

Head 148 — GOVERNMENT SECRETARIAT: FINANCIAL SERVICES AND THE TREASURY BUREAU (FINANCIAL SERVICES BRANCH)

Controlling officer: the Permanent Secretary for Financial Services and the Treasury (Financial Services) will account for expenditure under this Head.

Estimate 2006–07 **\$126.4m**

Establishment ceiling 2006–07 (notional annual mid-point salary value) representing an estimated 137 non-directorate posts as at 31 March 2006 rising by two posts to 139 posts as at 31 March 2007. **\$57.5m**

In addition, there will be an estimated 12 directorate posts as at 31 March 2006 rising by two posts to 14 posts as at 31 March 2007.

Commitment balance **\$5.5m**

Controlling Officer's Report

Programme

Financial Services

This programme contributes to Policy Area 1: Financial Services (Secretary for Financial Services and the Treasury).

Detail

	2004–05 (Actual)	2005–06 (Original)	2005–06 (Revised)	2006–07 (Estimate)
Financial provision (\$m)	103.3#	121.8	109.6 (–10.0%)	126.4 (+15.3%)
				(or +3.8% on 2005–06 Original)

The figure excludes relevant provisions for economic analyses transferred to Head 142—Government Secretariat: Offices of the Chief Secretary for Administration and the Financial Secretary with effect from 1 June 2004.

Aim

- 2 The Financial Services Branch aims to:
- maintain and enhance Hong Kong's status as a major international financial centre;
 - maintain the integrity and stability of the financial system of Hong Kong;
 - ensure orderly and efficient operation as well as prudent and appropriate regulation of the financial markets; and
 - provide a business environment which is open, fair and conducive to financial market developments.

Brief Description

- 3 The Branch seeks to achieve the above aims through:
- formulating policy and introducing legislative proposal covering the banking system; securities and futures; insurance, provident fund and retirement scheme business; as well as companies, insolvency, and accountancy matters;
 - assisting the Financial Secretary in overseeing the relevant regulatory authorities, namely, the Hong Kong Monetary Authority, the Securities and Futures Commission, the Insurance Authority and the Mandatory Provident Fund (MPF) Schemes Authority;
 - co-ordinating and facilitating implementation of new initiatives on financial infrastructure and human resources development in the financial services sector which enhance Hong Kong's competitiveness;
 - facilitating the market to innovate and introduce new financial products for greater liquidity; and
 - overseeing the operation of the Census and Statistics Department, the Companies Registry and the Official Receiver's Office.
- 4 The aims of the programme were broadly achieved in 2005.

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Matters Requiring Special Attention in 2006–07

5 During 2006–07, the Branch will:

- continue to enhance the governance of the Securities and Futures Commission;
- follow up the recommendations of the consultation conclusions on Proposals to Enhance the Regulation of Listing by introducing legislative amendments to give statutory backing to important listing requirements;
- continue to oversee the implementation of a series of measures to improve market infrastructure and its stability;
- facilitate and co-ordinate the initiatives taken by relevant authorities to enhance the quality of the capital market in Hong Kong;
- oversee the implementation of a Deposit Protection Scheme in Hong Kong;
- monitor the implementation of a Commercial Credit Reference Agency by the banking industry;
- oversee the implementation of the Clearing and Settlement Systems Ordinance which provides statutory backing for the Hong Kong Monetary Authority's oversight of important clearing and settlement systems and for settlement finality in such systems;
- co-ordinate the preparation of necessary subsidiary legislation for implementing the new capital framework endorsed by the Basel Committee on Banking Supervision;
- oversee the implementation of initiatives arising from the development of financial markets including those under the Mainland and Hong Kong Closer Economic Partnership Arrangement;
- introduce amendments to the MPF Schemes (General) Regulation to improve the investment regulations of MPF funds;
- monitor the operation of the MPF system and further enhance the efficiency and effectiveness of the system;
- keep the institutional set-up of the Insurance Authority under review;
- oversee the consultancy studies on the feasibility of establishing insurance policyholders' protection funds and on the review of the supervisory framework of the assets of long-term insurers;
- launch the rewrite of the Companies Ordinance, with a view to modernising and overhauling the legislative framework for the incorporation and registration/regulation of companies;
- seek the early implementation of the proposal for the Officer Receiver's Office to outsource the administration of debtor-petition summary bankruptcy cases, including the making of relevant subsidiary legislation;
- assist the Legislative Council in scrutinising the Financial Reporting Council Bill, with a view to facilitating the early establishment of the Council so as to further enhance the regulation of the auditing profession and the quality of financial reporting of listed corporations;
- strengthen co-operation with the Pan-Pearl River Delta region on financial services; and
- continue to enhance Hong Kong's position as a major asset management centre in Asia.

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ANALYSIS OF FINANCIAL PROVISION

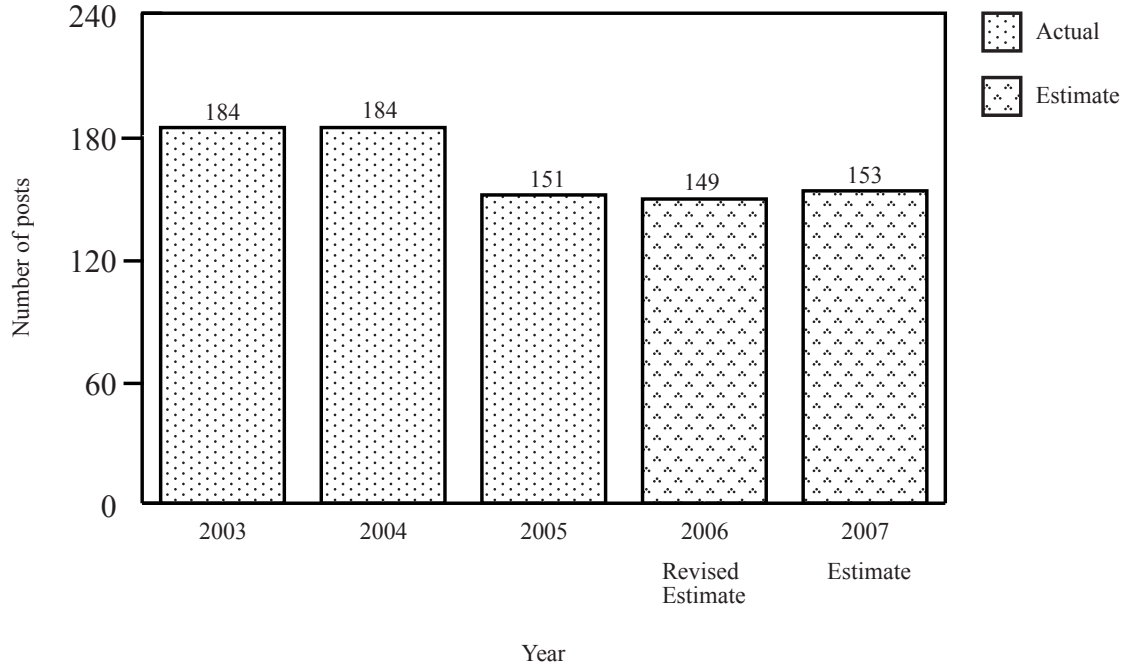
Programme	2004-05 (Actual) (\$m)	2005-06 (Original) (\$m)	2005-06 (Revised) (\$m)	2006-07 (Estimate) (\$m)
Financial Services	103.3	121.8	109.6 (-10.0%)	126.4 (+15.3%)
				(or +3.8% on 2005-06 Original)

Analysis of Financial and Staffing Provision

Provision for 2006-07 is \$16.8 million (15.3%) higher than the revised estimate for 2005-06. This is mainly due to the increased provision for meeting the expenses on the hearing of tribunal cases on insider dealings, market misconduct, etc., in 2006-07, increase in salary provision arising from staff changes and additional requirement for general departmental expenses, partly offset by the reduced cash flow requirement for non-recurrent items. In addition, there will be a net creation of four posts in 2006-07.

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*Changes in the size of the establishment
(as at 31 March)*



**Head 148 — GOVERNMENT SECRETARIAT: FINANCIAL SERVICES AND
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Sub-head (Code)		Actual expenditure 2004-05	Approved estimate 2005-06	Revised estimate 2005-06	Estimate 2006-07
	\$'000	\$'000	\$'000	\$'000	\$'000
Operating Account					
Recurrent					
000	Operational expenses.....	102,823	118,249	102,186	122,816
003	Recoverable salaries and allowances (General).....	3,768			
	<i>Deduct</i> reimbursements..... <i>Cr. 3,768</i>	—	—	—	—
	Total, Recurrent.....	<u>102,823</u>	<u>118,249</u>	<u>102,186</u>	<u>122,816</u>
Non-Recurrent					
700	General non-recurrent.....	3,620	3,598	7,383	3,603
	Total, Non-Recurrent.....	<u>3,620</u>	<u>3,598</u>	<u>7,383</u>	<u>3,603</u>
	Total, Operating Account.....	<u>106,443</u>	<u>121,847</u>	<u>109,569</u>	<u>126,419</u>
<hr/>					
	Total Expenditure.....	<u><u>106,443</u></u>	<u><u>121,847</u></u>	<u><u>109,569</u></u>	<u><u>126,419</u></u>

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Details of Expenditure by Subhead

The estimate of the amount required in 2006–07 for the salaries and expenses of the Financial Services Branch is \$126,419,000. This represents an increase of \$16,850,000 over the revised estimate for 2005–06 and of \$19,976,000 over actual expenditure in 2004–05.

Operating Account

Recurrent

2 Provision of \$122,816,000 under *Subhead 000 Operational expenses* is for the salaries, allowances and other operating expenses of the Financial Services Branch. The increase of \$20,630,000 (20.2%) over the revised estimate for 2005–06 is mainly due to the increased provision for the hearing of tribunal cases in 2006–07, increase in salary provision arising from staff changes and additional requirement for general departmental expenses.

3 The establishment as at 31 March 2006 will be 149 permanent posts. It is expected that there will be a net creation of two permanent and two supernumerary posts in 2006–07. Subject to certain conditions, the controlling officer may under delegated power create or delete non-directorate posts during 2006–07, but the notional annual mid-point salary value of all such posts must not exceed \$57,516,000.

4 An analysis of the financial provision under *Subhead 000 Operational expenses* is as follows:

	2004–05 (Actual) (\$'000)	2005–06 (Original) (\$'000)	2005–06 (Revised) (\$'000)	2006–07 (Estimate) (\$'000)
Personal Emoluments				
- Salaries	80,094	79,538	74,486	79,591
- Allowances	2,529	3,210	3,506	3,977
- Job-related allowances	—	2	2	2
Personnel Related Expenses				
- Mandatory Provident Fund contribution	60	120	84	108
Departmental Expenses				
- Honoraria for members of committees.....	172	192	172	16
- Hire of services and professional fees.....	10,145	21,102	10,986	21,873
- General departmental expenses.....	9,823	14,085	12,950	17,249
	102,823	118,249	102,186	122,816

5 Provision of \$3,768,000 under *Subhead 003 Recoverable salaries and allowances (General)* is for salaries and allowances of civil servants working for the rewrite of the Companies Ordinance. The gross provision must not be exceeded without the prior approval of the Secretary for Financial Services and the Treasury. Expenditure under this subhead is reimbursed by the Companies Registry Trading Fund.

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Commitments

Sub-head (Code)	Item (Code)	Ambit	Approved commitment	Accumulated expenditure to 31.3.2005	Revised estimated expenditure for 2005–06	Balance
			\$'000	\$'000	\$'000	\$'000
<i>Operating Account</i>						
700		<i>General non-recurrent</i>				
	014	Initiatives to co-ordinate the human resources development for the financial services sector	2,000	337	300	1,363
	019	Consultancy study on the feasibility of establishing policyholders' protection funds	4,800	2,173	1,449	1,178
	020	Educational campaign on insurance policy replacement	1,315	926	154	235
	023	Consultancy study on establishing the supervisory framework of assets of long term insurers in Hong Kong.....	5,000	950	1,330	2,720
		Total	<u>13,115</u>	<u>4,386</u>	<u>3,233</u>	<u>5,496</u>