



**Opening Statement by Carlson Tong  
Chairman of the Securities and Futures Commission**

**LegCo Financial Affairs Panel Meeting**

**7 February 2014**

Honourable Chairman

Honourable Members of the Financial Affairs Panel

1. I am pleased to have the opportunity once again to brief Honourable Members on the SFC's budget. Before addressing any questions that Honourable Members may have, may I take a few minutes to highlight the key elements in our budget.
2. As an independent securities regulator, our budget is formulated to ensure that we are adequately funded to discharge our regulatory duties and to achieve our statutory objectives. Our expected income and level of reserves are bound to fluctuate during successive business cycles and, therefore, they cannot dictate how we formulate our operating budget. Rather, our primary concern when determining our resource requirements is to deliver consistently efficient and effective regulatory outcomes for all those who participate in Hong Kong's rapidly developing markets. I shall return to the subject of our reserves later.
3. Honourable Members will have read from our budget submission that, for 2014/15, there are a number of key initiatives which are crucial to the achievement of essential regulatory objectives. These include a more intensive and structured approach to the supervision of the Stock Exchange, the build-out of our new Corporate Regulation Team to proactively detect and follow up on cases of misconduct by listed companies and, last but not least, shortening the time taken to process enforcement cases. All these require resources. Our CEO Mr Ashley Alder will be happy to answer any specific questions Honourable Members may have on these key initiatives as well as other aspects of our budget.
4. Notwithstanding our operating deficit, which is projected to be approximately \$300 million for 2013/2014, the SFC is mindful of the competitive environment facing some in the securities and futures industry, in particular the SME sector. As such we are



proposing to extend the licensing fee holiday for another two years. This will translate into a loss of income of \$340 million for the SFC over a two-year period or \$170 million for the budget year 2014/15 but will bring immediate financial relief to intermediaries and directly benefit the industry.

5. And to continue to contribute towards the professional development of our intermediaries, we have set aside \$20 million in our 2014/15 budget to fund training initiatives, particularly programmes for small and medium-sized firms.
6. In proposing these measures we of course need to be financially prudent in formulating our budget, and I will explain why I believe that we have achieved the right balance.
7. Now, returning to our reserves, we recognise this was the subject of discussion when we were here last year to present the 2013/14 budget. We have explained that our income is counter-cyclical; reserves are built up when market activity is high to be used to bridge any funding gap – including any operating deficit – when market activity is low. This ensures that the SFC is adequately resourced to discharge its regulatory duties at all times without needing to resort to Government funding: the SFC has not made any request for appropriation from the Government since 1993.
8. The level of reserves we now have was largely the result of transaction levies collected during a period of very high market activity between 2006 and 2008. Since then the levy rate has been reduced twice in recognition of the fact that we are able, temporarily, to shift part of our reliance on the levy as our primary source of funding to our reserves. In doing so we are acutely aware of the importance of ensuring that we do not prematurely drain our reserves by using them as our main or only source of funding whilst allowing our operating deficit to balloon. This would be financially irresponsible. It is crucial that we take a balanced approach, which helps defer any future requirement to reverse previous levy reductions and also ensures that there is little or no prospect of needing to seek funding from the Government. I should point out here that the original levy rate of 0.005%, which was in place before these reductions, would have ensured that we would not run an operating deficit.
9. Last year, the SFC committed to conduct a comprehensive review of its financial position. We have done so and proposed – while bearing in mind our funding sources and needs – to further reduce our levy rate by 10% to 0.0027%. Based on an



estimated average daily turnover of \$65 billion, that would mean annual income forgone by the SFC in the sum of \$97 million. Assuming that the reduction in levy takes effect from October this year, the levy income foregone for 2014/15 would be \$49 million.

10. If we press ahead with the licensing fee holiday and the levy reduction, the total foregone income for the SFC for 2014/15 and 2015/16 is projected to be approximately \$220 million and \$270 million respectively and the SFC's operating deficit will increase to \$509 million for 2014/15. The overall reserves at the end of 2014/15 are expected to drop to \$6.6 billion, approximately four times our annual operating expenditure. If our operating deficit continues at that rate, our reserves are projected to shrink to around two times our annual operating expenditure in three years time. By then the SFC will need to revisit its options to ensure adequate funding including the possibility of raising the levy rate.
11. Finally, I would like to assure Honourable Members that the SFC is fully committed to upholding the quality of our capital market, the protection of investors and effective enforcement action against wrong doers.
12. We would be happy to answer any questions that the Honourable Members may have on our budget. Thank you.

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