

**For discussion
on 6 February 2023**

Legislative Council Panel on Financial Affairs

**Securities and Futures Commission
Budget for the Financial Year 2023-24**

PURPOSE

This paper highlights the main features of the budget of the Securities and Futures Commission (“SFC”) for 2023-24.

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 2023-24.

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 2023-24

5. The proposed budget of the SFC for 2023-24 is at **Annex**. The SFC has projected a budget deficit of \$566.31 million for 2023-24. 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 2023-24 is \$1,908.17 million, which is \$312.57 million (19.6%) above the forecast income for 2022-23 (\$1,595.60 million). The SFC has adopted the following assumptions in projecting the estimated income –

- (a) the average securities market turnover will be \$107 billion per day and the average futures/options market turnover will be 530 000 contracts per day; and
- (b) the annual licensing fee waiver will continue for one year in 2023-24 with an estimated \$252 million in income foregone. The SFC has waived the annual licensing fee since 2009-10¹.

Recurrent Expenditure

7. The estimated recurrent expenditure for 2023-24 is \$2,474.48 million, which is \$247.91 million (11.1%) above the forecast expenditure for 2022-23 (\$2,226.57 million). The increase is mainly attributable to –

- (a) increase in staff cost by \$148.82 million, arising from a provision of –
 - (i) \$72.64 million representing the full-year effect of new staff hires in 2022-23, as well as 4 new headcount in the Intermediaries Division (“INT”) to better supervise the virtual assets service providers (“VASP”) and their activities. Details are set out in paragraph 9 below;

¹ Except for 2019-20 which the SFC reinstated the fee with a 50% waiver to all licensed individuals and intermediaries.

- (ii) \$50.37 million for the annual pay adjustment for budgetary purpose. This amount is approximately equivalent to an average of 3.5% pay increase. The final salary adjustment will be subject to deliberation by the SFC's Remuneration Committee and approval by the SFC Board in Q1 2023, having regard to latest pay data, general pay trend within financial services sector, among other factors²;
 - (iii) \$7.43 million for the upgrade of 9 positions to reflect the increasing complexity and scope of the respective roles; and
 - (iv) \$18.38 million for others, which include retirement benefits and insurance;
- (b) increase in project cost by \$38.80 million for continuing the two-year contract arrangements for specific initiatives or projects;
 - (c) increase in expenses on information and systems services by \$20.30 million due to higher expenses on software subscription costs and system contract services;
 - (d) increase in expenses on depreciation by \$16.88 million due to the resources invested in technology; and
 - (e) increase in other expenses by \$29.70 million, which include regulatory and external activities, funding to external parties, internship programme, learning and development, premises, legal related fees as well as general office expenses.

8. The increase in expenditure is partially offset by the decrease in expenditure on professional fees by \$6.59 million.

² The actual salary adjustment for individual staff will be subject to factors such as their ranks and performance.

Manpower Plan

9. The SFC proposes 4 new headcount in the budget of 2023-24, bringing its total headcount to 1 022. The additional manpower will allow the INT to strengthen its supervisory VASP regime to better assess the compliance and risk of allowing retail investors to trade virtual assets on the approved platform.

Capital Expenditure

10. The total capital expenditure proposed for 2023-24 is \$83.23 million, which is \$6.89 million (7.6%) below the forecast expenditure for 2022-23 (\$90.12 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 (\$57.19 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 (\$18.84 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 2023, the reserves (after ring-fencing \$3,375 million for possible acquisition of office premises as a

longer-term accommodation strategy³) will be \$4,009.06 million, which is 1.8 times of the forecast expenditure for 2022-23 (\$2,226.57 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 \$3,500 million by 31 March 2024. The SFC estimates that by 31 March 2024, the non-ring-fenced reserves will be reduced to \$3,317.75 million, which is 1.34 times of the projected expenditure for 2023-24 (\$2,474.48 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 2023-24, 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 level and bearing in mind the need to deliver its regulatory objectives effectively.

COMPARISON OF THE 2022-23 APPROVED BUDGET WITH THE FORECAST BUDGET

Income

14. The forecast income for 2022-23 is \$1,595.60 million, which is \$777.35 million (32.8%) lower than the approved budget of \$2,372.95

³ 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.

million. The lower income is mainly due to a lower-than-budgeted market turnover⁴.

Recurrent Expenditure

15. The forecast recurrent expenditure is \$2,226.57 million, which is \$132.51 million (5.6%) below the approved budget of \$2,359.08 million. The underspending is mainly due to the time lag in filling vacancies, and lower expenses on depreciation, information and systems services, regulatory and external activities and funding to external parties. The savings were partially offset by an increase in legal fees, professional fees and expenses on premises.

Capital Expenditure

16. The forecast capital expenditure is \$90.12 million, which is \$12.46 million (12.2%) lower than the approved budget of \$102.58 million. The lower expenditure is mainly due to lower spending on computer systems development. 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 2023-24. We note that the SFC has not requested appropriation from LegCo.

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 2023-24. As a main source of the SFC's income, levy on securities transactions is subject to market fluctuation and difficult to predict with accuracy. The SFC will continue to control expenditure vigorously, prioritize its work properly and deploy the available resources effectively to cope with extra workload and new regulatory initiatives.

⁴ The revised income for 2022-23 is projected based on the prevailing market performance and an assumption that the average daily turnover of securities transactions is \$106 billion and that of futures/options contracts is 530 000 contracts for the year. The approved budget was based on an assumption of a turnover of \$147 billion per day and 390 000 contracts per day.

ADVICE SOUGHT

19. Members are invited to note the proposed budget of the SFC for 2023-24.

**Financial Services Branch
Financial Services and the Treasury Bureau
January 2023**



**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 2023/24

12 December 2022

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1. Executive summary

- 1.1 Each year the budget is prepared based on a policy of tightly controlling all expenditure, 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 SFC's forecast for 2022/23 and proposed budget for 2023/24. For more detailed explanations, reference should be made to Sections 3 and 4 of this budget book.

	2023/24	2022/23	Variance	
	Proposed Budget	Forecast	Proposed Budget vs. Forecast	
	(a)	(b)	(c) = (a-b)	(c/b)
	HK\$m	HK\$m	HK\$m	%
Income	1,908.17	1,595.60	312.57	19.6%
Recurrent expenditure				
Staff costs	1,689.14	1,540.33	148.81	9.7%
Project costs	68.80	30.00	38.80	129.3%
Other recurrent expenses	565.90	514.65	51.25	10.0%
Total recurrent expenditure	2,323.84	2,084.98	238.86	11.5%
Legal related fees	63.11	62.10	1.01	1.6%
Funding to external parties	87.53	79.49	8.04	10.1%
Total expenditure	2,474.48	2,226.57	247.91	11.1%
Result for the year	(566.31)	(630.97)	64.66	

- 1.3 For 2023/24, we forecast that income will increase by \$312.57 million (19.6%) over the 2022/23 Forecast, a result of the latest securities market turnover and investment return assumptions. We assume that the securities market turnover for 2022/23 and 2023/24 would be approximately \$106 billion/day and \$107 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 6 months of 2022/23 averaged \$112 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 2022/23 and 2023/24.

- 1.6 The one-year annual licence fee waiver that commenced in April 2022 will end by March 2023. 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 in 2023/24 to support the industry for one more year. We will review the situation again next year and may reinstate the annual licence fee in 2024/25. Estimated annual licence fee income foregone in 2023/24 is around \$252 million.
- 1.7 Total expenditure for 2023/24 is expected to increase by \$247.91 million (11.1%) over the 2022/23 Forecast. The increase is mainly attributable to increases in staff costs, project costs, information & systems services, regulatory & external activities and depreciation.
- 1.8 As planned, we will transfer \$125 million to the property acquisition reserve each year across the 8-year lease term. The property acquisition reserve will stand at \$3.5 billion by March 2024.
- 1.9 To fulfil our core mission of safeguarding Hong Kong's financial stability and to strengthen Hong Kong's status as an international financial centre, the SFC needs to be adequately resourced. Having critically reviewed our manpower needs for 2023/24, a net increase of 4 full time posts over the 2022/23 approved headcount has been included in the budget. This represents a total headcount increase of approximately 0.4%. Please refer to Section 3 for more detailed information about the SFC's 2023/24 manpower plan.
- 1.10 In 2023/24, the SFC intends to continue the two-year Fixed Term Contract pool in order to maintain existing resources for specific initiatives or projects. A provision of \$68.8 million has been made in relation to the two-year contract arrangements.
- 1.11 A deficit of approximately \$566.31 million is expected in 2023/24 leaving our non-ring-fenced reserves at \$3.32 billion at the end of that financial year, which is approximately 1.34 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 2023/24, 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 \$112 billion/day for the first 6 months of 2022/23. Based on the latest internal statistical analysis, the average daily securities market turnover is assumed to be \$99 billion/day for the remainder of the year (see also para 4.3.2(a)).
- (b) For the purposes of budgeting, \$107 billion/day has been used for the 2023/24 average securities market turnover.

2.2.2 Futures and Options market

Based on the transaction volumes for the first 6 months of 2022/23, the futures/options market turnover is assumed to be an average of 530,000 contracts per day for the rest of 2022/23. 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 530,000 contracts per day in 2023/24.

2.3 Fees and charges

2.3.1 The Licensing annual fee waiver will end in March 2023. We propose to waive another one-year annual fee for licensees for 2023/24 as a relief measure for brokerage firms. This will apply to all annual licensing fees payable during the one-year period commencing 1 April 2023.

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

The average return on investment of our reserve funds before investment management fees is assumed to be 3.34% p.a. for the year 2023/24.

2.5 Remuneration adjustment

For budgeting purposes, a provision of 3.5% has been used as a salary adjustment for staff. The actual salary adjustment may vary and this 3.5% provision is based on preliminary market information from independent parties including pay consultants and professional associations (see also para 4.4.1 (c)). The final salary adjustment will be subject to deliberation by the SFC's Remuneration Committee and the Board for approval in Q1 2023.

2.6 Inflation

Where an estimate of general price level increases is required we have assumed 2% 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 2022/23 vs 2023/24

Division	Headcount			
	Approved 2022/23	Proposed 2023/24	Net Change	Para /ref
Centralised Services ^{Note 1}	40	40	-	
Corporate Finance	102	102	-	
Enforcement	217	217	-	
Intermediaries	300	304	4	3.2.1
Legal Services	53	53	-	
Investment Products	124	124	-	
Supervision of Markets	56	56	-	
Corporate Affairs	126	126	-	
TOTAL	1,018	1,022	4	

Note 1 : Includes CEO's Office, Press Office, External Relations, International Affairs, Mainland Affairs and Secretariat.

- 3.1.1 Having critically reviewed our manpower needs for 2023/24, a net increase of 4 full time posts over the approved headcount of 2022/23 has been included in the budget. This represents a total headcount increase of approximately 0.4%.
- 3.1.2 The new headcount request is justified by reference to the essential skills or new initiatives that the SFC cannot resource from within the existing headcount. In arriving at this request the SFC has already looked at the possibility of converting or re-purposing vacancies within the existing headcount to respond to new initiatives or introduce new skills.

3.2 New headcount requests – 2023/24

- 3.2.1 The Intermediaries Division are requesting 4 new posts that will enable the SFC to better supervise the virtual assets service providers (VASP) and their activities. This is in response to an increasing number of operators who have expressed interest in carrying on VA activities such as trading platforms and the management of VA funds. The new posts will allow the SFC to strengthen and develop our supervisory VASP regime to better assess compliance and the risks of allowing retail investors to trade virtual assets on the approved platform.

4. Financials

4.1 Income and expenditure statement

		(a) Proposed Budget For Year 2023/24 HK\$'000	(b) Forecast For Year 2022/23 HK\$'000	(c) Approved Budget For Year 2022/23 HK\$'000	Proposed Budget (a) over/(under) Forecast (b) HK\$'000 %		Forecast (b) over/(under) Approved Budget (c) HK\$'000 %	
Para.	Ref.							
Income								
Investor levy	4.3.2							
Securities		1,418,499	1,400,344	1,960,686	18,155	1.3%	(560,342)	-28.6%
Futures/Options contracts		140,780	140,780	103,390	-	-	37,390	36.2%
Fees & charges	4.3.3	113,617	112,486	181,494	1,131	1.0%	(69,008)	-38.0%
Net investment income/(loss)	4.3.4	229,877	(64,630)	121,978	294,507	-455.7%	(186,608)	-153.0%
Other income	4.3.5	5,400	6,622	5,400	(1,222)	-18.5%	1,222	22.6%
Total		1,908,173	1,595,602	2,372,948	312,571	19.6%	(777,346)	-32.8%
Recurrent expenditure								
Staff costs	4.4.1	1,689,146	1,540,331	1,627,506	148,815	9.7%	(87,175)	-5.4%
Project costs	4.4.2	68,800	30,000	58,800	38,800	129.3%	(28,800)	-49.0%
Premises	4.4.3	39,850	37,500	36,600	2,350	6.3%	900	2.5%
Information & systems services	4.4.4	127,681	107,380	115,881	20,301	18.9%	(8,501)	-7.3%
General office & others	4.4.5	16,140	15,480	16,314	660	4.3%	(834)	-5.1%
Learning & development	4.4.6	10,937	7,447	7,447	3,490	46.9%	-	-
Professional fees & others	4.4.7	59,571	66,160	65,209	(6,589)	-10.0%	951	1.5%
Regulatory & external activities	4.4.8	20,277	9,892	14,069	10,385	105.0%	(4,177)	-29.7%
Internship programme		7,120	3,357	3,357	3,763	112.1%	-	-
		2,039,522	1,817,547	1,945,183	221,975	12.2%	(127,636)	-6.6%
Legal related fees	4.4.9	63,110	62,100	47,190	1,010	1.6%	14,910	31.6%
		2,102,632	1,879,647	1,992,373	222,985	11.9%	(112,726)	-5.7%
Depreciation	4.4.10	284,319	267,435	284,338	16,884	6.3%	(16,903)	-5.9%
Total (1)		2,386,951	2,147,082	2,276,711	239,869	11.2%	(129,629)	-5.7%
Funding to external parties								
Funding to the HKSI and other education initiatives	4.5.1	3,823	-	1,927	3,823	N/A	(1,927)	-100.0%
Funding to IFEC	4.5.2-3	82,908	78,689	80,051	4,219	5.4%	(1,362)	-1.7%
Funding to the IFRS Foundation	4.5.4	800	800	394	-	-	406	103.0%
Total (2)		87,531	79,489	82,372	8,042	10.1%	(2,883)	-3.5%
Total expenditure (1) + (2)		2,474,482	2,226,571	2,359,083	247,911	11.1%	(132,512)	-5.6%
Result for the year		(566,309)	(630,969)	13,865	64,660	-10.2%	(644,834)	N/A
Reserves brought forward		4,009,055	4,765,024	4,765,024	(755,969)	-15.9%	-	-
Reserve for property acquisition		(125,000)	(125,000)	(125,000)	-	-	-	-
Reserves carried forward		3,317,746	4,009,055	4,653,889	(691,309)	-17.2%	(644,834)	-13.9%

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 SFC proposes that the Government does not request any appropriation from the Legislative Council for the financial year 2023/24. The SFC’s decision is made without prejudice to the funding principles established when the SFC 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:

	2022/23		2023/24
	Apr 22-Mar 23 (Budget)	Apr 22-Mar 23 (Forecast)	Apr 23-Mar 24 (Budget)
Securities			
Daily turnover (billion/day)	\$147.0	\$106.0	\$107.0
Levy rate	0.0027%	0.0027%	0.0027%
Futures/Options Contracts			
Daily turnover (contracts)	390,000	530,000	530,000
Levy rate	\$0.54	\$0.54	\$0.54

- (b) The 2022/23 Forecast for Investor Levy – Securities is lower than the Approved Budget by \$560.34 million (28.6%) whereas Investor Levy – Futures and Options is higher than the Approved Budget by \$37.39 million (36.2%). These variances reflect variations in actual securities market turnover for the first 6 months of 2022/23 (around \$112 billion/day) when compared to the estimates underlying the Approved Budget.
- (c) We assume that the average securities market turnover for 2022/23 would be around \$106 billion/day. Based on actual to date and current levels, we have budgeted \$107 billion/day for 2023/24.
- (d) For budget purposes, we assume that the volume of future contracts remain unchanged in 2023/24.

4.3.3 Fees and charges

- (a) The Forecast aggregate fees and charges income for 2022/23 is \$69.01 million (38%) lower than the Approved Budget as fees from Corporate Finance are lower than expected.
- (b) The 2023/24 Budget is \$1.13 million (1%) higher than the Forecast. We will grant another one-year annual licensing fees waiver in 2023/24. The annual licensing fees foregone, based on Licensing's estimate, is around \$252 million per annum.

4.3.4 Net investment income/(loss)

- (a) Budgeted investment income for 2022/23 was \$121.98 million which comprised of \$73.03 million of fixed income and deposit interest and \$48.95 million gains from equity pooled funds. Due to the lower than expected performance of our pooled equity fund investments, we have revised our net investment income to a loss of \$64.63 million in 2022/23 Forecast despite higher interest income benefiting from interest rate increases
- (b) 2023/24 investment income is budgeted to be \$229.88 million. For budgeting purposes, we assume that the average return on investment before investment management fees is 3.34%. 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 2022/23 and 2023/24 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 SFC publications. The 2023/24 Budget is kept at the level of 2022/23 Forecast.

4.4 Recurrent expenditure

4.4.1 Staff costs

- (a) The overall staff costs for 2022/23 is forecasted to be lower than the 2022/23 Budget by \$87.18 million (5.4%). 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 which has further reduced the available pool of candidates.
- (b) The projected headcount at 31 March 2024 is 1,022, a net increase of 4 new headcount (0.4%) over the 2022/23 approved headcount. Please see Section 3 for details.

- (c) Staff costs are \$148.82 million (9.7%) higher than 2022/23 Forecast. The increase is mainly attributable to the 4 proposed additional full-time positions (+0.4%) and filling the vacant positions. For budgeting purposes, a provision of 3.5% has been used as a salary adjustment for staff which is slightly below the latest market pay trend for the financial services industry. The SFC wishes to highlight the actual salary adjustment may change and that a detailed proposal will be presented to the SFC's Remuneration Committee for deliberation and to the Board for approval in Q1 2023. The final fixed pay increase will take into account the latest pay data, general pay trends within Financial Services and the overall employment market in Hong Kong.

4.4.2 Project costs

- (a) In 2023/24, the SFC intends to continue the two-year fixed term contract pool in order to maintain existing resources for specific initiatives or projects. A total of \$68.8 million has been provisioned. All the projects aim to contribute to, and strengthen, Hong Kong's strategic position as an international and GBA financial centre.

4.4.3 Premises

- (a) The forecast for 2022/23 is retained at the Approved Budget level.
- (b) The budget for 2023/24 is \$2.35 million (6.3%) above the 2022/23 Forecast due to the increase in rates, management fees and electricity.

4.4.4 Information and systems services

- (a) The information and systems services expenses forecast for 2022/23 is \$8.5 million (7.3%) lower than the Approved Budget due to the lower than expected spend on systems contract services, software licence subscriptions and maintenance as well as library research facilities.
- (b) For 2023/24, we project a \$20.3 million (18.9%) increase owing to a higher spend on software subscription costs and systems contract 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) The forecast for 2022/23 is retained at the Approved Budget level.
- (b) The budget for 2023/24 is retained at the Forecast level.

4.4.6 Learning and development

- (a) The learning and development related expenses for 2022/23 are forecasted to be at the same level 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 for the remainder of the fiscal year.
- (b) The learning and development budget for 2023/24 is \$3.5 million (46.9%) higher than the 2022/23 Forecast. It is anticipated that more local training and team development events will be organized. Some overseas exchange and cross-border development opportunities are also expected to resume in the latter part of the next fiscal year.

4.4.7 Professional fees and others

- (a) The forecast for 2022/23 is retained at the Approved Budget level.
- (b) Budget for 2023/24 is \$6.59 million (10%) lower than the forecast for 2022/23. Key projects in 2023/24 include anti-money laundering, internal model review, cyber mapping exercise and circularization exercise and review of internal controls of brokers.

4.4.8 Regulatory and external activities

- (a) Forecast regulatory and external activities for 2022/23 are lower than the Approved Budget by \$4.18 million (29.7%) due to the suspension of overseas travelling and the deferral or cancellation of seminars throughout the COVID-19 pandemic.
- (b) The 2023/24 budget is \$10.39 million (105%) higher than the 2022/23 Forecast due to the expected return of overseas travelling and the deferral of forums and seminars from 2022/23.

4.4.9 Legal related fees

- (a) Based on the latest development of cases in the pipeline, the forecast for 2022/23 has been revised upward by \$14.91 million (31.6%) higher than the Approved Budget.
- (b) The budget for 2023/24 is retained at the Forecast level.

4.4.10 Depreciation

- (a) Forecast depreciation expenses for 2022/23 are estimated to be \$16.9 million (5.9%) 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 2023/24 will be \$16.88 million (6.3%) higher than 2022/23 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 be incurred in 2023/24.

4.5.2 Funding to the Investor and Financial Education Council (IFEC) is revised to \$78.69 million in 2022/23 based on the latest forecast prepared by IFEC. In 2023/24, IFEC proposed total expenditure is \$82.91 million. Major expenses are summarised below:

	<u>Budget 2022/23</u>	<u>Forecast 2022/23</u>	<u>Budget 2023/24</u>
	\$'m	\$'m	\$'m
Education programmes	37.46	37.46	28.81
Staff costs	34.52	33.48	37.04
Premises costs	2.72	2.70	4.11
Information and systems	2.26	2.21	3.18
Professional & other services	1.22	1.22	1.62
General office & others	1.67	1.37	1.70
Capital expenditures	0.20	0.25	6.45
Total	<u>80.05</u>	<u>78.69</u>	<u>82.91</u>

4.5.3 IFEC will establish a digital experiential learning hub in 2023/24. It is a new initiative in IFEC's digital transformation journey that aims to offer a new learning experience to the Hong Kong public of all segments. Total expected sum of \$8.28 million will be required for the first year, of which \$6.2 million is for capital expenditures.

4.5.4 To support the work of the International Financial Reporting Standards Foundation (IFRS Foundation) and the establishment of the International Sustainability Standards Board, the SFC will provide funding of US\$100,000 (or HK\$800,000) in both 2022/23 and 2023/24.

4.6 Capital expenditure

4.6.1 The total capital expenditure for 2023/24 has been decreased from \$90.12 million to \$83.23 million mainly due to the decrease of computer systems development by \$5.89 million.

4.6.2 Breakdown of the capital expenditure for 2023/24 is as follows:

Capital expenditure	Amount \$'m	Note
Furniture & fixtures	6.00	(a)
Office equipment	18.84	(b)
Vehicles	1.20	(c)
Computer systems development	<u>57.19</u>	(d)
Total	<u>83.23</u>	

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) \$16.84 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 cars.
- (d) \$57.19 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 SFC and enhance various IT systems.