-chief, the Director of Broadcasting is responsible for making the final editorial decisions in RTHK and is accountable for editorial decisions taken by RTHK programme producers.

Similar to other broadcasters, RTHK should also ensure that all its television programmes comply with the relevant code of practices issued by the Communications Authority (CA) for regulating the standards of programmes broadcast by broadcasting licensees. In accordance with the established mechanism, upon receipt of public complaints about programmes of broadcasters (including RTHK), the CA, as a statutory body, adopts consistent standards and procedures in handling complaints about programmes of commercial and public service broadcasters.

In accordance with the Charter and the prevailing mechanism, an independent and fair mechanism is already in place to handle complaints about programmes of broadcasters. The Commerce and Economic Development Bureau (CEDB) considers that all complaints in relation to the content of programmes should be handled with this mechanism which has been working effectively.

Our reply to the various parts of the question raised by the Member is as follows:

(1) and (2) In the two years of 2019-20 and 2020-21 (as at January 2021), the CA found a total of seven complaint cases concerning the RTHK's programmes substantiated, for which one serious warning, three warnings, two strong

advices were issued respectively and one case with no sanction imposed.

The CEDB is of the view that RTHK, as a public service broadcaster, being ruled to have repeatedly breached the various provisions in the codes of practice is a matter of serious nature. It has made a serious request to RTHK that the latter should respond in a positive and responsible manner, including a full review of its editorial oversight of the programme production so as to avoid the recurrence of similar mistakes. The CEDB has stressed that RTHK must fully abide by the Charter, duly meet their obligations as a public service broadcaster, strictly comply with the relevant codes of practice issued by the CA, and ensure attaining professional standards as required of it.

Following the CA's decisions that various complaints against RTHK programmes were substantiated and in response to the public concern over RTHK, the dedicated team established by the CEDB started its work on July 15, 2020 to review the governance and management of RTHK and provide recommendations on its overall management systems, processes and practices, with a view to ensuring full compliance with the Charter, the codes of practice on programming standards issued by the CA, and all applicable Government rules and regulations. The review is expected to be completed in about six months, and the dedicated team will submit a report to the CEDB.

(3) The existing positioning and public functions of RTHK are determined after extensive discussion and consultation. In August 2010, the Government announced the promulgation of the Charter, which was signed by the then Chief Secretary for Administration, the Chairman of the Broadcasting Authority and the Director of Broadcasting. The Charter clearly specifies the public purposes and mission of RTHK as a public service broadcaster, as well as the responsibilities of RTHK as a government department.

At present, the Government has no plan to privatise RTHK. Nevertheless, it will continue to improve RTHK's governance and management with a view to meeting the requirements specified in the Charter fully and completely.

(4) According to its records, the CA has not received any complaints against RTHK's television programme "All About the Chinese Style – Kenya". Upon receipt of complaints about the programme concerned, if any, the CA will handle them in accordance with the established procedures.

LCQ10: Stamp duty on stock transactions

Following is a question by the Hon Chung Kwok-pan and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (February 3):

Question:

At present, both the buyers and the sellers of securities listed in Hong Kong are required to pay stamp duty on stock transactions of an amount equivalent to 0.1% of the values of the transactions. While there are comments that increasing the rate of this tax will help alleviate the serious fiscal deficit, there are views that such a move will undermine the international competitiveness of Hong Kong's stock market, given that no such tax is collected in Japan, Singapore and the United States. In this connection, will the Government inform this Council:

(1) of the estimated and actual revenue from stamp duty on stock transactions in each of the past five financial years, as well as the estimated revenue from this tax in each of the coming three financial years (set out in a table);

(2) as opinions are widely divided as to whether such tax should be maintained or abolished, or be adjusted upward or downward, whether the Government conducted in the past five years any quantitative analysis on the impacts of changing such tax on (i) tax revenue, (ii) the international competitiveness of Hong Kong's stock market, as well as (iii) the turnover rate and trading volumes of stocks, etc.; if so, of the details; if not, whether it will conduct such analysis expeditiously; and

(3) whether it has plans to adjust the rate of the tax and the relevant policy in the near future; if so, of the details; if not, the reasons for that?

Reply:

President,

As a small and fully open economy, Hong Kong maintains a simple and low tax regime. The Government revenue is easily affected by the changes in macroeconomic environment. The trend of revenue from stamp duty, among others, is particularly influenced by asset prices, market conditions and trading volume.

At present, both the buyers and sellers of stock transactions are required to pay stamp duty equivalent to 0.1% of the value of the transactions respectively. Stamp duty on stock transactions is one of the main sources of Government revenue. Take financial year 2019-20 as an example, stamp duty accounted for about 10% of Government revenue, and half of which was stamp duty on stock transactions. In 2020, the average daily turnover of the securities market reached $129 billion, representing over 48% increase over the amount in 2019. Revenue from stamp duty on stock transactions will therefore continue to be an important source of Government revenue for financial year 2020-21.

My reply to the three parts of the question is as follows:

(1) The estimates and actual receipts of stamp duty on stock transactions for each financial year since 2015-16 are tabulated as follows:

Financial Year	Original estimates ($ million)	Actual receipts ($ million)
2015-16	23,000	33,410
2016-17	23,000	23,567
2017-18	23,000	36,930
2018-19	43,000	33,102
2019-20	33,500	33,231
2020-21	35,000	–

The Government will provide estimates of stamp duty revenue for the next financial year during the preparation of the annual Budget. As such, the revenue estimates for the next three years are yet to be available at the moment.

(2) and (3) The Government is aware of the views that we should increase the rate of stamp duty on stock transactions in order to increase Government revenue. At the same time, there are opposing views which request the Government to reduce the rate of stamp duty on stock transactions, or even abolish such stamp duty, in order to stimulate trading and promote market development. The Government has been reviewing the rate of stamp duty on stock transactions from time to time, seeking to strike a balance between Government revenue and market development, especially the need to maintain our competitiveness vis-à-vis other major stock markets.

In the past five years, we have promoted the development of individual types of investment products through waiving the stamp duty on stock transactions in a targeted manner. For example, the Government has provided stamp duty waiver in respect of secondary market transactions of exchange-traded funds (ETF) since 2015. We have also expanded the stamp duty waiver to primary market activities of ETF market makers since August last year to reduce the transaction cost of ETFs and strengthen the competitiveness of Hong Kong as a listing venue of ETFs. We implemented a new listing regime in 2018 to promote the listing of more companies in Hong Kong which increases the trading activities in the market and the revenue from stamp duty on stock transactions.

We will continue to examine the rate of stamp duty on stock transactions having regard to the need to strike a balance among different factors including Government revenue, market development and the competitiveness of Hong Kong's stock market.