

Supplementary Note for Revenue (No.3) Bill 2001

Arising from the discussions at the Bills Committee meeting on 21 June 2001, Members may wish to note that : -

- (1) Taking into account the compensation payments for the claims for the four default cases that occurred during the Asian financial crisis, the Unified Exchange Compensation Fund (UECF) has a balance of approximately \$658 million.
- (2) There is no recurrent source of levy income to maintain the UECF.
- (3) The four default cases (namely C.A. Pacific, Foreground, Forlux and Chark Fung) that occurred during the recent Asian financial crisis incurred a total projected payment of approximately \$ 500 million.
- (4) Under the model developed by the consultant engaged by the Securities and Futures Commission and using the existing compensation arrangements, the UECF should maintain assets at about \$780 million in order to reach a prudent level.
- (5) The consultant's model also shows that, under the existing compensation arrangements, the UECF could need to pay out about \$5 billion in a scenario of defaults of the largest single retail broker.
- (6) With the proposed increase of 0.002% in the securities transaction levy and based on recent market turnover value, the UECF would receive about \$100 million of levy income each year.