

**Opening statement
Budget of the Securities and Futures Commission 2015/16
at the
meeting of the Panel on Financial Affairs
Legislative Council**

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Chairman
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Honourable Chairman

Honourable Members of the Panel on Financial Affairs

1. Today, I have the pleasure again of discussing with Honourable Members the SFC's budget. I will briefly introduce a few key elements in our budget before moving on to address questions that Honourable Members may have.
2. Our overriding objective is of course to ensure that essential regulatory initiatives and our ongoing operations are adequately resourced to fulfil properly all our regulatory objectives under the law.
3. A further two-year licensing fee holiday and the transaction levy reduction were implemented respectively in April and November last year. These two measures have a projected cost totaling \$290 million, necessitating a heavier reliance on the reserves as a funding source for our operations. A deficit of \$225.21 million is forecast for 2014/15, which will reduce our reserves to \$7.091 billion.
4. In 2015/16, deficit for the year will be \$416.94 million, and our reserves are projected to reduce further to \$6.674 billion,

- approximately 3.8 times the SFC's annual costs. I should stress that the initiatives and headcount requests in our budget are crucial to keep us on track with our regulatory objectives, and necessary to ensure we are adequately resourced to maintain efficiency and protect investors. The size of our reserves has no bearing on these decisions.
5. Since 2006 the transaction levy rate has been reduced three times to the current level of 0.0027%. At 0.005%, the original level before the first reduction, the levy income would have been more or less able to support the SFC's operational needs. Despite an operating deficit since 2012/13, we implemented a levy reduction of 10% last year to alleviate investors' burden, thanks to the level of reserves that was largely the result of levies collected during a period of very high market activity between 2006 and 2008. The reserves have now been funding our recurring operating deficits for three years. With the current much lower levy rate of 0.0027% a budget deficit is expected to continue over the foreseeable future unless the daily market turnover increases significantly, and our reserves will continue to diminish.
 6. Major financial reforms such as over-the-counter derivatives regulation, the resolution regime and cross-border supervisory cooperation are being taken forward. Shanghai-Hong Kong Stock Connect is a major breakthrough in integrating trading platforms between Hong Kong and the Mainland. Other key initiatives also relate to Hong Kong and Mainland integration and Hong Kong's position as an RMB hub; chief amongst these are mutual recognition of funds, expansion of RQFII and QFII and expansion of Stock Connect.
 7. Changes to headcounts always follow a detailed, critical review of manpower needs. All the proposals in our budget have been approved by the Board's Budget Committee. This year, we have proposed a net increase of 39 full time posts. Our headcount increase principally relates to the need to reinforce two vital

operational divisions – Intermediaries and Enforcement, whose work has grown in complexity and volume.

8. The 12 new posts in the Intermediaries Division will enable the adoption of more outcomes-oriented and judgment-based supervisory approach, introduce greater specialisation and policy capacity. Changing market practices such as internet distribution and sales platforms, electronification of markets; greater supervisory intensity with respect to anti-money laundering; and more proactive enquiries about intermediaries' fitness and properness have all led to higher complexity of the Division's work. These factors, coupled with the increase in the number of licensed corporations and of regulated activities they are licensed for, have placed high demands on experienced professional staff members.
9. Our Enforcement Division proposes to create 15 posts. Investigation caseload has increased by 43% to date in 2014/15, and total man hours spent on cases by 17% to date relative to 2013/14. At the same time, cases become more sophisticated and complex, in particular corporate misconduct cases that may entail getting evidence from other jurisdictions and challenges in locating defendants and assets, and involve multiple lines of inquiry.
10. With this year's proposed addition, the various teams within the SFC will have the necessary structure in place to cope with the anticipated demands of our work. Therefore we do not expect any material change to staff strength unless there is significant change in the scope of our work or in the regulatory environment. The SFC has always endeavoured to re-deploy internal resources in meeting increased or changing demands, to the extent that we are able to achieve the desired regulatory outcomes.
11. We have set aside \$9 million in our 2014/15 forecast for funding training initiatives for intermediaries, particularly small and medium-sized firms. This includes a proposed funding to the Hong Kong Securities and Investment Institute for its proposed e-learning

platform. This year, we have again earmarked \$15 million to extend these training initiatives.

12. We note the comments about the potential higher level of market activity around the launch of Shanghai-Hong Kong Stock Connect, and the natural question raised about the likelihood of higher market turnover and higher levy income that might accrue to the SFC. We have been monitoring the pilot closely. We have yet to see a clear trend of increasing turnover directly linked to it. We have made realistic income projections based on prudent assumptions.
13. Finally, I would like to assure Honourable Members that the SFC is committed to upholding the integrity and reputation of our securities and futures markets as well as creating an environment in which Hong Kong's market can continue to develop and anchor its role as a major international financial centre. The resource allocation as proposed in our budget will allow us to deliver on this.
14. We would be delighted to answer any questions from the Honourable Members on our budget. Thank you.

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