

Corporate Affairs

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ACHIEVEMENTS

- Reduced operating expenditure and contained deficit at half of the budgeted amount
- Provided more training to staff despite budget cut
- Revamped business systems to prepare for SFO commencement
- Reached out to more investors with new education initiatives
- Strengthened communication with investors and other stakeholders

THIS CHAPTER IS ABOUT

- The Commission's finances and cost controls
- Staffing and remuneration
- Training and development
- Staff welfare and employee relations
- e-SFC Programme
- Investor education and communications
- Investor enquiries and complaint handling
- Reaching out to stakeholders
- Preparing for SFO implementation

What We Do

- Provide finance, human resources and training, information technology, management and corporate services to the Commission;
- Provide strategic planning and corporate co-ordination on the Commission's work;
- Educate investors on their rights and responsibilities; and
- Promote effective communications with stakeholders including the media.

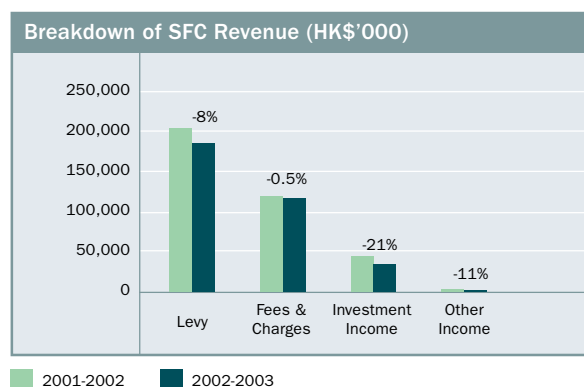
This chapter covers the work of the Chairman's Office, Commission Secretariat, Finance and Administration, Human Resources, Training and Development, Information Technology, Investor Education and Communications, and Corporate Communications.

What We Did

Finances and Cost Controls

Total revenue for 2002-2003 dropped by 7% or \$25.8 million from the previous year to \$337.2 million.

Following a slowdown in market activities, there were falls in levy income, fees and charges, investment income, and other income.



Levy income, the primary source of revenue, dropped by 8% or \$16.5 million, largely because the daily market turnover had shrunk to an average of \$6.4 billion from \$7.7 billion in the previous year. Investment income fell 21% or \$8.6 million due to the reduction of investment fund for funding the deficit and the continuous softening of interest rates.

We continued to exercise stringent cost control with measures which we had adopted since the second half of 2001. We froze salary and introduced manpower cost controls. Vacancies were not filled except for dual filing functions and urgent operational needs. We also scaled down training expenses and cut overseas training and secondment. In addition, for the second consecutive year there were no variable pay awards in 2002-2003. We suspended all but essential IT projects.

The cost control measures yielded considerable results. Comparing with a year ago, we have reduced our total operating expenditure after depreciation by 5% or \$21.6 million to \$395.6 million. Half of the reduction, or \$11 million, was due to a cut in personnel expenses. In addition, capital expenditure was down by 45% to \$14.8 million.

As a result, our deficit amounted to \$58.4 million, half of the original budgeted deficit of \$117.6 million. It was comparable with the \$54.2 million deficit in 2001-2002, even though revenue was 7% lower. The reserves at the end of March 2003 was \$565.6 million, equivalent to 16 months of estimated expenditure (including depreciation) of \$433.3 million for 2003-2004.

Our budget for 2003-2004 forecasts an operating deficit of \$93.3 million. In March 2003, the Financial Secretary under the delegated authority from the Chief Executive approved the budget.

Staffing and Remuneration

The Commission's permanent established posts were frozen at 361 and temporary established posts were maintained at 12. As at 31 March 2003, there were 395 staff, comprising 355 regular staff and 40 temporary staff. This was a 5% reduction from the total staff number of 415 a year earlier. The above figures did not include the 12 permanent posts created for the additional work under dual filing. Eight of these posts had been filled at year-end, taking total staff strength to 403.

About 38% of SFC staff held professional qualifications. Overall staff turnover increased from 7.4% to 8.8%.

The Government appointed the Hay Group Limited to conduct a review in early 2002 on the remuneration of senior executives of statutory bodies and other organisations, including the SFC. In accordance with the recommendations of the Hay Report issued in June 2002, the remuneration information of the top three tiers of our senior executives is disclosed as follows:

- All Executive Directors are not entitled to any other benefits except for retirement benefits, medical and life insurance, and annual leave. A six-month "sanitisation" period is applicable to all Executive Directors upon termination of employment which is not treated as garden leave with pay, and no compensation will be made.
- In his employment contract, the Chairman's annual remuneration package comprises a fixed pay of \$7,500,000 and a performance-related variable pay of up to \$375,000. The fixed pay is constant throughout the contract period and the variable pay is awarded annually on performance basis. The Chairman has voluntarily reduced his fixed pay since 1 October 2001 from the contractual sum of \$7,500,000 to \$6,750,000 per annum. His total emoluments (including retirement benefits) during the year amounted \$6,800,000.
- The average of the total emoluments (including retirement benefits) of the other four Executive Directors during the year amounted to \$4,165,000.
- The average of the total emoluments (including retirement benefits) of the seven serving Senior Directorate Grade Staff during the year amounted to \$2,613,000.

Training and Development

Customised training to enhance staff competence and operational effectiveness continued despite a considerable reduction in the training budget. During the year, we provided 263 training programmes covering topics on industry, management, language and information technology. Sixteen general sessions to cover the SFO were organised for all staff, while a further 18 technical sessions on specific parts were organised for the operational teams.

To improve internal communication, our colleagues presented their areas of operation and shared experience in briefing sessions. These included a series of sharing sessions on Leadership, Organisational Change and Internal Management led by the Chairman.

Local and overseas external speakers were also invited from time to time to provide updates on current issues and exposure to overseas regulatory experience. Prominent overseas speakers included Mr Dan Waters, Director of Risk Assessment Division of the Financial Services Authority (FSA), UK and Mr Ian Johnston, ASIC's Executive Director of Financial Services Regulation.

We continued the secondment programme with the CSRC and sent staff to essential overseas programmes. During the year, five staff were seconded to the CSRC while we received 17 secondees from the CSRC. One staff was seconded to the FSA while four attended training in the UK and the Asia Pacific region. Locally, we also opened some of our training programmes to the HKMA, Mandatory Provident Fund Schemes Authority (MPFA) and the FSTB to facilitate exchange of regulatory experience.



ASIC's Ian Johnston shares the Australian experience in financial market reform with SFC staff.

Staff Welfare and Employee Relations

We continued to organise events and activities to improve staff communications and relations. Staff functions held in 2002-2003 included in-house staff lunches and barbecue outing etc. With the support of the Commission, a soccer team has also been formed.

Colleagues gather for a BBQ outing at Repulse Bay.



Apart from recreational activities, there was also frequent communication between the Chairman and staff. The Chairman briefed both executive and general grade staff and issued monthly notes regularly, and sent special messages on important occasions.

e-SFC Programme

The e-SFC Programme began in April 2001. It aimed to enable the SFC to conduct business electronically to gain efficiency and effectiveness, hence enhancing the Commission's responsiveness to the securities industry. The two-year project was completed at the end of March 2003.

■ Knowledge Base and Work Process

An e-Library was launched on the SFC Intranet, which enables staff to do research from their desktops easily.

To prepare for the SFO commencement, we upgraded four major business systems relating to intermediaries regulation, inspection, and investment products regulation. New workflow systems were also introduced to improve process, notably one for handling of listing application materials under dual filing. The SFO also necessitated changes to more than 20 SFC computer systems, including major revamps of those for licensing management, disclosure of interests, and filing of intermediaries' financial returns.

■ Quality Services

In January 2003, the Commission passed the certification audit for ISO9001: 2000 for both the Technology Services and System Development Services. This certification confirmed that our IT services quality continued to match the best industry standards. An information security review was conducted by a renowned IT expert in February 2003. The review confirmed that our security measures reached the high standards of other regulatory bodies in major international markets.

Investor Education and Communications

■ New Endeavours

We take innovative and proactive means to communicate with investors. During the year, we produced our first video drama for broadcast on public transportation – 2,400 buses and 200 public light buses for three months. The 12-episode *Invest with Your Heads Up* explains stock trading and settlement procedures, and measures investors can take to protect their own interests when dealing in stocks.

Also for the first time, we produced investor education VCDs and CD-ROMs, both of which contain the video series. The CD-ROM also contains interactive games and feature articles on investment activities and products from the Electronic Investor Resources Centre (eIRC).

To help young people learn more about financial planning and investment, we partnered with The University of Hong Kong to offer a course on *Financial Intelligence (FQ) – The Art of Personal Financial Management and Investment* for some 250 university students.

We published a cartoon leaflet *Wise Ways when Dealing with Brokers*, making it more interesting for the general stock investors to learn how to protect their interests.

In addition, we jointly organised with Radio Television Hong Kong an investor knowledge competition to increase investors' awareness of their rights and obligations. This radio quiz received overwhelming response from the audience, resulting in an extension of the programme from five to eight weeks.

■ **Thematic Campaigns**

We conduct thematic education campaigns to complement new developments in the market. During the year these included education on: equity-linked instruments (ELIs) when the first ELI was listed on the Stock Exchange; hedge funds ahead of the introduction of retail hedge funds; and bonds following the streamlining of the offering mechanism. Investor publications, on-line education resources, and feature articles in the print media explained the product features, investment risks, and other tips on investor protection.

We continued the annual "train-the-trainer" teacher workshops. Some 550 secondary school teachers attended a total of 13 workshops on stocks, funds, options and futures, and received a teaching kit for discussion with students in class.

We jointly organised with the Government and other public bodies the Hong Kong Financial Sector Exhibition in July 2002. The five-day exhibition highlighted the quality of the Hong Kong financial markets and focused on market and product development, financial infrastructure, regulatory reform, consumer protection, public education, professional development and international co-operation.

■ **SFO**

We published a booklet called *SFO & You* to explain the key changes brought about by the SFO in plain language and how they affect the investors. We also published an updated leaflet *When and How to Make a Complaint* to explain how an investor can make a complaint in a more effective manner.

Investor Enquiries and Complaint Handling

During the year, we received 3,982 investor enquiries, compared with 3,073 enquiries in the previous year. We also received 959 public complaints, against 721 in the previous year.



All complaints are taken seriously and first reviewed by the Complaints Control Committee, which is chaired by an Executive Director and consists of six senior executives from various divisions and departments. The committee meets every week and makes a preliminary assessment of all public complaints to decide whether further action needs to be taken, taking into account information from the complainant and the subject of complaint.

Each operational division and department has also established a guideline for staff to follow when handling complaints referred to them for assessment or investigation.

Statistics of Public Complaints		
Nature of complaints	2002-2003	2001-2002
1. Conduct of licensed intermediaries	305	248
2. Listing related matters & disclosure of interests	323	144
3. Market misconduct	122	108
4. Investment products	32	18
5. Other financial activities	148	191
6. Miscellaneous	29	12
Total	959	721

Effective Complaints Handling

Warning List Saves Investor from Scam

During the year, the SFC received a complaint against an unlicensed overseas company for cold calling. We put the company's name on the Investor Alert List on the SFC website. Later, a UK investor was cold-called by a sales representative of that unlicensed company and was about to send £5,000 to invest in an "once in a life time" offer. Luckily the investor visited the SFC website and checked the Investor Alert List. He immediately withheld the money and sent an email to the SFC to say "thank you".

Forex Investor Gets Settlement

A novice investor was solicited by an account executive of a leveraged foreign exchange trading firm to open an account. The account executive allegedly promised to limit her loss to 2.5% of investment. However, almost total loss was subsequently reported. The investor lodged a complaint with the SFC. While the SFC will look into possible misconduct, it cannot intercede in pecuniary disputes. The SFC advised the investor to report the matter to the firm's management. Later on, she told the SFC that she had entered into a settlement agreement with the firm and the account executive.

Advisers Reminded of Cold Calling Prohibition

The SFC last year received several complaints from the public against cold calling by investment advisers to sell funds or offer financial advisory services. In view of the risk of mis-selling, the SFC issued a circular in November 2002 to remind all licensed investment advisers that while conducting business, they should observe the cold calling prohibition.

Reaching Out to Stakeholders

The Commission actively engages stakeholders in the development of its regulatory policies and keeps the market and the public informed of its latest news and activities.

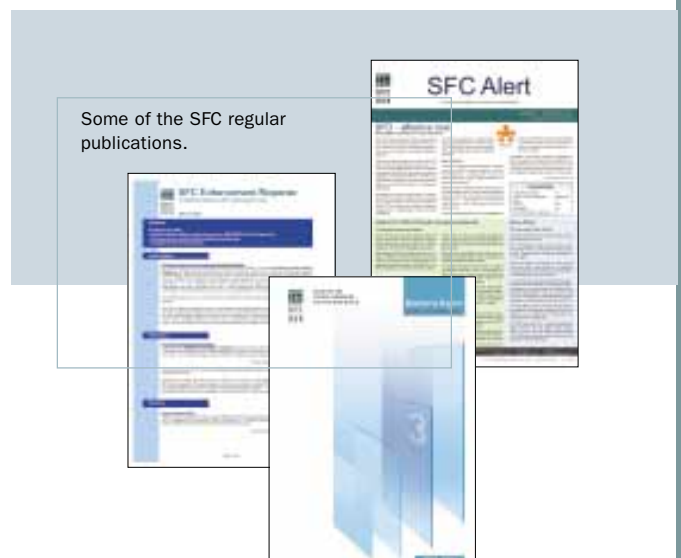
The mass media remain an important channel through which information about our work and policies is communicated to stakeholders including the general public. During the year, we issued a record 299 press releases and our senior executives gave 34 interviews. A total of 11 press conferences and sharing sessions were held to announce new policy initiatives and discuss the Commission's work. We also handled 1,346 media enquiries during the year.



All Executive Directors meet the media to review 2002 and outline our priorities for 2003.

The SFC's corporate website www.hksfc.org.hk is another valuable source of information for industry participants and investors. We provide an email enquiry service on the website. A total of 989 public enquiries were received via email in 2002-2003. During the year, we introduced another free service where subscribers will receive an email whenever there are updates of the subscribed sections of the website. A new name search function for our enforcement press releases will ease retrieval. The website's content was significantly updated with SFO-related information to help the public better understand the new law. The website achieved an average of 266,590 hits per day compared to 183,671 hits per day in 2001-2002.

In November 2002, we began publishing the *SFC Enforcement Reporter*, a monthly summary of the Commission's enforcement action. This serves to reinforce our regulatory message that enforcement is a priority of the Commission. Meanwhile, we continued to publish the *SFC Alert* newsletter to bring the latest news about the Commission to intermediaries and investors. Although it is not a statutory requirement, we released *Quarterly Reports* to enhance transparency and accountability. The research-based *SFC Quarterly Bulletin* and its more detailed version on the website provide useful statistics and in-depth analysis into topical market issues.



Staff geared up at the start line on The Peak for the 10th Green Power Hike.



Preparing for SFO Implementation

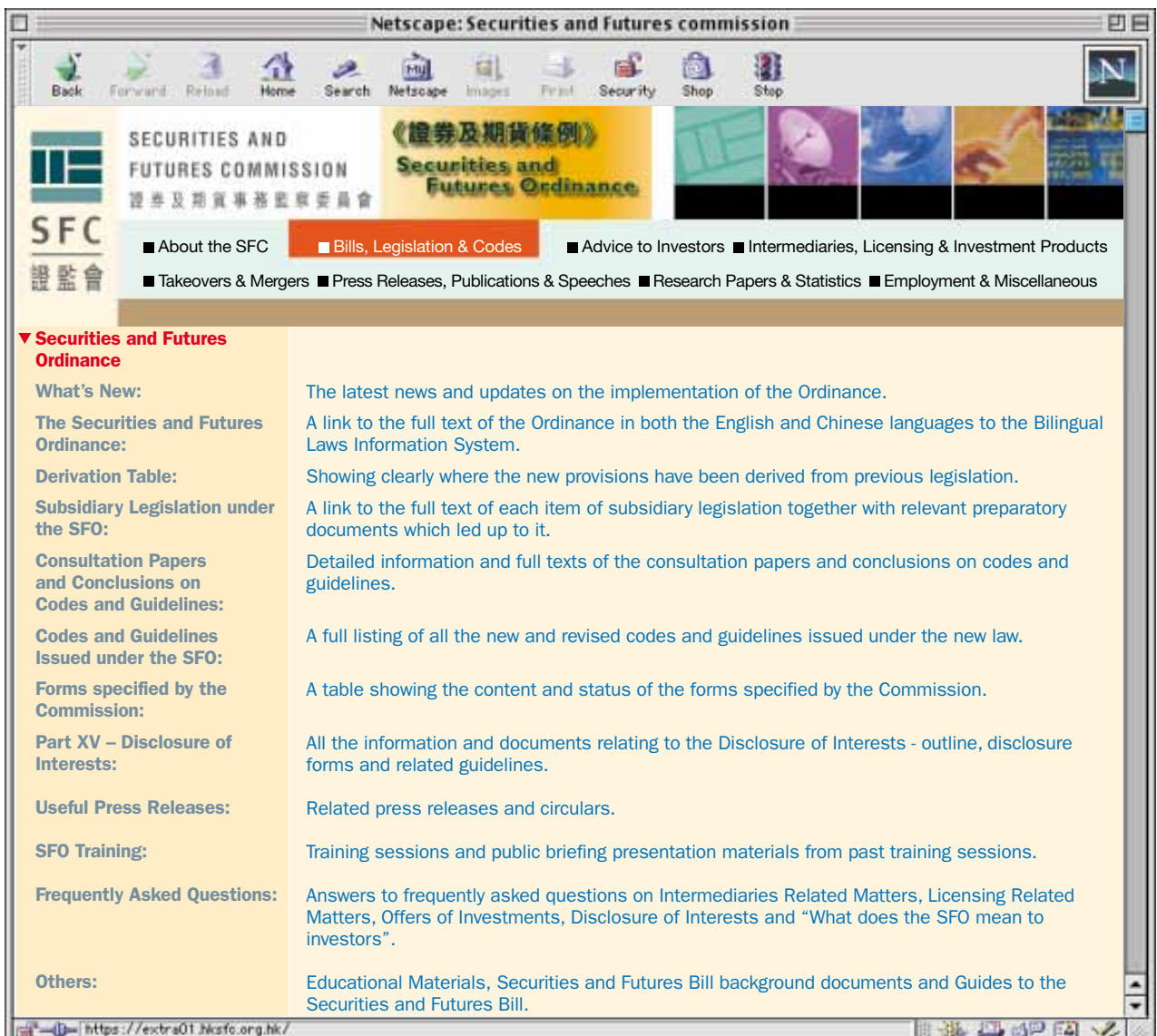
Supported by the Legal Services Division and Corporate Affairs Division, all operational divisions of the SFC had been actively involved during last year in preparing for the SFO implementation, including initiatives to inform and educate market participants, investors, the general public and other stakeholders.

Concern for the Community

The Commission and its staff support community and charitable projects enthusiastically. We have participated in fund-raising activities such as the Community Chest Green Day and the Dress Casual Day 2002. Our staff also took part in charitable sports events including the BOC (HK) Walkalong for Light and the 10th Green Power Hike.

A special SFO section was created on the SFC website upon enactment of the law in March 2002. The section has been continuously updated and carries a great deal of information on the new law for the public's reference.

The following is a roadmap of the SFO section.



We organised and took part in a total of 92 SFO training seminars during the year (some in conjunction with industry associations, professional bodies and the Hong Kong Securities Institute) for market practitioners and our own staff. In all, there were more than 15,000 participants. The following is a summary table:

SFO Training Sessions Given by the SFC by the end of March 2003		
Target Audience	Number of Training Sessions Conducted	Total Number of Participants
SFC Staff	34	1,877
Members of the Hong Kong Securities Institute and the Public	15	1,368
Exchange Participants	13	3,329
All Registered Persons and Interested Market Practitioners	11	3,476
Accountants & Legal Practitioners	11	769
Investment Advisers, Exempt Dealers and Exempt Investment Advisers	6	833
Insurance Intermediaries	1	3,700
Police	1	50
Total	92	15,402

* Participants may attend more than one session.