

SECURITIES & FUTURES COMMISSION

PROPOSED ESTIMATES

FOR THE FINANCIAL YEAR 2000/2001

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Executive Summary

Extract of Proposed Estimates for the Year 2000/2001

	Proposed Estimates <u>2000/2001</u> HK\$'M	Latest Estimates <u>1999/2000</u> HK\$'M	Approved Estimates <u>1999/2000</u> HK\$'M	Actual Result <u>1998/1999</u> HK\$'M
Revenue	433.49	439.51	309.77	300.64
Operating Expenditure	452.02	381.36	421.32	360.40
Depreciation	22.50	17.16	19.44	12.33
(Deficits) / Surplus	(41.03)	40.99	(130.99)	(72.09)
Reserves at beginning of the year	783.80	742.81	843.27	964.90
Contribution to UECF	-	-	-	(150.00)
Reserves at end of the year	742.77	783.80	712.28	742.81
Capital Expenditure	36.73	20.32	20.32	17.81
Headcount	359 *	318 *	325 *	297

* Including 6 Special Advisers on temporary contract for the market and legislative reform.

Budgetary Strategy

The overall budgetary strategy for 2000/2001 is to continue to impose tight control on expenditure and re-deploy the savings to cope with the additional functions and responsibilities as a result of the latest financial market reform and development.

In 2000/2001, the Commission will, through its stringent cost control and application of technology to all aspects of its operation, achieve a reduction of 8 staff from the establishments of existing operation. To cater for the additional workload resulting from the transfer of functions stemming from the demutualisation and merger of the Exchanges and Clearing Houses and the introduction of new initiatives such as Growth Enterprise Market and listing of the new Hong Kong Exchanges and Clearing Ltd. (HKEC), the Commission will take cautious steps to gradually increase its manpower capacity by 42 staff albeit its initial assessment of requirement of 50.

Following a fees and charges review undertaken lately, consideration has been given to the introduction of some new fees for overseeing the HKEC operation upon its listing. However, it is premature to include such in the budget for 2000/2001. In respect of the existing fees and charges, the Commission has preliminarily assessed that an average increase of about 53% of the current fee level (i.e. 35% of projected cost) will be needed to bring them (excluding Corporate Finance fees and charges that are ad valorem) to the full cost recovery level since they have not been adjusted since 1993/94. However, in the light of the local economic climate and the prevailing negative attitude of LegCo towards requests for increase in public fees and charges, it is neither timely nor appropriate to assume any increase in fees and charges level in this year's budget. Nevertheless, following the general appeal by the Administration to re-examine the adequacy of public fees and charges, the Commission has planned to review its fees and charges level later this year with a view to proposing adjustments in line with then prevailing economic conditions.

In order to compensate the Commission for part of the additional costs resulting from the increase in capacity to deal with the transfer of functions stemming from demutualisation and merger of the Exchanges and Clearing Houses, we have prudently assumed an increase of 0.001% in the securities levy rate, bringing our share of levy rate from 0.004% to 0.005%.

Given the assumed rates of levy and fees and charges, and the projected expenditure to cope with additional functions and responsibilities, the commission's deficit for the year is projected to be \$41.03 million. The projected reserves of the Commission by the end of 2000/2001 will be reduced from its current level of about 24 months of the Commission's current expenditure level to about 19 months of its proposed annual operating expenditure. The projected reserves will be further reduced to about 15 months of the proposed operating expenditure if the second contribution of \$150 million to the Unified Exchange Compensation Fund is taken into account.

Revenue

The estimated revenue for 2000/2001 is \$433.49 million, 1.37% (\$6.02 million) below the latest estimates for 1999/2000. This is mainly attributable to the projection that (i) the cash balance available for investment which will be diminished by the deficits projected for 2000/2001 and the payment of \$100 million contribution to the Unified Exchange Compensation Fund will result in a projected \$6 million drop in investment income; and (ii) fees and charges will drop by \$41.4 million mainly because a couple of large fees received by Corporate Finance in relation to takeovers and mergers in 1999/2000 are not expected to repeat in 2000/2001. Such projected drop in revenue is partially offset by the projected \$40.9 million increase in levy income from securities essentially due to the assumption of increasing the Commission's share of levy rate from 0.004% to 0.005% while the assumed turnover of \$11 billion a day is slightly lower than the latest estimated turnover of \$11.39 billion a day for the year.

For the eighth year in a row, the Commission has decided to invite the Government not to request any appropriation from the Legislative Council. This decision is without prejudice to the funding principles established when the Commission was formed and has no implication for requests for appropriation in future years. It is estimated that the revenue foregone by the Commission in not receiving any Government grant in 2000/2001 is c.\$96 million, and that the total annual grant foregone for the past seven years since 1993/94 amounted to \$592 million.

Operating Expenditure

The total estimated operating expenditure before depreciation for 2000/2001 is \$452.02 million, about \$70.66 million (18.53%) over the latest estimates for 1999/2000. The net upward revision over the latest estimate is mainly the combined effect of :

- (a) the decrease in premises expenses (\$10.38 million) as a result of the full year effect of the lower revised rental achieved after the rent review with effect from January 2000 despite the leasing of an additional floor (around 12,000 sq. ft.) from January 2000 onwards to accommodate the expansion of operations stemming from the merger of the Exchanges and the Clearing Houses and the introduction of new initiatives;

- (b) the increase in personnel costs (\$56.79 million), which provides no annual salary adjustment, mainly resulting from (i) a shift to a more professionally heavy staff mix (1 general grade staff to 1.65 professional staff in the approved estimates vs 1 general grade staff to 1.9 professional staff in the proposed estimates); (ii) a reduction of 8 headcounts from the establishments for the existing operation as a result of application of technology to streamline workflow and improve efficiency; (iii) an increase of 42 headcounts to cater for the transfer of certain front line regulatory responsibilities from SEHK and HKFE and the introduction of new initiatives such as Growth Enterprise Market and listing of the new Hong Kong Exchanges and Clearing Ltd; and (iv) the lower than expected personnel costs in 1999/2000 resulting from recruitment process that lagged behind schedule;
- (c) the increase in information and system services expenses (\$3.73 million) essentially arising from additional maintenance costs for software such as SMARTS (Securities Market Automated Research, Training and Surveillance) System and Oracle and the high maintenance charges for establishing an offsite data backup office;
- (d) the increase in training and development expenses (\$6.34 million) largely as a result of higher projected expenses in internship programme, training and overseas travelling stemming from the increase in headcount and business activities and reflecting the slower than schedule spending on various training programmes which are expected to pick up in 2000/2001;
- (e) the increase in professional & others expenses (\$11.36 million), partially due to higher legal fees projected for appeal cases arising from the disciplinary cases taken over from the two Exchanges to the Commission during the year, and partially to the anticipated increase in recruitment expenses arising from the increase in headcount; and
- (f) the final phase of funding the Hong Kong Securities Institute will be consummated in 1999/2000 and no provision for funding is made in 2000/2001.

Capital Expenditure

The total proposed capital expenditure budget for 2000/2001 is \$36.73 million. The proposed budget includes (a) a provision of \$25.25 million for major systems development projects recommended in the Information Technology Review Report; (b) a provision of \$2.75 million for furniture and fixtures for replacement of wear and tear, and fitting out costs for additional office space; and (c) a provision of \$5.39 million for office equipment including personal computers and softwares for the PCs renewal programme and additional headcounts (\$2.55 million) and for mainframe computer and computer softwares expenditure (\$2.84 million) which was provided in the approved 1999/2000 estimates but deferred to 2000/2001.

Operating Result

The projections result in a deficit of \$41.03 million, which will reduce the reserves from \$783.8 million (March 31 2000) to \$742.77 million (March 31 2001). On this basis, the reserves at March 31 2001 will be equivalent to about 19 months of the proposed operating expenditure (including depreciation) for 2000/2001. If the second contribution of \$150 million to the Unified Exchange Compensation Fund is also taken into account, the reserves will be further reduced to \$592.77 million, equivalent to about 15 months of the proposed annual operating expenditure.

Should the Commission request an annual grant from the Government, which is provisionally assessed to be about \$96 million for 2000/2001, the projected deficit will be eliminated.

However, as always, the projected financial position of the Commission is largely dependent on the level of turnover on the SEHK. It is worth noting that at the assumed levy rate of 0.005%, any change of \$500 million in the average daily turnover will result in a fluctuation of about \$12.25 million in the total levy received by the Commission for the year 2000/2001, i.e. \$11.5 billion or \$10.5 billion turnover would result in a variation from the budget of \pm \$12.25 million and reduce the projected deficit to \$28.78 million or increase it to \$53.28 million.

BASES OF PROPOSED ESTIMATES

The proposed estimates for the year 2000/2001 are prepared on the following bases :-

A. STRATEGY

The overall budgetary strategy for 2000/2001 is to continue to impose tight control on expenditure and devote adequate resources in completing and implementing the three major financial market reform projects of which the Commission has responsibility : first, the demutualisation and merger of the Stock Exchange of Hong Kong (SEHK), the Hong Kong Futures Exchange (HKFE) and the Clearing Houses; second, the Steering Committee on the Enhancement of Financial Infrastructure (SCEFI); and third, the consolidation of all securities-related legislation in the form of the Securities and Futures Composite Bill. Notwithstanding the drain on resources for launching these major reform projects, the Commission will manage to control its operating costs within the approved budget in 1999/2000.

As a result of the first project, the Commission has to take on certain regulatory responsibilities from the SEHK and HKFE. Furthermore, there will be further functions stemming from the introduction of new initiatives, such as Growth Enterprise Market and listing of the new Hong Kong Exchanges and Clearing Ltd. (HKEC). In order to cope with the additional functions and responsibilities, the Commission has initially assessed that 50 new staff will be needed in the course of the next 12 months.

In 2000/2001, the Commission will, through its stringent cost control and application of technology to all aspects of its operation, achieve a reduction of 8 staff from the establishments of existing operation. To cater for the additional workload resulting from the transfer of functions and the introduction of new initiatives, the Commission will take cautious steps to gradually increase its manpower capacity by 42 staff albeit its initial assessment of requirement of 50.

On the expenditure side, the Commission will make its best effort in restraining its spending in 2000/2001. On the revenue side, the Commission has undertaken a fees and charges review. The introduction of some new fees for overseeing the HKEC operation will be considered upon its listing. However, it is premature to include such in the budget for 2000/2001. In respect of the existing fees and charges, the Commission has preliminarily assessed that an average increase of about 53% of the current fee level (i.e. 35% of projected cost) will be needed to bring them (excluding Corporate Finance fees and charges that are ad valorem) to the full cost recovery level since they have not been adjusted since 1993/94. However, in the light of the local economic climate and the prevailing negative attitude of LegCo towards requests for increase in public fees and charges, it is neither timely nor appropriate to assume any increase in fees and charges level in this year's budget. Nevertheless, following the general appeal by the Administration to re-examine the adequacy of public fees and charges, the Commission has planned to review its fees and charges level later this year with a view to proposing adjustments in line with then prevailing economic conditions. In order to compensate the Commission for part of the additional costs resulting from the increase in capacity to deal with the transfer of functions stemming from demutualisation and merger of the Exchanges and Clearing Houses, we have prudently assumed an increase of 0.001% in the securities levy rate, bringing our share of levy rate from 0.004% to 0.005%.

BASES OF PROPOSED ESTIMATES

A. STRATEGY (Cont'd)

Given the assumed rates of levy and fees and charges and the projected expenditure to cope with additional functions and responsibilities, the Commission's deficit for the year is projected to be \$41.03 million. The projected reserves by the end of 2000/2001 will be reduced from its current level of about 24 months of the Commission's current expenditure level to about 19 months of the proposed annual operating expenditure. The projected reserves will be further reduced to equivalent to about 15 months of the proposed operating expenditure if the second contribution of \$150 million to the Unified Exchange Compensation Fund is taken into account.

B. ASSUMPTIONS

a. Manpower Plan

The total projected headcount for 2000/2001 is 353 (plus 6 Special Advisers), an increase of 34 from the 1999/2000 approved staff complement of 319 (plus 6 Special Advisers). Changes from 1999/2000 are highlighted in the following table which summarizes the headcount by divisions and functions:-

Division	Function	Headcount per 1999/2000 Approved Estimates	Forecast Headcount for 2000/2001	Changes
Chairman's Office	Division Management & Commission Secretariat	7	7	-
	Research	4	4	-
	Information Technology	12	14	+2
Corporate Finance	Corporate Finance	37	36	-1
Intermediaries & Investment Products	Division Management	3	4	+1
	Licensing	37	37	-
	Intermediaries Supervision	34	64	+30
	Investment Products	23	23	-
Enforcement	Enforcement	73	77	+4
Supervision of Markets	Supervision of Markets	19	19	-
Legal Services	Legal Services	17	16	-1
Corporate Resources	Corporate Communications	14	14	-
	Investor Education & Communications	8	10	+2
	Finance & Administration	21	17	-4
	Human Resources & Training & Development	10	11	+1
TOTAL		319	353	+34
Special Advisers		6	6	-

BASES OF PROPOSED ESTIMATES

B. ASSUMPTIONS (Cont'd)

Information Technology

Two professional staff posts were created in May 1999.

Corporate Finance

It is proposed to reduce three general grade staff posts and increase two professional staff posts to cope with additional work for supervision of HKEC and policy projects.

Intermediaries & Investment Products

One general grade staff post will be added to provide secretarial support to the division.

In the Licensing function, it is proposed to increase one professional staff post but reduce one general grade staff post.

As a result of the transfer of front line regulatory responsibility from SEHK and HKFE after the merger of the Exchanges and the Clearing Houses, it is proposed to increase a total of 30 additional posts in Intermediaries Supervision function to cope with the increasing regulatory responsibilities. 10 professional staff posts will be created in late 1999/2000 and 20 professional staff posts will be phased in during 2000/2001.

Enforcement

The net increase of four staff posts (increase of nine professional staff posts and reduction of five general grade staff posts) is for the following purposes :

- (i) to cope with the additional responsibilities including discipline function, international work, Section 29A inspections and systems development;
- (ii) to carry out surveillance functions;
- (iii) to take up additional investigative and disciplinary functions arising from the transfer of front line regulatory responsibility from SEHK and HKFE; and
- (iv) to cope with the workload arising from the Growth Enterprise Market.

Supervision of Markets

- (i) One professional staff post and one general grade staff post relating to the Library function were transferred to Investor Education and Communications Department during 1999/2000.
- (ii) A net increase of two staff posts (increase of three professional staff posts and reduction of one general grade staff post) is proposed for performing functions including derivatives, technology and broker regulation.

BASES OF PROPOSED ESTIMATES

B. ASSUMPTIONS (Cont'd)

Legal Services

It is proposed to increase two professional staff post and reduce three general grade staff posts to improve productivity.

Corporate Resources

The Library function (two posts) was transferred from Supervision of Markets Division to Investor Education and Communications during 1999/2000.

It is proposed to reduce two general grade staff posts in the Administration function and reduce one professional staff post and one general grade staff post in the Finance function.

For Human Resources function, it is proposed to increase one professional staff post in the Human Resources function to cope with the administrative work stemming from the addition in headcount and the introduction of provident fund for executive staff and MPF scheme.

b. Price Increase

No inflation adjustment for 2000/2001 is assumed for the estimation of general expense items.

c. Remuneration Adjustment

No annual salary adjustment is provided for in the proposed 2000/2001 budget.

d. Interest Rate

The average return on dated securities and deposits is assumed to be 7% p.a. on average for the year 2000/2001.

e. Capital Expenditure

It is assumed that the approved estimates of capital expenditure on a project basis will, as previously, be carried forward until the completion of the projects.

HIGHLIGHTS OF PROPOSED ESTIMATES

Following is a summary of major estimate items :-

	(A)	(B)	(C)	(A)-(B) (B)	(B)-(C) (C)
	Proposed Estimates for Year <u>2000/2001</u> HK\$'000	Latest Estimates for Year <u>1999/2000</u> HK\$'000	Approved Estimates for Year <u>1999/2000</u> HK\$'000	Proposed Over/(Under) Latest <u>Estimates</u> %	Latest Estimates Over/(Under) Approved <u>Estimates</u> %
<u>REVENUE</u>					
Investor Levy					
Securities	269,500	228,553	120,000	17.92	90.46
Futures/Options Contracts	12,250	11,343	21,000	8.00	(45.99)
Fees & Charges	93,736	135,122	115,552	(30.63)	16.94
Investment Income	56,000	61,993	51,215	(9.67)	21.04
Other Income	<u>2,000</u>	<u>2,500</u>	<u>2,000</u>	(20.00)	25.00
Total	<u>433,486</u>	<u>439,511</u>	<u>309,767</u>	(1.37)	41.88
<u>OPERATING EXPENDITURE</u>					
Premises	35,093	45,470	47,408	(22.82)	(4.09)
Personnel Expenses	330,510	273,719	298,131	20.75	(8.19)
Info. & Sys. Services	9,817	6,092	7,547	61.15	(19.28)
General Office & Insurance	7,970	8,415	5,751	(5.29)	46.32
Training & Development	11,944	5,600	11,191	113.29	(49.96)
Professional & Others	47,487	36,124	40,471	31.46	(10.74)
Corporate Communications	4,720	3,941	4,646	19.77	(15.17)
Funding for the HKSI	<u>--</u>	<u>2,000</u>	<u>2,000</u>	(100.00)	--
Sub-total	447,541	381,361	417,145	17.35	(8.58)
Contingency	<u>4,475</u>	<u>--</u>	<u>4,171</u>	N/A	(100.00)
Total	<u>452,016</u>	<u>381,361</u>	<u>421,316</u>	18.53	(9.48)
DEPRECIATION	22,500	17,160	19,443	31.12	(11.74)
(DEFICITS) / SURPLUS	(41,030)	40,990	(130,992)	(200.1)	131.29
<u>CAPITAL EXPENDITURE</u>					
Furniture & Fixtures	2,750	7,973	2,200	(65.51)	262.41
Office Equipment	5,390	1,100	3,790	390	(70.98)
Computer Sys. Development	<u>25,250</u>	<u>11,008</u>	<u>12,487</u>	129.38	(11.84)
Sub-total	33,390	20,081	18,477	66.28	8.68
Contingency	<u>3,339</u>	<u>244</u>	<u>1,848</u>	1,268.44	(86.80)
Total	<u>36,729</u>	<u>20,325</u>	<u>20,325</u>	80.71	--

1. REVENUE

a. Annual Grant from Government

S.53 of the Securities and Futures Commission Ordinance provides that each financial year there shall be paid to the Commission out of general revenue such moneys as shall be appropriated for that purpose by the Legislative Council. The Commission will invite the Government not to request an appropriation from the Legislative Council in respect of the financial year 2000/2001. The Commission's decision is made without prejudice to the funding principles established when the SFC was formed and has no implications for requests for appropriations in future years.

It is estimated that had a request for an appropriation been made it would have been provisionally assessed at about \$96 million. The assessment is based on the principle that the annual grant should be equivalent to the net cost to Government for funding the former Office of the Commissioner of Securities, adjusted annually from 1988/89 prices by reference to adjustments in levels of Government civil service salaries, rent and the general rate of inflation in Hong Kong. For the past seven years since 1993/94, the Commission had foregone annual grant amounting to \$592 million.

b. Investor Levy - Securities

The latest estimate of Investor Levy - Securities is higher than the approved estimate for 1999/2000 by about 90.46% (\$108.55 million). This is because the average daily turnover in the SEHK reached about \$11.39 billion for 1999/2000, about 90% higher than the average daily turnover of \$6 billion originally assumed in the approved estimates.

The average daily turnover for projecting Investor Levy - Securities for 2000/2001 is assumed to be \$11 billion. The transaction levy rate for the year is assumed to increase from the current rate of 0.004% to 0.005%. Levy income from SEHK is projected to be \$269.5 million, about 18% higher than the 1999/2000 latest estimate.

c. Investor Levy - Futures / Options Contracts

The latest estimate of Investor Levy - Futures / Options Contracts is lower than the approved estimate by about 46% (\$9.7 million). The reduction reflects the lower than expected average daily turnover on the Futures Exchange for the year which stood at 22,500 contracts per day.

The average daily turnover for 2000/2001 is assumed at the level of 25,000 contracts. The contract levy rate is assumed to remain at \$1 per contract. These assumptions result in a projected revenue of about 8% (\$0.9 million) higher than the 1999/2000 latest estimate.

d. Fees and Charges

The latest estimate of overall fees and charges for the year 1999/2000 are 16.94% (\$19.57 million) higher than the approved estimate for 1999/2000. This is mainly due to a couple of large fees in relation to takeovers and mergers received during the year which was partially offset by fee decreases resulting from the lower than projected number of registrants in the area of Licensing and the lower than expected activities in Investment Products in general.

The overall income from fees and charges for 2000/2001 is expected to decrease by 30.63% (\$41.39 million). Zero growth rate is assumed for the population of registrants and number of applications in Licensing – SO&CTO and LFETO. Fees from Corporate Finance are unpredictable and could change dramatically with market sentiments. The couple of large fees received in 1999/2000 are not expected to repeat. Fees from Investment Products are also expected to drop by 20% as compared with the latest 1999/2000 estimate. This is because the majority of application of master trust schemes and industrial schemes introduced in 1999/2000 would have been authorized in 1999/2000 and very few applications are expected to be received in 2000/2001. Given the local economic climate and the prevailing negative attitude of LegCo towards requests for increase in public fees and charges, no fee increase is proposed for 2000/2001. Nevertheless, in response to the general appeal of the Administration to re-examine the adequacy of public fees and charges, the Commission has planned to review its fees and charges level later this year with a view to proposing adjustments in line with the then prevailing economic conditions. It is preliminarily estimated that the Commission would have to increase its fee level by 53% on average (i.e. 35% of projected cost) had it been permitted to achieve full cost recovery in respective areas.

e. Investment Income

Investment income includes the return on the investment portfolio operated under the advice of an external advisor after taking into account the amortization of premium or discount on purchase of dated securities. It also includes the interest earned on deposits placed out of in-house funds.

The latest estimate for 1999/2000 is higher than the approved estimate by about 21.04% (\$10.78 million). The increase is mainly due to the greater than anticipated funds available for investment resulting from the higher than originally budgeted level of reserves brought forward from 1998/1999 and levy revenue received.

For 2000/2001, the average return on dated securities and deposit rate is assumed to be 7% p.a.. The 9.67% decrease from the latest 1999/2000 estimate results from the expected reduction in investment funds caused by deficits projected for 2000/2001, and the payment of \$100 million, being the balance of the first contribution committed to the Unified Exchange Compensation Fund during the year.

f. Other Income

Other income for 2000/2001 is estimated at the level of \$2 million. They comprise mainly costs awarded to the Commission by the Court and sale proceeds of publications. However, this has not taken into consideration the most recent judgement in favour of the Commission in the case against Chim Pui Chung.

2. OPERATING EXPENDITURE

a. Premises

The latest estimate of premises expenses in total is expected to be about \$45.47 million, lower than the approved estimate of \$47.41 million. This is the combined effect of (i) the lower rental of the existing office achieved after the rent review; and (ii) the leasing of an additional floor with effect from January 2000 to accommodate the expansion of operation to carry out additional regulatory functions as a result of the merger of the Exchanges and the Clearing Houses and the introduction of new initiatives.

Premises expenses for 2000/2001 will be further decreased by about 23% (\$10.38 million) from the latest 1999/2000 estimate as a result of the full year effect of the lower rental.

b. Personnel Expenses

The latest estimate not only reflects the under-spending resulting from the recruitment process that lagged behind schedule, but also the measures taken (i) to shift the staff mix to more professionally heavy; (ii) to trim the establishments for existing operation; and (iii) to lay recruitment ground work for building up the capacity to cater for the transfer of front line regulatory responsibility from SEHK and HKFE and the introduction of new initiatives such as Growth Enterprise Market and listing of the new Hong Kong Exchanges and Clearing Ltd.

The proposed estimate is expected to be about 21% above the latest estimate, notwithstanding a 13% increase in headcount. The increase reflects the continuation of the measures mentioned above with an aim (i) to shift the staff mix from 1 general grade staff to 1.65 professional staff in 1999/2000 to 1 general grade staff to 1.9 professional staff in 2000/2001; (ii) to reduce 8 staff from the establishments for existing operation; (iii) to increase gradually 42 staff to cater for the new functions; and (iv) to catch up the recruitment programme that has lagged behind schedule. In the proposed estimate, no annual salary adjustment is assumed.

c. Information and Systems Services

The latest 1999/2000 estimate is lower than the approved estimate by 19.28% (\$1.46 million). The decrease mainly reflects the lower than expected expenses related to investigation, newspapers and periodicals, library services and EDP software maintenance despite higher expenditure in EDP supplies and enhancing telephone line capacity.

The proposed 2000/2001 estimate is higher than the latest 1999/2000 estimate by 61.15% (\$3.73 million). After allowing for the impact of the increase in EDP operating supplies and communication expenses stemming from projected higher activities, the increase is mainly attributable to the provision for the maintenance of the SMARTS (Securities Market Automated Research, Training & Surveillance) System and Oracle of which warranty services is due to expire and the full year effect of maintenance charges for establishing an offsite data backup office.

d. General Office and Insurance

The latest 1999/2000 estimate is higher than the approved estimate by about 46.32% (\$2.66 million) mainly because (i) higher repairs and maintenance expenses are provided for the reconfiguration of existing offices to accommodate personnel changes stemming from the merger of functions and new initiatives; and (ii) unplanned expenses directly relating to the execution of the Commission's Y2K contingency plan, including the establishment of an offsite control room and other preparation work in case of emergency during the turn of the century.

The proposed 2000/2001 estimate is lower than the latest 1999/2000 estimate by about 5.29% (\$0.45 million) mainly due to lower repairs and maintenance expenses to be required for office reconfiguration despite increases projected in other expenses to accommodate increase in business activities in 2000/2001.

e. Training and Development

The latest 1999/2000 estimate is lower than the approved estimate by about 49.96% (\$5.59 million). This reflects the lower than budget expenditure in the various expenses categories such as external training - overseas, local training, overseas travelling, and entertainment. The slower than schedule progress of training programme is largely due to the change of training personnel during the year. It is planned to catch up the programme in 2000/2001.

The proposed 2000/2001 estimate is about 113.29% (\$6.34 million) higher than the latest 1999/2000 estimate. Major increases are due to that (i) more training programmes will be organized for executives; (ii) a full year charge for fourteen interns, eight of which will be recruited during second half year of 1999/2000; and (iii) increase in business trips envisaged with respect to liaison with overseas regulatory bodies and investigations.

f. Professional & Others

The latest estimate 1999/2000 is lower than the approved estimate by 10.74% (\$4.35 million). The decrease largely results from the lower than budget expenditure in legal fees and recruitment expenses despite a slightly higher than expected external professional services arising from consultancy work relating to SCEFI, Y2K, merger and demutualisation project and margin financing.

The proposed 2000/2001 estimate is higher than the latest 1999/2000 estimate by 31.46% (\$11.36 million). The increase is mainly due to the projected increase in legal fees, recruitment expense and external professional services. Higher legal fees are projected mainly for handling appeal cases in respect of the disciplinary cases possibly taken over upon the transfer of functions from the two Exchanges to the Commission. Higher recruitment expenses are expected to arise from recruiting additional staff. More regulatory activities are expected to give rise to more needs for external professional services on top of the continuation of the commitment for projects stemming from the market reform measures.

g. Corporate Communications

The latest 1999/2000 estimate is lower than the approved estimate by 15.17% (\$0.71 million) due to the lower spending in Commission publications and community education expenses.

The proposed 2000/2001 estimate will be increased by 19.77% (\$0.78 million) as compared to the latest 1999/2000 estimate, largely as a result of the increase in expenses for Commission publications and community education, partially offset by the projected decrease in expenses for public relations programme.

h. Funding for the Hong Kong Securities Institute (HKSI)

\$2 million, being the balance of the \$15 million subsidy committed to fund the HKSI, will be paid in 1999/2000 and no further provision is made for 2000/2001.

3. CONTINGENCY

The contingency for the year 2000/2001 is calculated at 1% of the total operating expenditure to cover unforeseen expenses arising from abrupt changes of environment or unforeseen special requirements.

4. CAPITAL EXPENDITURE

a. Latest Estimate

The total latest estimate of capital expenditure is expected to stay in line with the total of approved capital expenditure estimate but with adjustments in various sub-heads : (i) Furniture and Fixtures are revised upward by 262.41% (\$5.77 million) to cater for the fitting out cost of the computer centre and new office space to be leased with effect from January 2000; (ii) Office Equipment is decreased by 70.98% (\$2.69 million) as the purchase of additional storage or peripherals for the mainframe computer and the acquisition of office software, network management software and Chinese operating systems are deferred to 2000/2001; (iii) Computer Systems Development is adjusted downward by 11.84% (\$1.48 million) to reflect the reallocation of budget to finance the fitting out of the computer centre which is included in (i) above; and (iv) Contingency is also reduced by 86.8% (\$1.6 million) to reflect the reallocation of resources to fund the renovation of the new office space.

b. Proposed Estimate

The total proposed capital expenditure budget for 2000/2001 is \$36.73 million. The budget includes :

- i. \$2.75 million for furniture and fixtures for the additional office space and replacement of existing loose furniture due to normal wear and tear;
- ii. \$5.39 million for office equipment including personal computers for the PCs renewal programme and additional headcounts and the provision of the purchase of additional storage for mainframe computer and acquisition of office software, network management software and Chinese operating systems which were deferred from 1999/2000;
- iii. \$25.25 million for contract systems developers, hardware and software costs relating to the development of computer systems projects as recommended in the Information Technology Review Report, with an aim to accelerate the implementation of the recommendations of the report in two years; and
- iv. a contingency equals to 10% of the projected total capital expenditure.

**SECURITIES & FUTURES COMMISSION
PROJECTED INCOME & EXPENDITURE STATEMENT
FOR THE YEAR 2000/2001**

	Proposed Estimates 2000/2001	Latest Estimates 1999/2000
	HK\$	HK\$
INCOME		
Investor Levy - Securities	269,500,000	228,553,000
Investor Levy - Futures/Options Contracts	12,250,000	11,343,000
Fees & Charges	93,736,000	135,122,000
Investment Income	56,000,000	61,993,000
Other Income	2,000,000	2,500,000
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Total Income	433,486,000	439,511,000
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EXPENDITURE		
Operating Expenditure	452,015,880	381,361,000
Depreciation	22,500,000	17,160,000
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Total Expenditure	474,515,880	398,521,000
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RESULT FOR THE YEAR	(41,029,880)	40,990,000
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