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Opening statement
Budget of the Securities and Futures Commission 2020/21
at the
meeting of the Panel on Financial Affairs
Legislative Council

Tim Lui
Chairman
Securities and Futures Commission

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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.

2. Before I go into the Budget for FY2020/21, members may have noted that in the last financial year 2019/2020, we resumed the collection of annual licence fees with 50% discount from all licensed individuals and intermediaries. After reviewing market conditions, in particular the business environment for small to medium securities firms in the past few difficult months, the SFC announced in December 2019 that we would waive in full the annual licensing fees for FY2020/21.

3. The estimated revenue forgone for FY2020/21 will as a result be about HK$235 million.

4. As members will note from the Budget Book submitted for FY2019/20, we have forecasted a deficit of about $511 million, which is more than two times the budgeted deficit of $230 million. This is explained by the fact that the average securities market turnover per day for FY 2019/20 of $86 billion is substantially lower than the $106

billion we originally budgeted, noting that the transaction levy is our biggest source of income.

5. The transaction levy has been reduced 3 times since 2006 to the current rate of 0.0027%. The original levy of 0.005% would have been sufficient to fund the operating expenditures without any need to fund deficits from reserves, but at the reduced rate we need an average daily market turnover of approximately $136 billion to break even in 2020/21. We therefore project a recurring operating deficit, unless market turnover drastically increases over a sustained period. For the year starting 1 April 2020, assuming an average market turnover of $87 billion per day, we have projected a total income of $1,643 million and a total expenditure of $2,297 million, resulting in a budgeted deficit of $653 million.

6. Against that background, the SFC has put in considerable efforts to control its expenditure. In terms of managing its staff cost, which is our single largest expenditure item, the SFC will freeze headcount for 2020/21. In other words, no increase over our staff numbers from 2019/20. There will be 22 position upgrades to reflect the mix of skills we need to operate effectively in an increasingly complex and challenging market environment. Together with a proposed average 3% pay increase, our staff costs will be $1,488 million in FY2020/21.

7. The SFC will also be moving out of Central to Quarry Bay in Q2 2020, which will cut our rental expenses in half. These rental savings of about $125 million per year will be added to the $3 billion of reserves we have notionally ring-fenced for the potential purchase of office premises as a long term accommodation strategy. However, if low market turnover persists, deficits will inevitably deplete our reserves, which currently stand at around $6.7 billion in total. As such, there may be a need to revisit options to ensure that the SFC can continue to operate effectively without resorting to taxpayers.

8. We will therefore review our reserves and the levy annually, taking into consideration prevailing market conditions, 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.

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

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