

**Opening Statement by Martin Wheatley
Chief Executive Officer of the Securities and Futures Commission**

LegCo Financial Affairs Panel Meeting

2 March 2007

Honourable Chairman Chan Kam-lam, SBS, JP
Honourable Members of the Financial Affairs Panel

1. I am pleased to have the opportunity to brief the Honourable Members on our budget. I shall give a very brief introduction to the revised and proposed estimates as full details are already set out in the Annex to the Administration's paper, which has been submitted to the Honourable Members.

Revised Estimates for 2006/07

Estimated Revenue

2. During the financial year 2006/07, the performance of the stock market has been very robust. The average daily turnover for the first seven months of the year to 31 October 2006 was \$33.9 billion, 105% higher than that assumed in the approved estimates while trading in the futures market was about 56% more active than expected. Fees and charges income during 2006/07 increased significantly due to volume increases in the underlying work performed and licenses issued. On these bases, we expect our revenue to reach \$1,153.5 million by the end of March, 96.4% higher than the approved estimates.

Estimated Operating Expenditure

3. With a policy of tightly controlling all expenditure as befits a publicly funded organization, we have been able to keep our total operating expenditure within the approved estimates.

Proposed Estimates for 2007/08

Estimated Revenue

4. On the revenue side, the latest projections indicate that our surplus will reach \$598 million by the end of the financial year. Notwithstanding the reduction in levy rate effective from 1 December 2006, our reserves will remain in excess of twice the estimated annual operating expenditure estimates. We are consulting the Financial Secretary about how the Commission may utilize the surplus reserves.

5. The estimated revenue for 2007/08 is \$1,077.8 million, which is 6.6% below the revised estimates for 2006/07. The drop is mainly due to the full year effect of the levy rate reduction from 1 December 2006.

Estimated Operating Expenditure

6. The total estimated operating expenditure for 2007/08 is \$599.3 million, 7.9% (\$44.1 million) higher than the 2006/07 revised estimates. The most significant increase is in personnel expenses, our main operating expense, which is estimated to be \$46.3 million higher than previous years. However, there are six main factors underlying this overall increase which I would like to draw to your attention:
 - i. We have made provision for an average pay rise for staff of 5% which accounts for \$21 million;
 - ii. During the past year we removed a cap on the employer's contributions to our ORSO provident fund. This cap was put in place, in past years, as a temporary austerity measure and was not in line with market practice amongst comparable organizations. The effect of reversing this temporary austerity measure is to increase our annual costs by \$9.7 million;
 - iii. During the past year we had to make some unbudgeted pay and promotion adjustments to address retention concerns. Whilst we managed to absorb the cost of these within last year's budget, as a result of savings from not being able to recruit personnel according to budget, the full year effect of these for the 2007/08 estimates is \$5.4 million;
 - iv. An increase in the market price of our medical insurance premium, which has been competitively tendered, has added \$2.2 million;
 - v. The creation of six new posts and the upgrading of five posts, to take account of increased workload, new developments in the market and additional responsibilities, has added \$6.1 million; and
 - vi. The additional headcount approved for 2006/07 was budgeted for only part of the year as a result of budget pressure. The full year effect of this additional headcount in the current year's estimates is \$1.9 million.
7. With regard to the average 5% increase in staff remuneration, Members will note that remuneration was held back during the economic downturn. Whilst pay levels have increased since then they still lag the levels which survey data suggest are appropriate. This is reflected in the fact that we needed to make some interim pay adjustments last year, when turnover levels were becoming an issue, and in the difficulties we continue to experience in hiring staff at some grades. Based on information available to us at this time, regarding comparable staff in comparable organizations, we have made a provision for an average fixed pay adjustment of 5%. This is in line with the market for our

staff and should enable the Commission to hold its position. However, even at this level it will not allow us to close the gap in what has become an extremely competitive market. Whilst we are mindful of our position as a public body, failure to provide a market-based pay-rise to our staff would have a significant impact on morale and retention.

8. I would also like to reassure Members that despite substantial increases in our workload, which has become increasingly complex, we continue to exercise discipline in tightly controlling our headcount and we have budgeted for only a very modest increase in staff numbers. The proposed increases in headcount and upgrading of positions are therefore the minimum we require to perform our functions effectively and have been reduced, by agreement, from the numbers initially requested by the heads of our divisions.

Concluding remarks

9. There will be many challenges ahead of us and our workload is expected to increase further as we assume new regulatory functions and continue to enforce the Securities and Futures Ordinance. In particular, the statutory backing of the HKEx Listing Rules, which Members will discuss under the next agenda item, will introduce additional responsibilities that have implications for our staff establishment in future years.
10. I am pleased to say that we have projected a surplus in our 2007/08 budget. Thus, it will not be necessary for the Commission to request the Government to seek an appropriation from the Legislative Council. In fact, we have not requested for any appropriation since 1993.
11. I would be happy to answer any questions that the Honourable Members may have. Thank you.