

# Corporate Affairs

## Achievements

- Continued stringent cost control and achieved a surplus after two years of deficit
- Moved to new offices
- Strengthened employee relations and communication
- Provided more customised training to staff
- Formed Security Committee and revised the Information Security Policy to strengthen protection of information assets
- Reached out to more investors with new education initiatives
- Strengthened communication with investors and other stakeholders
- Participated actively in community work and voluntary services

## This Chapter Is About

- >> The SFC's finances and administration
- >> Human resources matters
- >> Technology advancement
- >> Investor education and communications
- >> Reaching out to stakeholders
- >> Ensuring smooth transition to the SFO regime
- >> Care for the community

## WHAT WE DO

- >> Provide finance, human resources, 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, Corporate Planning, Finance and Administration, Human Resources, Training and Development, Information Technology, Investor Education and Communications, and Corporate Communications.

## WHAT WE DID

### Finances and Administration

#### > Financial Highlights

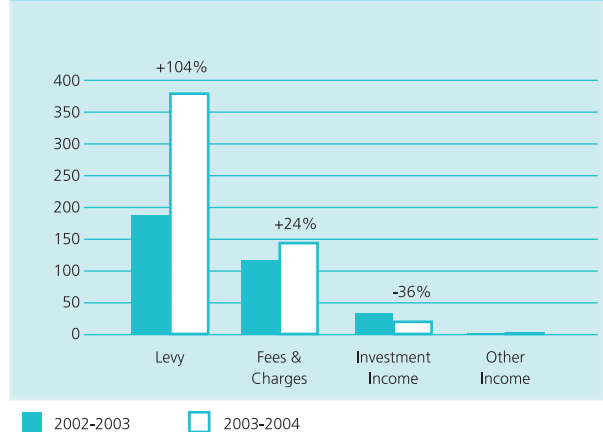
Benefiting from the revival of market activities since the second quarter of the financial year, the SFC's total revenue for 2003-2004 increased by 63% or \$213 million from the previous year to \$551 million. Yet, the increases in both levy income and fees and charges income were partially offset by the drop in investment income.

Levy income, our major source of revenue, increased by 104% or \$194 million to \$380 million (2002-2003: \$186 million) as the average daily market turnover surged to \$14.6 billion (\$7 billion). For income purpose, the turnover figure includes the amount of new fund raisings, which also attract transaction levy.

Fees and charges income rose by 24% or \$28 million to \$145 million (\$117 million). Investment income fell

36% or \$12 million to \$21 million (\$33 million) due to the continuous softening of interest rate, despite the increase in funds available for investment.

Breakdown of SFC Revenue (\$ million)



During the year, we continued to exercise stringent cost control with measures which we have adopted since the second half of 2001. We froze fixed salary and exercised tight control on staff number. We also kept recruitment expenses and expenditure for staff activities to a minimum, and the provision of training activities at a modest level.

Total expenditure was \$426 million (\$397 million), \$7 million below the approved budget. Compared to a year ago, expenditure was 7% or \$29 million higher. The increase was mainly attributable to the one-off office relocation expenditure and new expenses for discharging the Dual Filing function. Should these expenditures be excluded, the increase was 2% or \$7.4 million.

As a result, the SFC achieved a surplus of \$125 million for the year 2003-2004 as compared with the projected deficit of \$93 million for 2003-2004 and the \$58 million actual deficit recorded in 2002-2003. Our reserves at the end of March 2004 stood at \$691 million, equivalent to 1.6 times of estimated expenditure (including depreciation) of \$443 million for 2004-2005.

## Corporate Affairs

Our budget for 2004-2005 forecasts an operating surplus of \$4 million. In March 2004, the Financial Secretary under the delegated authority from the Chief Executive approved the budget.

### > Office Relocation

In June 2003, the SFC moved its offices to Chater House, after being given notice to vacate The Landmark. The relocation process was smooth and we managed to keep related costs, including fitting out expenses, to a minimum. We adopted a modest fitting standard and reused old furniture as far as possible. Our new offices became fully operational on 30 June 2003.

Our computer centre was also relocated as part of the office relocation in July 2003. Normal computer services were maintained during the relocation process without additional investment in transitional hardware and any service interruption.

## Human Resources Matters

### > Staffing and Remuneration

The Commission considers its staff the greatest asset. Its remuneration policy is to ensure that the SFC pay levels are competitive and effective in attracting, retaining and motivating competent staff.

There were 392 permanent established posts (including 18 permanent established posts created for the additional work under Dual Filing) and eight temporary established posts. Separately, provision was made for 19 temporary staff and 14 Executive Trainees.

As at 31 March 2004, there were 416 staff (including 17 staff for Dual Filing), comprising 382 regular staff filling the permanent established posts and 34 temporary staff. Total staff number was 403 a year ago.

A total of 173 SFC staff, representing 42% of all staff, held professional qualifications. During the year, overall staff turnover decreased from 8.8% to 7.2%.

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 them leaving the Commission which is not treated as garden leave with pay, and no compensation will be made.
- In his last employment contract up to 30 September 2003, the Chairman's annual remuneration was up to \$7,875,000, comprising a fixed pay of \$7,500,000 and a performance-related variable pay of up to \$375,000. Since 1 October 2001, the Chairman had voluntarily reduced his fixed pay from the contractual sum of \$7,500,000 to \$6,750,000 per annum. He had also voluntarily offered to forego all of his variable pay. In his new employment contract effective 1 October 2003, the Chairman's annual remuneration package comprises a fixed pay of \$6,750,000 and a performance-related variable pay of up to \$337,500. The fixed pay is constant throughout the contract period and the variable pay is awarded annually on performance basis. His total emoluments (including retirement benefits) during the year amounted to \$6,800,000.
- The average of the total emoluments (including retirement benefits) of the other five Executive Directors during the year amounted to \$4,077,000.
- The average of the total emoluments (including retirement benefits) of the seven serving Senior Directorate Grade Staff during the year amounted to \$2,773,000.

### > Human Resources Policies and Staff Opinion Survey

To continuously enhance its internal operations, the SFC revised its Personnel Manual to include the Equal Employment Opportunities Policy, Grievance Procedures and Disciplinary Procedures. The revised Personnel Manual is effective from 1 April 2004.

To better understand what staff think of their work and the Commission, staff were invited to take part in an opinion survey conducted by an international human resources consulting firm in late 2003. The survey attracted a satisfactory response rate of 58% among staff. The survey results will be released after consideration by the Board.

## › Training and Development

The training budget was kept to a minimum in the first half of the year as part of the overall cost saving strategy. During this period, the Commission relied heavily on internal expertise and market participants for training. In the second half when the market picked up, the Commission was quick in allocating additional resources for customised training. Tailor-made in-house courses were provided to promote staff competence and effectiveness. During the year, 231 customised training programmes covering topics on industry, management, language and information technology were held in-house. These included workshops on interpersonal and communication skills, presentation skills, supervisory management and Putonghua.

Staff also shared experience among themselves and presented their areas of responsibility in briefings. These included training sessions on SFO and new initiatives such as Dual Filing and new rules on listing and corporate governance. Senior executives including the Chairman and other Executive Directors also spoke on topical issues.

Local and overseas external speakers were also invited to provide updates on market issues and overseas regulatory experience. Prominent speakers included Mr Noel Hinton, Deputy Director General of the London Takeover Panel and Mr James Clarkson, Director of Regional Office Operations of the US SEC. In March 2004, we joined the Hong Kong Securities Institute and the Hong Kong Association of Banks to organise a luncheon seminar on self-regulation in securities market, presented by Sir Howard Davies, Director of the London School of Economics and former Chairman of the UK FSA.



Sir Howard Davies receives a souvenir from Mr Andrew Sheng after the luncheon seminar.

To broaden staff's exposure and experience, we continued to operate a secondment programme with the CSRC and send staff to essential overseas training. During the year, three staff were seconded to the CSRC for four weeks each while we received three CSRC secondees for three weeks to six months. One staff was seconded to ASIC for four weeks while two staff members attended training in the UK and the Asia Pacific region.

## Staff Welfare and Employee Relations

We stepped up efforts to enhance employee relationship and communication in 2003-2004. A number of in-house lunches and a barbeque were organised. Subsidies were also disbursed to departments to enable them to organise staff functions and recreational activities to promote team spirit.

We also organised health talks for staff and sought to ensure that the Commission's office environment and equipment comply with the Occupational Safety and Health Ordinance.



SFC Basketball Team and supporters pose with senior representatives of various financial regulators after winning the Supervisory Cup Basketball Competition 2003 last August.

Last year also saw the formation of an SFC basketball team. Other recreational activities like inter-divisional table tennis matches and Chinese chess competitions were organised. We had friendly sports games and matches in badminton, basketball, table tennis and soccer, etc. with other regulators and organisations including the HKMA, MPFA and HKEx.

## Technology Advancement

During the year, a placee database was established to track placee information and capture shares placement activities information from HKEx for analysis and investigation.

## Corporate Affairs

A video-conferencing facility was installed in November 2003. It serves as an alternative channel to communicate with other organisations and our overseas counterparts, and would be particularly useful during contingencies.

A secure remote access IT solution is being developed to enable staff to access SFC systems when they are away from the office. A Storage Area Network System Project aimed to improve system efficiency, availability and recovery capability is being developed and scheduled for completion in June 2004.

As a follow-up to the Information Security Review in February 2003, a Security Committee chaired by the Chief Operating Officer was formed in September 2003. The Security Committee advises on Commission-wide security policies and procedures, serves as a forum for discussion on security best practices, and reports to the Management Committee on the implementation of measures.

Our Information Security Policy was revised in December 2003. This new policy aims to protect the SFC's information assets more effectively and to provide all staff members with a common understanding of this important subject. To enhance system security, a project to implement dual-factor authentication and single sign-on for system logon is underway and due to be completed by July 2004.

### > FinNet

FinNet is a private data network to support the financial communities in Hong Kong in conducting secure electronic transactions, information delivery and peer-to-peer communication, etc. It provides an open, robust, secure, scalable and high performance network based on open standard technology. Through a single network connection to FinNet, licensees can access multiple services offered by application / information providers and regulatory bodies.

In addition to dial-up, ISDN and frame relay access, a low cost private broadband service was introduced to FinNet in June 2003. At present, major users include HKMA, HKEx, MPFA, the SFC, local banks, brokerage firms and securities and derivative intermediaries. The

member base is being actively expanded to other market participants, making more financial application services available to the FinNet community.

## Investor Education and Communications

### > New Endeavours

Educating and empowering investors to protect themselves remains a top priority.

The SFC in December 2003 started a monthly on-line column written by a fictitious character, Dr Wise. Dr Wise represents the institutional wisdom of the SFC. He talks to investors about the key principles of investing. The column is posted on the SFC website on the last Tuesday of each month.

For the first time, the SFC produced a Cantonese documentary video drama, *Know the SFC*, to explain its work to the public. It also highlights some significant improvements of the regulatory framework under the SFO. An abridged version was aired on Cable TV in July and August 2003, and the full version is available on VCD for free distribution to the public.

Canto-pop singers and artistes also helped educate the investors during the year. They played some of the characters in a radio drama series entitled *Talk on Wise Investing* on Commercial Radio One. The 15-episode programme comprised short radio dramas followed by explanations by market professionals and SFC representatives of the do's and don'ts of investing.

### SFC Smart Investor Award

In view of the increasing incidence of financial scams, in particular on-line fraud, the SFC launched a Smart Investor Award in February 2004 to raise public awareness.

Members of the public may report to the SFC any suspicious scam websites or boiler rooms that target Hong Kong investors. Persons making a valid report may receive the Smart Investor Award and an SFC corporate gift. Three investors have won the awards for reporting information to us leading to the publication of the names of four unlicensed entities on our Alert List.

The Alert List on the SFC website publishes names of unlicensed overseas companies or suspected boiler rooms/scam websites that investors should avoid. During the year, we posted 65 entities on the Alert List.

In addition, we also created sample scam websites to illustrate typical boiler room and scam websites.

### ➤ Retail Investor Survey

We conducted the Retail Investor Survey 2003 in October and November 2003 to look into the investment behaviour of retail investors, what deterred them from investing and factors that might prompt them to invest in the future.

According to the survey, there was increased investment participation compared to 2001 when we conducted the last survey. Investors were discerning with respect to their investment decisions and a majority of them considered different attributes of a listed company before buying the stock. About three-quarters of retail investors found our investor education initiatives helpful.

### ➤ Other Initiatives

We published focused education materials on new products, pooling risks, portfolio planning and IPO investing. We also educated investors on how to ask the right questions when investing in stocks. These publications were supplemented by on-line feature articles. Over 100 articles were also published in newspapers and magazines.



Some of the leaflets published by the SFC to educate investors.

In addition, we conducted 31 seminars, reaching over 5,300 investors. For instance, we partnered with the Open University of Hong Kong and HKEx on a series of five investor education lectures for the public in August 2003. The response was overwhelming with over 700 participants. Workshops for secondary school teachers conducted in the fourth quarter of 2003 attracted over 500 enrolments. We were also invited to talk to 1,000 secondary school students on the market basics and the proper attitude of investing.

### ➤ Investor Enquiries and Complaints Handling

During the year, we handled 5,382 investor enquiries compared to 3,982 a year earlier. We also handled 1,252 complaints, against 959 in 2003. The increases were attributable to the increased market and IPO activities in the second half of 2003-2004.

Every public complaint received is tabled at the Complaints Control Committee, which meets every week to conduct preliminary assessment of complaints and determines whether further action is necessary. The Committee is chaired by an Executive Director and comprises senior executives of various departments. During the year, 708 cases were referred to our operational divisions for further evaluation and 161 were investigated by the Enforcement Division.

#### Statistics of Public Complaints

Nature of complaints	2003-2004	2002-2003
Conduct of licensed intermediaries (including registered institutions from 1 April 2003 onwards)	380 (+25%)	305
Listing related matters & disclosure of interests	436 (+35%)	323
Market misconduct	211 (+73%)	122
Financial products	28 (-13%)	32
Other financial activities	175 (+18%)	148
Miscellaneous	22 (-24%)	29
<b>Total</b>	<b>1,252 (+31%)</b>	<b>959</b>

### 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.

We see the mass media as an important partner in communicating the SFC's work and policies to our stakeholders including the general public. During the year, we issued 270 press releases and our senior executives gave 32 interviews to local, Mainland and international media. A total of 11 press conferences and briefings were held to announce new policies and discuss the Commission's work. We also handled 1,486 media enquiries during the year.

## Corporate Affairs

The SFC's corporate website at [www.hksfc.org.hk](http://www.hksfc.org.hk) is a valuable source of information for market practitioners and the investing public. To keep the market fully informed of our enforcement actions, in December 2003 we started providing fortnightly updates on our website of current SFC prosecutions in the Magistrates' Courts for breaches of securities and futures law. Our website achieved an average of 345,739 hits per day during the year, compared to 266,590 hits per day in 2002-2003. Its increasing popularity is demonstrated by the average of 437,103 hits per day in March 2004.

We received 1,278 public enquiries (non-investors) via email, nearly 30% more than a year ago. We also handled 2,551 public enquiries via phone or in writing.

For the first time, the SFC was given two top annual report awards in Hong Kong. The *Annual Report 2002-2003* was the winner of the Diamond Award in the Hong Kong Society of Accountants' Best Corporate Governance Disclosure Awards 2003 (Public Sector/Not-for-Profit Organisations category) and the Gold Prize in the 2003 Hong Kong Management Association's Best Annual Reports Awards (Non-profit Making and Charitable Organisations category). This was the first time the SFC took the Diamond Award and the fourth consecutive year it was awarded the Gold Prize.

We continued to issue regular corporate publications to inform the market and the public. The monthly *SFC Enforcement Reporter* and the bi-monthly newsletter *SFC Alert* keep the market abreast of our enforcement actions and work in general respectively. In February 2004, we revamped the *SFC Alert* with enhanced contents and a more reader-friendly layout. The *SFC Quarterly Report*, published within 45 days after quarter-end, also provide regular updates on the SFC's financial position and regulatory work. The research-based *SFC Quarterly Bulletin* and its more detailed on-line version include useful statistics and in-depth analysis into topical market issues. All these publications are available free on the SFC website.

Throughout the year, we continued to receive visitors from local and overseas regulators and financial institutions who want to learn more about the SFC in general or to discuss specific subjects.

Internally, we introduced an electronic news clipping service to provide timely and comprehensive news updates to staff. It also helps ensure that the Commission complies with the Copyright Ordinance.



The *SFC Alert* is expanded to six pages with more useful features.

### Ensuring Smooth Transition to the SFO Regime

The dedicated SFO section on the SFC website was continuously updated during the year. It provides a one-stop-shop for interested parties to conveniently locate all relevant materials in relation to the SFO, including rules, regulations and guidelines.

In addition, we set up a dedicated email box to answer public enquires. Various divisions handled 1,044 enquiries during the year. Most of the enquiries were related to the new single licensing regime, regulations of intermediaries and disclosure of interests.

We also organised or took part in 44 SFO training seminars during the year, attracting more than 4,300 participants.

SFO Training Sessions Given by the SFC		
1 April 2003 to 31 March 2004		
Target audience	Number of seminars conducted	Total number of participants
Exchange Participants	3	470
Accountants & legal practitioners	11	970
Investment advisers, exempt dealers and exempt investment advisers	1	280
All registered persons and interested market practitioners	21	477
Members of the Hong Kong Securities Institute and the public	8	2,120
<b>Total</b>	<b>44</b>	<b>4,317</b>

## Care for the Community

Lastly, the Commission and its staff continued to support community and charitable activities enthusiastically, doing our part as a responsible and caring corporate citizen.

Staff participated in and donated to events such as Community Chest Green Day, Dress Casual Day, Operation Santa Claus, Project Shield for SARS by SCMP, Campaign for Helping the Vulnerable and the Needy To Prevent Atypical Pneumonia by Hong Kong Red Cross, We Care Education Fund, Business Community Relief Fund for Victims of SARS and We Care Foundation. In addition, with voluntary donations from staff, our staff visited an old age home and a special school for children with disabilities to show our care and concern for the less privileged. Staff enjoyed the time spent with the elderly and the children and fully appreciated that it is more blessed to give than to receive.



Visits to an old age home and a special school for children with disabilities.

An SFC volunteers team was formed to co-ordinate efforts in planning and organising community services work. The Chairman and the Chief Operating Officer serve as honorary team leader and honorary adviser respectively.

It is also worth noting that many Commission staff also generously give their own time to voluntary community services such as Civil Aid Service, Oxfam and other organisations.



HKSAR Chief Executive Mr Tung Chee Hwa confers the Bronze Bauhinia Star on SFC senior manager of administration Mr Patrick Cheung for his service in the Civil Aid Service.