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For discussion
on 7 February 2022

Legislative Council Panel on Financial Affairs

Securities and Futures Commission
Budget for the Financial Year 2022-23

PURPOSE

This paper highlights the main features of the budget of the Securities and Futures Commission ("SFC") for 2022-23.

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"). This paper briefs Members on the main features of the SFC's budget for 2022-23.

FUNDING OF THE SFC

3. Section 14 of the SFO stipulates 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 2022-23

5. The proposed budget of the SFC for 2022-23 is at **Annex**. The SFC has projected a budget surplus of $13.87 million for 2022-23. As in past years, the SFC does not request any appropriation from LegCo. The main features of the budget are set out in paragraphs 6 to 13 below.

Income

6. The estimated income for 2022-23 is $2,372.95 million, which is $63.72 million (2.8%) above the forecast income for 2021-22 ($2,309.23 million). The SFC has adopted the following assumptions in projecting the estimated income –

(a) the average securities market turnover will be $147 billion per day and the average futures/options market turnover will be 390,000 contracts per day; and

(b) the annual licensing fee waiver will continue for one year in 2022-23 with estimated $244 million income foregone. The SFC has waived the annual licensing fee since April 2020.

Recurrent Expenditure

7. The estimated recurrent expenditure for 2022-23 is $2,359.08 million, which is $242.96 million (11.5%) above the forecast expenditure for 2021-22 ($2,116.12 million). The increase is mainly attributable to –

(a) increase in staff cost by $140.55 million, arising from a provision of –

(i) $43.11 million for 30 new headcount to ensure the SFC is adequately staffed to meet the growing market and to monitor and mitigate existing and new areas of risks. Details are set out in paragraph 9 below;

(ii) $61.01 million for the annual pay adjustment. This amount is approximately equivalent to an average of 4.5% pay increase;

(iii) $14.15 million for the upgrade of 32 positions[1] to reflect the increasing complexity and scope of the respective roles; and

(iv) $22.28 million for others, which include retirement benefits and insurance;

(b) increase in project cost by $58.80 million for engaging up to 50 project staff on two-year contract arrangements for the new and expanded initiatives;

(c) increase in expenses on depreciation by $33.42 million due to the resources invested in technology; and

(d) increase in other expenses by $26.30 million, which include legal related fees, information and system services, regulatory and external activities, funding to external parties, internship programme as well as premise.

8. The increase in expenditure is partially offset by the decrease in expenditure mainly on the expenses on professional fees by $14.54 million.

Manpower Plan

9. The SFC proposes 30 new headcount in the budget of 2022-23, bringing its total headcount to 1 018, with details as follows –

(a) **Intermediaries Division** (10 posts) – to expand Virtual Asset capabilities and expertise to stay abreast of the rapidly changing Virtual Asset market and regulatory development, to cope with the rapid increase in number of Licensed Corporations and increased complexity of onsite inspection, and to respond to the amendments to the Anti-Money Laundering and Counter Terrorist Financing Ordinance;

(b) **Corporate Affairs Division** (9 posts) – to provide expertise in data management, technical architecture and AI related technologies to digitalise the processes, system and applications currently rolled out across the SFC, to handle

[1] The number of positions upgraded in 2021-22 was 32.

the increasing number of complaints, and to provide adequate support in human resources management;

(c) **Corporate Finance Division** (5 posts) – to cope with the substantial increase in the number and complexity of listing applications, to provide sufficient coverage of the increasing number of listed companies, and to handle the increased workload in relation to takeovers;

(d) **Supervision of Markets Division** (3 posts) – to implement the Uncertificated Securities Market initiative;

(e) **Centralised Services** (2 posts) – to take up additional responsibilities in assessing and formulating strategy for Hong Kong's development as an International Financial Centre; and to handle complex issues that continually arise; and

(f) **Investment Product Division** (1 post) – to manage the growing number of new private Open-ended Fund Company applications and their post-registration compliance work.

Capital Expenditure

10. The total capital expenditure proposed for 2022-23 is $102.58 million, which is $32.83 million (47.1%) above the forecast expenditure for 2021-22 ($69.75 million). It comprises the following key items –

(a) **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 ($75.96 million);

(b) **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 ($19.42 million);

(c) **office furniture and fixtures** – minor alteration of office configuration and replacement of obsolete furniture due to normal wear and tear ($6 million); and

(d) **vehicles** – replacement of one of the existing vehicles ($1.20 million).

Reserves

11. The SFC estimates that by 31 March 2022, the reserves (after ring-fencing $3,250 million for possible acquisition of office premises as a longer-term accommodation strategy[2]) will be $4,617.40 million, which is 2.18 times of the forecast expenditure for 2021-22 ($2,116.12 million).

12. The SFC will transfer the rental saving of $125 million annually to the ring-fenced reserves for a consecutive period of eight years commencing in 2020-21. The ring-fenced reserves will increase to $3,375 million by 31 March 2023. The SFC estimates that by 31 March 2023, the non-ring-fenced reserves will be reduced to $4,506.27 million, which is 1.91 times of the projected expenditure for 2022-23 ($2,359.08 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 levy reductions of 20% in December 2006, 25% in October 2010 and 10% in November 2014. The SFC considers that the levy rate should remain the same (0.0027%) in 2022-23, but 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

[2] The rental expense has been a key expenditure item for the SFC. Notwithstanding that it has secured an eight-year lease at One Island East, 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.

level and bearing in mind the need to deliver its regulatory objectives effectively.

COMPARISON OF THE 2021-22 APPROVED BUDGET WITH THE FORECAST BUDGET

Income

14. The forecast income for 2021-22 is $2,309.23 million, which is $273.63 million (13.4%) higher than the approved budget of $2,035.60 million. The higher income is mainly due to a higher-than-budgeted market turnover[3].

Recurrent Expenditure

15. The forecast recurrent expenditure is $2,116.12 million, which is $103.59 million (4.7%) below the approved budget of $2,219.71 million. The underspending is mainly due to time lag in filling vacancies, and lower expenses on legal fees, depreciation, information and system services, professional fees and regulatory and external activities. The savings were partially offset by an increase in expenses on general office items.

Capital Expenditure

16. The forecast capital expenditure is $69.75 million, which is $29.35 million (29.6%) lower than the approved budget of $99.10 million. The lower expenditure is due to the lower spending on computer systems development and office furniture and fixtures. The savings were partially offset by the increase in the expenses on office equipment.

THE GOVERNMENT'S VIEWS

17. We have studied in detail the SFC's proposed budget for 2022-23. We note that the SFC has not requested appropriation from LegCo.

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[3] The revised income for 2021-22 is projected based on the prevailing market performance and an assumption that the average daily turnover of securities transactions is $149 billion and that of futures/options contracts is 390,000 contracts for the year. The approved budget was based on an assumption of a turnover of $123 billion per day and 457,000 contracts per day.

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. It is noteworthy that the SFC, after reviewing the market conditions, has proposed to continue the annual licensing fee waiver for 2022-23. Meanwhile, the SFC's main source of income is subject to market fluctuation. Overall, the SFC should continue to exercise stringent cost control, prioritize its work properly and utilize the available resources effectively to cope with extra workload and new regulatory initiatives.

ADVICE SOUGHT

19. Members are invited to note the proposed budget of the SFC for 2022-23.

Financial Services Branch
Financial Services and the Treasury Bureau
January 2022

Annex

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

Securities and Futures Commission

Budget of income and expenditure

for the financial year 2022/23

13 December 2021

Contents

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 internal audit 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 2021/22 and proposed budget for 2022/23. For more detailed explanations, reference should be made to Sections 3 and 4 of this budget book.

	2022/23	2021/22	Variance	
	Proposed Budget	Forecast	Proposed Budget vs. Forecast	
	(a)	(b)	(c) = (a-b)	(c/b)
	HK$'m	HK$'m	HK$'m	%
Income	**2,372.95**	2,309.23	63.72	2.8%
Operating expenditure				
Staff cost	**1,627.51**	1,486.95	140.56	9.5%
Project cost	**58.80**	-	58.80	N/A
Other operating expenses	**543.21**	511.56	31.65	6.2%
Total operating expenditure	**2,229.52**	1,998.51	231.01	11.6%
Legal related fees	**47.19**	36.37	10.82	29.7%
Funding to external parties	**82.37**	81.24	1.13	1.4%
Total expenditure	**2,359.08**	2,116.12	242.96	11.5%
Result for the year	**13.87**	193.11	(179.24)	

1.3 For 2022/23 we forecast that income will increase by $63.72 million (2.8%) over the 2021/22 Forecast, a result of the latest securities market turnover and investment return assumptions. We assume that the securities market turnover for 2021/22 and 2022/23 would be approximately $149 billion/day and $147 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 2021/22 averaged $161 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 2021/22 and 2022/23.

1.6 The one-year annual licence fee waiver that commenced in April 2021 will end by March 2022. Although the operating environment of the securities industry has improved compared to the year in which the waiver was first granted in 2009, we nevertheless recommended to continue the fee waiver for one more year in 2022/23. We will review the situation again next year and may reinstate the annual licence fee in 2023/24. Estimated annual licence fee income foregone in 2022/23 is around $244 million.

1.7 Total expenditure for 2022/23 is expected to increase by $242.96 million (11.5%) over the 2021/22 Forecast. The increase is mainly attributable to increase in staff cost, information & systems services, legal related fees and depreciation costs.

1.8 As planned, we will transfer $125 million to the property acquisition reserve each year across the 8-year lease term. Property acquisition reserve will stand at $3.38 billion by March 2023.

1.9 The Commission needs to be adequately resourced in order to meet the growing market and to monitor and mitigate existing and new areas of risk. Having critically reviewed our manpower needs for 2022/23, a net increase of 30 full time posts over the Commission approved headcount of 2021/22 has been included in the budget. This represents a total headcount increase of approximately 3.0% and this follows two consecutive headcount freezes in 2020/21 and 2021/22. Please refer to Section 3 for more detailed information about the Commission's 2022/23 manpower plan.

1.10 A total of 32 position upgrades represent a combination of the need to upskill our talent pool (i.e. the substantial increase in job complexity and the expansion responsibilities of the associated roles). The position upgrades represent approximately 3% of our approved headcount which is well below that of the comparable professional firms or financial institutions.

1.11 In 2022/23, the Commission seeks to deploy additional resources for specific initiatives or projects. A provision of $58.8 million has been made to engage up to 50 project staff on two-year contract arrangements for the initiatives covered by the project offices to contribute to and strengthen Hong Kong's strategic position as an international and the GBA financial centre.

1.12 Apart from ongoing stringent expense control, we will endeavour to work on areas that could have potential savings including overhead items which are more discretionary in nature to achieve further efficiency saving when the opportunities arise.

1.13 A surplus of approximately $13.87 million is expected in 2022/23 leaving our non-ring-fenced reserves at $4.51 billion at the end of that financial year, which is approximately 1.91 times our annual costs, including funding to various external parties.

2. Assumptions

2.1 Investor levy rates

2.1.1 The levy rates will remain unchanged for the year 2022/23, i.e.

(a) Investor Levy Rate - Securities at 0.0027%; and

(b) Investor Levy Rate - Futures/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 $161 billion/day for the first 7 months of 2021/22. Based on the latest internal statistical analysis result, the average daily securities market turnover is assumed to be $135 billion/day for the remainder of the year (see also para 4.3.2(a)).

(b) For the purpose of budgeting, $147 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 2021/22, the futures/options market turnover is assumed to be an average of 390,000 contracts per day for the rest of 2021/22. 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 390,000 contracts per day in 2022/23.

2.3 Fees and charges

2.3.1 Licensing annual fee waiver will end in March 2022. We propose to waive another one-year annual fee for licensees for 2022/23 as a relief measure for brokerage firms. This will apply to all annual licensing fees payable during the one-year period commencing 1 April 2022.

2.3.2 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

2.4.1 The average return on investment of our reserve funds before investment management fees is assumed to be 1.59% p.a. for the year 2022/23.

2.5 Remuneration adjustment

A latest provision of 4.5% of personnel costs has been included as salary adjustment for staff based on preliminary market information from independent parties including pay consultants and professional associations (see also 4.4.1 (c)).

2.6 Inflation

Where an estimate of general price level increases is required we have assumed no change in price level 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 that 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 2021/22 vs 2022/23

Division	Headcount			
	Commission Approved 2021/22	Proposed 2022/23	Net Change	*Para /ref*
Centralised Services [Note 1]	38	40	2	*3.2.1*
Corporate Finance	97	102	5	*3.2.2*
Enforcement	217	217	-	*3.2.3*
Intermediaries	290	300	10	*3.2.4*
Legal Services	53	53	-	*3.2.5*
Investment Products	123	124	1	*3.2.6*
Supervision of Markets	53	56	3	*3.2.7*
Corporate Affairs	117	126	9 [Note 2]	*3.2.8*
TOTAL [Note 3]	**988**	**1,018**	**30**	

Note 1 : Includes CEO's Office, Communications, International Affairs, Mainland Affairs and Secretariat.

Note 2 : Some of these posts will be utilised to convert contract staff with expertise that are critical to supporting our technology infrastructure

Note 3 : The Commission has proposed 32 post upgrades for 2022/23 (Centralised Services (2), Corporate Finance (8), Intermediaries (10), Legal Services (3), Investment Products (3), Supervision of Markets (2) and Corporate Affairs (4)).

3.1.1 The Commission needs to be adequately resourced in order to meet the growing market and to monitor and mitigate existing and new areas of risk. Failure to appropriately resource the Commission will have a direct impact on market development, financial stability and lead to an unacceptable build up of multiple risks.

3.1.2 Having critically reviewed our manpower needs for 2022/23, a net increase of 30 full time posts over the Commission approved headcount of 2021/22 has been included in the budget. This represents a total headcount increase of approximately 3%.

3.1.3 In the past two financial years, the Commission had frozen its headcount during which time, we embarked on different streamlining initiatives and activities to further deliver efficiencies. Therefore the 2022/23 requests reflect the needs of the Commission to deliver new initiatives that are currently underway to enhance Hong Kong position as a leading IFC.

3.1.4 A total of 32 position upgrades have been proposed. The position upgrades represent the need to upskill our talent pool (i.e. reflect the increasing complexity and scope of various roles) and to ensure that the Commission has the appropriate mix of senior and more junior staff.

3.1.5 Without the appropriate number and mix of staff, the Commission will not be able to deliver on the various initiatives underpinning Hong Kong's development as an IFC.

3.2 New headcount requests – 2022/23

Centralised Services

3.2.1 The Centralised Services Division are requesting 2 new executive posts. These includes:

(a) 1 new executive post for the Mainland Affairs Team to take up additional responsibilities in assessing and formulating strategy for Hong Kong's development as an International Financial Centre. The Commission, together with the FSTB, and other regulators, are jointly working on initiatives to increase engagement with the Mainland authorities.

(b) 1 new executive post for the Commission Secretariat team to handle complex and sensitive issues that continually arise.

Corporate Finance Division

3.2.2 The Corporate Finance Division are requesting 4 new executive posts and 1 non-executive post for the Pre-IPO / Dual Filing, Post-IPO and Takeover teams. These requests consist of:

(a) 2 new executive posts for the Pre-IPO team following a sustained increase in CF Dual-filing's workload due to an increase in the number of "homecoming" listing applications by Mainland-based enterprises listed in the U.S. The forthcoming SPAC listing regime will also increase the number and complexity of the IPO caseloads for 2022/2023 and beyond.

(b) 2 new executive posts for the Post IPO team to provide sufficient coverage of the increasing number of listed companies.

(c) 1 new non-executive post for Takeovers team to address increased workload as a result of the continuing growth in the number and complexity of cases, in particular, the privatisation cases which are among the most complex types of cases to vet.

Enforcement Division

3.2.3 No new headcount and position upgrades have been requested in 2022/23.

Intermediaries Division

3.2.4 The Intermediaries Division are requesting 10 new posts.

(a) 5 new executive posts are proposed to expand Virtual Asset (VA) capabilities and expertise to stay abreast of the rapidly changing VA market and regulatory developments. This considers the anticipated increase in the number of licenses to be granted to VA trading platform operators under the existing SFO opt-in regime.

(b) Policy and external engagement work requires additional resources to cope with the policy work in relation to the evolving regulatory landscape globally of virtual assets space. There is a need to enhance the onsite inspection and offsite supervision capabilities of licensed VA trading platform operators and portfolio managers investing in VA, given the more sophisticated business model compared with conventional Licensed Corporations (LC).

(c) 1 new executive post to cope with the rapid increase in number of LCs and increased complexity of onsite inspection arising from the diverse and rapid development of the business operations

(d) 4 new executive posts to respond to the amendments to the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO).

Legal Services Division

3.2.5 No new headcount for 2022/23 is requested.

Investment Product Division

3.2.6 1 new executive post is being requested to manage the growing number of new private Open-ended Fund Company (OFC) applications and their post-registration compliance work. With the implementation of the Government grant scheme for OFC in May 2021, there has been significant growth and interest in OFC fund applications.

Supervision of Markets Division

3.2.7 3 new executive posts are requested to implement an Uncertificated Securities Market (USM) in Hong Kong. As part of that initiative, share registrars will need to be approved, and subsequently, supervised by the Commission under a new full-fledged regulatory regime.

Corporate Affairs Division

3.2.8 The Information Technology Department are requesting 7 new executive posts to provide expertise in data management, technical architecture and AI related technologies to digitalize the processes, system and applications currently rolled out across the Commission.

3.2.9 The Complaints Team are requesting 1 executive post, reflecting the significant growth in complaints received by the Commission.

3.2.10 The Human Resources Department are requesting 1 new executive post to ensure that the department is able to provide adequate support for the Commission.

4. Financials

4.1 Income and expenditure statement

	Para. Ref.	(a) **Proposed Budget For Year 2022/23**	(b) Forecast For Year 2021/22	(c) Approved Budget For Year 2021/22	Proposed Budget (a) over/(under) Forecast (b)		Forecast (b) over/(under) Approved Budget (c)	
		HK$'000	HK$'000	HK$'000	HK$'000	%	HK$'000	%
Income								
Investor levy	4.3.2							
Securities		**1,960,686**	1,986,665	1,637,253	(25,979)	-1.3%	349,412	21.3%
Futures/Options contracts		**103,390**	103,390	122,970	-	-	(19,580)	-15.9%
Fees & charges	4.3.3	**181,494**	179,746	147,799	1,748	1.0%	31,947	21.6%
Net investment income	4.3.4	**121,978**	34,030	122,179	87,948	258.4%	(88,149)	-72.1%
Other income	4.3.5	**5,400**	5,400	5,400	-	-	-	-
Total		**2,372,948**	2,309,231	2,035,601	63,717	2.8%	273,630	13.4%
Operating expenditure								
Staff cost	4.4.1	**1,627,506**	1,486,955	1,517,832	140,551	9.5%	(30,877)	-2.0%
Project cost	4.4.2	**58,800**	-	-	58,800	N/A	-	N/A
Premises	4.4.3	**36,600**	36,462	39,650	138	0.4%	(3,188)	-8.0%
Information & systems services	4.4.4	**115,881**	107,850	116,500	8,031	7.4%	(8,650)	-7.4%
General office & others	4.4.5	**16,314**	17,844	15,044	(1,530)	-8.6%	2,800	18.6%
Learning & development	4.4.6	**7,447**	7,489	7,489	(42)	-0.6%	-	-
Professional fees & others	4.4.7	**65,209**	79,751	87,911	(14,542)	-18.2%	(8,160)	-9.3%
Regulatory & external activities	4.4.8	**14,069**	8,197	16,002	5,872	71.6%	(7,805)	-48.8%
Internship programme		**3,357**	3,050	7,120	307	10.1%	(4,070)	-57.2%
		1,945,183	1,747,598	1,807,548	197,585	11.3%	(59,950)	-3.3%
Legal related fees	4.4.9	**47,190**	36,370	60,297	10,820	29.7%	(23,927)	-39.7%
		1,992,373	1,783,968	1,867,845	208,405	11.7%	(83,877)	-4.5%
Depreciation	4.4.10	**284,338**	250,915	269,119	33,423	13.3%	(18,204)	-6.8%
Operating expenditure (1)		**2,276,711**	2,034,883	2,136,964	241,828	11.9%	(102,081)	-4.8%
Funding to external parties								
Funding to the HKSI and other education initiatives	4.5.1	**1,927**	-	-	1,927	N/A	-	N/A
Funding to IFEC	4.5.2-3	**80,051**	80,843	82,746	(792)	-1.0%	(1,903)	-2.3%
Funding to the IFRS Foundation	4.5.4	**394**	394	-	-	N/A	394	N/A
Total (2)		**82,372**	81,237	82,746	1,135	1.4%	(1,509)	-1.8%
Total expenditure (1) + (2)		**2,359,083**	2,116,120	2,219,710	242,963	11.5%	(103,590)	-4.7%
Result for the year		**13,865**	193,111	(184,109)	(179,246)	-92.8%	377,220	-204.9%
Reserves brought forward		**4,617,400**	4,549,289	4,549,289	68,111	1.5%	-	-
Reserve for property acquisition		**(125,000)**	(125,000)	(125,000)	-	-	-	-
Reserves carried forward		**4,506,265**	4,617,400	4,240,180	(111,135)	-2.4%	377,220	8.9%

4.2 Capital expenditure statement

	Para. Ref	(a) **Proposed Budget For Year 2022/23**	(b) Forecast For Year 2021/22	(c) Approved Budget For Year 2021/22	Proposed Budget (a) over/(under) Forecast (b)		Forecast (b) over/(under) Approved Budget (c)	
		HK$'000	HK$'000	HK$'000	HK$'000	%	HK$'000	%
Capital expenditure	4.6							
Furniture & fixtures		**6,000**	1,074	2,000	4,926	458.7%	(926)	-46.3%
Office equipment		**19,420**	27,100	23,520	(7,680)	-28.3%	3,580	15.2%
Vehicles		**1,200**	-	-	1,200	N/A	-	N/A
Computer systems development		**75,960**	41,580	73,580	34,380	82.7%	(32,000)	-43.5%
Total		**102,580**	69,754	99,100	32,826	47.1%	(29,346)	-29.6%

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 2022/23. 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:

	2021/22		2022/23
	Apr 21-Mar 22 (Budget)	Apr 21-Mar 22 (Forecast)	Apr 22-Mar 23 (Budget)
Securities			
Daily turnover (billion/day)	$123.0	$149.0	$147.0
Levy rate	0.0027%	0.0027%	0.0027%
Futures/Options Contracts			
Daily turnover (contracts)	457,000	390,000	390,000
Levy rate	$0.54	$0.54	$0.54

(b) The 2021/22 Forecast for Investor Levy – Securities is higher than the Approved Budget by $349.41 million (21.3%) whereas Investor levy – Futures and Options is lower than the Approved Budget by $19.58 million (15.9%). These variances reflect variations in actual securities market turnover for the first 7 months of 2021/22 (around $161 billion/day) when compared to the estimates underlying the Approved Budget.

(c) We assume that the average securities market turnover for 2021/22 would be around $149 billion/day. Based on actual to date and current levels, we have budgeted $147 billion/day for 2022/23.

(d) For budget purposes, we assume that the volume of future contracts remain unchanged in 2022/23.

4.3.3 Fees and charges

(a) The Forecast aggregate fees and charges income for 2021/22 is $31.94 million (21.6%) higher than the Approved Budget as fees from Corporate Finance is higher than expected.

(b) The 2022/23 Budget is $1.75 million (1%) higher than the Forecast. We will grant another one-year annual licensing fees waiver in 2022/23. The annual licensing fees foregone, based on Licensing's estimate, is around $244 million.

4.3.4 Net investment income

(a) Budgeted investment income for 2021/22 was $122.18 million which comprised of $80.17 million of fixed income and deposit interest and $42.01 million gains from equity pooled funds. Due to the lower than expected performance of our pooled equity fund investments, we have revised our 2021/22 Forecast net investment income to $34.03 million.

(b) 2022/23 investment income is budgeted to be $121.98 million. For budgeting purpose, we assume that the average return on investment before investment management fees is 1.59%. 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 2021/22 and 2022/23 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, IT support services, recoveries from enforcement cases and sales of Commission publications. The 2022/23 Budget is retained at 2021/22 Forecast.

4.4 Operating expenditure

4.4.1 Staff cost

(a) The overall staff cost for 2021/22 is forecasted to be lower than the 2021/22 Budget by $30.9 million (2.0%). This is principally due to the extended recruitment lead time required to fill vacancies as a result of a highly competitive and tight talent market in Hong Kong. This has been compounded by the limited ability to import talent from outside Hong Kong and the effect of emigration has further reduced the available pool of candidates.

(b) The projected headcount at 31 March 2023 is 1,018, a net increase of 30 new headcount (3%) over the 2021/22 Commission approved headcount. Please see Section 3 for details.

(c) The 2022/23 Budget includes provision for an average 4.5% pay increase for Commission staff. This recommendation is based on preliminary market information from independent parties including pay consultants and professional associations. In arriving at the proposed increase, additional consideration is given to data relevant to the financial services sector in general and more specifically, the segments of the market where we are losing talent to and seeking to acquire talent from. The Commission wishes to highlight that the tight talent market in Hong Kong has necessitated employers to budget significant pay increases versus prior years.

(d) A detailed pay policy proposal will be presented to the Commission's Remuneration Committee for discussion and to the Commission for approval in Q1 2022 taking into account the latest pay developments in the target segments which are representative of the Commission's staff mix and general pay trends within Financial Services.

(e) The projected staff cost for 2022/23 is $140.6 million (9.5%) higher than the 2021/22 Forecast. This is mainly due to the proposed pay rise and its associated benefits cost increase and cost associated with new headcount.

4.4.2 Project cost

(a) In 2022/23, the Commission intends to deploy additional resources for specific initiatives or projects. A total of $58.8 million has been provisioned to engage up to 50 project staff on two-year contract arrangements for the new and expanded initiatives.

(b) These initiatives include, but are not restricted to SPAC Listing Regime project, Digital Forensics project, Suptech and Regtech Office and Open-ended Fund Company Legislative project. All the projects aim to contribute to and strengthen Hong Kong's strategic position as an international and the GBA financial centre.

4.4.3 Premises

(a) Forecast premises expenses for 2021/22 are lower than the Approved Budget by $3.19 million (8.0%), this is to reflect the actual spending electricity, rates and management fees after moving in the One Island East.

(b) The budget for 2022/23 is retained at the Forecast level.

4.4.4 Information and systems services

(a) The information and systems services expenses forecast for 2021/22 is $8.65 million (7.4%) lower than the Approved Budget due to the lower than expected systems contract services, software licence subscription and maintenance as well as hardware maintenance.

(b) For 2022/23, we project a $8.03 million (7.4%) increase owing to a higher software subscription costs and systems control services to enhance their investigatory and supervisory capabilities as well as significant expansion in support of new application systems serving the public.

4.4.5 General office and others

(a) Forecast general office and others for 2021/22 is $2.8 million (18.6%) higher than the Approved Budget mainly due to higher than expected spending on repairs & maintenance for the premises related items expected after the expiry of the initial warranty period.

(b) The budget for 2022/23 is retained at the Forecast level.

4.4.6 Learning and development

(a) The learning and development related expenses for 2021/22 are forecasted to be generally same as the Approved Budget. This is mainly due to a stabilization of the COVID-19 condition in Hong Kong, which would allow a resumption of more planned local training and development events in the remainder of the fiscal year.

(b) The learning and development budget for 2022/23 is retained at the Forecast level. It is anticipated that more local training and development events will continue to be organized in a physical format. Some overseas exchange and cross-border development opportunities may resume in the latter part of the next fiscal year.

4.4.7 Professional fees and others

(a) Forecast professional fees for 2021/22 are $8.16 million (9.3%) lower than the Approved Budget mainly due to the lower than expected demand for specialist expertise in emerging areas.

(b) Budget for 2022/23 is $14.54 million (18.2%) lower than the Forecast for 2021/22. Key projects in 2022/23 include anti-money laundering, internal model review, CCP resolution and cyber mapping exercise.

4.4.8 Regulatory and external activities

(a) Forecast regulatory and external activities for 2021/22 are lower than the Approved Budget by $7.81 million (48.8%) due to the suspension of overseas travelling and the deferral or cancellation of seminars throughout the COVID-19 pandemic.

(b) The 2022/23 budget is $5.87 million (71.6%) higher than the 2021/22 Forecast due to the expected return of some overseas travelling and the deferral of forums and seminars from 2021/22.

4.4.9 Legal related fees

(a) The forecast for 2021/22 is $23.93 million (39.7%) lower than the original budget, taking into account the actual spending level in the first half of the year.

(b) The budget for 2022/23 is $10.82 million (29.7%) higher than the forecast due to an increased caseload and the backlog cases carried forward from the previous year.

4.4.10 Depreciation

(a) Forecast depreciation expenses for 2021/22 are estimated to be $18.2 million (6.8%) lower because of the lower than expected spend on renovation and the deferral in carrying out various IT capital projects during the year.

(b) We expect that the depreciation expenses for 2022/23 will be $33.42 million (13.3%) higher than 2021/22 Forecast mainly due to the resources invested in technology (see also para 4.6.2).

4.5 Funding to external parties

4.5.1 Funding to the Hong Kong Securities and Investment Institute (HKSI) and other education initiatives is for the development of licensing examinations for new licensing regimes and is expected to start in 2022/23.

4.5.2 Funding to the Investor and Financial Education Council (IFEC) is revised to $80.84 million in 2021/22 based on the latest forecast prepared by IFEC. In 2022/23, IFEC proposed total expenditure is $80.05 million. Major expenses are summarised below:

	Budget 2021/22	**Forecast 2021/22**	**Budget 2022/23**
	$'m	$'m	$'m
Education programmes	43.16	42.92	37.46
Staff cost	32.18	30.28	34.52
Premises costs	2.72	2.72	2.72
Professional & other services	1.21	1.21	1.22
Publicity & external relations	0.95	0.70	0.95
General office & others	2.53	3.01	3.18
Total	82.75	80.84	80.05

4.5.3 IFEC projects a slightly lower expenditure for 2022/23 based on its experience of the costs of its key operations in 2021/22 as well as proposals for projects in 2022/23 to increase the awareness, effectiveness and reach of financial education work.

4.5.4 To support the work of the International Financial Reporting Standards Foundation (IFRS Foundation), the Commission will provide funding of US$50,000 (or HK$394,000) in 2021/22 and 2022/23.

4.6 Capital expenditure

4.6.1 The total capital expenditure for 2022/23 has been increased from $69.8 million to $102.6 million mainly due to the increase of computer systems development by $34.4 million for the enhancements of various projects, new projects not included in the original budget and additional costs incurred for planned 2022/23 projects.

4.6.2 The total capital expenditure budget for 2022/23 is $102.58 million. Breakdown is as follows:

Capital expenditure	**Amount** $'m	Note
Furniture & fixtures	6.00	(a)
Office equipment	19.42	(b)
Vehicles	1.20	(c)
Computer systems development	75.96	(d)
Total	102.58	

Notes :-

(a) $6 million is provided for minor alteration of office configuration and replacement of obsolete furniture due to normal wear and tear.

(b) Office equipment:

(i) $2 million for replacement of obsolete office equipment due to normal wear and tear; and

(ii) $17.42 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) $1.2 million is provided for the replacement of one of the existing Commission cars.

(d) $75.96 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.