Opening statement
Budget of the Securities and Futures Commission 2019/20
at the
meeting of the Panel on Financial Affairs
Legislative Council

Tim Lui
Chairman
Securities and Futures Commission

19 February 2019

Honourable Chairman
Honourable Members of the Panel on Financial Affairs

1. It is my pleasure to attend today's meeting of the Panel on Financial Affairs. In the past year, the SFC has pushed forward a number of initiatives, and there were also numerous developments in the Hong Kong securities market during the period, including the launch of the new listing regime for companies in emerging and innovative industries on 30 April 2018. With support from the Panel members and stakeholders, our initiatives from last year have been implemented smoothly and the new listing regime was also successfully rolled out and thus far seven companies are listed under the new listing regime.

2. Before I go into the Budget for FY2019/20, members may have noted from the Budget Book submitted for FY2018/19, we have forecast a deficit of about $275 million. For the year starting 1 April 2019, we have projected a total income of $1,950 million and a total expenditure of $2,179 million, resulting in a projected budgeted deficit of $230 million.

3. To arrive at the projected income of $1,950 million, the average securities market turnover is assumed to be $106 billion per day for FY2019/20. As in previous years, this is not a forecast, we simply

use a regression and time series analysis for our budget purposes. Actual turnover for the year may well vary for this number.

4. The transaction levy will remain the same at 0.0027% in 2019/20. At this rate, we need an average daily market turnover of approximately $130 billion to break even.

5. The annual licence fee waiver that has continued for seven years will end in March 2019. It was first granted as a temporary relief. Over the long run, the norm is for all types of regulated business to pay a reasonable licence or registration fee. Therefore, after reviewing our financials, and in particular projected operating deficits, we believe a reinstatement would be fair and appropriate, but recommend a 50% waiver of annual licence fees to all licensed individuals and intermediaries for two years (i.e. 2019/20 and 2020/21). This is with a view to making a full reinstatement of the fees from 2021/22 onwards. To put the staggered reinstatement in context, a 50% waiver in FY2019/20 and FY2020/21 will mean that every licensed corporation and responsible officer will pay an annual licensing fee of $2,370, and a licensed representative $895, per regulated activity (except for Type 3 which has a slightly different fee). Upon full reinstatement in FY2021/22 every licensed corporation and responsible officer will pay $4,740, and a licensed representative $1,790, per regulated activity. The estimated revenue forgone for the two financial years 2019 to 21 will be about HK$224 million, which is close to the amount of our projected budgeted deficit for FY 2019/20.

6. The major item in our total expenditure is staff costs, which will increase by $106 million to $1.45 billion in FY2019/20. This includes a provision for an average 4% pay increase and additional pay for position upgrades. Our operations demand suitably qualified staff, and we compete with the financial services industry for the necessary professional talent. As was the case last year, there will be a moderate net headcount increase of 2.4%, or 23 full time posts, which will mainly be distributed among four areas – Intermediaries, Corporate Finance, Enforcement and Information Technology. The

SFC continues to pursue its front-loaded approach to tackle corporate and market misconduct, and the three frontline operating Divisions (forming the ICE team) must be adequately resourced to perform these functions effectively. In addition, the increasing complexity of our market, the growth in the number of licensees as well as the introduction of a new framework for regulating virtual assets have called for headcount increases. The SFC is also developing new technology to enhance digitization, make better use of data, and to enhance our surveillance of supervisory activities.

7. We will be moving out of Central to Quarry Bay. Our rental expense will be far lower and we can save about $125 million per annum compared to the rent we currently pay at the Cheung Kong Center, which would amount to approximately $1 billion over the 8 year lease term. Our aim is to eventually acquire a permanent office premises. We currently have $3 billion of reserves ring-fenced for the potential purchase of premises. If $1 billion is saved over the 8 year lease term, this would be added to the existing reserve, possibly increasing the balance to around $4 billion by the end of March 2028. For the non-ringfenced reserves, these will be around 1.7 times as of the end of March 2020; reserves of more than 2 times our annual budgeted expenditure is the level where we are required by law to consider the level of the transaction levy.

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

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