

**Opening statement
Budget of the Securities and Futures Commission 2016/17
at the
meeting of the Panel on Financial Affairs
Legislative Council**

**Carlson Tong
Chairman
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Honourable Chairman

Honourable Members of the Panel on Financial Affairs

1. It is my pleasure to present the SFC's Budget for the year 2016/17 to you, and let me start by highlighting a number of key components of the Budget.
2. We have projected a total income of \$1,460 million for 2016/17, a 14.7% decrease from the forecast for 2015/16, and a total expenditure of \$1,858 million, an increase of 11.6%, resulting in a deficit of \$398 million.
3. The lower income projection is based on an assumption of lower securities market turnover, assumed to average \$87 billion per day. It is always hard to make predictions about market turnovers, which could be affected by a number of factors, and events in the past year have proved this point. Average daily market turnover for the four months ended July 2015 was \$157 billion, whilst the four months ended November 2015 was \$84 billion. For the month of January, the average daily market turnover was \$82.2 billion.
4. This leaves in our Budget for 2016/17 a deficit of approximately \$398 million, and the reserves will stand at \$6.89 billion at the end of March 2017, approximately 3.7 times of our annual expenditure.

5. We would also like to mention that whilst we budgeted a deficit of \$417 million for 2015/16, the forecast is a small surplus of \$46 million. As I explained earlier, this is caused by the exceptionally high market turnover during the first half of 2015 resulting in excess levy income. The average market turnover returned back to a much lower level since September last year and has remained at that level.
6. We note that one focus of Honourable Members when we presented our Budget to the Panel of Financial Affairs in the previous years was on the level of our reserves, which built up largely from levies collected during a period of high market activity between 2006 and 2008. I'd re-emphasise that the level of reserves does not dictate how we allocate our resources. Rather, the Budget seeks to allocate resources according to the need to meet our regulatory obligations and objectives under the SFO, exercising strict financial control under prudent assumptions.
7. A further two-year licensing fee holiday is proposed in this current Budget, which will directly provide a certain degree of financial relief to licensed intermediaries, in particular smaller firms. This measure will translate into \$180 million foregone annual licensing fee income.
8. In continuation of our effort to promote training for intermediaries, particularly small and medium-sized firms, we have earmarked \$12 million to fund training initiatives, a 20% increase from the 2015/16 forecast.
9. We can also assure Honourable Members of our ongoing effort to enhance operational and process efficiency where practicable, without impacting our regulatory objectives, especially investor protection. This year, we propose a moderate headcount adjustment of less than three percent.
10. In recent years the SFC has worked to enhance Hong Kong as a connector between Mainland markets and the rest of the world. At the same time we have sought to ensure that new and emerging risks are addressed in line with our overriding investor protection mandate. As Hong Kong and other international markets become

more inter-connected, it will be more easily exposed to the spillover of risks arising from global macro-economic trends, which have come into sharp focus this year. These developments make great demands on our resources. In drawing up our Budget we have critically reviewed our need before proposing the headcount requests and other allocations.

11. If I may return to the level of reserves, as you will have noted from our Budget, we have considered seriously the views expressed by some Honourable Members last year. Having conducted a study with external consultants, our Board of Directors have resolved on a plan to ring-fence part of our reserves for a specific purpose.
12. As part of our long-term accommodation strategy, we have decided to set aside around \$3 billion of our reserves for the possible acquisition of office premises. At the Panel's discussion of our Budget in the past two years, Honourable Members have suggested that we consider alternative accommodation arrangements to ensure our long-term financial sustainability. We think that this can best be advanced if we purchase our own offices to address our future accommodation needs. While we appreciate the challenges of identifying the right property in the short run, we undertake to conduct a review in due course to explore suitable opportunities as they become available in the market. Ring-fencing an appropriate portion of our reserves will ensure we are best positioned to move forward with a purchase if our review identifies the right location.
13. The transaction levy rate currently stands at 0.0027%, having been reduced three times since 2006, the last reduction was in November 2014, when it was reduced by 10% to the present level. It accounts for only a fraction of the total transaction cost of a typical stock transaction, but is the main source of income by which the SFC funds its operations. The operating deficit projected for 2016/17 will be funded by the reserves, and we do not propose to adjust the transaction levy. However, we shall continue to keep the levy rate under review annually.

14. Finally, it is our pledge that we will stay committed to upholding the orderliness, integrity and reputation of our securities and futures markets. The paramount objective of our resource allocation proposals is to allow us to efficiently and effectively deliver on our regulatory responsibilities.
15. We are glad to answer questions from the Honourable Members now. Thank you.

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