[LCQ12: Justifications for offering special subsidies to exchange participants and SFC licensees]

Following is a question by the Hon Charles Mok and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (May 20):

Question:

The Government presented a paper to the Finance Committee (FC) of this Council in the middle of last month to seek funding approval for the implementation of the second round of relief measures. The relief measures include the offering of special subsidies to exchange participants of the Stock Exchange of Hong Kong (SEHK) and Hong Kong Futures Exchange and to Securities and Futures Commission (SFC) licensees: exchange participants belonging to Categories B and C (Categories B and C brokerages) will each be disbursed $50,000, and each SFC licensee will be disbursed $2,000. The justification for the proposal set out in the paper is as follows: "[d]ue to the COVID-19 outbreak, the business opportunities and hence income of small and medium-sized intermediaries and licensed individuals of SFC (i.e. brokerage firms and their responsible officers/representatives) have been adversely affected. Small and medium-sized intermediaries serving primarily retail clients are particularly hard-hit by the [current] adverse business environment. The reduced face-to-face contact and the recent market volatility have impeded the businesses of these small and medium-sized intermediaries, notwithstanding the recent surge in market turnover." Recently, some members of the industry have queried that the aforesaid justification is factually incorrect, and hence the aforesaid paper has allegedly misled FC. In this connection, will the Government inform this Council:

(1) as SEHK's information has indicated that the average daily turnover of the Hong Kong stock market increased to almost $112.7 billion in the first quarter of this year, representing a quarter-on-quarter increase of 54.5 per cent, and the turnovers involving Categories B and C brokerages increased by 58.4 per cent and 48.1 per cent respectively, whether the Government knows if the incomes and profits of such brokerages increased correspondingly in the said period, and of the basis on which it stated that their businesses had been "seriously affected by the pandemic";

(2) as the Government claimed that "the reduced face-to-face contact" had impeded the businesses of Categories B and C brokerages, but the outcome of a survey conducted in June last year by the Investor and Financial Education Council showed that among the retail investors being surveyed, 65 per cent, 16 per cent and 1 per cent of them most often traded stocks through online platforms, calling brokers and being physically present at the brokerage

firms respectively, whether the Government can illustrate, with statistical data, the actual extent to which the businesses of Categories B and C brokerages were affected by "the reduced face-to-face contact" with their clients; and

(3) of the ranks of the government officers involved in the write-up of the aforesaid FC paper, and the highest rank of the officers who endorsed the paper; whether there were other officers who verified if the aforesaid justification was factually correct and supported by statistical data; if so, of the post titles and number of the verifying officers?

Reply:

President,

The securities sector has long been reflecting to the Government the difficulties of its business operations. Brokerage commission rate has been declining in recent years while operating cost is on the rise. In 2019, the overall total income and net profit of participants of the Stock Exchange of Hong Kong Limited (SEHK Participants) both recorded a decline. Net securities commission income (i.e. income which is directly affected by turnover) represented about 20 per cent to 30 per cent of the total income of SEHK Participants, while other income arising from interests, personalised sales, financing, management and proprietary trading accounted for about 70 per cent to 80 per cent of their total income. Historical data showed that even when the daily turnover of the stock market in Hong Kong increased, it would not necessarily lead to proportionate increase in the total income and net profit of SEHK Participants. For example, when the average daily turnover of stock market in Hong Kong in 2018 recorded a 22 per cent year-on-year increase, the net securities commission income and the total income of Category C brokerage firms only recorded a 2.5 per cent and 0.5 per cent year-on-year increase respectively; and their net profit even recorded a drop by 32.3 per cent. In 2017 and 2019 when the average daily turnover of the stock market in Hong Kong during the respective year were broadly the same, the net profit of Category C brokerage firms recorded a cumulative drop of 64 per cent from 2017 to 2019. The above examples underline the fact that, from the perspective of the business environment of brokerage firms, the average daily turnover of stock market in Hong Kong is just one of the many factors affecting their income and net profit and that the impact on different categories of brokerage firms would differ. My response to the three parts of the question is as follows.

(1) and (2) As we have stated clearly in the Legislative Council Finance Committee paper on the second round of Anti-epidemic Fund, we recognised that there was a surge in turnover of the stock market in Hong Kong in early 2020. However, due to the COVID-19 outbreak, coupled with market volatility, the businesses of small and medium-sized intermediaries serving primarily retail clients have been adversely affected. As far as commission income is concerned, the market share of Category B and Category C brokers respectively decreased from 33.92 per cent and 7.73 per cent in December 2019 to 32.57 per cent and 6.29 per cent in March this year. Furthermore, since commission

income, which is directly relevant to turnover, only accounts for about 20 per cent to 30 per cent of the total income of the brokerage firms, the overall business environment of small and medium-sized brokerage firms (i.e. including their other businesses such as interests, sales, services and financing) and their total income and profit were hit by the epidemic notwithstanding the recent surge in turnover of stock market in Hong Kong. In addition, since securities brokers faced relatively more challenges in having face-to-face contact with their clients amidst the epidemic, their business opportunities (including attracting new clients, conducting client on-boarding, providing personalised sales activities to existing clients, etc.) were also affected. In light of this, the Government will provide cash subsidy to Category B and Category C exchange participants and Securities and Futures Commission Licensees under the second round of the Anti-epidemic Fund in order to help reduce the financial burden of the small and medium-sized securities firms and brokers. The relevant proposal is formulated by the Financial Services and the Treasury Bureau having considered the feedback received from the sector.

(3) As mentioned above, the Government has clearly pointed out in the relevant Legislative Council Finance Committee paper that there was a recent surge in market turnover. As a matter of fact, the total turnover and net profit of exchange participants are not only affected by market turnover and there is a declining trend in the total income and net profit of small and medium-sized brokerage firms amidst the epidemic. As such, we do not agree that the justifications provided by the Government are at variance with the facts. The abovementioned Finance Committee paper was prepared by officers of the Financial Services Branch of the Financial Services and the Treasury Bureau and was verified and endorsed by directorate officers of the Branch.