

**For discussion  
on 3 February 2020**

**Legislative Council Panel on Financial Affairs**

**Securities and Futures Commission  
Budget for the Financial Year 2020-21**

**PURPOSE**

This paper highlights the main features of the budget of the Securities and Futures Commission (“SFC”) for 2020-21.

**BACKGROUND**

2. Section 13(2) of the Securities and Futures Ordinance (Cap. 571) (“SFO”) requires the SFC to submit the 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 the Legislative Council (“LegCo”). In line with past practice, the Government has prepared this paper to brief Members on the main features of the SFC’s budget for 2020-21, a copy of which is attached at Annex.

**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 levies, fees and charges.

4. Over the years, levies on securities transactions and futures and options contracts 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 \$0.10 per contract, depending on the type of contracts.

## **BUDGET FOR 2020-21**

5. The SFC has projected a budget deficit of \$653.2 million for 2020-21. As in past years, the SFC does not request any appropriation from LegCo for the 2020-21 budget. The main features of the 2020-21 budget are set out in paragraphs 6 to 13 below.

### **Income**

6. The estimated income for 2020-21 is \$1,643.46 million, which is \$43.81 million (2.7%) above the forecast income for 2019-20 (\$1,599.65 million). The SFC has adopted the following assumptions in projecting the estimated income –

- (a) the average securities market turnover will be \$87 billion per day and the average futures/options market turnover will be 558,000 contracts per day; and
- (b) the annual licensing fees will be waived for one year in 2020-21<sup>1</sup>.

### **Expenditure**

7. The estimated expenditure for 2020-21 is \$2,296.66 million, which is 186.34 million (8.8%) above the forecast expenditure for 2019-20 (\$2,110.32 million). The increase is mainly attributable to –

- (a) increase in staff cost by \$66.8 million, arising mainly from a provision of –
  - (i) \$38.9 million for the annual pay adjustment. This amount is approximately equivalent to an average of 3% pay increase; and
  - (ii) \$7.5 million for the upgrade of 22 positions to reflect the changing scope and complexity of work following

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<sup>1</sup> The SFC resumed the collection of annual licensing fees in 2019-20 with 50% discount. After reviewing its fees and charges level and market conditions, the SFC announced in December 2019 to fully waive the annual licensing fees for one year in 2020-21 as a relief measure for brokerage firms amidst an economic downturn, shrinking market turnover and ongoing social unrest.

the organisation restructuring within the operating divisions and the deployment of more advanced and customised technology to drive greater efficiency and effectiveness on the day-to-day operations; and

- (iii) \$20.4 million for others, which include retirement benefits and insurance;
- (b) increase in expenses on depreciation by \$62.8 million as there will be new office renovation and resources invested in technology;
- (c) increase in expenses on premises by \$27.1 million as there will be overlapping rental for the new office during the fitting out and transition to the new premises;
- (d) increase in expenses on information and systems services by \$23.38 million due to a significant growth of software subscription costs, an increasing subscription for market data to support enforcement and supervision activities, and requirement of new systems to assist the operating divisions to manage their caseloads; and
- (e) increase in other expenses by \$6.26 million, which include regulatory and external activities, funding to external parties, professional fees, as well as internship programme.

### **Manpower Plan**

8. The SFC does not propose any new headcount in the budget for 2020-21, which is a result of various initiatives embarked on by the SFC to restructure some operating divisions, streamline work processes and implement new technology solutions.

9. The SFC considers that given the financial market continues to grow in terms of size and complexity coupled with the emergence of new regulated activities and products, there is a need to recognise the possibility for additional resource requirements during 2020-21 in response to any urgent and unanticipated regulatory requirements. Such requests will be dealt with through a separate interim budget request after

a critical review of the SFC's additional headcount needs and resourcing alternatives.

## **Capital Expenditure**

10. The total capital expenditure proposed for 2020-21 is \$345.26 million, which is \$125.67 million (57.2%) above the forecast expenditure for 2019-20 (\$219.59 million). It comprises the following key items –

- (a) **office furniture and fixtures** – a one-off renovation costs for the new office (\$257.83 million);
- (b) **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 (\$44.85 million);
- (c) **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 (\$40.18 million); and
- (d) **vehicles** – replacement of an existing car of the SFC and procurement of one additional vehicle to facilitate day-to-day operation to the SFC (\$2.4 million).

## **Reserves**

11. The SFC estimates that by 31 March 2020, the reserves (after ring-fencing \$3,000 million for possible acquisition of office premises as a longer-term accommodation strategy since 2016-17<sup>2</sup>) will be \$3,559.55

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<sup>2</sup> 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.

million, which is 1.69 times of the forecast expenditure for 2019-20 (\$2,110.32 million).

12. The SFC will transfer the rental saving of around \$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 \$3,125 million by 31 March 2021. The SFC estimates that by 31 March 2021, the non-ring-fenced reserves will be reduced to \$2,781.35 million, which is 1.21 times of the projected expenditure for 2020-21 (\$2,296.66 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 a levy reduction of 20% in December 2006, 25% in October 2010 and a further 10% in November 2014. The SFC considers that the levy rate should remain the same (0.0027%) in 2020-21. But, the SFC will continue to review the situation annually in accordance with section 396(1) of 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 2019-20 ORIGINAL BUDGET WITH THE FORECAST BUDGET**

### **Income**

14. The forecast income for 2019-20 is \$1,599.65 million, which is \$349.86 million (17.9%) less than the original budget of \$1,949.51 million. The lower income is mainly due to a lower-than-budgeted market turnover<sup>3</sup> and a lower income from fees, charges and investment.

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<sup>3</sup> The revised income for 2019-20 is projected based on the prevailing market performance and an assumption that the average daily turnover of securities transactions is \$86 billion and that of futures/options contracts is 558,000 contracts for the year. The original budget was based on an assumption of a turnover of \$106 billion per day and 558,000 contracts per day.

## **Expenditure**

15. The forecast expenditure is \$2,110.32 million, which is \$68.95 million (3.2%) below the original budget of \$2,179.27 million. The underspending is mainly due to time lag in filling vacancies, and lower expenses on premises, professional fees and depreciation. The savings were partially offset by an increase mainly in expenses on legal fees.

## **Capital Expenditure**

16. The forecast capital expenditure is \$219.59 million, which is \$39.17 million (15.1%) lower than the original budget of \$258.77 million. The lower expenditure is due to the lower spending on office furniture and fixtures. The savings were partially offset by the increase in the expenses on office equipment and computer systems development.

## **THE GOVERNMENT'S VIEWS**

17. We have studied in detail the SFC's proposed budget for 2020-21. We note that the SFC has not requested appropriation from LegCo despite the fact that it has projected a deficit budget.

18. 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. We note that the SFC, after reviewing the market conditions, has proposed to fully waive the annual licensing fees for 2020-21. Meanwhile, the SFC's main source of income is subject to market fluctuation. The SFC has put in place a number of measures, including to freeze its overall headcount for 2020-21, to control its expenditure. 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.

**ADVICE SOUGHT**

19. Members are invited to note the proposed budget of the SFC for 2020-21.

**Financial Services Branch  
Financial Services and the Treasury Bureau  
February 2020**



**SECURITIES AND  
FUTURES COMMISSION**  
證券及期貨事務監察委員會

**Annex**

**Securities and Futures Commission**  
**Budget of income and expenditure**  
**for the financial year 2020/21**

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16 December 2019



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## 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 annual 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 2019/20 and proposed budget for 2020/21. For more detailed explanations, reference should be made to sections 3 and 4 of this budget book.

	<u>2020/21</u>	<u>2019/20</u>	<u>Variance</u>	
	<b>Proposed Budget (a) HK\$m</b>	Forecast (b) HK\$m	Proposed Budget vs. Forecast (c) = (a-b) HK\$m	(c/b) %
<b>Income</b>	<b>1,643.46</b>	1,599.65	43.81	2.7%
<b>Recurrent expenditure</b>				
Staff cost	1,487.50	1,420.70	66.80	4.7%
Premises expenses	296.75	269.65	27.10	10.1%
Other recurrent expenses	361.03	267.96	93.07	34.7%
<b>Total recurrent expenditure</b>	<b>2,145.28</b>	1,958.31	186.97	9.5%
<b>Legal fees</b>	<b>70.00</b>	73.00	(3.00)	-4.1%
<b>Funding to external parties</b>	<b>81.38</b>	79.01	2.37	3.0%
<b>Total expenditure</b>	<b>2,296.66</b>	2,110.32	186.34	8.8%
<b>Result for the year</b>	<b>(653.20)</b>	(510.67)	(142.53)	

- 1.3 For 2020/21 we forecast that income will increase by \$43.8 million (2.7%) over the 2019/20 Forecast, a result of the latest securities market turnover and investment return assumptions. We assume that the securities market turnover for 2019/20 and 2020/21 would be approx. \$86 billion/day and \$87 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 2019/20 averaged \$88 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 2019/20 and 2020/21.

- 1.6 The collection of annual licensing fees was resumed in 2019/20 with 50% discount provided, which is estimated at \$103 million. After reviewing our fees and charges level and market conditions, we recommend to fully waive one-year annual licensing fees in 2020/21. Estimated annual licensing fees foregone in 2020/21 is around \$235 million.
- 1.7 We have assessed our expenditure against the background of continuing social unrest in Hong Kong, Hong Kong's economic recession and in light of the fact that levels of stock market turnover have a significant impact on the Commission's income. We have also taken into account the budget deficit in the 2019/20 forecast and the projected deficit in the 2020/21 budget. The Commission has put in place a number of measures to limit key items of expenditure in response to these circumstances.
- 1.8 Total expenditure for 2020/21 is expected to increase by \$186.3 million (8.8%) over the 2019/20 Forecast. The increase is mainly attributable to increases in staff costs, rental overlap as a result of relocating office and other office move related costs.
- 1.9 We have entered into an eight-year lease at One Island East, Quarry Bay. Rental expenses for the new office have been fixed for the full lease terms. The relocation will take place in two phases. The first two floors will be occupied in February 2020 while the remainder will be occupied in April 2020. Since the existing lease at Cheung Kong Center will end in August 2020, we will incur overlapping rental charges during the buildout and transition phase. The rental expense of new office will be approximately half of that paid under our existing lease at Cheung Kong Center. We will, for the time being, transfer the rental saving of around \$125 million per year to the property acquisition reserve.
- 1.10 Having critically reviewed our manpower needs and the factors described in paragraph 1.7 above, we will not request any new headcount for 2020/21. We will seek to re-deploy our existing vacancies to deal with any additional workload demands wherever possible. Please refer to Section 3 for more detailed information about the Commission's 2020/21 manpower plan.
- 1.11 A total of 22 position upgrades are requested to reflect the changing scope and complexity of work following organisational restructuring within some operating Divisions and the deployment of more advanced and customised technology to drive greater efficiency and effectiveness on our day-to-day operations.
- 1.12 However, against this backdrop, it should be noted that the financial market continues to grow in terms of size and complexity, coupled with the emergence of new regulated activities and products. Hence there may be a need for additional resource requirements during 2020/21 in response to any urgent and unanticipated regulatory requirements. Any such requests would be dealt with through a separate interim budget request after a critical review of our additional headcount needs and resourcing alternatives.
- 1.13 A deficit of approximately \$653.2 million is expected in 2020/21 leaving our non-ring fenced reserves at \$2.78 billion at the end of that financial year, which is approximately 1.2 times our annual costs, including funding to various external parties.

- 1.14 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 2020/21, 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 \$88 billion/day for the first 7 months of 2019/20. Based on the latest internal statistical analysis result, the average daily securities market turnover is assumed to be \$82 billion/day for the remainder of the year (see also para 4.3.2(a)).
- (b) For the purpose of budgeting, \$87 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 2019/20, the futures/options market turnover is assumed to be an average of 558,000 contracts per day for the rest of 2019/20. 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 558,000 contracts per day in 2020/21.

### 2.3 Fees and charges

2.3.1 The collection of annual licensing fees was resumed in 2019/20 by providing a discount of 50%.

2.3.2 As a gesture of goodwill, we propose to waive the one-year annual fee for licensees for 2020/21 as a relief measure for brokerage firms amidst an economic downturn, shrinking market turnover and ongoing social unrest. This will apply to all annual licensing fees payable during the one-year period commencing 1 April 2020. 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 2.54% p.a. for the year 2020/21.

## 2.5 Remuneration adjustment

2.5.1 A provision of 3% of personnel costs has been included as the average salary adjustment for staff effective 1 April 2020 (see also 4.4.1 (c)).

2.5.2 In arriving at the provision, the Commission has considered a number of factors including, but not limited to, macro-economic factors (e.g. projected CPI), relevant industry pay trends for 2020/21 and the labour market demand for the type of expertise required by the Commission.

## 2.6 Inflation

Where an estimate of general price level increases is required we have assumed 2.9% 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 2019/20 vs 2020/21

Division	Headcount				Para /ref
	Approved 2019/20	Proposed 2020/21	Net Change	Upgrades	
Centralised Services <sup>Note 1</sup>	30	30	0	1	3.2.1
Corporate Finance	98	98	0	1	3.2.2
Enforcement	217	217	0	0	-
Intermediaries	291	291	0	7	3.2.3
Legal Services	53	53	0	4	3.2.4
Investment Products	123	123	0	2	3.2.5
Supervision of Markets	51	51	0	3	3.2.6
Corporate Affairs	125	125	0	4	3.2.7
<b>TOTAL</b> <sup>Note 2</sup>	<b>988</b>	<b>988</b>	0	22	

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

Note 2 : The Commission has proposed 22 post upgrades for 2020/21.

3.1.1 Having made a critical assessment of its manpower needs, the Commission has not requested any headcount increase for 2020/21. This reflects the results of the various initiatives embarked on by the Commission to restructure some operating Divisions, streamline work processes and implement new technology solutions.

3.1.2 At this point, the above-mentioned initiatives have enabled the Commission to freeze its headcount for 2020/21, but have inevitably resulted in some upgrade requests. These requests reflected the resultant expansion of the roles of responsibilities of the positions concerned. Detailed justifications for the upgrades are set out in the paragraphs below.

#### 3.2 Upgrade requests – 2020/21

##### Centralised Services

3.2.1 1 executive upgrade is proposed to reflect the expanded scope of the role in line with the Commission's intention to play a more active and prominent role at an international level in relation to Sustainable Finance policy making.

##### Corporate Finance Division

3.2.2 1 executive upgrade is proposed to support the increasingly complex policy related work in this area.

### **Intermediaries Division**

- 3.2.3 The Intermediaries Division proposes 7 position upgrades.
- (a) Intermediaries Supervision Department, Intermediaries
    - (i) 2 executive post upgrades are proposed to establish a new Virtual Asset team to support the formulation of policies and subsequent regulation of Virtual Asset service providers;
  - (b) Licensing Department, Intermediaries
    - (i) 5 non-executive post upgrades are proposed to reflect the expansion of job scope, skillsets and responsibilities of support and junior professional staff following the restructuring of work flows and processes within the Department.

### **Legal Services Division**

- 3.2.4 3 executive and 1 non-executive post upgrades are proposed to reflect the fact that investigations that Legal Services Division is supporting are increasingly complex, hence requiring greater level of experience and expertise.

### **Investment Products Division**

- 3.2.5 2 executive post upgrades are requested to address the increase in volume and breadth of policy and other initiatives in market facilitation, policy formulation and application processing and monitoring.

### **Supervision of Markets Division**

- 3.2.6 3 executive post upgrades are proposed to reflect the additional responsibilities as a result of various projects which are due for public consultation in the next financial year and the provision of greater analytics capability to enhance the monitoring of market-specific and systemic risks.

### **Corporate Affairs Division**

- 3.2.7 A total of 4 upgrades are requested to reflect the expanded needs in order to maintain an appropriate Corporate Affairs structure to support the Commission's constituent divisions/departments in discharging their regulatory responsibilities. The upgrades comprise 1 executive post in the Information Technology Department, 1 non-executive post in the Finance Department and 2 non-executive posts in the Planning and Administration Department.



## 4. Financials

### 4.1 Income and expenditure statement

Para. Ref.	(a)	(b)	(c)	Proposed Budget (a)		Forecast (b)		
	Proposed Budget For Year 2020/21 HK\$'000	Forecast For Year 2019/20 HK\$'000	Approved Budget For Year 2019/20 HK\$'000	over/(under) Forecast (b)	%	over/(under) Approved Budget (c)	%	
<b>Income</b>								
Investor levy								
Securities	4.3.2	1,158,057	1,136,537	1,425,276	21,520	1.9%	(288,739)	-20.3%
Futures/Options contracts		142,458	142,458	148,339	-	-	(5,881)	-4.0%
Fees & charges	4.3.3	187,854	187,064	202,545	790	0.4%	(15,481)	-7.6%
Net investment income	4.3.4	149,693	126,589	166,350	23,104	18.3%	(39,761)	-23.9%
Other income	4.3.5	5,400	7,000	7,000	(1,600)	-22.9%	-	-
<b>Total</b>		<b>1,643,462</b>	<b>1,599,648</b>	<b>1,949,510</b>	<b>43,814</b>	<b>2.7%</b>	<b>(349,862)</b>	<b>-17.9%</b>
<b>Recurrent expenditure</b>								
Staff cost	4.4.1	1,487,502	1,420,698	1,454,510	66,804	4.7%	(33,812)	-2.3%
Premises	4.4.2	296,750	269,650	290,103	27,100	10.1%	(20,453)	-7.1%
Information & systems services	4.4.3	113,188	89,810	90,681	23,378	26.0%	(871)	-1.0%
General office & insurance	4.4.4	12,107	11,212	11,247	895	8.0%	(35)	-0.3%
Learning & development	4.4.5	10,440	9,723	10,378	717	7.4%	(655)	-6.3%
Professional fees	4.4.6	77,418	75,953	82,530	1,465	1.9%	(6,577)	-8.0%
Regulatory and external activities	4.4.7	21,961	19,259	22,078	2,702	14.0%	(2,819)	-12.8%
Internship programme	4.4.8	7,120	6,003	6,003	1,117	18.6%	-	-
		<b>2,026,486</b>	<b>1,902,308</b>	<b>1,967,530</b>	<b>124,178</b>	<b>6.5%</b>	<b>(65,222)</b>	<b>-3.3%</b>
Legal fees	4.4.9	70,000	73,000	60,000	(3,000)	-4.1%	13,000	21.7%
		<b>2,096,486</b>	<b>1,975,308</b>	<b>2,027,530</b>	<b>121,178</b>	<b>6.1%</b>	<b>(52,222)</b>	<b>-2.6%</b>
Depreciation	4.4.10	118,800	56,000	62,000	62,800	112.1%	(6,000)	-9.7%
Operating expenditure (1)		<b>2,215,286</b>	<b>2,031,308</b>	<b>2,089,530</b>	<b>183,978</b>	<b>9.1%</b>	<b>(58,222)</b>	<b>-2.8%</b>
<b>Funding to external parties</b>								
Funding to the FRC	4.5.1	-	-	8,920	-	N/A	(8,920)	-100.0%
Funding to the IFRS Foundation	4.5.2	394	394	394	-	-	-	-
Funding to IFEC	4.5.3-4	80,984	78,619	80,428	2,365	3.0%	(1,809)	-2.2%
Total (2)		<b>81,378</b>	<b>79,013</b>	<b>89,742</b>	<b>2,365</b>	<b>3.0%</b>	<b>(10,729)</b>	<b>-12.0%</b>
<b>Total expenditure (1) + (2)</b>		<b>2,296,664</b>	<b>2,110,321</b>	<b>2,179,272</b>	<b>186,343</b>	<b>8.8%</b>	<b>(68,951)</b>	<b>-3.2%</b>
Result for the year		<b>(653,202)</b>	<b>(510,673)</b>	<b>(229,762)</b>	<b>(142,529)</b>	<b>27.9%</b>	<b>(280,911)</b>	<b>122.3%</b>
Reserves brought forward		<b>3,559,549</b>	<b>4,070,222</b>	<b>3,890,241</b>	<b>(510,673)</b>	<b>-12.5%</b>	<b>179,981</b>	<b>4.6%</b>
Reserve for property acquisition		<b>(125,000)</b>	<b>-</b>	<b>-</b>	<b>(125,000)</b>	<b>N/A</b>	<b>-</b>	<b>N/A</b>
Reserves carried forward		<b>2,781,347</b>	<b>3,559,549</b>	<b>3,660,479</b>	<b>(778,202)</b>	<b>-21.9%</b>	<b>(100,930)</b>	<b>-2.8%</b>

## 4.2 Capital expenditure statement

Para. Ref	(a)	(b)	(c)	Proposed Budget (a)		Forecast (b)	
	Proposed Budget For Year 2020/21 HK\$'000	Forecast For Year 2019/20 HK\$'000	Approved Budget For Year 2019/20 HK\$'000	over/(under) Forecast (b)		over/(under) Approved Budget (c)	
				HK\$'000	%	HK\$'000	%
<b>Capital expenditure</b>							
	4.6						
Furniture & fixtures	257,833	73,667	140,400	184,166	250.0%	(66,733)	-47.5%
Office equipment	40,185	38,291	32,135	1,894	4.9%	6,156	19.2%
Vehicles	2,400	-	-	2,400	N/A	-	N/A
Computer systems development	44,845	107,636	86,230	(62,791)	-58.3%	21,406	24.8%
<b>Total</b>	<b>345,263</b>	<b>219,594</b>	<b>258,765</b>	<b>125,669</b>	<b>57.2%</b>	<b>(39,171)</b>	<b>-15.1%</b>

### 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 2020/21. 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:

	2019/20		2020/21
	Apr 19-Mar 20 (Budget)	Apr 19-Mar 20 (Forecast)	Apr 20-Mar 21 (Budget)
<b>Securities</b>			
Daily turnover (billion/day)	\$106.0	\$86.0	\$87.0
Levy rate	0.0027%	0.0027%	0.0027%
<b>Futures/Options Contracts</b>			
Daily turnover (contracts)	558,000	558,000	558,000
Levy rate	\$0.54	\$0.54	\$0.54

- (b) The 2019/20 Forecast for Investor Levy – Securities is lower than the Approved Budget by \$288.74 million (20.3%) whereas Investor levy – Futures and Options is lower than the Approved Budget by \$5.88 million (4%). These variances reflect variations in actual securities market turnover for the first 7 months of 2019/20 (around \$88 billion/day) when compared to the estimates underlying the Approved Budget.
- (c) We assume that the securities market turnover for 2019/20 would be around \$86 billion/day. Based on actual to date and current levels, we have budgeted \$87 billion/day for 2020/21.
- (d) For budget purposes, we assume that the volume of future contracts remain unchanged in 2020/21.

#### 4.3.3 Fees and charges

- (a) We have resumed our annual licensing fees by providing a 50% discount in 2019/20.
- (b) The Forecast aggregate fees and charges income for 2019/20 is \$15.4 million (7.6%) lower than the Approved Budget as fees from Licensing and Corporate Finance are lower than expected.
- (c) The 2020/21 Budget is retained at the level in Forecast. We will grant a one-year annual licensing fees waiver in 2020/21. The annual licensing fees foregone, based on Licensing's estimate, is around \$235 million.

#### 4.3.4 Net investment income

- (a) Budgeted investment income for 2019/20 was \$166.35 million which comprised of \$111.81 million of fixed income and deposit interest and \$54.54 million gains from equity pooled funds. Due to volatility in our pooled equity fund investments, we have recorded a lower than expected returns. As a result, we have revised our 2019/20 Forecast net investment income to \$126.59 million.
- (b) 2020/21 investment income is budgeted to be \$149.69 million. For budgeting purpose, we assume that the average return on investment before investment management fees is 2.54%. 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 2019/20 and 2020/21 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 and IT support services, recoveries from enforcement cases and sales of Commission publications. The 2020/21 Budget is \$1.6 million (22.9%) lower than the 2019/20 Forecast because of the rental recharge for IFEC and ICC has been revised downward with reference to the lease for new office.

### 4.4 Recurrent expenditure

#### 4.4.1 Staff cost

- (a) The overall staff cost for 2019/20 is forecasted to be lower than the 2019/20 Budget by \$33.81 million (2.3%). This is principally due to the time lag experienced in filling vacancies and a number of positions being filled in lower grades.
- (b) The projected headcount at 31 March 2021 is 988, with zero new headcount increase for 2020/21 at this point. Please see Section 3 for detailed explanations. The projected staff cost for 2020/21 is \$66.80 million (4.7%) higher than the 2019/20 Forecast.

- (c) The 2020/21 Budget includes provision for an average 3% pay increase for Commission staff. This recommendation is based on market information from independent parties including pay consultants and professional associations as well as a preliminary assessment of the conditions in the external employment market. In arriving at the proposed increase, additional consideration is given to pay trend data relevant to the financial services sector and more specifically, the functional areas from which the Commission is competing for talent from (i.e. compliance, legal and risk). The anticipated supply and demand in the external employment market for the forthcoming year, as well as macroeconomic indicators such as projected inflation rate of 2.9% for 2019 are also taken into account.
- (d) Given the uncertainty in the near term of the general economy and the employment market, the Commission has erred on the side of prudence in arriving at its provision of pay increase for its staff. This is a further reflection of the Commission's commitment to ensure financial responsibility.
- (e) A detailed pay review proposal will be presented to the Commission's Remuneration Committee for discussion and to the Commission for approval in Q1, 2020.

#### 4.4.2 Premises

- (a) Starting from April 2019, we have adopted HKFRS 16 to account for the operating lease of existing offices. Respective premises related costs are now captured under depreciation of lease and lease interest expenses. For comparison purpose, we have grouped them under premises expenses.
- (b) Forecast premises expenses for 2019/20 are lower than the Approved Budget at \$20.45 million (7.1%) as the new office will be taken up later than expected. The first two floors will be occupied in early 2020 and the remainder will be in April 2020.
- (c) Spending for 2020/21 is budgeted to be \$27.1 million (10.1%) higher than 2019/20 Forecast. Despite of lower rental in the new office, there will be overlapping rental for the new office during the fitting-out and transition to the new premises.

#### 4.4.3 Information and systems services

- (a) The information and systems services expenses forecast for 2019/20 is \$0.87 million (1%) lower than the Approved Budget due to the combination of lower than expected library research facilities and software licence subscription and maintenance offset by the higher of systems contract services and hardware maintenance.
- (b) For 2020/21, we project a \$23.38 million (26%) increase owing to a significant growth of software subscription costs, higher library research facilities for increasing subscriptions for market data to support enforcement and supervision activities and higher systems

control services to meet the increasing demand of helpdesk support. New systems are required by our operating divisions to manage their caseloads and to enhance their investigatory and supervisory capabilities.

#### 4.4.4 General office and insurance

- (a) Forecast general office and insurance for 2019/20 is retained at the Approved Budget level.
- (b) Budgeted expenses for 2020/21 is \$0.9 million (8%) higher the 2019/20 Forecast due to the hire of resources to support the office move.

#### 4.4.5 Learning and development

- (a) The learning and development related expenses for 2019/20 are forecasted to be \$0.66 million (6.3%) lower than the Approved Budget. This is mainly due to unanticipated changes in some planned training and development events.
- (b) The learning and development budget for 2020/21 is estimated to be \$0.72 million (7.4%) higher than the 2019/20 Forecast. As the regulatory landscape and development of the capital market and products are constantly expanding and evolving, there is an increasing demand for high quality and relevant technical and leadership training from Commission staff. Other than core training, the key areas of focus for development in the next fiscal year include: participation of more senior personnel in the bilateral staff exchanges and training between the Commission and the CSRC; workshops and seminars in current topics such as Virtual Assets and Fintech; and language proficiency training.

#### 4.4.6 Professional fees

- (a) Forecast professional fees for 2019/20 are \$6.58 million (8%) lower than the Approved Budget due to the deferral of several projects which require the external professional services.
- (b) Budget for 2020/21 is \$1.47 million (1.9%) higher than the Forecast 2019/20 to meet higher demand for external expert services, which remains high, especially in the areas of investigation and supervision of intermediaries.
- (c) Key projects in 2020/21 include anti-money laundering, cybersecurity, trading data analytics, internal model review, investor ID model, virtual asset regulatory development and enhancing the handling of licensing enquiries platform.

#### 4.4.7 Regulatory and external activities

- (a) Forecast regulatory and external activities for 2019/20 are lower than the Approved Budget by \$2.82 million (12.8%) due to the deferral of seminars to next year.
- (b) The 2020/21 budget is \$2.7 million (14%) higher than the 2019/20 Forecast due to the overseas travelling to engage in regulatory reforms and the deferral of forums and seminars from 2019/20.

#### 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 2020/21 to recruit these individuals represents an increase of \$1.12 million (18.6%) over the 2019/20 Forecast.

#### 4.4.9 Legal fees

- (a) The forecast for 2019/20 is \$13 million (21.7%) higher than the original budget due to an increased caseload and increased complexity of cases.
- (b) The budget for 2020/21 is retained at the Forecast level.

#### 4.4.10 Depreciation

- (a) Forecast depreciation expenses for 2019/20 are estimated to be \$6 million (9.7%) lower because of the deferral in carrying out various capital projects during the year.
- (b) We expect that the depreciation expenses for 2020/21 will be \$62.8 million (112.1%) higher than 2019/20 Forecast because of the new office renovation and the resources invested in technology (see also para 4.6.2).

### 4.5 Funding to external parties

4.5.1 With the effective of new Financial Reporting Council (FRC) regime from October 2019, the Commission is no longer require to make annual funding to the FRC.

4.5.2 To continue our support for the work of the International Financial Reporting Standards Foundation, the Commission will again provide funding of US\$50,000 in 2020/21.

- 4.5.3 Funding to IFEC is revised to \$78.62 million in 2019/20 based on the latest forecast prepared by IFEC. In 2020/21, IFEC proposed total expenditure of \$80.98 million. Major expenses are summarised below:

	<b><u>Budget</u></b> <b><u>2019/20</u></b>	<b><u>Forecast</u></b> <b><u>2019/20</u></b>	<b><u>Budget</u></b> <b><u>2020/21</u></b>
	\$'m	\$'m	\$'m
Education programmes	43.11	41.57	43.77
Staff costs	29.17	29.27	30.66
Premises costs	3.35	3.35	2.43
Professional & other services	1.47	1.16	1.10
Publicity & external relations	0.95	0.95	0.94
General office & others	2.38	2.32	2.08
<b>Total</b>	<b><u>80.43</u></b>	<b><u>78.62</u></b>	<b><u>80.98</u></b>

- 4.5.4 IFEC projects higher expenditure for 2020/21 based on its experience of the costs of its key operations in 2019/20 as well as proposals for projects in 2020/21 to increase the awareness, effectiveness and reach of financial education work.

#### 4.6 Capital expenditure

- 4.6.1 The total capital expenditure for 2020/21 has been increased from \$219.59 million to \$345.26 million primarily comprises the renovation costs for the new office.
- 4.6.2 The total capital expenditure budget for 2020/21 is \$345.26 million. Breakdown is as follows:

<b>Capital expenditure</b>	<b>Amount</b> \$'m	Note
Office furniture & fixtures	257.83	(a)
Office equipment	40.18	(b)
Vehicles	2.40	(c)
Computer systems development	<u>44.85</u>	(d)
<b>Total</b>	<b><u>345.26</u></b>	

Notes :-

- (a) \$257.83 million is provided for the renovation costs for the new office.
- (b) Office equipment:
- (i) \$1 million for replacement of obsolete office equipment due to normal wear and tear; and



- (ii) \$39.18 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) \$2.4 million is provided for the replacement of one of the existing Commission cars and one additional vehicle to facilitate day-to-day operation to the Commission.
- (d) \$44.85 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.