

**For discussion  
on 3 February 2025**

**Legislative Council Panel on Financial Affairs**

**Securities and Futures Commission  
Budget for the Financial Year 2025-26**

**PURPOSE**

This paper highlights the main features of the budget of the Securities and Futures Commission (“SFC”) for 2025-26.

**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 2025-26.

**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 2025-26

5. The proposed budget of the SFC for 2025-26 is at Annex. The SFC has projected a budget deficit of \$238.61 million<sup>1</sup> for 2025-26. 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 2025-26 is \$2,353.67 million, which is \$84.04 million (3.7%) above the forecast income for 2024-25 (\$2,269.63 million). The SFC has adopted the following assumptions in projecting the estimated income –

- (a) the average securities market turnover for 2025-26 will be \$135 billion per day and the average futures/options market turnover will be 605 000 contracts per day. The average securities market turnover for 2024 was about \$132 billion per day; and
- (b) the annual licensing fees<sup>2</sup> will be collected in 2025-26. The estimated revenue will be around \$256 million per year, and \$128 million will be recognised in 2025-26 on an accrual basis.

7. The SFC considers that the levy rate should remain the same (0.0027%) in 2025-26<sup>3</sup>, and will continue to review the situation annually taking into consideration the prevailing market conditions, its expected resource requirements and its financial projections for the near to medium term.

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<sup>1</sup> The projected deficit is calculated by deducting recurrent expenditure from the projected income for the year, as set out in part 4.1 of Annex. Capital expenditure is set out in part 4.2 of Annex.

<sup>2</sup> The SFC first waived the annual licensing fee in 2009-10 and has it waived since 2012-13, except for 2019-20 when the SFC reinstated the fee with a 50% waiver to all licensed individuals and intermediaries.

<sup>3</sup> The SFC effected levy reductions of 20% in December 2006, 25% in October 2010 and 10% in November 2014.

## Recurrent Expenditure

8. The estimated recurrent expenditure <sup>4</sup> for 2025-26 is \$2,592.28 million, which is \$174.76 million (7.2%) above the forecast expenditure for 2024-25 (\$2,417.52 million). The increase is mainly attributable to –

- (a) increase in staff cost by \$130.53 million, arising from a provision of –
  - (i) \$39.94 million for filling vacant positions, which includes the full-year effect of new staff hires in 2024-25 and 15 new headcount proposed in 2025-26 (as detailed in paragraph 10 below);
  - (ii) \$53.47 million for the annual pay adjustment for budgetary purpose. This amount includes the provision of a general pay increase of 2.1% and a merit adjustment for good performance<sup>5</sup>. The final pay adjustment will be subject to deliberation by the SFC's Remuneration Committee and approval by the SFC Board in Q1 2025, having regard to latest pay data, general pay trend within the financial services sector, among other factors;
  - (iii) \$9.19 million for the upgrade of 17 positions to reflect the increasing complexity and scope of the respective roles;
  - (iv) \$27.93 million for other staff-related costs including insurance and retirement benefits;

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<sup>4</sup> Including funding to external parties.

<sup>5</sup> Which is 1.5% on average, with the actual adjustment for individual staff subject to factors such as their ranks and performance.

- (b) increase in expenses on information and systems services by \$16.82 million due to higher spending on software subscription costs and system contract services to enhance IT infrastructure resilience, capabilities and incident management, and the upgrade to new generative artificial intelligence solutions;
- (c) increase in project cost by \$8.50 million for covering specific initiatives or projects, and engaging project staff on two-year contract term;
- (d) increase in expenses on regulatory and external activities by \$8.03 million due to more public conferences, experience sharing opportunities with other overseas regulatory bodies and public relations campaigns; and
- (e) increase in other expenses by \$17.99 million, which include funding to external parties, internship programme, learning and development, depreciation, premises, professional fees and general office expenses.

9. The increase in expenditure is partially offset by the decrease in expenditure including interest expenses and legal related fees by \$5.00 million and \$2.11 million respectively.

### **Manpower Plan**

10. The SFC froze its headcount in three out of five financial years since 2020-21. In the budget for 2025-26, the SFC proposes 15 new headcount, bringing its total headcount to 1 037. Eight of the proposed new headcount is for enhancing the staffing support for virtual asset regulatory regimes, market surveillance and enforcement investigations. Another seven new headcount is proposed to strengthen IT and corporate support in the SFC.

### **Capital Expenditure**

11. The total capital expenditure proposed for 2025-26 is \$586.49 million, which comprises the following key items –

- (a) **land and building** – acquisition of one additional floor at One Island East in early-2026<sup>6</sup> (\$473.30 million);
- (b) **computer systems development** – adoption of front-end technology to streamline 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 (\$77.32 million);
- (c) **office equipment** – investment in storage technology and data base capacity, as well as software upgrade; replacement of the resources system, obsolete servers and computer equipment; and replacement of obsolete office equipment due to normal wear and tear (\$29.87 million); and
- (d) **office furniture and fixtures** – alteration of office fixtures and replacement of redundant furniture due to normal wear and tear (\$6 million).

## **Reserves**

12. The SFC estimates that by 31 March 2025, the non-ring-fenced reserves will be \$6,359.60 million and the ring-fenced reserves will be \$1,108.89 million.

13. The SFC also estimates that, after deducting the budget deficit of \$238.61 million for 2025-26 and the transfer of \$137.03 million from the ring-fenced reserves for loan repayment and acquisition of one additional office floor, the non-ring-fenced reserves and the ring-fenced reserves will be reduced to \$6,258.02 million and \$971.86 million respectively by 31 March 2026.

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<sup>6</sup> The SFC entered into a Sales and Purchase agreement on 17 November 2023 to acquire 12 office floors in the existing office premises at One Island East. The acquisition of the nine floors that the SFC currently occupies took effect from December 2023 while the acquisition of the three additional floors will be completed by 2028. The acquisition is partly funded by the SFC's ring-fenced reserves for property acquisition and partly financed by an external bank loan.

## **COMPARISON OF THE 2024-25 APPROVED BUDGET WITH THE FORECAST BUDGET**

### **Income**

14. The forecast income for 2024-25 is \$2,269.63 million, which is \$551.64 million (32.1%) higher than the approved budget of \$1,717.99 million. The higher income is mainly due to a higher-than-budgeted market turnover<sup>7</sup>.

### **Recurrent Expenditure**

15. The forecast recurrent expenditure for 2024-25 is \$2,417.52 million, which is \$74.55 million (3.0%) below the approved budget of \$2,492.07 million. The underspending is mainly due to the time lag in filling vacancies as well as lower expenses on depreciation, funding to external parties, internship programme and information and systems services. The savings were partially offset by increased expenses on professional fees, learning and development as well as general office expenditure.

### **Capital Expenditure**

16. The forecast capital expenditure is \$109.91 million, which is \$25.42 million (30.1%) higher than the approved budget of \$84.49 million. The higher expenditure is mainly due to higher spending on replacement of computer hardware and software.

## **THE GOVERNMENT'S VIEWS**

17. We have studied in detail the SFC's proposed budget for 2025-26. 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. As a main source of the SFC's income, levy on

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<sup>7</sup> The revised income for 2024-25 is projected based on the prevailing market performance and an assumption that the average daily turnover of securities transactions is \$130 billion and an average of 605 000 contracts per day for the year. The approved budget for 2024-25 was based on an assumption of a turnover of \$99 billion per day and 620 000 contracts per day for the year.

securities transactions is subject to market fluctuation and difficult to predict with accuracy. We expect that the SFC to continue to exercise stringent cost control and enhance its efficiency through measures such as redeployment of existing resources and re-engineering of its processes.

### **ADVICE SOUGHT**

19. Members are invited to note the proposed budget of the SFC for 2025-26.

**Financial Services and the Treasury Bureau  
Securities and Futures Commission  
January 2025**



## **Securities and Futures Commission**

### **Budget of income and expenditure**

### **for the financial year 2025/26**

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16 December 2024



## Contents

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1.	Executive summary	3
2.	Assumptions	5
3.	Manpower plan	7
4.	Financials	
4.1	Income and expenditure statement	9
4.2	Capital expenditure statement	10
4.3	Income	11
4.4	Recurrent expenditure	12
4.5	Funding to external parties	15
4.6	Capital expenditure	16

## 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 organisation. 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 found.

1.2 Set out below is a summary of the SFC's forecast for 2024/25 and proposed budget for 2025/26. For more detailed explanations, reference should be made to Sections 3 and 4 of this budget book.

	2025/26	2024/25	Variance	
	Proposed Budget (a) \$'m	Forecast (b) \$'m	Proposed Budget vs. Forecast (c) = (a-b) \$'m (c/b) %	
<b>Income</b>	<b>2,353.67</b>	2,269.63	84.04	3.7%
<b>Recurrent expenditure</b>				
Staff costs	1,797.72	1,667.19	130.53	7.8%
Project costs	49.50	41.00	8.50	20.7%
Other recurrent expenses	618.46	588.59	29.87	5.1%
<b>Total recurrent expenditure</b>	<b>2,465.68</b>	2,296.78	168.90	7.4%
<b>Legal related fees</b>	<b>38.34</b>	40.45	(2.11)	-5.2%
<b>Funding to external parties</b>	<b>88.26</b>	80.29	7.97	9.9%
<b>Total expenditure</b>	<b>2,592.28</b>	2,417.52	174.76	7.2%
<b>Result for the year</b>	<b>(238.61)</b>	(147.89)	(90.72)	61.3%

1.3 For 2025/26, we forecast that income will increase by \$84.04 million (3.7%) over the 2024/25 Forecast, a result of the latest securities market turnover and investment return assumptions. We assume that the securities market turnover for 2024/25 and 2025/26 would be approximately \$130 billion/day and \$135 billion/day respectively. This assumed securities market turnover level is derived from an internal statistical analysis model and is 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 2024/25 averaged \$131 billion/day.

1.4 The inability to predict market turnover represents an unavoidable degree of uncertainty in the annual budget's compilation. A fluctuation of \$1 billion in the average daily securities market turnover will have an impact of approximately \$13 million to our income.

1.5 The levy rate will remain the same at 0.0027% for the remainder of 2024/25 and for the full financial year 2025/26.



- 1.6 The one-year annual licensing fee waiver that commenced in April 2024 will end by March 2025. After reviewing our fees and charges level and market conditions, we recommend resuming the collection of the annual licensing fee of about \$256 million in 2025/26 and half of this amount in the first year of resumption is recognised as income on an accruals basis.
- 1.7 Total expenditure for 2025/26 is budgeted to increase by \$174.76 million (7.2%) over the 2024/25 Forecast. The increase is mainly attributable to the increases in staff costs, project costs, information and systems services and regulatory and external activities in 2025/26.
- 1.8 As a long-term accommodation plan, we entered a Sales and Purchase agreement on 17 November 2023 with a consideration of \$5.4 billion to acquire 12 office floors in the premises presently rented. The purchase of the initial 9 floors were completed in 2023/24 and one additional floor is expected to be released in early 2026. The purchase will be funded from the property acquisition reserve and partially financed from a bank loan that is approved according to the requirements under Section 5(4)(d) of the Securities and Futures Ordinance.
- 1.9 Under the property acquisition reserve, \$262 million will be utilised for the loan repayment and the additional floor to be taken up in early 2026. Apart from this, with reference to our original plan to set aside the property acquisition reserve, we will continue to top up \$125 million to the property acquisition reserve at the end of each financial year until 2027/28. This top up will support the acquisition of the additional three floors and future principal bank loan repayments. The property acquisition reserve will stand at \$1 billion by March 2026.
- 1.10 To fulfil our core mission of promoting efficient, transparent, and competitive capital markets to further strengthen Hong Kong's status as an international financial centre, the SFC needs to be adequately resourced. Having critically reviewed our manpower needs for 2025/26, a net increase of 15 full time posts over the SFC's 2024/25 approved headcount has been included in the budget. This represents a total headcount increase of approximately 1.47%. Please refer to Section 3 for more detailed information about the SFC's 2025/26 manpower plan.
- 1.11 In 2025/26, the SFC will continue the two-year Fixed Term Contract pool in order to maintain existing resources for specific initiatives or projects. A provision of \$49.5 million has been made in relation to the two-year contract arrangements.
- 1.12 A deficit of approximately \$238.61 million is expected in 2025/26 leaving our non-ring-fenced reserves at \$6.3 billion at the end of that financial year. Total available for use and liquid reserves will be approximately \$4 billion by March 2025.

## 2. Assumptions

### 2.1 Investor levy rates

2.1.1 Levy rates will remain unchanged for the year 2025/26, 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 was around \$131 billion/day for the first 7 months of 2024/25. Based on the latest internal statistical analysis, the average daily securities market turnover is assumed to be \$129 billion/day for the remainder of the year (see also para 4.3.2(a)).
- (b) For the purposes of budgeting, \$135 billion/day has been used for the 2025/26 average daily securities market turnover.

#### 2.2.2 Futures and Options market

Based on the transaction volumes for the first 6 months of 2024/25, the futures/options market turnover is assumed to be an average of 605,000 contracts per day for the rest of 2024/25. For budgeting purposes we have assumed that forecast and budget income from futures/options contracts to be the same. On this basis, the futures/options market turnover is assumed to be an average of 605,000 contracts per day in 2025/26.

### 2.3 Fees and charges

- 2.3.1 The annual licensing fee waiver will end in March 2025. We recommend resuming the collection of the annual licensing fee in 2025/26 in which half of the estimated revenue (i.e. \$256 million) will be recognised as income on an accruals basis.
- 2.3.2 The underlying rates of fees and charges, which will continue to apply to all new licence 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 4% p.a. for the year 2025/26. This blended return rate includes currently fixed deposit rates, our held to maturity bond portfolios that comprise holdings purchased during a low interest rate environment, and the expected long term average returns from our pooled equity portfolios.



## 2.5 Remuneration adjustment

For budgeting purposes, a provision of 2.1% has been made for a general salary adjustment for staff. Additionally, the SFC has provided a small merit adjustment for high performing staff. This provision is based on preliminary market information from independent parties including pay consultants and professional associations (see also para 4.4.1 (b)). The final salary adjustment will be subject to deliberation by the SFC's Remuneration Committee and the Board for approval in Q1 2025.

## 2.6 General costs

Where an estimate of general price level increases is required, we have assumed 2%<sup>1</sup> 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 those projects.

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<sup>1</sup> Census and Statistics Department, The Government of the Hong Kong Special Administrative Region publishes 12 month average consumer price indices, "Consumer Price Indices".

### 3. Manpower plan

#### 3.1 Proposed headcount changes 2024/25 vs 2025/26

Division	2024/25 Approved	2025/26 Proposed	Net Change
Centralised Services <sup>2</sup>	40	41	1
Corporate Finance	102	103	1
Enforcement	217	219	2
Intermediaries	304	308	4
Legal Services	53	54	1
Investment Products	124	124	-
Supervision of Markets	56	57	1
Corporate Affairs	126	131	5
<b>Total</b>	<b>1,022</b>	<b>1,037</b>	<b>15</b>

3.1.1 Having critically reviewed our manpower needs for 2025/26, a total of 15 new headcounts have been included in the budget to institute the SFC adequately resourced to fulfil our mission. This represents a total headcount increase of approximately 1.47%. In the last 5 fiscal years, the SFC experienced 3 headcount freezes in 2020/21, 2021/22 and 2024/25.

3.1.2 The new headcount request justified by reference to 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 to maximise efficiencies.

#### 3.2 New headcount requests – 2025/26

##### Centralised Services Division

3.2.1 1 new executive post is proposed to manage the growing number of Board secretariat and external engagement works to enable market development both locally and internationally.

##### Corporate Finance Division

3.2.2 1 new executive post requested to support policy development work which requires a significant amount of research, market studies, data analytics as well as various legislative amendments.

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<sup>2</sup> Includes CEO's Office, Secretariat and External, International Affairs and Sustainable Finance, Mainland Affairs and Press Office

### **Enforcement Division**

- 3.2.3 2 new executive posts are proposed to build further enhance forensic operations, specifically in the management and analysis of the growing volume of case data which will further accelerate the forensics analysis process.

### **Intermediaries Division**

- 3.2.4 The Intermediaries Division proposed 4 new posts. Intermediaries Supervision Department requested 1 new executive post to cope with an increasing number of asset managers and stand-alone brokers as well as enhancements to the supervision workflow systems.
- 3.2.5 3 new executive posts are proposed for Fintech Unit to assist in market development and policy matters involving Fintech including the licensing and supervision of Fintech intermediaries.

### **Legal Services Division**

- 3.2.6 1 new executive post is proposed to manage growing volume and complexity of work handled by the Legal Team.

### **Supervision of Markets Division**

- 3.2.7 1 new executive post is required to cater for the increasing complexity and urgency of work related to market monitoring and analysis as well as the implementation of new initiatives.

### **Corporate Affairs Division**

- 3.2.8 The Information Technology Department proposes 4 new executive posts to deploy different IT strategic projects, mainly on AI aspects, with 2 candidates from an existing IT project pool identified to fill 2 of these posts and become permanent.
- 3.2.9 The Human Resources Department requested 1 new executive post to further improve employee engagement and performance by furnishing various HR policies, provide regular and constructive feedback to employees, recognise and reward our employees for their achievements.

## 4. Financials

### 4.1 Income and expenditure statement

	Para. ref.	2025/26	2024/25	2024/25	Variance				
		Proposed Budget (a) \$'000	Forecast (b) \$'000	Approved Budget (c) \$'000	Proposed Budget vs. Forecast (d)=(a)-(b) \$'000 %		Forecast vs. Approved Budget (e)=(b)-(c) \$'000 %		
<b><u>Income</u></b>									
Investor levy	4.3.2								
Securities		1,782,405	1,721,245	1,307,097	61,160	3.6%	414,148	31.7%	
Futures/Options contracts		160,730	160,730	161,230	-	-	(500)	-0.3%	
Fees & charges	4.3.3	246,917	118,813	113,988	128,104	>100.0%	4,825	4.2%	
Net investment income	4.3.4	158,686	263,126	130,680	(104,440)	-39.7%	132,446	>100.0%	
Other income	4.3.5	4,935	5,715	4,992	(780)	-13.6%	723	14.5%	
<b>Total</b>		<b>2,353,673</b>	<b>2,269,629</b>	<b>1,717,987</b>	<b>84,045</b>	<b>3.7%</b>	<b>551,642</b>	<b>32.1%</b>	
<b><u>Recurrent expenditure</u></b>									
Staff costs	4.4.1	1,797,716	1,667,190	1,710,570	130,526	7.8%	(43,380)	-2.5%	
Project costs	4.4.2	49,500	41,000	49,200	8,500	20.7%	(8,200)	-16.7%	
Premises	4.4.3	40,990	39,644	40,500	1,346	3.4%	(856)	-2.1%	
Information & systems services	4.4.4	137,685	120,870	123,942	16,815	13.9%	(3,072)	-2.5%	
General office & others	4.4.5	16,326	15,930	15,260	396	2.5%	670	4.4%	
Learning & development	4.4.6	16,310	14,082	12,817	2,228	15.8%	1,265	9.9%	
Professional fees & others	4.4.7	61,304	60,206	54,203	1,098	1.8%	6,003	11.1%	
Regulatory & external activities	4.4.8	36,344	28,317	29,066	8,027	28.3%	(749)	-2.6%	
Interest expenses	4.4.9	89,000	94,000	95,500	(5,000)	-5.3%	(1,500)	-1.6%	
Internship programme		11,100	7,700	12,000	3,400	44.2%	(4,300)	-35.8%	
		<b>2,256,275</b>	<b>2,088,939</b>	<b>2,143,058</b>	<b>167,336</b>	<b>8.0%</b>	<b>(54,119)</b>	<b>-2.5%</b>	
Legal related fees	4.4.10	38,343	40,450	44,505	(2,107)	-5.2%	(4,055)	-9.1%	
		<b>2,294,618</b>	<b>2,129,389</b>	<b>2,187,563</b>	<b>165,229</b>	<b>7.8%</b>	<b>(58,174)</b>	<b>-2.7%</b>	
Depreciation	4.4.11	209,395	207,836	219,879	1,559	0.8%	(12,043)	-5.5%	
Total (1)		<b>2,504,013</b>	<b>2,337,225</b>	<b>2,407,442</b>	<b>166,788</b>	<b>7.1%</b>	<b>(70,217)</b>	<b>-2.9%</b>	
<b><u>Funding to external parties</u></b>									
Funding to the HKSI and other education initiatives	4.5.1	1,368	-	3,096	1,368	N/A	(3,096)	-100.0%	
Funding to the IFEC	4.5.2	82,555	79,453	80,690	3,102	3.9%	(1,237)	-1.5%	
Funding to the IFRS Foundation	4.5.3	840	840	840	-	-	-	-	
Funding to the FDRC	4.5.4	3,500	-	-	3,500	N/A	-	N/A	
Total (2)		<b>88,263</b>	<b>80,293</b>	<b>84,626</b>	<b>7,970</b>	<b>9.9%</b>	<b>(4,333)</b>	<b>-5.1%</b>	
<b>Total expenditure (1) + (2)</b>		<b>2,592,276</b>	<b>2,417,518</b>	<b>2,492,068</b>	<b>174,758</b>	<b>7.2%</b>	<b>(74,550)</b>	<b>-3.0%</b>	
<b>Result for the year</b>		<b>(238,603)</b>	<b>(147,889)</b>	<b>(774,081)</b>	<b>(90,714)</b>	<b>61.3%</b>	<b>626,192</b>	<b>-80.9%</b>	
<b>Reserves brought forward</b>		<b>6,359,605</b>	<b>6,429,578</b>	<b>6,429,578</b>	<b>(69,973)</b>	<b>-1.1%</b>	<b>-</b>	<b>-</b>	
<b>Transfer from/(to) property acquisition reserve</b>		<b>137,025</b>	<b>77,916</b>	<b>(125,000)</b>	<b>59,109</b>	<b>75.9%</b>	<b>202,916</b>	<b>&gt;-100.0%</b>	
<b>Reserves carried forward</b>		<b>6,258,027</b>	<b>6,359,605</b>	<b>5,530,497</b>	<b>(101,578)</b>	<b>-1.6%</b>	<b>829,108</b>	<b>15.0%</b>	



## 4.2 Capital expenditure statement

	2025/26	2024/25	2024/25	Variance			
	<b>Proposed Budget</b>	Forecast	Approved Budget	Proposed Budget vs. Forecast		Forecast vs. Approved Budget	
<u>Para.</u> <u>ref.</u>	<b>(a)</b> \$'000	(b) \$'000	(c) \$'000	(d)=(a)-(b) \$'000	(d)/(b) %	(e)=(b)-(c) \$'000	(e)/(c) %
<b>Capital expenditure</b>							
	4.6						
Land and building	<b>473,300</b>	-	-	473,300	N/A	-	N/A
Furniture & fixtures	<b>6,000</b>	6,000	6,000	-	-	-	-
Office equipment	<b>29,865</b>	46,321	22,690	(16,456)	-35.5%	23,631	>100.0%
Computer systems development	<b>77,320</b>	57,587	55,800	19,733	34.3%	1,787	3.2%
<b>Total</b>	<b>586,485</b>	109,908	84,490	476,577	>100.0%	25,418	30.1%

### 4.3 Income

#### 4.3.1 Annual grant from government

Section 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 2025/26. 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:

	<u>2024/25</u> <b>Approved Budget</b>	<u>2024/25</u> <b>Forecast</b>	<u>2025/26</u> <b>Proposed Budget</b>
<b>Securities</b>			
Daily turnover (billion/day)	\$99	\$130	\$135
Levy rate	0.0027%	0.0027%	0.0027%
<b>Futures/Options Contracts</b>			
Daily turnover (contracts)	620,000	605,000	605,000
Levy rate (per contract)	\$0.54 / \$0.1	\$0.54 / \$0.1	\$0.54 / \$0.1

- (b) The 2024/25 Forecast for Investor Levy – Securities is higher than the Approved Budget by \$414.15 million (31.7%) whereas Investor Levy – Futures/Options is lower than the Approved Budget by \$0.5 million (0.3%). These variances reflect variations in those actual securities markets’ turnover for the first 6 months of 2024/25 (around \$114 billion/day) when compared to the estimates underlying the Approved 2024/25 Budget.
- (c) We assume that the average securities market turnover for 2024/25 Forecast would be around \$130 billion/day. Based on the actual and current levels to date we have budgeted \$135 billion/day for 2025/26.
- (d) For budget purposes, we assume that the volume of future contracts remains unchanged in 2025/26.

#### 4.3.3 Fees and charges

- (a) The Forecast aggregate fees and charges income for 2024/25 is \$4.83 million (4.2%) above the Approved Budget as fees from Investment Products are higher than expected.

- (b) The 2025/26 Budget will be \$128.1 million (>100%) higher than the 2024/25 Forecast. This increase arises from the resumption of annual licensing fee in 2025/26 after the fee holiday ended in 2024/25. The estimated revenue will be \$256 million, and \$128 million will be recognised in 2025/26 on an accruals basis.

#### 4.3.4 Net investment income

- (a) Budgeted net investment income for 2024/25 was \$130.68 million which comprised of \$82.19 million of fixed income and deposit interest and \$48.49 million gains from equity pooled funds. Due to exceptional year to date gains of our pooled equity fund investments and higher than expected investment performance, we have revised our net investment income to \$263.13 million for the 2024/25 Forecast.
- (b) 2025/26 net investment income is budgeted to be \$158.69 million. For budgeting purposes, we assume that the average return on investments before management fees is 4% p.a. The actual rate of return may vary, depending primarily on market performance and the adopted investment strategy.

#### 4.3.5 Other income

- (a) Other income for 2024/25 and 2025/26 represents licence 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 and IT support services, recoveries from enforcement cases and sales of SFC publications. The 2025/26 Budget for other income is kept at the same level as the 2024/25 Forecast.

### 4.4 Recurrent expenditure

#### 4.4.1 Staff costs

- (a) The overall staff costs for 2024/25 is forecast to be lower than the 2024/25 Budget by \$43.38 million (2.5%). This is principally due to the extended recruitment lead time required to fill vacancies.
- (b) Staff costs are \$130.53 million (7.8%) higher than the 2024/25 Forecast. The increase is attributable to the annual salary adjustment for staff and also the filling of vacant positions that includes the full year impact of positions hired part way through 2024/25, new positions proposed in 2025/26, as well as increased insurance, retirement and recruitment costs.

- (c) For budgeting purposes, a provision of 2.1% has been made for a general salary adjustment for staff. Additionally, the SFC has provided a small merit adjustment for high performing staff. The provision is 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 2025. 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 2025/26, the SFC intends to continue the two-year fixed term contract pool. 26 two-year fixed term contract positions are proposed to cover various initiatives undertaken by our Divisions. A total of \$49.5 million has been provisioned.

#### 4.4.3 Premises

- (a) The Forecast for 2024/25 is \$0.86 million (2.1%) below the Approved Budget due to the lower than expected electricity and rates.
- (b) The Budget for 2025/26 will be \$1.35 million (3.4%) above the 2024/25 Forecast due to the increase in management fees and offsite storage.

#### 4.4.4 Information and systems services

- (a) The 2024/25 Forecast for information and systems services expenses is \$3.07 million (2.5%) lower than the Approved Budget due to the lower than expected spend on software licence subscriptions and maintenance.
- (b) For 2025/26, we project a \$16.82 million (13.9%) increase owing to a higher spend on software subscription costs and system contract services to enhance IT infrastructure resilience, capabilities, incident management and the upgrade to new generative artificial intelligence solutions.

#### 4.4.5 General office and others

- (a) The Forecast for 2024/25 is \$0.67 million (4.4%) above the Approved Budget mainly due to increased spending on office services.
- (b) The Budget for 2025/26 will be retained at the Forecast level.

#### 4.4.6 Learning and development

- (a) The learning and development related expenses for 2024/25 are forecast to be higher than the 2024/25 Budget by \$1.26 million (9.9%). This is mainly due to more overseas training and cross-border secondment programs between regulators in the latter part of this financial year.
- (b) The learning and development budget for 2025/26 is \$2.23 million (15.8%) higher than the 2024/25 Forecast. It is anticipated that more customised training, well-being initiatives, overseas staff exchange and team development events will be held.

#### 4.4.7 Professional fees and others

- (a) The Forecast for 2024/25 is \$6 million (11.1%) above the Approved Budget mainly due to a higher demand for professional services rendered by external forensic accounting firms and external support for investigations.
- (b) The Budget for 2025/26 will be \$1.1 million (1.8%) higher than the Forecast for 2024/25 mainly due to higher handling charges for fee collection following the annual licensing fee resumption offset by lower demand for external expert services. Key projects under professional fees in 2025/26 will include an anti-money laundering project, review of Financial Resources Rules and virtual assets related research.

#### 4.4.8 Regulatory and external activities

- (a) Forecast regulatory and external activities for 2024/25 are lower than the Approved Budget by \$0.75 million (2.6%) mainly due to lower than expected overseas travelling.
- (b) The 2025/26 Budget will be \$8.03 million (28.3%) higher than the 2024/25 Forecast due to more public conferences, experience sharing opportunities with other overseas regulatory bodies, more overseas travelling and additional public relations campaigns.

#### 4.4.9 Interest expenses

- (a) We have entered into a 5-year term loan agreement with a commercial bank to partially finance the property acquisition in December 2023. One additional floor is expected to be available for acquisition in early 2026 and will be partially financed by a bank loan with the same terms as agreed under the current banking facility arrangement.
- (b) Taken into account the principal repayment portion, with reference to the estimated outstanding loan balances, the Forecast for 2024/25 is \$1.5 million (1.6%) below the Approved Budget and the 2025/26 Budget will be \$5 million (5.3%) lower than the 2024/25 Forecast.

#### 4.4.10 Legal related fees

- (a) Based on the latest case developments included in the current pipeline, the Forecast for 2024/25 has been revised downward by \$4.06 million (9.1%) compared to the Approved Budget.
- (b) The 2025/26 Budget of legal fees is kept at prior year level.

#### 4.4.11 Depreciation

- (a) Depreciation includes the right of use of properties, fixed assets and the depreciation amount of the land and building.
- (b) Forecast depreciation expenses for 2024/25 are \$12.04 million (5.5%) lower than the Approved Budget mainly due to the depreciation of computer systems development and office equipment being lower than expected as a result of the deferral of various IT capital projects and lower than expected renovation expenditure during the year.
- (c) We expect that depreciation expenses for 2025/26 will be \$1.56 million (0.8%) higher than the 2024/25 Forecast mainly due to the resources invested in technology (see also para 4.6.2) offset by the result of those furniture and fixtures which will be fully depreciated in 2025/26.

### 4.5 Funding to external parties

4.5.1 Funding to the Hong Kong Securities and Investment Institute (HKSI) and other education initiatives are to support the development of licensing examinations for new licensing regimes expected to defer to 2025/26.

4.5.2 Funding to the Investor and Financial Education Council (IFEC) is set at \$79.45 million in 2024/25 aligning to their forecast work program. In 2025/26, the IFEC proposes total expenditure of \$82.56 million. Major information expenses are summarised below:

	<u>2024/25</u> <b>Approved Budget</b> \$'m	<u>2024/25</u> <b>Forecast</b> \$'m	<u>2025/26</u> <b>Proposed Budget</b> \$'m
Staff costs	37.56	36.59	39.43
Education programmes	31.81	31.72	31.81
Premises	4.09	3.85	3.96
Information and systems services	3.10	3.19	3.30
General office and others	1.89	1.87	1.91
Professional fees and others	1.64	1.63	1.65
Capital expenditure	0.60	0.60	0.50
<b>Total</b>	<b>80.69</b>	<b>79.45</b>	<b>82.56</b>

- 4.5.3 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\$0.1 million (or \$0.84 million) in both 2024/25 and 2025/26.
- 4.5.4 Provision of \$3.5 million has been made in 2025/26 for funding the operation of the Financial Dispute Resolution Centre (FDRC).

#### 4.6 Capital expenditure

- 4.6.1 Forecast capital is \$25.42 million (30.1%) higher than the Approved Budget mainly due to the increase of computer hardware and software for the replacement of equipment which have not been included in the original budget.
- 4.6.2 Capital expenditure for 2025/26 will be \$586.49 million. The breakdown of capital expenditure for 2025/26 is as follows:

##### Capital expenditure

	\$'m	Note
Land and building	473.30	(a)
Furniture and fixtures	6.00	(b)
Office equipment	29.87	(c)
Computer systems development	77.32	(d)
Total	586.49	

##### Note :

- (a) An additional floor of \$473.3 million will be acquired in early 2026 according to the property acquisition plan.
- (b) \$6 million is provided for the alteration of office fixtures and the replacement of redundant furniture due to normal wear and tear.
- (c) Office equipment:
- (i) \$2 million for replacement of obsolete office equipment due to normal wear and tear; and
  - (ii) \$27.87 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.
- (d) \$77.32 million is provided for front-end technology to enhance various IT systems, improve access and exchange of information between stakeholders, enhance workflow processes to strengthen divisional collaboration, streamline certain business processes and upgrade our market surveillance capabilities.