LC Paper No. CB(1)578/17-18(01)

Opening statement
Budget of the Securities and Futures Commission 2018/19
at the
meeting of the Panel on Financial Affairs
Legislative Council

Carlson Tong
Chairman
Securities and Futures Commission

5 February 2018

Honourable Chairman
Honourable Members of the Panel on Financial Affairs

It is my pleasure to present the SFC's Budget for FY2018/19 to you. Before I go into the Budget for FY2018/19, perhaps members may have noted from the Budget Book that for FY2017/18, we have forecast a total income of $1,836 million against a total expenditure of $1,880 million, leaving a deficit of about $44 million. This was based on an estimated average daily securities market turnover of $93 billion for FY2017/18. The forecast was done at the end of November 2017 when the actual average daily turnover for the eight months was $93 billion although in an increasing trend. The SFC's main source of income comes from transaction levies, the level of which is tied with market turnover. As members will have seen, the market turnover has been extraordinarily high in January 2018, averaging at around $160 billion daily, which was well above the daily average in November and December 2017. If this trend continues, and with the benefit of hindsight, I do not think there would still be a $44 million deficit; in fact the SFC will most likely end up with a small surplus.

Let me continue by highlighting a number of key components of the Budget. For the year starting 1 April 2018, we have projected a total income of $1,871 million, a 1.9% increase from the forecast for FY2017/18;

and a total expenditure of $1,999 million, an increase of 6.3%, resulting in a budgeted deficit of $128 million.

To arrive at the projected income of $1,871 million, the average securities market turnover is assumed at $109 billion per day for FY2018/19. I must point out that market turnover is a factor of market forces, which obviously are beyond our control. What is important is that the SFC has over the years consistently adopted the same regression and time series analysis model developed in-house to project the market turnover for our budget purposes.

The transaction levy will remain the same at 0.0027% in FY2018/19. At this rate, we need an average daily market turnover of approximately $120 billion to break even.

The two-year annual licence fee waiver that commenced in April 2016 will end by March 2018. We recommend to continue the fee waiver for one year until end of March 2019. Estimated annual licence fee income forgone for the year is around $200 million. Next year, we will have another review of the situation – our fees and charges level, market conditions and the operating environment of the securities industry. If the situation warrants, we may reinstate the annual licence fee in FY2019/20.

The major item that leads to the increase in total expenditure is staff costs, which is proposed to increase by $100 million in FY2018/19. This is made up of our proposed average annual increase of 3.8% for our staff together with a budgeted increase of 21 full time posts, representing a net increase of 2.2% in total headcount. Our operations demand suitably qualified staff to deliver results. We have to compete with the financial services industry for the necessary professional knowledge and skillsets. The headcount increase will mainly be distributed among three frontline operating Divisions – Corporate Finance (+4), Enforcement (+6) and Intermediaries (+8). As the SFC adopts a more proactive, front-loaded approach to tackling corporate and market misconduct, it is only right for these three Divisions to be adequately resourced to perform their functions effectively. In addition, the increasing complexity of our market, the growth in licensees and the introduction of the Manager-in-Charge regime, and the need to make appropriate regulatory responses to technological advancements in the financial services sector have also called for headcount increases.

I have just named some of the current priorities of the SFC. These initiatives aim primarily to maintain the integrity of our markets, essential for Hong Kong to live up to its reputation as an international financial centre. However, our aspirations do not stop here. For the Hong Kong markets to continue to thrive, over the past few years the SFC has laid down the groundwork for Hong Kong to further develop into an asset management centre, a risk management centre and a quality listing platform for capital raising, leveraging on the vast liquidity in the Mainland, and the keen interest of international investors in accessing the Mainland market and of Mainland investors to access the Hong Kong market. In the coming year, the priority is to consolidate these efforts and hopefully bring some to fruition. We have taken forward our cooperation with the CSRC since Stock Connect with Shanghai was launched in 2014. The two regulators are having ongoing discussions to expand and enhance the Connect scheme. Mutual recognition of funds arrangements with the Mainland and other major markets serve to reinforce our status as an asset management hub. Negotiations with more jurisdictions are under way. The promotion of Hong Kong as a booking centre for Asian derivatives will deepen its risk management role. Having concluded the SFC/HKEX joint consultation on listing regulation, the SFC is working closely with HKEX on its consultation on weighted voting rights, pre-revenue bio-tech companies and the secondary listing of Mainland businesses listed in qualified overseas exchanges. Our objective is clear. Our many market development initiatives are founded on world class regulatory standards.

Last year, our stock market registered a very significant gain of 36%. So far this year, the market has reached new record highs – the HSI has risen another 10% in January alone – accompanied by extraordinarily active trading averaging $160 billion daily. Given the international nature of our stock market, its performance is strongly influenced by external factors such as the path of future US interest rate hikes, fiscal and economic condition in Mainland China, and uncertainties surrounding trade and geo-political tensions. As a regulator, we need to prepare for any sudden adjustment of the market, to ensure its resilience against these risks and continue to operate in a smooth and orderly fashion. In this regard, we have been working closely with HKEX to strengthen the risk management of clearing houses in Hong Kong. We have also been closely monitoring and will continue to monitor the operations of licensed intermediaries to ensure that they have put in place appropriate measures to prepare for any abrupt market correction. In this regard, one of our key focus areas is to prevent excessive risk taking in margin lending by licensed intermediaries.

On this note, Ashley and I will be glad to answer questions from the Honourable Members. Thank you.

END