

NOTE FOR FINANCE COMMITTEE

Securities and Futures Commission Budget for the Financial Year 2021-22

PURPOSE

With regard to the consultation procedures agreed with the Legislative Council (LegCo) when the Securities and Futures Commission (SFC) was established in 1989, the Government has prepared this note to brief Members on the main features of the budget of the SFC for 2021-22¹.

BACKGROUND

2. Section 13(2) of the Securities and Futures Ordinance (Cap. 571) (SFO) requires the SFC to submit estimates of its income and expenditure (the budget) for each financial year to the Chief Executive (CE) for approval. The CE has delegated the authority to the Financial Secretary (FS). In accordance with section 13(3) of the SFO, the FS shall cause the budget to be laid on the table of LegCo. On 1 February 2021, this Bureau and the SFC briefed the Panel on Financial Affairs (FA Panel) on the SFC's proposed budget for 2021-22. A copy of the budget for 2021-22 is at Enclosure.

Encl.

FUNDING OF THE SFC

3. Section 14 of the SFO provides that the Government shall provide funding to the SFC as appropriated by LegCo. In practice, the SFC has not requested appropriation from LegCo since 1993-94. Its funding basically comes from the market in the form of transaction levies, as well as fees and charges on the services rendered to market operators and participants.

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¹ The financial year of the SFC starts on 1 April of a year and ends on 31 March of the following year.

4. Under section 394 of the SFO, the CE-in-Council may specify the rates of levy for sale and purchase of securities recorded on a recognised securities market or futures contracts traded on a recognised futures market. Over the years, levies on securities transactions and futures and options contracts trading have been the main source of income for the SFC. The current rate of levy on securities transactions is 0.0027%, while that on futures and options contracts is \$0.54 or \$0.1 per leviable transaction, depending on the type of contracts.

BUDGET FOR 2021-22

5. The SFC has projected a budget deficit of \$184.1 million for 2021-22. As in past years, the SFC does not request any appropriation from LegCo for the 2021-22 budget. The main features of the 2021-22 budget are set out in paragraphs 6 to 13 below.

Income

6. The estimated income for 2021-22 is \$2,035.6 million, which is \$325.14 million (13.8%) below the forecast income for 2020-21 (\$2,360.74 million). The SFC has adopted the following assumptions in projecting the estimated income –

- (a) the average securities market turnover will be \$123 billion per day and the average futures/options market turnover will be 457 000 contracts per day; and
- (b) the annual licensing fee waiver will continue for one year in 2021-22 with estimated \$237 million income foregone. The SFC has waived the annual licensing fee since April 2020 in view of the economic conditions.

Recurrent Expenditure

7. The estimated recurrent expenditure for 2021-22 is \$2,219.7 million, which is \$11.84 million (0.5%) above the forecast expenditure for 2020-21 (\$2,207.86 million). The increase is mainly attributable to –

- (a) increase in staff cost by \$47.23 million, with a pay freeze for 2021-22, arising mainly from a provision of –

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- (i) \$13.5 million for the upgrade of 32 positions² to reflect the increasing complexity and scope of the respective roles;
- (ii) \$5.11 million for retirement benefits to reflect the increase in underlying retirement benefits contribution rates and the proposed position upgrades;
- (iii) \$28.62 million for others, which are mainly the full year impact of hiring activity made part way through 2020-21;
- (b) increase in expenses on information and systems services by \$14.56 million due to a growth of software subscription costs, higher library research facilities and systems control services to enhance investigatory and supervisory capabilities, and increasing demand for helpdesk support services;
- (c) increase in expenses on regulatory and external activities by \$10.35 million due to the resumption of overseas travelling of officers to engage in regulatory reforms, forums and seminars deferred from 2020-21; and
- (d) increase in other expenses by \$14.56 million, which include professional fees, funding to external parties, learning and development programme as well as internship programme.

8. The increase in expenditure is partially offset by the decrease in expenditure mainly on depreciation by \$65.38 million due to reduced rental expenses resulting from the relocation of SFC office.

Manpower Plan

9. The SFC has not proposed any new headcount in the budget for 2021-22 except for four positions specifically created to retain the Graduate Trainees recruited three years ago upon their successful completion of the SFC's Graduate Trainee Programme.

Capital Expenditure

10. The total capital expenditure proposed for 2021-22 is \$99.1 million, which is \$139.78 million (58.5%) below the forecast expenditure for 2020-21 (\$238.88 million). It comprises the following key items –

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² The number of positions upgraded in 2020-21 was 22.

- (a) **computer systems development** – adoption of front-end technology to streamline the business process; upgrade of market surveillance capabilities; improvement of the access and the exchange of information between stakeholders and the SFC; and enhancement of various IT systems (\$73.58 million);
- (b) **office equipment** – investment in storage technology and data base capacity, as well as software upgrade; replacement of the resources system plus costs relating to the normal replacement of obsolete servers; purchase of computer equipment for the additional headcount; and replacement of obsolete office equipment due to normal wear and tear (\$23.52 million); and
- (c) **office furniture and fixtures** – minor alteration of office configuration and replacement of obsolete furniture due to normal wear and tear (\$2 million).

Reserves

11. The SFC estimates that by 31 March 2021, the reserves (after ring-fencing \$3,125 million for possible acquisition of office premises as a longer-term accommodation strategy³) will be \$3,722.81 million, which is 1.69 times of the forecast expenditure for 2020-21 (\$2,207.86 million).

12. The SFC will transfer the rental saving of \$125 million annually to ring-fenced reserves for a consecutive period of eight years commencing in 2020-21. The ring-fenced reserves will increase to \$3,250 million by 31 March 2022. The SFC estimates that by 31 March 2022, the non-ring-fenced reserves will be reduced to \$3,413.7 million, which is 1.54 times of the projected expenditure for 2021-22 (\$2,219.71 million).

13. According to section 396 of the SFO, the SFC may, after consultation with the FS, recommend to the CE-in-Council that the rate or amount of levy be reduced if the reserves of the SFC are more than twice its estimated operating expenses for that financial year. The SFC effected levy reductions of 20% in December 2006, 25% in October 2010 and 10% in November 2014. The SFC considers that the levy rate should remain the same (0.0027%) in 2021-22, but will continue to review the situation annually in accordance with section 396(1) of

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³ The expense on premises has been a key expenditure item for the SFC. Notwithstanding that it has secured an eight-year lease at a new office premises, it remains the longer-term goal for the SFC to purchase its own office premises. This should allow the SFC to have a more effective control over its expenditure on premises.

the SFO, taking into consideration the prevailing market conditions, its expected resource requirements and its financial projections for the near to medium term. The SFC will include its recommendations to the FS in each future budget for any changes that it considers necessary, taking into account its reserves level and bearing in mind the need to deliver its regulatory objectives effectively.

COMPARISON OF THE ORIGINAL BUDGET WITH THE FORECAST BUDGET FOR 2020-21

Income

14. The forecast income for 2020-21 is \$2,360.74 million, which is \$717.28 million (43.6%) higher than the original budget of \$1,643.46 million. The higher income is mainly due to a higher-than-budgeted market turnover⁴ and a higher income from investment, fees and charges.

Recurrent Expenditure

15. The forecast recurrent expenditure for 2020-21 is \$2,207.86 million, which is \$88.8 million (3.9%) below the original budget of \$2,296.66 million. The underspending is mainly due to the time lag in filling vacancies and the lower-than-budgeted expenses on legal fees, regulatory and external activities, depreciation, information and systems services, and premises. The savings were partially offset by an increase mainly in expenses on general office items and insurance.

Capital Expenditure

16. The forecast capital expenditure for 2020-21 is \$238.88 million, which is \$106.38 million (30.8%) lower than the original budget of \$345.26 million. The lower expenditure is due to the lower spending on office furniture and fixtures and computer systems development. The savings were partially offset by the increase in the expenses on office equipment.

PUBLIC CONSULTATION

17. We and the SFC briefed the FA Panel on the SFC's proposed budget for 2021-22 on 1 February 2021. Members indicated support for the budget.

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⁴ The revised income for 2020-21 is projected based on the prevailing market performance and an assumption that the average daily turnover of securities transactions is \$126 billion and that of futures/options contracts is 457 000 contracts for the year. The original budget was based on an assumption of a turnover of \$87 billion per day and 558 000 contracts per day.

THE GOVERNMENT'S VIEWS

18. We have examined the budget of the SFC for 2021-22. We note that the regulator has not requested appropriation from LegCo as in the past years.

19. It is a public commitment of the SFC, as a publicly-funded organisation, to deploy its resources and control its expenditures in a prudent manner. Meanwhile, the SFC's main source of income is subject to market fluctuation. We welcome the SFC's decision, after reviewing the market conditions, to continue the annual licensing fee waiver for 2021-22, and impose a pay freeze for its staff. We will continue to expect the SFC to go through a comprehensive and robust review process to arrive at position upgrade requirements. On the whole, the SFC should continue to exercise stringent cost control and make its best effort to cope with extra workload and new regulatory initiatives through redeployment of existing resources, re-engineering and automation of its processes.

Financial Services and the Treasury Bureau
May 2021



Securities and Futures Commission

Budget of income and expenditure

for the financial year 2021/22

14 December 2020

Contents

1.	Executive summary	3
2.	Assumptions	5
3.	Manpower plan	7
4.	Financials	
4.1	Income and expenditure statement	8
4.2	Capital expenditure statement	9
4.3	Income	10
4.4	Recurrent expenditure	11
4.5	Funding to external parties	14
4.6	Capital expenditure	14

1. Executive summary

- 1.1 Each year the budget is prepared based on a policy of tightly controlling all expenditures, as befits a publicly funded organization. Prior year expenditure levels are used as a benchmark except in areas where additional resources have been identified to meet our regulatory obligations and objectives or to support new initiatives and regulatory developments. We will also scrutinise and re-deploy resources from areas that are not expected to recur in the next financial year. Strict controls are applied to ensure that costs stay within budget commitments. As in previous years, we have engaged an independent external consultant to conduct an internal audit review of financial controls and policies to ensure that they are robust and practical. No material findings were highlighted.
- 1.2 Set out below is a summary of the Commission's forecast for 2020/21 and proposed budget for 2021/22. For more detailed explanations, reference should be made to sections 3 and 4 of this budget book.

	<u>2021/22</u>	<u>2020/21</u>	<u>Variance</u>	
	<u>Proposed</u>		<u>Proposed Budget vs.</u>	
	<u>Budget</u>	<u>Forecast</u>	<u>Forecast</u>	
	<u>(a)</u>	<u>(b)</u>	<u>(c) = (a-b)</u>	<u>(c/b)</u>
	<u>HK\$'m</u>	<u>HK\$'m</u>	<u>HK\$'m</u>	<u>%</u>
Income	<u>2,035.60</u>	<u>2,360.74</u>	<u>(325.14)</u>	<u>-13.8%</u>
Recurrent expenditure				
Staff cost	<u>1,517.83</u>	<u>1,470.60</u>	<u>47.23</u>	<u>3.2%</u>
Other recurrent expenses	<u>570.52</u>	<u>606.34</u>	<u>(35.82)</u>	<u>-5.9%</u>
Total recurrent expenditure	<u>2,088.35</u>	<u>2,076.94</u>	<u>11.41</u>	<u>0.5%</u>
Legal fees	<u>48.60</u>	<u>51.69</u>	<u>(3.09)</u>	<u>-6.0%</u>
Funding to external parties	<u>82.75</u>	<u>79.23</u>	<u>3.52</u>	<u>4.4%</u>
Total expenditure	<u>2,219.70</u>	<u>2,207.86</u>	<u>11.84</u>	<u>0.5%</u>
Result for the year	<u>(184.10)</u>	<u>152.88</u>	<u>(336.98)</u>	

- 1.3 For 2021/22 we forecast that income will decrease by \$325.14 million (13.8%) over the 2020/21 Forecast, a result of the latest securities market turnover and investment return assumptions. We assume that the securities market turnover for 2020/21 and 2021/22 would be approx. \$126 billion/day and \$123 billion/day respectively. This assumed securities market turnover level is derived from an internal statistical analysis model and for budgeting purposes only. It does not constitute any opinion or prediction of the future securities market. The actual securities market turnover for the first 7 months of 2020/21 averaged \$133 billion/day.
- 1.4 The unpredictable nature of market turnover presents an unavoidable degree of uncertainty in the annual budget compilation. Any fluctuation of \$1 billion in average daily turnover will have an impact of around \$13 million in our income.
- 1.5 Levy rate will remain the same at 0.0027% in both 2020/21 and 2021/22.

- 1.6 The one year annual licence fee waiver that commenced in April 2020 will end by March 2021. After reviewing our fees and charges level and market conditions, we recommend to continue the fee waiver for one year in 2021/22. However, we will review the situation again next year, and depending on the operating environment of the securities industry, we may reinstate the annual licence fee in 2022/23. Estimated annual licence fee income foregone in 2021/22 is around \$237 million.
- 1.7 Total expenditure for 2021/22 will remain at similar level as Forecast 2020/21. It will increase by \$11.8 million (0.5%) over the 2020/21 Forecast.
- 1.8 We have settled into the new office at One Island East, Quarry Bay. As planned, we will transfer \$125 million to the property acquisition reserve each year across the 8-year lease term. Property acquisition reserve will stand at \$3.25 billion by March 2022.
- 1.9 Having critically reviewed our manpower needs of the Commission for 2021/22, we will not request any new headcount in this budget with the exception of 4 positions specifically to accommodate Graduate Trainees upon the successful completion of the SFC's 3-year Graduate Trainee Programme.
- 1.10 A total of 32 position upgrades are principally due to expansion of roles and responsibilities, increase in job complexity and to facilitate career progression for the Commission's high performing staff. Please refer to Section 3 for more detailed information about the Commission's 2021/22 manpower plan.
- 1.11 A deficit of approximately \$184.1 million is expected in 2021/22 leaving our non-ring fenced reserves at \$3.41 billion at the end of that financial year, which is approximately 1.5 times our annual costs, including funding to various external parties.
- 1.12 The levy rate on securities market transactions has been reduced 3 times since 2006 from 0.005% to 0.0027%. These reductions recognised that our reserves were then of a size to justify a lower levy, taking account our overall and projected financial position. We will review our reserves and the levy annually, taking into consideration prevailing market conditions (in particular levels of market turnover), our expected resource requirements and medium term financial projections. We will make recommendations to the Financial Secretary in future budgets if we believe that any changes to the levy or other budgeted items may be necessary to respond to any further decreases in our reserves resulting from recurring deficits, bearing in mind the need to deliver our regulatory objectives effectively.

2. **Assumptions**

2.1 Investor levy rates

2.1.1 The levy rates will remain unchanged for the year 2021/22, i.e.

- (a) Investor Levy Rate - Securities at 0.0027%; and
- (b) Investor Levy Rate - Future/Options contracts at \$0.54/\$0.1 per contract, depending on the type of contract.

2.2 Market turnover

2.2.1 Equity market

- (a) The average securities market turnover is around \$133 billion/day for the first 7 months of 2020/21. Based on the latest internal statistical analysis result, the average daily securities market turnover is assumed to be \$116 billion/day for the remainder of the year (see also para 4.3.2(a)).
- (b) For the purpose of budgeting, \$123 billion/day has been used for the average securities market turnover.

2.2.2 Futures and Options market

Based on the transaction volumes for the first 7 months of 2020/21, the futures/options market turnover is assumed to be an average of 457,000 contracts per day for the rest of 2020/21. For budgeting purposes we have assumed that forecast and budget income from futures/options contracts are the same. On this basis, the futures/options market turnover is assumed to be an average of 457,000 contracts per day in 2021/22.

2.3 Fees and charges

2.3.1 Licensing annual fee waiver will end in March 2021. We propose to waive another one-year annual fee for licensees for 2021/22 as a relief measure for brokerage firms. This will apply to all annual licensing fees payable during the one-year period commencing 1 April 2021.

2.3.2 The underlying rates of fees and charges, which will continue to apply to all new license applications, are assumed to remain unchanged.

2.4 Rate of return

The average return on investment of our reserve funds before investment management fees is assumed to be 1.92% p.a. for the year 2021/22.

2.5 Remuneration adjustment

A pay freeze has been proposed for 2021/22 for staff. A limited pool has been provided to specifically address pay anomalies for selected support staff.

2.6 Inflation

Where an estimate of general price level increases is required we have assumed 1% when we do not have specific data and/or quotes on which to estimate our future costs.

2.7 Capital expenditure

Capital expenditure is budgeted based on the level of expenditure which will be spent within a financial year. However, actual expenditure incurred will differ from this and the approved estimates of capital expenditure for different capital projects will, as previously, be carried forward until the completion of the projects.

3. Manpower plan

3.1 Proposed headcount changes 2020/21 vs 2021/22

Division	Headcount		
	Commission Approved 2020/21	Proposed 2021/22	Net Change
Centralised Services ^{Note 1}	30	30	-
Corporate Finance	97	97	-
Enforcement	217	217	-
Intermediaries	290	290	-
Legal Services	53	53	-
Investment Products	123	123	-
Supervision of Markets	53	53	-
Corporate Affairs	125	125	-
TOTAL ^{Note 2}	988	988	-
Graduate Trainees	-	4	+4

Note 1 : Include CEO's Office, International Affairs, Mainland Affairs, Secretariat and Press Office.

Note 2 : The Commission has proposed 32 post upgrades for 2021/22.

- 3.1.1 4 non-executive posts have been requested specifically to accommodate Graduate Trainees upon the successful completion of the SFC's 3-year Graduate Trainee Programme. No other headcount request is being made.
- 3.1.2 A total of 32 position upgrades have been proposed. The position upgrades are principally to:
- (a) Reflect the increasing complexity and scope of the respective roles; and
 - (b) Provide career progression for high performing staff.

4. Financials

4.1 Income and expenditure statement

		(a) Proposed Budget For Year 2021/22 HK\$'000	(b) Forecast For Year 2020/21 HK\$'000	(c) Approved Budget For Year 2020/21 HK\$'000	Proposed Budget (a) over/(under) Forecast (b) HK\$'000	%	Forecast (b) over/(under) Approved Budget (c) HK\$'000	%
Para. Ref.								
Income								
Investor levy	4.3.2							
Securities		1,637,253	1,677,549	1,158,057	(40,296)	-2.4%	519,492	44.9%
Futures/Options contracts		122,970	122,970	142,458	-	-	(19,488)	-13.7%
Fees & charges	4.3.3	147,799	191,728	187,854	(43,929)	-22.9%	3,874	2.1%
Net investment income	4.3.4	122,179	362,820	149,693	(240,641)	-66.3%	213,127	142.4%
Other income	4.3.5	5,400	5,673	5,400	(273)	-4.8%	273	5.1%
Total		2,035,601	2,360,740	1,643,462	(325,139)	-13.8%	717,278	43.6%
Recurrent expenditure								
Staff cost	4.4.1	1,517,832	1,470,599	1,487,502	47,233	3.2%	(16,903)	-1.1%
Premises	4.4.2	39,650	43,703	52,450	(4,053)	-9.3%	(8,747)	-16.7%
Information & systems services	4.4.3	116,500	101,937	113,188	14,563	14.3%	(11,251)	-9.9%
General office & others	4.4.4	15,044	17,376	12,107	(2,332)	-13.4%	5,269	43.5%
Learning & development	4.4.5	7,489	5,937	10,440	1,552	26.1%	(4,503)	-43.1%
Professional fees & others	4.4.6	99,611	91,736	90,318	7,875	8.6%	1,418	1.6%
Regulatory and external activities	4.4.7	16,002	5,652	21,961	10,350	183.1%	(16,309)	-74.3%
Internship programme	4.4.8	7,120	5,500	7,120	1,620	29.5%	(1,620)	-22.8%
		1,819,248	1,742,440	1,795,086	76,808	4.4%	(52,646)	-2.9%
Legal fees	4.4.9	48,597	51,689	70,000	(3,092)	-6.0%	(18,311)	-26.2%
		1,867,845	1,794,129	1,865,086	73,716	4.1%	(70,957)	-3.8%
Depreciation	4.4.10	269,119	334,495	350,200	(65,376)	-19.5%	(15,705)	-4.5%
Operating expenditure (1)		2,136,964	2,128,624	2,215,286	8,340	0.4%	(86,662)	-3.9%
Funding to external parties								
Funding to the IFRS Foundation		-	-	394	-	N/A	(394)	-100.0%
Funding to IFEC	4.5.1	82,746	79,181	80,984	3,565	4.5%	(1,803)	-2.2%
Funding to Dealer Deposit Fund	4.5.2	-	50	-	(50)	-100.0%	50	N/A
Total (2)		82,746	79,231	81,378	3,515	4.4%	(2,147)	-2.6%
Total expenditure (1) + (2)		2,219,710	2,207,855	2,296,664	11,855	0.5%	(88,809)	-3.9%
Result for the year		(184,109)	152,885	(653,202)	(336,994)	-220.4%	806,087	-123.4%
Reserves brought forward		3,722,805	3,694,920	3,559,549	27,885	0.8%	135,371	3.8%
Reserve for property acquisition		(125,000)	(125,000)	(125,000)	-	N/A	-	N/A
Reserves carried forward		3,413,696	3,722,805	2,781,347	(309,109)	-8.3%	941,458	33.8%

4.2 Capital expenditure statement

<u>Para</u> <u>Ref</u>	(a) Proposed Budget For Year 2021/22 HK\$'000	(b) Forecast For Year 2020/21 HK\$'000	(c) Approved Budget For Year 2020/21 HK\$'000	Proposed Budget (a) over/(under) Forecast (b) HK\$'000 %		Forecast (b) over/(under) Approved Budget (c) HK\$'000 %	
Capital expenditure							
	4.6						
Furniture & fixtures	2,000	142,954	257,833	(140,954)	-98.6%	(114,879)	-44.6%
Office equipment	23,520	55,356	40,185	(31,836)	-57.5%	15,171	37.8%
Vehicles	-	2,390	2,400	(2,390)	N/A	(10)	-0.4%
Computer systems development	73,580	38,180	44,845	35,400	92.7%	(6,665)	-14.9%
Total	99,100	238,880	345,263	(139,780)	-58.5%	(106,383)	-30.8%

4.3 Income

4.3.1 Annual grant from government

S.14 of the Securities and Futures Ordinance provides that: “For each financial year of the Commission, the Government shall pay to the Commission out of the general revenue the moneys appropriated by the Legislative Council for that purpose.” As in previous years, the Commission proposes that the Government does not request any appropriation from the Legislative Council for the financial year 2021/22. The Commission’s decision is made without prejudice to the funding principles established when the Commission was formed, and has no implications for requests for appropriations in future years.

4.3.2 Investor levy

- (a) The following turnover and levy rate assumptions have been used in preparing levy income estimates:

	2020/21		2021/22
	Apr 20-Mar 21 (Budget)	Apr 20-Mar 21 (Forecast)	Apr 21-Mar 22 (Budget)
Securities			
Daily turnover (billion/day)	\$87.0	\$126.0	\$123.0
Levy rate	0.0027%	0.0027%	0.0027%
Futures/Options Contracts			
Daily turnover (contracts)	558,000	457,000	457,000
Levy rate	\$0.54	\$0.54	\$0.54

- (b) The 2020/21 Forecast for Investor Levy – Securities is higher than the Approved Budget by \$519.49 million (44.9%) whereas Investor levy – Futures and Options is lower than the Approved Budget by \$19.49 million (13.7%). These variances reflect variations in actual securities market turnover for the first 7 months of 2020/21 (around \$133 billion/day) when compared to the estimates underlying the Approved Budget.
- (c) We assume that the securities market turnover for 2020/21 would be around \$126 billion/day. Based on actual to date and current levels, we have budgeted \$123 billion/day for 2021/22.
- (d) For budget purposes, we assume that the volume of future contracts remain unchanged in 2021/22.

4.3.3 Fees and charges

- (a) The Forecast aggregate fees and charges income for 2020/21 is \$3.9 million (2.1%) higher than the Approved Budget as fees from Corporate Finance is higher than expected.
- (b) The 2021/22 Budget is \$43.93 million (22.9%) lower than the Forecast. We will grant another one-year annual licensing fees waiver in 2021/22. The annual licensing fees foregone, based on Licensing's estimate, is around \$237 million.

4.3.4 Net investment income

- (a) Budgeted investment income for 2020/21 was \$149.69 million which comprised of \$108.07 million of fixed income and deposit interest and \$41.62 million gains from equity pooled funds. Due to the performance in our pooled equity fund investments, we have recorded higher than expected returns. As a result, we have revised our 2020/21 Forecast net investment income to \$362.82 million.
- (b) 2021/22 investment income is budgeted to be \$122.18 million. For budgeting purpose, we assume that the average return on investment before investment management fees is 1.92%. The actual rate of return may vary, depending primarily on market performance and the investment strategy to be adopted.

4.3.5 Other income

Other income for 2020/21 and 2021/22 represents license fees and service fees received from the Investor and Financial Education Council (IFEC) and Investor Compensation Company (ICC) for providing office space, accountancy, human resources, IT support services, recoveries from enforcement cases and sales of Commission publications. The 2021/22 Budget is retained at 2020/21 Forecast.

4.4 Recurrent expenditure

4.4.1 Staff cost

- (a) The overall staff cost for 2020/21 is forecasted to be lower than the 2020/21 Budget by \$16.9 million (1.1%). This is principally due to the time lag experienced in filling vacancies and a number of positions being filled with lower grades.
- (b) There are no new headcount request in this budget with the exception of 4 positions specifically to accommodate Graduate Trainees upon the successful completion of the SFC's 3-year Graduate Trainee Programme. The projected headcount at 31 March 2022 is 992, please see Section 3 for details.
- (c) The projected staff cost for 2021/22 is \$47.2 million (3.2%) higher than the 2020/21 Forecast. This is in part due to the full year impact of hiring activity that was made part way through 2020/21.

- (d) No pay increase has been provided for Commission staff in the 2021/22 budget. A limited pool has been provided to specifically address pay anomalies for selected support staff.

4.4.2 Premises

- (a) Forecast premises expenses for 2020/21 are lower than the Approved Budget by \$8.75 million (16.7%) mainly due to the reversal of over-provided reinstatement costs following the end of the leases at Cheung Kong Center.
- (b) Spending for 2021/22 is budgeted to be \$4.05 million (9.3%) lower than 2020/21 Forecast. This reflects lower spending on premises related expenses after office move.

4.4.3 Information and systems services

- (a) The information and systems services expenses forecast for 2020/21 is \$11.3 million (9.9%) lower than the Approved Budget due to the lower than expected information services, systems contract services and software licence subscription & maintenance.
- (b) For 2021/22, we project a \$14.6 million (14.3%) increase owing to a higher software subscription costs, library research facilities and systems control services to enhance their investigatory and supervisory capabilities as well as to meet the increasing demand for helpdesk support.

4.4.4 General office and others

- (a) Forecast general office and insurance for 2020/21 is \$5.3 million (43.5%) higher than the Approved Budget due to fixed assets written off arising from office relocation.
- (b) Budgeted expenses for 2021/22 is \$2.32 million (13.4%) lower than the 2020/21 Forecast. While assets to be written off in 2021/22 will be lower than 2020/21, more repairs and maintenance works are expected to be incurred a year after moving in the office.

4.4.5 Learning and development

- (a) The learning and development related expenses for 2020/21 are forecasted to be \$4.5 million (43.1%) lower than the Approved Budget. This is mainly due to the COVID-19 pandemic, which caused unanticipated cancellations and postponements of planned training and development events.
- (b) The learning and development budget for 2021/22 is estimated to be \$1.55 million (26.1%) higher than the 2020/21 Forecast. Training and development events will continued to be organized on a virtual basis. It is also anticipated that some overseas and cross-border development opportunities may resume in the latter part of the next fiscal year.

4.4.6 Professional fees and others

- (a) Forecast professional fees for 2020/21 are \$1.42 million (1.6%) higher than the Approved Budget due to the deferral of several projects from 2019/20 and increased translation services to support growing demand from ENF.
- (b) Budget for 2021/22 is \$7.88 million (8.6%) higher than the Forecast for 2020/21 due to the increased demand for expert services and specialist expertise in emerging areas.
- (c) Key projects in 2021/22 include anti-money laundering, internal model review, market sounding review of intermediaries, CCP resolution, Investor ID and enhancing the handling of licensing enquiries platform.

4.4.7 Regulatory and external activities

- (a) Forecast regulatory and external activities for 2020/21 are lower than the Approved Budget by \$16.31 million (74.3%) due to the suspension of overseas travelling and the deferral or cancellation of seminars throughout the COVID-19 pandemic.
- (b) The 2021/22 budget is \$10.35 million (183.1%) higher than the 2020/21 Forecast due to the expected return of some overseas travelling to engage in regulatory reforms and the deferral of forums and seminars from 2020/21.

4.4.8 Internship programme

This represents the salary cost of hiring university graduates in support of our internship and graduate trainee programme and for the Commission to develop a pipeline of talent for the future. Our proposed expenditure for 2021/22 to recruit these individuals represents an increase of \$1.62 million (29.5%) over the 2020/21 Forecast.

4.4.9 Legal fees

- (a) The forecast for 2020/21 is \$18.31 million (26.2%) lower than the original budget due to fewer hearings as courts have been operating at a reduced capacity during the outbreak of COVID-19.
- (b) The budget for 2021/22 is retained at the Forecast level.

4.4.10 Depreciation

- (a) Starting from April 2019, we have adopted HKFRS 16 to account for the operating lease of existing offices. Respective lease related costs, including rental, are now captured under depreciation of right of use assets and lease interest expenses.
- (b) Forecast depreciation expenses for 2020/21 are estimated to be \$15.7 million (4.5%) lower because of the lower than expected spend on renovation and the deferral in carrying out various IT capital projects during the year.
- (c) We expect that the depreciation expenses for 2021/22 will be \$65.38 million (19.5%) lower than 2020/21 Forecast due to the lease of Cheung Kong Center having ended in August 2020.

4.5 Funding to external parties

- 4.5.1 Funding to IFEC is revised to \$79.18 million in 2020/21 based on the latest forecast prepared by IFEC. In 2021/22, IFEC proposed total expenditure of \$82.75 million. Major expenses are summarised below:

	<u>Budget 2020/21</u>	<u>Forecast 2020/21</u>	<u>Budget 2021/22</u>
	\$'m	\$'m	\$'m
Education programmes	43.73	41.70	43.16
Staff costs	30.50	29.85	32.18
Premises costs	2.43	2.88	2.72
Professional & other services	1.14	1.11	1.21
Publicity & external relations	0.94	0.69	0.95
General office & others	2.24	2.95	2.53
Total	<u>80.98</u>	<u>79.18</u>	<u>82.75</u>

IFEC projects lower expenditure for 2021/22 based on its experience of the costs of its key operations in 2020/21 as well as proposals for projects in 2021/22 to increase the awareness, effectiveness and reach of financial education work.

- 4.5.2 Funding to Dealer Deposit Fund is to cover the audit remuneration for Securities Margin Financiers Security Fund (SMF) which was set up according to the repealed Hong Kong Securities Ordinance and is expected to wind up in 2020/21.

4.6 Capital expenditure

- 4.6.1 The total capital expenditure for 2021/22 has been decreased from \$238.88 million to \$99.1 million mainly due to the completion of the office relocation in 2020/21. Estimated costs for office relocation in 2020/21 was originally all budgeted in office furniture and fixtures. Certain items have been captured under office equipment to reflect the proper nature of assets.

4.6.2 The total capital expenditure budget for 2021/22 is \$99.1 million. Breakdown is as follows:

Capital expenditure	Amount \$'m	Note
Office furniture & fixtures	2.00	(a)
Office equipment	23.52	(b)
Computer systems development	<u>73.58</u>	(c)
Total	<u>99.10</u>	

Notes :-

- (a) \$2 million is provided for minor alteration of office configuration and replacement of obsolete furniture due to normal wear and tear.
- (b) Office equipment:
 - (i) \$1 million for replacement of obsolete office equipment due to normal wear and tear; and
 - (ii) \$22.52 million for investment in storage technology and data base capacity, software upgrades, replacement of the resources system plus costs relating to the normal replacement of obsolete servers and computer equipment needed for additional headcount.
- (c) \$73.58 million is provided for front-end technology to streamline the business process, upgrade our market surveillance capabilities, improve access and exchange of information between stakeholders and the Commission and enhance various IT systems.