

**SFC's response to follow up questions from
The LegCo Panel on Financial Affairs**

- (a) *To provide information on measures taken by the Securities and Futures Commission (SFC) in recent years in reviewing and adjusting the salaries of staff employed on permanent and contract bases.*

According to the information provided by SFC, it adopts the same measures in reviewing and adjusting the salaries of staff employed on permanent and contract terms.

The SFC benchmarks its pay levels with the prevailing market rates of comparable organizations in the financial markets and reviews its salary ranges annually with reference to the findings of pay level survey and pay trend survey conducted by independent pay consultants.

The salaries of the SFC staff at all levels are reviewed annually by the Remuneration Committee (RC), which consists only of Non-Executive Directors of the SFC. In formulating pay review proposals, the Commission's financial position, prevailing market conditions and the performance of the organization and individual staff will be considered. Other factors such as recruitment experience, staff retention and turnover rates are also taken into account. The advice of the RC will be submitted to the Board for approval.

For the past two financial years 2001/02 and 2002/03, there was no variable pay award to the SFC staff. This represents an average of 8% reduction in the annual overall take home pay of the SFC staff when compared to the pay level of 2000/01. In addition, there has been a downward adjustment of salaries to reflect the current market trend when vacancies are filled.

- (b) *To provide details of SFC's review on salaries of staff in different levels, grades and ranks after the release of the Hay Group Report in 2002. In particular, to provide details of the comparison of levels of salaries with those of the market.*

According to the SFC, when compared to the figures of the Comparison Group Median of the top three tiers (namely Chairman, Executive Directors and Senior Directors) in the 2002 Hay Group Report, the remuneration of SFC staff is below the Median for all

three levels. In addition, the 2002 Pay Level Survey conducted by Watson Wyatt Hong Kong Limited also indicated that the remuneration levels of the SFC staff were generally in line with the market (with most of the grades being less than the market median and a few grades being around the market median). After taking into account the current financial position of the Commission, the recent survey findings and the prevailing market conditions, the SFC decided in March 2003 that there would be salary freeze and no variable pay award to its staff for the financial year 2002/03.

(c) *To provide a breakdown on the estimated revenue of \$339.9 million for 2003-04 by various income sources, including a breakdown on the items and respective amount of the fees and charges income, and the assumptions made in arriving at the estimates.*

Please find below a breakdown on the SFC's estimated revenue of \$339.9 million for 2003-04 by various income sources, including a breakdown on the items and respective amount of the fees and charges income, and the assumptions made in arriving at the estimates.

<i>Breakdown of the Estimated Revenue for Year 2003/04</i>		
	Assumptions	Proposed Estimates Year 2003/2004 (HK\$ mn)
Investor Levy – Securities	(1)	173.6
Investor Levy – Futures / Options Contracts	(2)	12.4
Fees & Charges		
- Licensing	(3)	73.5
- Investment Products	(4)	21.5
- Corporate Finance	(5)	33.0
Subtotal		128.0
Investment Income	(6)	24.1
Other Income	(7)	1.8
Total Income		339.9

Assumptions:

- (1) Investor levy (securities) - calculation based on the assumed average daily stock market turnover of \$7 billion per day.
- (2) Investor levy (futures/options contracts) - calculation based on the assumed average daily turnover of 25,000 contracts per day.

- (3) Estimate on licensing fees and charges is based on the assumption that the new single licensing regime will be operative from April 2003 and that the fee level has taken into account a 3% discount on all existing licensing fees and a further 5% discount for early registration during the first year of the two-year transitional period. As of 31 March 2003, the total number of licences issued by the SFC was 26,411.
- (4) Estimate on fees and charges of Investment Products is based on the assumption that the fee structure for all collective investment schemes will be streamlined and rationalised in order to ensure that there is a level playing field for all collective investment schemes in respect of the fees required to be paid to the SFC, regardless of whether they are structured in the form of a trust, corporation or policy contract. The new fee structure will require underlying funds of all collective investment schemes to be subject to certain fees. This is included in the new Securities and Futures (Fees) Rules. In 2002-03, there were 443 investment products authorised by the SFC.
- (5) Estimate on fees and charges of Corporate Finance is based on the assumption that the core corporate finance activities will generate about \$13 million fee income and that a fee of \$20 million will be collected from HKEx to cover dual filing costs.
- (6) Investment income includes return on the investment portfolio under the management of an external fund manager after taking into account the amortisation of premium or discount on purchase of dated securities and the interest earned on deposits placed out of in-house funds. The average return on dated securities on hand is around 5-5.5% and the interest rate on deposit/dated securities is assumed to be 1.5-2% per annum.
- (7) Other income, including the sale proceeds of SFC publications and costs awarded to the Commission by the Court, is estimated to be \$1.8 million for the year 2003/2004.

(d) To provide a breakdown of the income of \$20 million from the Hong Kong Exchanges and Clearing Limited for performing the new dual filing functions and details on how the sum will be spent by SFC in carrying out the new duties.

The \$20 million from the Hong Kong Exchanges and Clearing Limited is based on the estimate of SFC's costs of administering the new filing arrangement, including staff costs and office overhead. Its receipt will be recognised as part of the Commission's revenue to accommodate the Commission's operating expenditure as a whole. The amount will be reviewed after three years or when the Deed is terminated, whichever occurs first.