LCQ21: Cancellation of dividend payments by banks

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 (May 27):

Question:

Earlier on, the boards of HSBC Holdings plc and Standard Chartered PLC, both of which are incorporated in the United Kingdom (UK) and listed in Hong Kong, announced that on the request of the Prudential Regulation Authority in UK, they had decided to cancel their final dividend payments for 2019 which were already announced, and to suspend any quarterly or interim dividend payments for the coming year. In this connection, will the Government inform this Council:

(1) of the respective percentages of the stocks of the two banks in the investment portfolios of the Exchange Fund and the Tracker Fund of Hong Kong, and the impacts of the above decisions on the investment returns of the two Funds;

(2) whether it knows the current numbers of Mandatory Provident Fund schemes and occupational retirement schemes whose investment portfolios comprise the stocks of the two banks; whether the authorities have assessed the impacts of the above decisions on the investment returns of such retirement protection schemes; and

(3) as there are comments that the Hong Kong subsidiaries of the two banks (i) have substantial operations in Hong Kong, (ii) contribute the major sources of revenue to the two banks and (iii) are note-issuing banks in Hong Kong, but the aforesaid decisions have caused Hong Kong investors to suffer losses, whether the authorities will review the roles of the two subsidiaries in Hong Kong's financial industry and take measures to attract the two banks to relocate their domiciles back to Hong Kong; if so, of the details; if not, the reasons for that?

Reply:

President,

HSBC Holdings plc (HSBC) and Standard Chartered PLC (SCB) are international banking groups incorporated in the United Kingdom and regulated by the Prudential Regulation Authority (PRA) of the Bank of England. We understand that decisions of dividend cancellation by relevant banks would have impact on shareholders and other stakeholders. The Hong Kong Monetary Authority (HKMA) has requested the Hong Kong branch of HSBC and SCB to reflect the concerns expressed by the shareholders in Hong Kong to the banking groups. The HKMA has also informed the PRA about the concerns expressed by the shareholders in Hong Kong through their regular communications.

Having consulted the HKMA and the Mandatory Provident Fund Schemes Authority (MPFA), our reply to the three parts of the question is as follows:

(1) The Government's fiscal reserves are managed by the HKMA for investment and placed with the Exchange Fund. On this basis, the Government will not disclose the asset allocation in relevant investment portfolio. In general, the investments of the Exchange Fund are diversified into a variety of asset classes and invested in different markets around the world. Therefore, the dividend policy of individual company would not have significant impact on the investment return of the Exchange Fund.

Tracker Fund of Hong Kong (TraHK), an exchange-traded fund, currently invests in 50 constituent stocks of the Hang Seng Index. According to the information published by the TraHK, as of May 20 this year, the investment in HSBC shares accounted for 7.89 per cent of the portfolio value of TraHK. As at end of April this year, the 1-month and 3-month return of TraHK were 4.4 per cent and -6.4 per cent respectively.

(2) According to the information provided by the Mandatory Provident Fund (MPF) scheme trustees, as at end of March this year, there were 259 MPF funds investing in the shares of HSBC and SCB, amounting to HK $12.8 billion, or 1.5 per cent of the total MPF assets. In fact, prices of individual MPF funds may be affected by individual events, such as the suspension of dividend payments by companies, resulting in short-term fund price fluctuations. Nevertheless, MPF is a long-term investment, and MPF scheme members are advised to focus on its fund performance in the long term. Since the Occupational Retirement Schemes Ordinance (Cap. 426) does not require administrators of Occupational Retirement Schemes to submit their investment portfolio or performance to the Registrar (i.e. the MPFA), the MPFA does not have the relevant information.

(3) The HKMA has been adopting a risk-based approach in regulating banks in Hong Kong, including the banking subsidiaries of HSBC and SCB incorporated in Hong Kong, to evaluate their safety and soundness, risk-management systems and internal control, with a view to promoting the stability and integrity of the financial system in Hong Kong. Also, note-issuing banks have to fulfill a set of stringent requirements, including those relating to US dollar reserve, banknote storage, distribution and security, etc. The existing arrangement has been operating smoothly and the HKMA does not have plan to make any changes.

Hong Kong is an international banking centre, with over 70 of the largest 100 banks in the world having a presence and over 29 multinational banks having their regional headquarters in Hong Kong. The Government welcomes international financial institutions to incorporate and set up their headquarters in Hong Kong, although whether to set up their global headquarters in Hong Kong or not remains a commercial decision of individual banks.