



SECURITIES AND
FUTURES COMMISSION
證券及期貨事務監察委員會

Annual Report 2011-12

INTERCONNECTIVITY

2011-12 Annual Report theme concept

Financial markets are now complex electronic networks with a global reach and are interconnected. As the continuing financial crisis demonstrates, problems occurring overseas do have an impact on our markets. This profound interconnectivity means that no regulator can operate alone; local and international collaboration is essential to protect investors and develop Hong Kong as a leading international financial centre.



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Mission Statement

As a financial regulator in an international financial centre, the Securities and Futures Commission is entrusted with a clear calling – to strengthen and protect the integrity and soundness of Hong Kong’s securities and futures markets for the benefit of investors as well as the industry.

Chairman's Message



“Hong Kong must remain flexible, ready and willing to adopt and adapt to changing circumstances, and to act promptly and decisively in dealing with new risks and challenges.”

The year started positively as global financial stability improved on the back of modest recovery in advanced economies and robust growth in emerging market economies. This changed as credit downgrades of eurozone economies and the US renewed concerns of recession and increased the risks to financial stability. Euro area action to ease funding and liquidity strains restored stability, but uncertainty remains whether stability is entrenched.

As a hub for international capital flows, and the gateway to Mainland China, Hong Kong is susceptible to the vagaries of global financial markets and developments on the Mainland. Over the years, it has withstood the swings in global economic cycles and the euphoria and gloom of global financial markets. Hong Kong overcame the challenges of the handover, the Asian Financial Crisis and the outbreak of the severe acute respiratory syndrome. Since 2006, when I came on board the SFC as chairman, I have seen how the global financial crisis has brought financial markets to the brink of total collapse and shaped global financial reforms that are changing the global financial landscape. Global financial markets have recovered but are yet to return to full normal functioning; markets have to be fully convinced that needed regulatory, fiscal and structural reforms will be implemented.

Challenging economic times

The global economy avoided a sharp economic slowdown following improved economic activities in the US and policies taken in the euro area. The economic recovery in advanced economies is fragile and may be weakened if the euro area debt crisis intensifies. In particular, there is concern over euro area banks' access to funding and the risk of deleveraging by banks if this becomes an issue, and the negative impact this would have on economic activity, growth and unemployment.

The economic environment is indeed challenging. In the euro area, the major challenge is to balance austerity measures against the need to generate growth and employment. The difficulty is that until markets are convinced that governments have a credible plan to contain fiscal deficits and reduce government debt, governments may have difficulty to spend more or roll over maturing debt at affordable borrowing rates. However, policy manoeuvre might be constrained by political realities. Important structural reforms that will help to create sustainable employment and increase competitiveness may also not get the needed popular support, given the pain of such measures.

“Consensus can be achieved if one accepts that there is no “one size fits all” solution.”

Emerging markets have been able to withstand the financial shocks and economic slowdown emanating from advanced economies. In Asia, there has been a pick-up in economic activity in early 2012, following last year's slowdown. However, if the situation of the advanced economies were to worsen, there could be a withdrawal of credit and cross-border lending, a sudden reversal of capital flows, and exports to advanced economies could experience a further sharp fall. As food and commodity prices have eased, inflation is not expected to be an issue, but policymakers have to remain watchful and act should signs of inflation return.

Implementing global financial reforms

Financial institutions operate across borders in a global marketplace. Financial regulators and supervisors operate very much nationally and regulations stop at the border. At the national level, regulators may not have a holistic picture or full understanding of the operations of financial institutions if they operate across financial markets. The global financial crisis brought to light regulatory gaps and the lack of oversight of macro-prudential and systemic risks. Global financial reforms address the need for a more integrated and holistic approach to regulation and the need for greater co-operation and information sharing among regulators, both nationally and cross-border.

The financial system is as strong as the weakest link. Financial regulators have to look beyond their traditional boundaries of regulation and gain an understanding of the changing nature and structure of financial markets and how their risks are interconnected in a global financial market. Equally important is to understand how the plumbing of the financial infrastructure works and how it creates linkages across the network of financial markets.

Global financial reforms are ongoing and the pace of progress differs depending on the nature and complexity of the issues, legacy issues, philosophical differences and local circumstances. National reform initiatives have advanced ahead, but often resulted in disparate reforms that create potentially conflicting rules and requirements. The challenges are not insurmountable and consensus can be achieved if one accepts that there is no “one size fits all” solution, and a willingness to seek a pragmatic way forward that achieves the desired regulatory outcomes while allowing for domestic circumstances.

It is important that the reforms do not create unintended consequences that increase risk rather than make markets safer, or result in overly burdensome rules that hinder the efficient functioning of markets; a balanced approach is imperative to promote market stability without hindering market development. It is also important that in fixing the last crisis, regulators do not lose sight of existential and emerging risks and issues.

The SFC actively participates in the different work streams of the International Organization of Securities Commissions, the standard setter for international securities regulation, which is an ideal forum for dialogue to address the regulatory issues that have cross-border implications for financial markets and find a pragmatic solution that achieves the desired regulatory outcome. As an international financial centre and the host of global financial institutions, Hong Kong supports the need for a common minimum international standard of regulation that promotes sound market functioning and market stability. The SFC will continue to maintain a robust regulatory framework that adheres to internationally agreed standards of regulation.

Global financial reforms are important and necessary but regulation alone is not sufficient. There is a need for shared discipline and responsibility by all stakeholders, including investors, intermediaries and regulators, to guard against excessive risk-taking and avoid a repeat of a crisis of such severity and magnitude as the global financial crisis.

Enhancing collaboration with mainland China

For the first time, the Mainland's latest Five-year Plan, released in March 2011, contains a separate chapter on Hong Kong. This signifies the Mainland's vision for Hong Kong to be an international asset management centre and offshore renminbi centre. It also represents the next important stage of mutual co-operation and collaboration between the two markets to further integrate mainland China with global capital markets and for Hong Kong to continue in its role as the platform for incoming and outgoing capital flows into and from mainland China.

“Financial regulators have to look beyond their traditional boundaries of regulation and gain an understanding of the changing nature and structure of financial markets and how their risks are interconnected in a global financial market.”

Hong Kong has successfully played this role since the Mainland started on its “going out” strategy. In recent years, Hong Kong has been the platform for Mainland intermediaries wanting to gain the experience of operating in an international financial centre that is benchmarked to international standards of regulation. This would help Mainland intermediaries to conduct their operations according to the standards and rigours of Hong Kong's market and regulatory regime. As these intermediaries have a deeper understanding of Mainland markets and enterprises, their knowledge is also invaluable to Hong Kong.

Hong Kong is an open economy with the traditions of sound institutions and the rule of law, which have underpinned its success as an international financial centre. Hong Kong and the Mainland have a symbiotic relationship that is mutually beneficial and complementary. The SFC will continue to work with the government and relevant Mainland authorities to facilitate the development of renminbi investment products that will support mainland China's goal to internationalise the renminbi.

The SFC has collaborated with other regulators in Hong Kong and the Mainland to establish the necessary trading and clearing infrastructure for renminbi-denominated products, and with the industry to get their systems ready for trading in these new products. Going forward, we will continue to build on this experience and welcome discussions with industry on their proposals to further develop this market. The SFC will continue to engage investors through our investor education initiatives to ensure that investor interests are safeguarded as renminbi products gain popularity.

Adopting and adapting for success

The highly open nature of Hong Kong's economy and its role as an international financial centre is reflected in its securities market, which has substantial international participation. Mainland enterprises account for more than half of its stock market capitalisation, with a growing number of overseas companies from an increasing number of countries seeking to list in Hong Kong. Overseas investors account for almost half of stock trading in Hong Kong, and funds from non-Hong Kong investors have consistently accounted for more than 60% of the Hong Kong asset management business.

Hong Kong's success as an international financial centre is a privilege; with it comes the responsibility to maintain the trust of investors. The SFC must remain vigilant in managing risks and in bringing appropriate action against market misconduct. It must keep the SFC's regulatory tool kit under constant review, and adopt new regulations or adapt its regulations as appropriate to ensure that they remain relevant and effective for Hong Kong in achieving the objectives of investor protection, fair, efficient and transparent markets, and orderly and stable markets. The SFC will continue to remain at the forefront of adopting and adapting international standards, and in responding to local issues in order to maintain a robust regulatory framework that promotes a sound and resilient securities market.

Hong Kong must remain flexible, ready and willing to adopt and adapt to changing circumstances, and to act promptly and decisively in dealing with new risks and challenges. This is important for Hong Kong to be able to absorb the shocks and challenges of an interconnected global financial market. The SFC will continue to maintain a balanced regulatory approach that promotes sound regulation without impeding market development.

Market participants and investors are important partners of the SFC in promoting and maintaining healthy and resilient markets. Market intermediaries must act with utmost professionalism and care in the conduct of their operations, in risk management and in dealing with their clients. To maintain the trust of investors and other market participants, they must act in line with the conduct and due diligence that is expected of them. Investors also must act with responsibility in making investment decisions. On its part, the SFC will continue to carry out its functions, including enforcing the law to punish and deter misconduct, and to reach out to investors through targeted investor education.

It has been another challenging year. I welcome Ashley Alder back to our fold as the CEO, bringing with him invaluable market expertise and insights. I am heartened that SFC colleagues have once again demonstrated a strong commitment to professionalism, excellence and diligence in their work and responsibilities. Their dedication has made my job much more enjoyable. I would like to express my appreciation and gratitude to the Board and all SFC colleagues for their continued support and steadfast commitment to the mission and objectives of the SFC.

Dr Eddy C Fong
Chairman

CEO's Statement

This is my first statement as CEO. I joined the SFC last October, and I was, of course, aware that the Commission had been through a challenging period dealing with the local effects of the collapse of Lehman Brothers as well as the implications of the wider global financial crisis for Hong Kong. And I should say upfront that I have been extremely impressed with the evident resilience, hard work, commitment and intellectual rigour with which SFC staff – at all levels and across all divisions – have been dealing with the extremely difficult issues arising from the crisis.

My predecessor, Martin Wheatley, led the Commission through this period in a clear-sighted and unwavering manner. He is now at the United Kingdom's Financial Services Authority and will lead the Financial Conduct Authority next year under the new "twin-peaks" financial regulation model. We owe Martin a huge debt of gratitude and wish him well in his new role, in which I am sure he will be very successful.

The effects of the crisis still make themselves felt; no region is immune from the continuing problems in Europe. Even an economy as large as that of mainland China is discussed in the context of overseas demand for its products, its own investment abroad as well as the international significance of the renminbi. China is both globally significant and interconnected and its own economic rebalancing has profound implications for local and global investors and enterprises.

Against this backdrop, I believe that the next few years will be seen as pivotal for the evolution and long-term position of Hong Kong as a leading international financial centre. For

many years, Hong Kong has acted as the principal gateway allowing overseas investors to gain exposure to China and enabling Chinese enterprises to attract foreign investment and to extend their operations abroad. The fact that a majority of the market capitalisation of Hong Kong's stock exchange now consists of Mainland enterprises is a testament to the success of Hong Kong's transformation over a relatively short period from a financial centre for local companies and investors to its present position as the pre-eminent crossroads for global investment in China's future development.

The next stage is crucial: Hong Kong's opportunity is to align the development of its own financial markets with the increased sophistication of China's interaction with global investors and markets. The most recent example is the growing significance of renminbi trade and issuance of renminbi products. Internationalisation of the renminbi will inevitably have small beginnings and is a long-term project, but its significance for Hong Kong as a major hub through much of this business will flow is plain, and is founded on our geographical advantage as well as our unique "one country, two systems" political and legal system.

"We cannot operate effectively without close, continual and effective communication and co-operation between local regulators and with the broader international regulatory community."



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So the preservation and enhancement of Hong Kong’s market quality is an objective underlying all that we do, from enforcement against market misconduct to the regulation of intermediaries, the authorization of funds and financial products and the regulation of listed companies and market operators. Any suggestion that this objective should be subordinate to superficial, risky market development opportunities would be misconceived, given that the long-term reputational impact would eclipse any perceived gain. All key stakeholders in Hong Kong’s securities market subscribe fully to this principle.

Regulatory approach

But what do these high-level developments mean for the SFC, Hong Kong’s securities markets regulator? I believe that there are two answers to this.

Upholding market quality

First, and regardless of the nature of future innovations in Hong Kong’s financial markets, our role is to ensure that market development is accompanied at all times by standards of market quality and investor protection which are no lower than – and in some areas exceed – leading international benchmarks. Although financial investments carry varying degrees of risk in all markets, investors tell us repeatedly that a key attribute that continues to attract them to invest in and through Hong Kong is the confidence they can place in the clarity, consistency and credibility of our rule of law and regulatory system. This operates in the interests of all investors, from retail to the largest global financial institutions. It also operates in the interests of business enterprises raising capital and funding, lowering costs and providing a secure base to connect investors with investment opportunities.

Recognising interconnectivity

Secondly, following the maxim that every crisis presents an opportunity, the efforts of the international community to tackle the causes and effects of the global financial crisis has laid bare the fact that we cannot operate effectively without close, continual and effective communication and co-operation between local regulators and with the broader international regulatory community. This reflects the transformation of financial services and markets into highly connected cross-border businesses where transmission mechanisms ensure that market failures ripple throughout the financial system.

The need to develop meaningful cross-border relationships and reach is likely to be of even greater significance for Hong Kong than for many countries. Hong Kong’s domestic market will continue to be small compared to its significance as a venue for overseas investors, intermediaries and funds wishing to gain exposure to enterprises that also are offshore, predominantly on the Mainland, and more recently businesses from elsewhere with a China or Asian strategy or connection.

This will continue to be a major opportunity, but it poses an additional challenge for the SFC. Although many of our market participants originate or have set up in Hong Kong, many are from overseas. This means that international collaboration is crucial to our regulatory efforts, and it also means that we develop regulatory policies specifically to address the risks arising from the significant international dimension of our markets.

The financial crisis also has led to another realisation – different regulators with remits to regulate different types of financial business must co-operate closely to address the inevitable gaps and overlaps that arise between them. This is simply a question of addressing risk properly in modern markets. Interconnected financial markets and the sophistication of financial institutions mean that, for example, banking regulators must understand capital markets and securities regulators must understand banking operations.

It is for these reasons that we have chosen “interconnectivity” as the theme for this year’s report.

Staying committed to collaboration

Local collaboration is essential in a system like Hong Kong’s where a number of regulators have responsibility for different aspects of financial markets. I am pleased to say that we maintain a constructive and regular dialogue with all of them. The leaders of each of the key authorities, namely, the Hong Kong Monetary Authority, the Insurance Authority, and the Mandatory Provident Fund Schemes Authority, are committed to working even closer together in the future. Each regulator carries out functions that are of direct relevance to others. For instance, with enhanced regulation of mandatory provident fund (MPF) intermediaries under consideration, banks, brokerages, insurance companies and independent financial advisers marketing MPF products will be subject to supervision by their frontline regulators. For this regulatory model to be effective, close collaboration among regulators will be paramount. To do anything else is simply not an option.

Collaboration within the SFC is also vital. Every effort should be made to resist a “silo” mentality within any organisation. Again, I am pleased to say that inter-divisional co-operation and information sharing is high and improves day by day. We recently set up a number of cross-divisional project groups. These deal with topics such as sponsors for initial public offerings, direct access to the Market Misconduct Tribunal and over-the-counter (OTC) derivatives, all of which involve the work of more than one division. The fundamental goal is to ensure that the right expertise is channelled at the right time to the more difficult aspects of our work. We have also established a centralised risk and strategy function to assess external market risks and to work with our front-line operational units in determining how our priorities should be assessed to address those risks most effectively.

Forging closer ties with China

Our ties with Mainland regulators and authorities are of prime importance in light of Hong Kong’s transformation into a hub for Mainland business and as an offshore centre for developing renminbi products. We have a close relationship with our counterpart, the China Securities Regulatory Commission (CSRC), which is particularly important for renminbi product development and cross-border enforcement. We are now working with the CSRC on the introduction of physical A-share exchange-traded funds to our stock exchange.

Our work

Much of our work is to do with addressing the risks and opportunities stemming from a highly interconnected global financial marketplace. In the past year, we continued to collaborate with overseas and local counterparts to contribute to global regulatory efforts, focusing on a number of areas deemed to pose the most imminent risks. For details, please refer to the Operational Review chapter (pages 27-54).

Our priorities

Going forward, the following areas will take precedence in terms of our work:

- *Improve market resilience* by making markets more responsive to changes and to better prepare them to withstand volatility and disruptions;
- *Identify and reduce systemic risks*, given that the global financial crisis has made clear the importance of risk transmission across regulated and unregulated markets;
- *Continue to strengthen investor protection and take decisive enforcement action against market misconduct*, given that the credibility of our regulatory work is essential to the quality of Hong Kong's markets; and
- *Continue to contribute to global efforts* to address the regulation of financial markets, especially those implementing the objectives set by the Group of Twenty.

In line with these priorities, we are engaged in a number of policy and legislative programmes. These include implementing the new short-position reporting regime, enhancing the standards of initial public offering sponsors, working on the enabling legislation of the OTC derivatives regulatory regime, introducing a "paperless" electronic securities market and reviewing the professional investor regime. More details are described in the Corporate Outlook chapter (pages 23-26).

"Much of our work is to do with addressing the risks and opportunities stemming from a highly interconnected global financial marketplace."

Finally, I would like to thank all my colleagues for their hard work and dedication over the past year. Although we are still dealing with the effects of a financial crisis of unprecedented scale and scope, I am confident that we have the drive and ability to operate in a challenging environment in the interest of investors and Hong Kong's continuing development as an international financial centre of global significance.

Ashley Alder
Chief Executive Officer

Corporate Governance

To get a circuit board working, various components will have to be installed in the right place and connected strategically by wiring. Similarly, our governance framework lays down a clearly defined management structure and effective system of checks and balances.



As the statutory regulator of Hong Kong's securities and futures markets, we place great importance on accountability and transparency. We exercise our statutory powers under the Securities and Futures Ordinance (SFO) and are committed to meeting high standards of corporate governance.

The cornerstones of our governance framework include a clearly defined management structure, high conduct standards, comprehensive operational and financial control procedures and independent checks and balances. Such a framework enables us to fulfil our mandates more effectively and efficiently.

Board

The Board is charged with setting the SFC's overall direction and policies, providing strategic guidance to senior management, and overseeing the executive functions.

The Board delegates a number of regulatory powers and functions to the executive directors (EDs) and other senior staff, while retaining the non-delegable functions under the SFO. Board meetings are held at least once every month.

Constitution

The SFO requires that the majority of our Board members be made up of non-executive directors (NEDs), who can bring to this core governance body a good mix of experience and expertise as well as independent and informed perspectives on regulatory and policy issues. Since the enactment of the Securities and Futures (Amendment) Ordinance 2006, the posts of chairman and chief executive officer (CEO) have been segregated to strengthen checks and balances.

The Board comprises a non-executive chairman, a CEO, EDs and NEDs. All Board members are appointed for a fixed term by the Chief Executive (CE) of the Hong Kong Special Administrative Region (HKSAR), or the Financial Secretary (FS) under delegated authority.

Practices outlined below also help the Board maintain high corporate governance standards.

- Members are entitled to seek additional information about policy proposals where necessary. Members have access to the advice and services of the Commission Secretary.
- Members receive adequate information before the scheduled Board meetings to enable constructive consideration at meetings.
- Minutes of Board meetings are circulated to members for comments and are kept by the Commission Secretary.
- All newly-appointed members are informed of the SFC's work and are provided with relevant documents, including the staff code of conduct.
- NEDs chair the Audit Committee, the Budget Committee and the Remuneration Committee established by the Board. The Board is apprised of all decisions made by these committees.

Year in review

During the year, Dr Eddy Fong was re-appointed as non-executive chairman for a term of one year to October 2012. In addition, three NEDs were re-appointed: Mr Wong Kai-man for a term of two years to May 2013; The Hon Mr Chan Kam-lam and Mr Lawrence Lee Kam-hung for a term of two years respectively to November 2013.

In early June 2011, Mr Martin Wheatley left the post of CEO of the SFC. Following an extensive global search commissioned by the Government, Mr Ashley Alder took up the top executive job on 1 October 2011 for a three-year term.

The Board is of sufficient size to ensure that the requirements of the business are met. At year-end, the Board had a membership of 13, namely, a chairman, seven NEDs and five EDs (including the CEO). (Please see pages 20-22 for membership details.)

Last year, 16 Board meetings were held.

Executive Committee

The Executive Committee (ExCo) is led by the CEO and comprises four other EDs, the chief counsel and four senior directors. Charged with delegated duties for administrative, financial and management functions, it implements goals set by the Board and ensures effective functioning of the SFC.

SFC committees

Our NEDs sit on the board committees listed in the table. They play an important role in ensuring that the SFC is accountable and transparent. The Audit Committee and Remuneration Committee, which comprise NEDs only, invite senior staff to attend meetings whenever necessary. The Budget Committee consists of both NEDs and EDs, the latter in a non-voting capacity.

Committee	Responsibilities
Audit Committee	<ul style="list-style-type: none"> ■ Reviews annual financial statements ■ Recommends the appointment of external auditors ■ Considers the scope and planning of external audit and reviews the audit findings ■ Examines management's procedures to ensure effective financial and internal controls ■ Considers other matters as required, including complaints against SFC staff
Budget Committee	<ul style="list-style-type: none"> ■ Examines and approves the parameters and basis used in the annual budget ■ Considers the mid-year budget review ■ Recommends an annual budget
Remuneration Committee	<ul style="list-style-type: none"> ■ Reviews the structure and level of staff remuneration ■ Reviews trends in remuneration packages and recommends adjustments ■ Considers other matters as required, including recommendations to the Government on EDs' remuneration and re-appointment of certain EDs

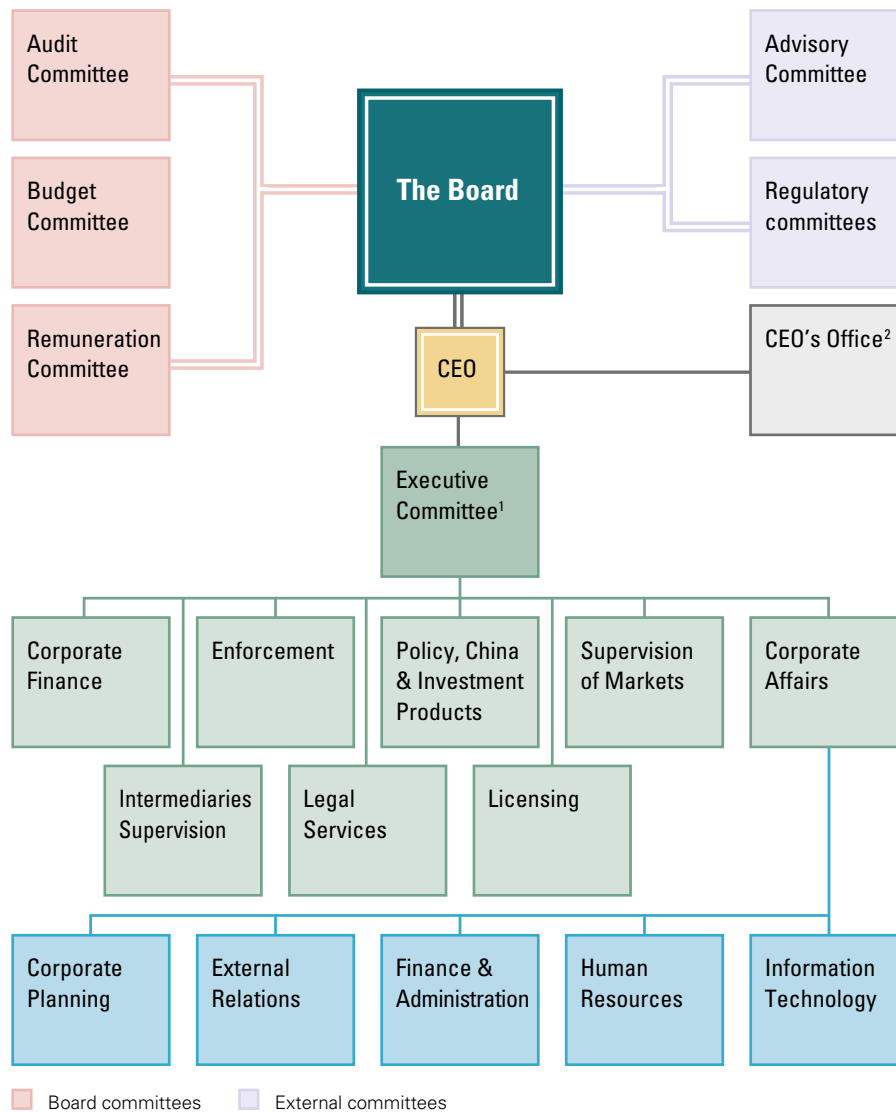
The Advisory Committee and other regulatory committees reflect the involvement of different market participants in our work and their diverse interests. Each committee comprises a large external membership drawn from the market.

■ **Advisory Committee:** Set up under the SFO, it offers insight, advice and recommendations on a range of policy matters. It is chaired by the SFC chairman and comprises representatives from a wide array of professions, who are appointed by the FS under the authority delegated by the CE. In addition to appointed external members, the CEO and an ED also sit on the committee.

■ **Regulatory committees:** Also set up under the SFO, each committee specialises in particular regulatory areas, such as investment products, market supervision and public shareholders’ rights and interests. Members are appointed by the Board and include NEDs, EDs and a large external representation.

The role and functions of each of the above committees are available on pages 130-139. The meeting attendance records of the Board, Advisory Committee and regulatory committees during the year are on page 17.

Organisation structure



¹ Comprises the Chief Executive Officer (CEO), executive directors, the chief counsel and other senior staff.

² CEO's Office includes the functions of Commission Secretariat, risk and strategy and media relations.

Conduct standards

Conscious of our role in promoting and maintaining public confidence in the SFC, we require the highest standards of integrity and conduct from our Board members and staff. All employees are required to comply with the requirements and relevant legal obligations regarding confidentiality, conflict of interests, personal investments, etc, as set out in our code of conduct for staff. A copy of the code is provided to all new staff members and is accessible on our Intranet. Failure to comply with the code may result in disciplinary action.

Accountability and transparency

To ensure that we act firmly, fairly and in a transparent manner, we have in place procedures and guidelines for making decisions and taking action in various aspects of our operation.

Financial control and reporting

- A set of financial control policies and procedures sets out the levels of authority and delegation of administration, financial and management functions. Matters covered include appointment of consultants, fee collection, investment, purchasing and budgeting process.
- We adopt the International Financial Reporting Standards promulgated by the International Accounting Standards Board for reporting and disclosure of financial statements.
- Our financial statements are audited by an external firm. The audited statements are then approved by the Board (upon recommendation by the Audit Committee) and signed by our chairman and CEO. We publish our financial statements every three months in our quarterly reports and a full-year account in our annual report.
- Each year, budgets are submitted to the FS for approval and tabled before the Legislative Council (LegCo) after consideration by the Budget Committee and the Board.

During the year, we attended meetings of the LegCo's Panel on Financial Affairs to explain to its members issues of public interest and policy initiatives. We also discussed draft legislation at meetings held by the designated bills committees and sub-committees.

Internal control review

To assess whether our systems of internal control set out in the various manuals are adhered to and to evaluate and enhance adequacy of these procedures, we appoint an external audit firm to conduct annual internal control reviews. The focus of the review has to be approved by the Audit Committee annually.

Handling of complaints and grievances

- Procedures are in place to ensure that complaints or grievances against the SFC, or an SFC employee, or those pertaining to public interest or discrimination are handled in an efficient and transparent way.
- Reports of improper practices of the SFC or our staff can be made to us under our public interest grievance procedures. These procedures are posted on the SFC site to assist individuals who are engaged by or work at the SFC to report cases in a constructive and confidential manner.
- Separate complaint handling procedures are established to handle dissatisfaction with the way the SFC or our staff have carried out their duties. The relevant procedures are also posted on the SFC Web site to give the public guidance.

Communication with stakeholders

We consult the public before introducing any regulatory changes as required by the relevant provisions of the SFO. Comments received, our responses to the comments, details of modifications to the draft rules and subsequent conclusions are published on the SFC Web site.

As part of our ongoing effort to keep our stakeholders and the public informed, we take the initiative of reporting our key regulatory and organisational activities as well as financials on a quarterly basis. We also report our latest regulatory actions through news releases and post updates on the SFC Web site.

Risk management

Aiming to establish a dedicated, central risk and strategy function, we launched in early March 2012 the Risk and Strategy Unit to formalise the development and implementation of our overall approach to risk and facilitate the development of the policies and strategies to manage the relevant risks.

In their respective areas, our operational units closely monitor and assess risks and report regularly to the Board their analysis and recommendations on managing such risks.

We have a market contingency plan, which details procedures for dealing with emergency situations that may affect Hong Kong's securities and futures markets. We also have in place our own business resumption plan, which covers readily identifiable risks, including technical problems, fires, nature disasters and other emergencies. The plan is updated annually.

We have a framework of control to manage our information security. During the year, we revised our information security policy to strengthen our level of security standards and to help staff observe security practices in their daily handling of information.

Independent checks and balances

We are subject to external checks and balances designed to ensure fairness in our decision making, observance of due process, and proper use of our regulatory powers. Other than scrutiny by the Process Review Panel and the Securities and Futures Appeals Tribunal, we are subject to judicial review by the courts and indirect oversight by the Office of the Ombudsman.

■ **Process Review Panel:** An independent panel established by the CE in 2000, the panel has a membership of representatives from various community segments, the SFC chairman and a representative from the Secretary for Justice, both in an ex-officio capacity.

■ **Securities and Futures Appeals Tribunal:** This is chaired by a High Court judge appointed by the CE and comprises two other members drawn from a panel appointed by the FS under delegated authority.

Independent body	Function	Tasks handled
Process Review Panel	<ul style="list-style-type: none"> Reviews and advises on the adequacy of our procedures and guidelines, including those on handling of complaints, licensing and listing applications, inspection of intermediaries, product authorization, disciplinary/enforcement action, etc 	<ul style="list-style-type: none"> Reviewed 57 selected cases (covering the period from October 2010 to September 2011) Concluded that the SFC has, in general, adhered to established internal procedures and operational guidelines in its actions and decisions Published the 10th report in September 2011
Securities and Futures Appeals Tribunal	<ul style="list-style-type: none"> Reviews specified decisions made by the SFC Has power to confirm, vary or set aside SFC decisions, substitute any other decision it considers appropriate, or remit the matter to the SFC with directions 	<ul style="list-style-type: none"> Received request to review five cases of SFC regulatory decisions Brought forward three cases from 2009-10 and 2010-11 Issued decisions on three cases, allowed five to be withdrawn
Office of the Ombudsman	<ul style="list-style-type: none"> Handles public complaints against SFC actions and its staff in the discharge of their duties 	<ul style="list-style-type: none"> Conducted 13 preliminary inquiries upon receipt of complaint referrals
Courts	<ul style="list-style-type: none"> Handles judicial reviews of SFC decisions 	<ul style="list-style-type: none"> Heard one application for judicial review

Meeting attendance record

Meeting attended/held	Commission	Audit Committee	Remuneration Committee	Budget Committee	Executive Committee
Chairman					
Eddy C Fong	15/16	N/A	2/2	N/A	N/A
Executive Directors					
Martin Wheatley ¹	2/2	N/A	N/A	N/A	5/5
Ashley Alder ²	8/9	N/A	N/A	1/1	11/12
Brian Ho	13/16	N/A	N/A	N/A	19/23
Alexa Lam	13/16	N/A	N/A	1/1	19/23
Keith Lui	16/16	N/A	N/A	N/A	20/23
Mark Steward	14/16	N/A	N/A	N/A	22/23
Non-Executive Directors					
Chan Kam-lam	12/16	N/A	0/2	N/A	N/A
Leonard K Cheng	14/16	N/A	2/2	1/1	N/A
Anderson K M Chow	14/16	N/A	1/2	N/A	N/A
Angelina P L Lee	13/16	2/2	1/2	1/1	N/A
Lawrence Lee	12/16	2/2	2/2	N/A	N/A
Carlson Tong ³	12/16	N/A	2/2	N/A	N/A
Wong Kai-man	13/16	2/2	1/2	1/1	N/A
Senior Directors & Chief Counsel					
Stephen Po	N/A	N/A	N/A	N/A	16/23
Stephen Tisdall	N/A	N/A	N/A	N/A	21/23
Andrew Wan	N/A	N/A	N/A	N/A	22/23
Andrew Young	N/A	N/A	N/A	N/A	20/23
Benedicte Nolens ⁴	N/A	N/A	N/A	N/A	2/2

¹ Appointment expired on 8.6.2011.

² Appointment started on 1.10.2011.

³ Appointment started on 1.4.2011.

⁴ Appointment started on 12.3.2012.

Performance pledges

In discharging our regulatory duties, we pledge to be responsive to the public, market participants and intermediaries under our supervision.

		% of cases meeting the pledge		
		2011/12	2010/11	2009/10
Applications for subordinated loan or modification/waiver of requirements under SFO				
Commence review of application upon receipt	2 business days	100%	98.3%	96.9%
Authorization of investment products				
Commence review of applications upon receipt	2 business days	100%	100%	100%
Preliminary reply to applicants after commencement of application review for investment-linked assurance schemes, Mandatory Provident Fund pooled investment funds, mutual funds, and unit trusts.	7 business days	100%	100%	100%
Preliminary reply to applications after commencement of application review for other schemes	14 business days	100%	100%	100%
Enquiries				
General enquiries:				
Preliminary reply to public enquiries (excluding those from investors) ¹	4 business days	100%	100%	99.8%
Investor enquiries:				
Preliminary reply to telephone enquiries ¹	4 business days	100%	100%	100%
Preliminary reply to written enquiries ¹	2 weeks	100%	100%	99.5%
Processing of licensing applications²				
Corporations	15 weeks	96% ³	100%	99%
Representatives (provisional licences)	7 business days	98% ³	97%	88%
Representatives (normal licences)	8 weeks	99% ³	98%	95%
Representatives (responsible officers)	10 weeks	99% ³	96%	97%
Transfer of accreditation	7 business days	94% ³	94%	81%
Public complaints				
Preliminary response to verbal & written complaints	2 weeks	99.8% ⁴	99.2%	99.3%

¹ On 1 April 2012, the pledge for replying to enquiries was changed to five business days.

² Compliance with our performance pledges is measured in relation to applications in respect of which all of the required documentation is supplied by the applicants in a comprehensive and efficient manner and in which delays, for which we have no responsibility, do not occur.

³ Some cases failed to meet the pledges largely due to resource constraints and/or unexpected complications.

⁴ Due to the heavy workload, four cases failed to meet the pledge.

Board of Directors



Top row (from left to right): Dr Eddy C Fong, Ashley Alder

Second row (from left to right): The Hon Chan Kam-lam, Prof Leonard K Cheng, Anderson Chow Ka Ming, Brian Ho

Third row (from left to right): Alexa Lam, Angelina P L Lee, Lawrence Lee, Keith Lui

Fourth row (from left to right): Mark Steward, Carlson Tong, Wong Kai-man

Dr Eddy C Fong, GBS, JP

Chairman

From 20 October 2006. Current appointment expires on 19 October 2012.

SFC Non-Executive Chairman (since 20 October 2006); Certified Public Accountant; Chairman of the Council, Open University of Hong Kong; Non-Executive Director, Hong Kong Mortgage Corporation Ltd; Member, Banking Advisory Committee of the Hong Kong Monetary Authority; Member, HKEx Listing Nominating Committee.

Formerly, Senior Partner of PricewaterhouseCoopers; Non-Executive Director, Mandatory Provident Fund Schemes Authority; Non-Executive Director, Exchange Fund Investments Ltd; Member and Chairman, Finance Committee of the Hong Kong Housing Authority.

Chairs Advisory Committee. Member, Remuneration Committee, Nominations Committee, SFC (HKEC Listing) Appeals Committee and Process Review Panel for the SFC.

Ashley Alder

Chief Executive Officer¹

From 1 October 2011. Current appointment expires on 30 September 2014.

SFC: Executive Director (2001-2004); Herbert Smith: Partner and Head of Asia (2004-2011), Partner (1994-2001), Associate (1986-1994); Solicitor admitted to practice in England and Wales in 1986 and in Hong Kong in 1990.

Chairs Nominations Committee. Member, Budget Committee, Executive Committee, Advisory Committee, SFC (HKEC Listing) Committee.

The Hon Chan Kam-lam, SBS, JP

Non-executive Director

From 15 November 2007. Current appointment expires on 14 November 2013.

Member, Chinese People's Political Consultative Conference; Elected Member (Kowloon East), Legislative Council of the HKSAR; Chairman, LegCo Panel on Financial Affairs; Board Member, Airport Authority; Member, ICAC Advisory Committee on Corruption; Member, Deposit-taking Companies Advisory Committee; Member, Travel Industry Compensation Fund Management Board.

Member of Remuneration Committee and SFC (HKEC Listing) Appeals Committee.

Professor Leonard K Cheng, JP

Non-executive Director

From 1 January 2011. Current appointment expires on 31 December 2012.

Dean of Business and Management, The Hong Kong University of Science and Technology; Director, Hong Kong Institute for Monetary Research; Member, Statistics Advisory Board; Member, Hong Kong Port Development Council; Member, Provisional Minimum Wage Commission (2009-2010); Member, Broadcasting Authority (2003-2009); Member, Manpower Development Committee (2002-2006); Member, Monitoring Group on Trials and Studies for the Harbour Area Treatment Scheme (2001-2003); Member, Investment Promotion Strategy Group (2000-2001); Member, Advisory

Committee on New Broad-based Taxes (2000-2001); Member, International Review Panel, Strategic Sewage Disposal Scheme (2000-2001); Member, Hong Kong Committee for Pacific Economic Cooperation (1998-2004); Member, Economic Advisory Committee (1996-2001); Member, Shanghai-Hong Kong Council for the Promotion and Development of Yangtze (1998-2002).

Deputy Chairman of Remuneration Committee and Budget Committee. Member, SFC (HKEC Listing) Appeals Committee.

Anderson Chow Ka Ming, SC

Non-executive Director

From 1 January 2011. Current appointment expires on 31 December 2012.

Senior Counsel; Recorder, Court of First Instance of the High Court of HKSAR; Honorary Lecturer, Department of Professional Legal Education, Faculty of Law, The University of Hong Kong; Chairman, Water Pollution Control Appeal Board; Chairman, Air Pollution Control Appeal Board; Member, Law Reform Commission; Investigation Committee Convenor and Member of Investigation Panel A, Hong Kong Institute of Certified Public Accountant; Senior Counsel Member, Barristers Disciplinary Tribunal Panel; Member, Management Committee of the Consumer Legal Action Fund; Member, Appeal Board on Public Meetings and Processions; Deputy High Court Judge, HKSAR (2009); Deputy Chairman, Administrative Appeals Board (2005-

¹ Martin Wheatley served on the Board as CEO during the reporting year from 1 April to 8 June 2011.

Note: Except for Chairman and CEO, other board members are listed in alphabetical order.

2011); Alternate of the Disciplinary Committee Convenor, Hong Kong Institute of Certified Public Accountants (2005-2011); Member, Disciplinary Panel A of the Hong Kong Institute of Certified Public Accountants (2002-2011); Member, Criminal and Law Enforcement Injuries Compensation Board (2005-2011); Chairman, Appeal Tribunal (Buildings) (2000-2007); Member, Disciplinary Chair Committee of Securities and Futures Commission to act as chairman of the Takeovers and Mergers Panel in disciplinary proceedings and Takeovers Appeal Committee (2008-2010); Member, Appointment Advisory Board of Hong Kong International Arbitration Centre (2008-2010).

Member of Remuneration Committee and SFC (HKEC Listing) Appeals Committee.

Brian Ho

Executive Director, Corporate Finance Division

From 28 August 2006. Current appointment expires on 27 August 2012.

SFC: 1992-1994 and 1995-present; Senior Director (2000-2006); Solicitor admitted in Hong Kong in 1988; Member, HKEx Listing Nominating Committee; Member, the Advisory Committee on Bond Market Development.

Chairs Public Shareholders Group. Member, Nominations Committee, Executive Committee and Committee on Real Estate Investment Trusts.

Alexa Lam, JP

Deputy Chief Executive Officer and Executive Director, Policy, China and Investment Products Division

From 1 December 2001. Current appointment expires on 28 February 2014.

SFC: Executive Director and Chief Counsel (March-November 2001); Chief Counsel (1999-2001); Senior Adviser-Chairman's Office (1998-1999); Co-chair, BCBS/IOSCO/CPSS/CGFS Working Group on Margining Requirements for Non-centrally Cleared Derivatives; Member, Hong Kong Trade Development Council Financial Services Advisory Committee; Member, Hong Kong Trade Development Council Asian Financial Forum Steering Committee; Member, Professional Advisory Board – University of Hong Kong Faculty of Law's Asian Institute of International Financial Law; Member, Finance Management Committee, Hong Kong Management Association.

Chairs Products Advisory Committee and Committee on Real Estate Investment Trusts. Member, Advisory Committee, Budget Committee, Executive Committee, Securities Compensation Fund Committee, Investor Compensation Fund Committee and SFC (HKEC Listing) Committee.

Angelina P L Lee, SBS, JP

Non-executive Director

From 1 August 2006. Current appointment expires on 31 July 2012.

Partner, Woo, Kwan, Lee & Lo; Solicitor; Certified Public Accountant; Independent Non-Executive Director, Great Eagle Holdings Ltd; Non-Executive Director, Cheung Kong

Infrastructure Holdings Ltd; Non-Executive Director, Henderson Land Development Company Ltd; Non-Executive Director, TOM Group Ltd; Non-Executive Director, Mandatory Provident Fund Schemes Authority (2005-2011); Chairman, Takeovers Appeal Committee (2005-2006); Member, Securities and Futures Appeals Tribunal (2003-2006); Member, Listing Committee, Stock Exchange of Hong Kong Ltd (2000-2006); Member, Standing Committee on Company Law Reform (1991-2003).

Chairs Audit Committee. Member of Budget Committee, Remuneration Committee, Takeovers and Mergers Panel, Takeovers Appeal Committee and SFC (HKEC Listing) Appeals Committee.

Lawrence Lee, JP

Non-executive Director

From 15 November 2009. Current appointment expires on 14 November 2013.

Chairman, Hong Kong, PRC and Vietnam offices, Baker & McKenzie; Member, Corporate Group, Baker & McKenzie; Chairman, Asia Pacific Regional Council, Baker & McKenzie (1999-2000); Executive Committee member, Baker & McKenzie (1997-2000); Member, the Hospital Authority; Chairman, the Hospital Governing Committee of Pamela Youde Nethersole Eastern Hospital; Fellow of Hong Kong Securities Institute; Member, the Supervisory Board of the Hong Kong Housing Society (2000-2004).

Chairs Remuneration Committee. Member of Audit Committee and SFC (HKEC Listing) Appeals Committee.

Keith Lui

Executive Director, Supervision of Markets Division

From 28 August 2006. Current appointment expires on 27 August 2012.

SFC: 1991-1994 and 1995-present; Commission Secretary (2001-2004); Senior Director (2002-2006); Member, HKEx Risk Management Committee.

Chairs Securities Compensation Fund Committee and Investor Compensation Fund Committee. Member, SFC (HKEC Listing) Committee and Executive Committee. Director of the Investor Compensation Company Ltd.

Mark Steward

Executive Director, Enforcement Division

From 25 September 2006. Current appointment expires on 24 September 2012.

Deputy Executive Director, Enforcement, Australian Securities and Investments Commission (ASIC) (2004-2006); Director, Enforcement, ASIC (2003-2004); Solicitor admitted in Australia in 1990.

Member, SFC (HKEC Listing) Committee and Executive Committee.

Carlson Tong, JP

Non-executive Director

From 1 April 2011. Current appointment expires on 31 March 2013.

Member, Exchange Fund Advisory Committee; Board Member, Hong Kong Sports Institute Ltd; Chairman, English Schools Foundation; Chairman, Employees' Compensation Insurance Levies Management Board; Member, University Grants Committee; Member, Financial Reporting Review Panel; Member, the IFRS Advisory Council; Chairman, KPMG China (2007 to 2011); Chairman, KPMG ASPAC and member, KPMG Global Board (2009 to 2011); Chairman, Main Board and GEM Listing Committee (2006-2008) and Member, Listing Committee (2002-2006), The Stock Exchange of Hong Kong Ltd; Vice President (2006) and Council Member, Hong Kong Institute of Certified Public Accountants (2001-2008); Member, Takeovers and Mergers Panel, Securities & Futures Commission (2001-2009); Member, Dual Filing Advisory Group, Securities & Futures Commission (2002-2008); Member, Standing Committee on Company Law Reform (2005-2009); Council Member, Hong Kong Chinese Orchestra Ltd (2001-2007).

Member of Remuneration Committee.

Wong Kai-man, BBS, JP

Non-executive Director

From 26 May 2011. Current appointment expires on 25 May 2013.

Director, Li & Fung (1906) Foundation Ltd; Director, Victor and William Fung Foundation Ltd; Independent Non-Executive Director, Shangri-la Asia Ltd; Independent Non-Executive Director, SUNeVision Holdings Ltd; Independent Non-Executive Director, SCMP Group Ltd; Independent Non-Executive Director, China Construction Bank Corporation; Honorary Associate Professor, School of Business, The University of Hong Kong; Member, Listing Committee, Growth Enterprise Market, The Stock Exchange of Hong Kong Ltd (1999-2003); Member, Hospital Governing Committee, Haven of Hope Hospital; Court and Council Member, The University of Hong Kong; Director, the School of Professional and Continuing Education, The University of Hong Kong; Court and Council Member, the City University of Hong Kong; Director, CityU Enterprises Ltd; Director, Haven of Hope Christian Service; Director, World Vision Hong Kong.

Chairs Budget Committee. Deputy Chairman of Audit Committee. Member of Remuneration Committee and SFC (HKEC Listing) Appeals Committee.

Corporate Outlook

The collapse of the US mortgage market four years ago has led to a financial crisis that continues to have a profound effect on the global economy and an unprecedented regulatory response. The crisis laid bare sheer size and interconnectedness of the global financial system, as well as the interdependence between the “real” economy and a highly complex financial infrastructure – ranging from banks to brokers and exchanges. Examples of the considerable regulatory effect now underway include proposals to insulate customers of systematically important financial institutions from the effects of financial stress (addressing the “too big to fail” problem) as well as a multitude of other global regulatory initiatives aimed at ensuring greater financial stability and the reduction of systemic risk.

These developments are of direct relevance to Hong Kong’s development as an international financial centre (IFC), which functions as a location for fund raising and investing for local and, increasingly, overseas participants. This “hub” role underscores the importance of collaboration between Hong Kong regulators with their counterparts, regionally and around the world. Without this, it would be extremely difficult to regulate effectively the activities of large global firms as well as all other overseas participants in our markets.

The global regulatory agenda is packed, and risks impacting Hong Kong continue to have their epicenter outside the city.

Consequently, in the year ahead, we view Hong Kong’s interaction with the international regulatory community – within Asia and globally – as a key area of focus, concentrating on financial stability, the reduction of systemic risks and implementing associated global and local initiatives.

Closer to home, we are addressing two equally important issues. The first is to foster the continued growth of Hong Kong’s position as an IFC and to further develop the city as an a renminbi centre. The second is to implement a series of initiatives to enhance investor protection.

All of these objectives can only be achieved through close collaboration within the SFC itself across our internal divisions; to that end, we have formed a number of cross-divisional teams to work on key initiatives.

Focus 1: Hong Kong as an integral part of the global regulatory community

A large volume of the participants in Hong Kong’s financial markets – listed companies, brokerages, funds and other sources of capital and liquidity – is international. This means that it is important that Hong Kong is able to absorb external shocks and also effectively regulate its markets through close co-operation with regulatory counterparts worldwide.

Global regulatory co-operation is relatively mature in the area of enforcement against market misconduct and financial crimes. However, the global financial crisis and its aftermath – from the collapse of Lehman Brothers to the failure of MF Global in 2011 – exposed the critical fact that close cross-border regulatory co-operation must also extend to the policy, risk and supervisory areas.

Shape the global regulatory policy agenda

A large number of international groups are involved in responding to the crisis, including the Group of Twenty, the Financial Stability Board (FSB), the Basel Committee on Banking Supervision and the International Organization of Securities Commissions (IOSCO).

Hong Kong’s objective is to contribute meaningfully to the international regulatory agenda and to implement global regulatory objectives in a manner that is aligned with the international consensus and also sensitive to market realities.

We will continue to play an active role in the global regulatory dialogue, participating through IOSCO, the global securities markets standard setter and policy forum, and contributing to initiatives under the FSB:

- **Assisting in IOSCO work:** The SFC is an active member of the seven IOSCO standing committees and of key IOSCO task forces. It chairs the Standing Committee on the Regulation of Market Intermediaries and co-chairs the working group on margining requirements for non centrally cleared derivatives, a collaborative working group led by the FSB and comprising the Basel Committee on Banking Supervision, IOSCO, the Committee on Payment and Settlement Systems and the Committee on the Global Financial System.
- **Chairmanship in IOSCO:** Starting May 2013, the SFC will chair the Asia-Pacific Regional Committee of IOSCO, which is expected to take an increasingly proactive approach in the shaping of the global regulatory agenda.

Implement global regulatory reforms in Hong Kong

Reforms in the pipeline include:

- **OTC derivatives:** We aim to issue the consultation conclusions paper on a proposed over-the-counter (OTC) derivatives regulatory regime within the second quarter, table the enabling bill in the Legislative Council (LegCo) by the fourth quarter and launch another consultation on subsidiary legislation to implement the new regime in the second half of 2012. Meanwhile, the Hong Kong Monetary Authority (HKMA) and Hong Kong Exchanges and Clearing Ltd (HKEx) are respectively working towards establishing a trade repository and a new clearing house for OTC derivatives by the end of 2012.
- **Short position reporting:** The Securities and Futures (Short Position Reporting) Rules took effect on 18 June 2012; this allows us to monitor more effectively short selling activities, including detecting any significant build-up of short positions. From September 2012, we will publish reported short positions on an aggregated basis for each stock to increase overall market transparency.
- **Electronic trading:** We are formulating regulatory requirements for electronic trading, including Internet trading, algorithmic trading and direct market access. A public consultation on the proposed requirements is expected to be launched within 2012.

Actively participate in the global regulatory dialogue on systemic risk

In 2010, IOSCO adopted new core principles for regulators to identify, assess and mitigate systemic risk and to review their regulatory perimeters. Against this background, and in view of the emphasis now placed on financial stability and systemic risk within the global regulatory community, the SFC enhanced its existing risk assessment capability with the creation of a new risk and strategy (R&S) unit.

The R&S unit now takes part in the IOSCO's Standing Committee on Risk and Research, working on topics such as central clearing counterparties, high frequency trading, credit default swaps, structured product innovation, shadow banking and financial risk disclosure.

Within the SFC, the R&S unit will work closely with the operating units to determine principal risks facing the regulator and the markets, and to agree on measures to mitigate those risks.

The R&S unit will maintain an open and frequent dialogue with the financial industry.

Be part of greater global regulatory co-operation

As the financial crisis demonstrated, large financial institutions function globally. As a result, enhanced global co-operation is paramount and Hong Kong is part of this effort. For example, the IOSCO's Standing Committee on the Regulation of Market Intermediaries chaired by one of our senior directors, Mr Stephen Po, and the IOSCO's Task Force on Unregulated Financial Entities and the Task Force on Unregulated Financial Markets and Products in which we also participate, are working on the criteria to identify systemic issues involving brokers, the selling of structured products to retail customers and hedge funds.

As part of an IOSCO data collection exercise, the SFC will conduct a survey of licensed hedge fund managers and advisors in 2012.

Focus 2: Implement various initiatives to further investor protection

The challenging global economic environment continues to expose Hong Kong to volatility and risks (see Chairman's Message on pages 3-6). We also are dealing with risks arising from financial innovation and technological advances in trading. While encouraging market development, our key priority is to safeguard the interests of the investing public.

Listed company market

The quality of information issued by industry participants to the public is central to market integrity and investor protection under our disclosure-based regime. To that end, we are concluding a number of related reforms and will review other areas shortly.

- **Sponsors regime:** The sponsor guidelines we introduced in 2007 laid down specific requirements for sponsors to help raise their standards in connection with new listings. In May 2012, we launched a consultation containing a number of proposals aimed at maintaining a quality listing market in which investors can place a high level of confidence. The proposed changes to the Code of Conduct* will consolidate existing and new standards expected of sponsors to help ensure that they exercise reasonable judgment when conducting due diligence on listing applicants.

* Code of Conduct for Persons Licensed by or Registered with the SFC

- **Price-sensitive disclosure:** The Securities and Futures (Amendment) Ordinance 2012 was gazatted on 4 May 2012 to provide statutory backing to the obligations of listed companies and their senior management to announce price-sensitive developments. We have published a set of “Guidelines on Disclosure of Inside Information” to help listed corporations comply with the new requirements. The new law is expected to come into force on 1 January 2013. We are also exploring with HKEx a trading halt policy to allow publication of price-sensitive announcements during trading hours.
- **Overseas listings:** The number of listing applications from non-Mainland overseas companies is on the rise. We continue to work with The Stock Exchange of Hong Kong Ltd (SEHK) to review the listing approach to overseas companies seeking primary or secondary listings to facilitate this important sector as well as address investor protection concerns. It is anticipated that a consultation paper on the essential characteristics of primary and secondary listings will be released by SEHK in 2012.
- **Market misconduct and oversight of disclosure for listed CISs:** We also plan to extend the market misconduct and disclosure of interest provisions in the Securities and Futures Ordinance (SFO) to listed closed-ended collective investment schemes (CISs). Legislative amendments will be proposed to the Government this year.

Raise standards of intermediaries

Intermediary standards are a crucial element of investor protection and we continue to make significant progress in this area:

- **Code of Conduct* revisions:** New requirements concerning the sale of investment products under the revised Code of Conduct for intermediaries took effect in phases and were fully implemented in September 2011. We will continue to monitor compliance through thematic on-site inspections.
- **Code of Conduct* revisions and FDRC:** To pave the way for launching the Financial Dispute Resolution Centre Ltd (FDRC), we implemented changes to the Code of Conduct in June 2012 to require licensed corporations and registered institutions to enhance their complaint handling procedures and comply with the FDRC Scheme. The FDRC will cover services provided by financial institutions regulated by the SFC and HKMA and will handle monetary disputes involving amounts up to \$500,000 via mediation and arbitration.

Other revisions were made to the Code of Conduct to combat market misconduct and improve the regulatory oversight of financial markets. Coming into effect on 1 December 2012, these include:

- extending the retention period for telephone recordings for client orders from three months to six months,
 - banning the use of mobile phones to accept client orders in the workplace,
 - requiring written authorizations to allow third parties to place orders in client accounts,
 - requiring financial institutions to report to the SFC suspected market misconduct on the part of clients, and
 - requiring financial institutions normally to permit their employees to provide expert witness services to the SFC and the HKMA.
- **Professional investors:** In December 2011, we refined the evidential requirements for ascertaining whether a person is a professional investor (PI) and added other types of corporations to the PI category. We are undertaking a comprehensive review of the whole PI regime and plan to consult the public in 2012.

Continue with effective enforcement

We will continue to tackle actively financial misconduct and crimes. In the coming year, we will look more closely at initial public offering (IPO) sponsor conduct and the management of listed companies. We will also make full use of our powers under sections 213 and 214 of the SFO and apply to the High Court in appropriate cases for remedial relief to protect the interest of investors. We also will strengthen our enforcement co-operation with Mainland and overseas regulators to protect Hong Kong markets from illegal activities of market participants located outside Hong Kong.

Now that we are able to institute proceedings in the Market Misconduct Tribunal directly, we will ensure that our resources are sufficient to handle this additional responsibility. We will operate this new power to ensure that market misconduct is dealt with effectively, efficiently and fairly.

* Code of Conduct for Persons Licensed by or Registered with the SFC

Help launch an investor education body

Following the recent passage of the enabling legislation, we will establish a dedicated SFC subsidiary – the Investor Education Centre – to be responsible for education covering a broad range of banking, securities and other financial services and products.

The new centre is expected to be operational by October 2012.

Focus 3: Continue to foster Hong Kong's development as an IFC

Helping enhance Hong Kong's standing as a viable and sustainable IFC is one of our mandatory objectives and hence, a core component of our work.

Further develop Hong Kong as a renminbi centre

Hong Kong has a pivotal role in the continued internationalisation of the renminbi, reinforcing its position as the primary hub for capital flows to and from the Mainland.

We will continue to support the Government's initiatives in developing Hong Kong's offshore renminbi business, engaging in developing policies with local and Mainland authorities as well as with the financial industry. Developing robust market infrastructure to support these developments is critical.

We will continue with our investor education campaigns to help the public understand the key features of renminbi investments.

Implement a paperless securities market

We will continue to work on implementing a wholly electronic, paperless securities settlement system to enhance the overall efficiency and competitiveness of Hong Kong's market.

In the coming year, we aim to consult the public on the related subsidiary legislation to implement this initiative.

Focus 4: Execute organisational change

To be effective in an increasingly complex environment, the development of our people, clear external communications and internal collaboration and alignment around our core objectives are vital.

Promote internal co-operation

We have launched cross-divisional project groups initially focusing on anti-money laundering, direct access to the Market Misconduct Tribunal, disclosure by listed companies of price-sensitive information under new legislation, the regulation of IPO sponsors and OTC derivatives, and international work. The R&S unit is a new, important aspect of our internal alignment around key risks. In addition, we will continue to enhance our ability to centralise our approach to policy development and research.

Develop our people and further diversify our experience

We will continue to develop our personnel and ensure that they have all the essential tools and up-to-date information to carry out our regulatory functions.

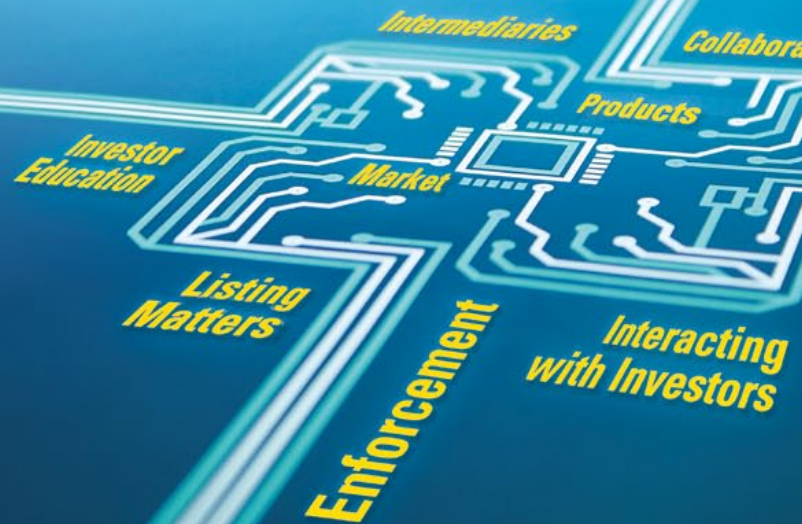
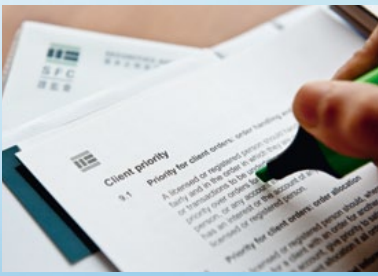
An exercise to brand the SFC as "an employer of choice" will be launched this year to attract high-calibre candidates for different positions from the financial markets. The ultimate objective is to add a rich diversity of experience and skills to our organisation.

Improve external communication

We are finalising the revamp of our corporate site and plan to launch a much more functional and informative version in the third quarter of 2012.

Deploying user-friendly navigation and powerful search functions, the new site aims to better serve the needs of a broad range of stakeholders, ranging from intermediaries to financial firms, other market participants, opinion makers and the general public.

Operational Review



A circuit board will not work if one connection or component fails. In much the same way, our work depends on every unit of the organisation pulling together to support our multiple regulatory functions.

As the ripple effect of the financial crisis spread from North America to Europe in the past year, closer global collaboration has become the order of the day for Asian markets as well. Increasingly complex financial products being traded globally have resulted in markets getting more and more intertwined. To mitigate systemic risks inherent in interconnectivity, we fully support efforts of global standard setters to promulgate regulatory reforms.

In the past year, we became responsible for the regulation of credit rating agencies and, in line with global initiatives, we commenced reviews concerning the regulation of the over-the-counter (OTC) derivatives market and short selling. Meanwhile, since Hong Kong's markets continued to expand – first as an offshore centre for a wider range of renminbi products and second, as a capital raising venue for overseas entities – we also devoted much effort to upgrading the

market infrastructure, updating various regulations and promoting compliance, as well as strengthening investor protection and education.

On a daily basis, we closely monitored risks and volatility in the external environment and conducted surveillance work at multiple levels to help contain local market risks. When we saw the need, we launched investigations and enforcement actions to combat market misconduct and restore discipline. In the process, our various operational units interacted with one another to deal effectively with the prevailing local imperatives and ensure that our markets align with international standards.

This chapter summarises the key efforts we made during the reporting period to enhance every aspect of our regulatory work: intermediaries, market infrastructure and trading, listing matters, investment products, enforcement, regulatory collaboration and interacting with investors. Collaboration – both internal and external – was crucial in helping us reach our milestones.

Key achievements

In our Annual Report 2010-11, we set out a number of strategic initiatives to address major regulatory risks and challenges. The table below shows the milestones reached while the subsequent narrative portion offers more information, including the background, the current status and the work ahead.

Regulatory updates	See also
CRA regime	<ul style="list-style-type: none"> ☑ 1 June 2011: regulatory regime for credit rating agencies (CRAs) took effect; licences issued to: <ul style="list-style-type: none"> – five CRAs conducting business in Hong Kong – 156 of their rating analysts ☑ March 2012: signed memorandum of understanding with the European Securities and Markets Authority regarding the supervision of, and exchange of information concerning, CRAs
OTC derivatives regulation	<ul style="list-style-type: none"> ⌘ October 2011: consulted the public on proposals to establish a new regulatory regime for the OTC derivatives market
Short-position reporting regime	<ul style="list-style-type: none"> ⌘ 23 March 2012: gazetted the Securities and Futures (Short Position Reporting) Rules
International collaboration	<ul style="list-style-type: none"> ☑ During 2011-12: attended 27 meetings of the Financial Stability Board and the International Organization of Securities Commissions (IOSCO) to support global reform initiatives ☑ September 2011: Ms Alexa Lam, our Deputy CEO and Executive Director of the Policy, China and Investment Products Division appointed to co-chair the working group on margining requirements for non-centrally cleared derivatives ☑ During 2011-12: Mr Stephen Po, our Senior Director of Intermediaries Supervision, continued to chair the IOSCO's Standing Committee on the Regulation of Market Intermediaries

Keys: ☑ Completed ⌘ In progress or ongoing

Key achievements (cont'd)

Listing matters		See also
Newly accepted jurisdictions	<input checked="" type="checkbox"/> During 2011-12: The Stock Exchange of Hong Kong Ltd (SEHK) accepted three more jurisdictions ¹ allowing companies from these jurisdictions to seek a Hong Kong listing	Not applicable
Property valuation requirements	<input checked="" type="checkbox"/> January 2012: Legislative Council (LegCo) debated subsidiary legislation regarding property valuation requirements for a listing applicant's prospectus that came into effect on 1 January 2012	p.36
PSI disclosure	<input type="checkbox"/> June 2011: Securities and Futures (Amendment) Bill 2011 tabled in LegCo regarding statutory obligations for the listed corporations regarding disclosure of price-sensitive information (PSI) <input type="checkbox"/> 4 May 2012: gazetted the Securities and Futures (Amendment) Ordinance 2012; provisions on PSI regime to come into force on 1 January 2013	p.25
Protection against hacking	<input checked="" type="checkbox"/> August 2011: oversaw efforts of SEHK to strengthen the issuer information dissemination platform and related suspension arrangements, subsequent to the malicious attack to HKExnews site on 10 August 2011	Not applicable

¹ The jurisdictions include: Canada (Alberta), Guernsey and Delaware (American state).

Intermediaries conduct		See also
SFC-HKMA Mystery Shopping Programme	<input checked="" type="checkbox"/> May 2011: published securities sector findings, which identified deficiencies in the selling practices	p.33
Financial Dispute Resolution Centre	<input type="checkbox"/> November 2011: consulted the public on proposals to amend the Code of Conduct ² to support the establishment of the Financial Dispute Resolution Centre Ltd and to enhance the existing regulatory framework	p.25

² Code of Conduct for Persons Licensed by or Registered with the SFC

Keys: Completed In progress or ongoing

Key achievements (cont'd)

Renminbi product development		See also
RQFII funds	<ul style="list-style-type: none"> ☑ Late 2011: prepared for the launch of Renminbi Qualified Foreign Institutional Investor (RQFII) scheme ☑ As of 31 March 2012: authorized 19 RQFII funds 	p.38
New renminbi products	<ul style="list-style-type: none"> ☑ April 2011: authorized the world's first renminbi real estate investment trust ☑ January 2012: authorized the world's first renminbi-denominated gold exchange-traded fund 	p.35
Secondary market trading of listed renminbi securities	<ul style="list-style-type: none"> ☑ September 2011: approved the Hong Kong Exchanges and Clearing Ltd's (HKEx) proposals to introduce the Dual-Tranche-Dual-Counter model and the Renminbi Equity Trading Support Facility 	p.35

Market infrastructure		See also
Scriptless (paperless) securities market	<ul style="list-style-type: none"> ⌘ During 2011-12: finalising technical details of the operational model of a scripless market after concluding a public consultation in September 2010 	p.10, 26
Post-trade transparency of dark pools	<ul style="list-style-type: none"> ☑ February 2011: introduced a flagging requirement in trade reporting to facilitate the identification of trades of SEHK listed securities executed in dark pools 	p.34

Operational efficiency		See also
SFC online portal	<ul style="list-style-type: none"> ☑ November 2011: launched online portal submission for all types of licensing applications and the electronic payment of all licensing related fees 	p.32
Market monitoring capacity	<ul style="list-style-type: none"> ☑ Fourth quarter of 2011: enhanced the capacity of our real-time securities trading monitoring system 	p.44
Organisational structure	<ul style="list-style-type: none"> ⌘ March 2012: established a centralised risk and strategy unit ⌘ During 2011-12: formed cross-divisional project groups to administer the implementation of key projects ☑ During 2011-12: strengthened our dual filing capacity to deal with the regulation of initial public offerings 	p.15, 23-26

Keys: ☑ Completed ⌘ In progress or ongoing

Intermediaries

Our regulation of intermediaries commences with the licensing of those who we determine to be fit and proper for the regulated activity or activities they plan to conduct. We then monitor their financial soundness and ensure that their conduct and activities comply with the relevant ordinances, codes and guidelines. Our supervisory approach and scope evolve with market developments over time. As such, global economic instability and the failure of a global institution continued to shape our monitoring priorities last year.

Licensing

Expansion of our licensing regime

In response to global moves to intensify the regulation of CRAs, a regulatory regime governing CRAs came into effect in Hong Kong on 1 June 2011. Under the new regime, both CRAs and their rating analysts conducting the business of providing credit rating services in Hong Kong, are obliged to acquire Type 10 licences from us and are subject to our ongoing supervision. This expansion of our regulatory role coincided with similar developments in a number of other jurisdictions following international recognition of the need to more clearly define the obligations of CRAs and to enhance supervision of their activities. In the period leading up to 1 June 2011, we worked closely with the five CRAs operating in Hong Kong and succeeded in avoiding any interruption to their operations by issuing licences to them, and to their 156 rating analysts, on that day.

Granting more licences

Despite global economic uncertainty, licence applications from local and overseas intermediaries registered significant growth, bringing the total number of SFC licensees to a record high of 39,590 as at 31 March 2012.

The hedge fund industry in Hong Kong continued to expand during the year. The number of licensed hedge fund managers/advisers increased by 9% to reach an historical high of 354 as at 31 March 2012, underscoring Hong Kong's attraction as an international financial centre with a favourable business environment for the hedge fund industry.

In 2011, five banks that had been conducting sponsor work in Hong Kong decided to transfer this activity to licensed corporations within their respective groups. The process was largely completed by 31 March 2012. As a consequence of this reorganisation, approximately 630 individuals who were previously responsible for the conduct of sponsor work within these banks as executive officers and relevant individuals, have recently been licensed by us as responsible officers and representatives accredited to licensed corporations.

Enhancing licensing efficiency

The SFC Online Portal was launched in September 2009, permitting our licensees to have online access to their information and to submit their annual returns and notifications online. Subsequently, the payment of annual fees was able to be made online. In November 2011, the functions of the SFC Online Portal were further enhanced to permit the online submission to us of all types of licensing applications and the electronic payment of all licensing related fees. As at 31 March 2012, approximately 95% of licensed corporations, registered institutions and licensed individuals had activated their portal accounts.

In response to difficult market conditions and the unclear outlook and to lessen the regulatory cost burden on the industry, we waived the annual licensing fees for intermediaries for two years starting from April 2012.

Supervision

Supervising by inspections, stress tests

We conducted 252 risk-based inspections of licensed corporations at their premises last year. The financial soundness of individual firms and their custody of client assets, amongst other risk areas, have been our focus in many of our inspections. Some inspections covered specific areas of regulatory compliance across different firms, such as, the anti-money laundering regulations, selling practices requirements and conduct requirements for fund managers.

The European debt crisis raised market volatility, which might expose licensed corporations to higher financial risks. We also assessed the financial risk exposure of licensed corporations by conducting stress tests and analysing the reported risks. A cross-unit taskforce was set up to consider issues arising from the crisis. To prepare for the eventuality that the European sovereign debt problem worsens, the taskforce conducted desktop contingency rehearsals under hypothetical scenarios. We also shared information with the Hong Kong Monetary Authority (HKMA) regarding those licensed corporations affiliated with banking groups that may have exposure to European sovereign debts.

Managing closure of MF Global

On 1 November 2011, immediately after cessation of operation of MF Global Group, we took prompt action to preserve assets of clients by issuing a restriction notice to MF Global Hong Kong Ltd. We needed to act quickly to achieve an orderly resolution of the outstanding clients' positions and settlement obligations. We directed the company to take all necessary steps to preserve the integrity of clients' assets. On 2 November 2011, the court appointed provisional liquidators to take charge. We maintained close dialogue with the provisional liquidators, who obtained the court's sanction in December 2011 for an interim distribution of clients' funds.

In addition, we monitored the risks arising from the failure of MF Global Group with a view towards minimising the impact on Hong Kong investors and the local market.

Promoting compliance

During the year, we implemented the following initiatives to oversee the conduct of licensed corporations:

- Placing great emphasis on the industry's compliance with the selling practices requirements, the SFC and HKMA conducted a mystery shopping programme, focusing on various areas, including the "know-your-client" procedures, product features explanation and risks disclosure as well as suitability assessment. Deficiencies identified in the selected licensed corporations during the programme included:
 - insufficient understanding of the recommended products;
 - inadequate/inaccurate explanation of the features and/or disclosure of risks of the products;
 - inaccurate verbal representation of the SFC's requirements or practices; and
 - failure to take into account all the relevant personal circumstances of a client when making the suitability assessment.

Detailed findings of the programme regarding the securities sector were published in May 2011. Licensed corporations were reminded to review critically their systems and controls in light of the findings to ensure full compliance with the relevant regulatory requirements. We will continue to use the programme from time to time to help assess licensed corporations' compliance with the selling practices requirements.

- We published new guidelines to assist licensed corporations to comply with the requirements of the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance applicable to specified financial institutions. The ordinance came into effect on 1 April 2012. Developed with industry engagement and in collaboration with other authorities, the new guidelines assist licensed corporations and associated entities in designing and implementing appropriate and effective policies, procedures and controls so as to comply with the relevant legal requirements and/or other applicable regulatory requirements. To enhance implementation readiness, we conducted training seminars for more than 1,100 industry professionals.
- To support the implementation of the proposed regulatory reform on OTC derivatives, we are conducting a review to update the capital requirements related to OTC derivatives under the Securities and Futures (Financial Resources) Rules, with reference to the international standards. We will consult the public on the subject in 2012.

Market infrastructure and trading

With global regulatory reforms being set in motion in the aftermath of the financial crisis, we have been reviewing our market standards and raising them as appropriate to align with evolving international benchmarks. In doing so, we believe that we are helping to sustain the long-term growth of Hong Kong markets.

Planning OTC derivatives oversight

Reforming and regulating the OTC derivatives markets is a commitment of the Group of Twenty (G-20) leaders. To that end, we have been working with the HKMA and the Government to develop a regulatory regime for the OTC derivatives market in Hong Kong.

The regime will have to be on a par with international standards, while taking into account features and characteristics of the local markets. Market feedback we sought through public consultation conducted in October 2011 has been helpful in finalising the regime proposals.

Meanwhile, we also participated in international initiatives led by global standard setters (refer to Regulatory Collaboration on pages 45-47 for details). This allows us to keep abreast of reforms in other major markets and ensure that our concerns are considered.

Letting in applicable ATS operators

In April 2011, we granted automated trading service (ATS) authorization to the Hong Kong Mercantile Exchange and LCH. Clearent Ltd to operate a commodity futures market locally and to provide the related clearing and settlement services. We also approved six other Part III ATS¹ applications from overseas exchanges, bringing the total number of authorized Part III ATSs to 25 as at end-March 2012. Meanwhile, the number of Part V ATSs operated by licensed corporations (including 15 dark pools) climbed to 19 during the year.



Shedding more light on alternative trading and technology-driven trading activities

To increase the post-trade transparency of Hong Kong-listed securities executed in dark pools, SEHK introduced on 1 February 2011 a voluntary flagging requirement. When participants report trades to SEHK, they are required to flag trades executed in dark pools by labelling them as “ALP.”

With this information, we have been able to monitor more closely the development of dark pools in Hong Kong. From February 2011 to February 2012, ALP trades accounted for about 1.5% of the total turnover on the Hong Kong securities market.

To stay abreast of issues arising from ATSs and technology-driven trading activities, we continued to participate in the work of the IOSCO’s Standing Committee on Secondary Markets (refer to Regulatory Collaboration on pages 45-47 for details). The committee has published principles for dark liquidity in May 2011 and made public a report entitled “Regulatory Issues Raised by the Impact of Technological Changes on Market Integrity and Efficiency” in October 2011.

While making reference to the IOSCO principles, we continued to take into account local developments to formulate our regulatory policy on technology-driven trading activities. We are drafting a set of guidelines on electronic trading, which will be the subject of a public consultation later in 2012.

¹ As a general principle under the SFC’s *Guidelines for the Regulation of Automated Trading Services*, ATS providers who also perform traditional dealer functions (eg, agency broking, principal trading, market making, holding of clients’ securities or funds, and securities borrowing and lending) should submit applications under Part V of the SFO to be licensed for all relevant regulated activities, including ATS. Entities who provide ATS solely should seek authorization under Part III of the SFO.

Reviewing central counterparties' risk control

Central counterparties are of systemic importance to financial markets. We worked closely with HKEx to review the risk management measures of its clearing houses. Based on the review, HKEx proposed reform measures to enhance the overall soundness of the central counterparties in July 2011. Following a public consultation, the implementation of measures was announced in March 2012. We believe that the measures to be implemented will further strengthen Hong Kong's financial system so that current and future challenges are met, particularly in light of continued market growth.

Enhancing transparency of short positions

We held extensive discussions with market participants during the consultation on the proposed Securities and Futures (Short Position Reporting) Rules concluded in February 2012. Subject to the legislative process, the rules will take effect on 18 June 2012.

Under the proposed rules, net short positions that reach the reporting threshold as at the close of the last trading day of each week are required to be reported to the SFC. This information will allow us to monitor the market more effectively, particularly, in helping detect significant build-up of short positions.

Aggregated short positions of each stock will be published by the SFC on an anonymous basis to offer the market more transparency regarding short selling activities.

Enabling launch of listed renminbi securities

We formed a working group with the HKMA and HKEx to enable in April 2011 the listing, trading, clearing and settlement on SEHK of the first renminbi-denominated security – a real estate investment trust (REIT). Prior to the initial public offering, a series of tests were arranged for SEHK participants to verify their operational readiness in conducting renminbi securities business.

To facilitate listing and trading of renminbi-denominated securities on SEHK, we approved HKEx's proposal to introduce the Dual-Tranche-Dual-Counter (DTDC) model and the Renminbi Equity Trading Support Facility (TSF).

The DTDC model enables issuers to raise funds and have their securities traded on SEHK in two currencies ie, HK dollars and renminbi. For investors, the TSF available as a back-up facility provides extra flexibility for them to trade listed renminbi equities in HK dollars.

Approving futures and options contracts

We approved HKEx's proposal to launch futures contracts related to the HSI Volatility Index. Since such an index is a benchmark of volatility of the Hong Kong market, a futures contract launched on 20 February 2012 provides an additional tool for investors to diversify their portfolio and to hedge against volatility exposure to the stock market. In February 2012, we approved yet another proposal of HKEx to launch locally stock index futures contracts of benchmark equity indices in Brazil, Russia, India and South Africa.

Listings and takeovers

Our regulation of listing and takeovers matters involves multiple levels. First, we oversee SEHK as it implements the Listing Rules. Second, we vet listing applications alongside SEHK. Third, we govern takeovers and mergers of public companies. In line with enhancing our regulatory role to meet industry challenges, we launched a number of regulatory initiatives regarding listing matters over the past year.



Regulatory enhancements introduced

In May 2011, with the commencement of the Securities and Futures and Companies Legislation (Structured Products Amendment) Ordinance 2011, the regulation of public offers of structured products in the form of shares or debentures was transferred from the prospectus regime of the Companies Ordinance to the regime for public offers of investments under the Securities and Futures Ordinance (SFO). Under the new regime, advertisements and offer documents for all structured products targeting the public must be authorized by the SFC, unless otherwise exempted by the SFO.

In June 2011, we released the consultation conclusions to our proposals to extend the conflicts of interest requirements for research analysts¹ to pre-deal research reports on REITs, other entities that are not established in corporate form (eg, business trusts) as well as to listing applicants. For instance, sponsors of listing applicants are required to take reasonable steps to ensure that all material information, including material forward looking information, disclosed to analysts is contained in prospectuses or listing documents.

Soon after the release, we received requests from market practitioners to defer the implementation date for the new requirements. Considering representations from the industry, we deferred the effective date of the new requirements by two months to 31 October 2011. In the case of a new listing applicant, the new requirements apply to any new listing where the listing application (ie, the A1 Form) is submitted to SEHK from 31 October 2011.

In August 2011, we consulted the public after the Takeovers Panel met to discuss possible amendments to the Takeovers Code² regarding property valuation requirements, confirmation of independence of placees and timing for payment of acceptances. The proposals aimed at facilitating market operations and improving disclosure of relevant information. Responses received in the consultation were discussed in two subsequent meetings of the Panel to finalise the consultation conclusions that were published in March 2012. The amended Takeovers Code has become effective from 23 March 2012.

On 1 January 2012, the streamlined property valuation requirements for a listing applicant's prospectus and an issuer's circular took effect. We had consulted the public jointly with SEHK and released the conclusions last October. One objective of the initiative is to allow for the disclosure of more focused and relevant information in prospectuses and circulars; the other is to make the process more cost-effective for applicants and issuers.

During the year, we also approved various other changes to the Listing Rules to facilitate listing-related activities and to streamline requirements or procedures as follows:

- enhancing rules and comply-or-explain requirements in relation to corporate governance in terms of the duties of directors, the functions and roles of board committees and disclosure of senior management remuneration, etc;
- simplifying application and approval procedures on the listing of debt issues to professional investors only;
- introducing ex-entitlement trading rules to prevent shares from trading ex-entitlement before shareholder approval;
- extending SEHK's trading hours;

¹ The requirements are those stated in the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission and the Corporate Finance Adviser Code of Conduct governing research analysts.

² Part of the Codes on Takeovers and Mergers and Share Repurchases

- publishing new requirements for Qualified Property Acquisitions³ (QPA) and formation of joint ventures, such as expanding the scope of the QPA exemption and removing the exemption conditions, to facilitate bidding or tendering by property developers of different sizes for government land for real estate development in Hong Kong and the Mainland; and
- reducing the minimum number of shareholders required for market capitalisation/revenue test from 1,000 to 300.

Scrutinising listing, takeovers matters

Under the dual filing regime, of the 191 listing applications received via SEHK during the year, we commented on 168 listing applications and deferred commenting on nine cases due to serious deficiencies in the initial submissions. Such deficiencies included sub-standard drafting of the initial listing documents and uncertainties over the legality and sustainability of the listing applicants' businesses. Consequently, the sponsors had to make significant changes to the draft listing documents and perform additional due diligence.

In 2011, we dealt with 71 takeovers-related transactions and handled 212 applications. We noted an increase in the number of unsolicited offers and cases with increasingly complex deal structures. When reviewing all cases, we sought to ensure that all shareholders were being treated fairly, that a fair and informed market was maintained and that participants complied with the Codes on Takeovers and Mergers and Share Repurchases.

The Takeovers Panel met twice during the year to consider matters referred by the Takeovers Executive⁴ as particularly novel, important or difficult points were at issue.

Decisions on the two cases considered by the Panel were published in May and June respectively. In one case, the Panel ruled that the party making the acquisition of 29.9% voting rights would not trigger an obligation to make a general offer for Hung Hing Printing Group Ltd, the target company. In the case of Husky Energy Inc, the Panel decided that in the event of its secondary listing the Canadian oil company should not be treated as a Hong Kong public company and as a result the Takeovers Code would not apply to it.

We publicly criticised FIL Investment Management (Hong Kong) Ltd (trading under the brand name Fidelity Worldwide Investment in Hong Kong) in November 2011 and Penta Investment Advisers Ltd in March 2012 for breaches of dealing disclosure requirements under Rule 22 of the Takeovers Code. To promote awareness and facilitate compliance in light of the breaches of Rule 22 by local and overseas fund managers, the Takeovers Executive issued a letter to all registered and licensed fund managers in Hong Kong to offer practical guidance on the steps a fund manager might take to ensure timely and appropriate compliance with its dealing disclosure obligations if it is also an "associate" under the Takeovers Code. A wide range of fund managers also received the letter through fund management-related associations in Hong Kong and overseas.

Separately, following our annual review of SEHK's performance in the regulation of listing matters, the report for 2010 was published last October. We noted that the operational procedures and decision-making processes used were appropriate to enable SEHK to discharge its statutory obligation – which is, to maintain an orderly, informed and fair market.

Keeping industry participants informed

We keep the industry updated on latest regulatory developments and compliance concerns. During the year, we published four issues of the Takeovers Bulletin to provide updates and reminders to the industry on takeovers-related matters, such as, dealing disclosure obligations, the rulings of the Takeovers Panel and revised Practice Notes. Meanwhile, through the Dual Filing Update, we reminded sponsors of their professional obligations to understand the applicants' businesses and to ensure that all fundamental issues are properly addressed before submitting the listing applications.

³ Qualified Property Acquisitions refer to acquisitions of government land by listed property developers through public auctions or tenders in Hong Kong and, upon the new rules becoming effective, the Mainland.

⁴ The Takeovers Executive refers to the Executive Director of the Corporate Finance Division of the SFC or any delegates of the Executive Director.

Investment products

While we do not pre-determine the suitability of products for investors and their merit, we require that the offering documents of all retail investment products contain adequate and accurate disclosure for investors to make informed decisions.

Expanding range of renminbi investment products

With the Mainland government supporting Hong Kong's development as an offshore renminbi centre, we made progress in making available to the Hong Kong public a wider and deeper pool of renminbi investment products during the year.

We worked closely with relevant Mainland authorities and quota holders of the RQFII scheme to facilitate the launch of the pilot programme immediately after the central government had announced it. The scheme allows Hong Kong subsidiaries of qualified Mainland fund managers and securities companies to use renminbi raised in Hong Kong to invest in Mainland securities markets. For the first time, by investing in funds set up under the scheme, Hong Kong's retail investors can use renminbi to tap the Mainland equity and bond markets, in particular the interbank bond market. Since the scheme's launch in December 2011, we authorized 19 RQFII funds with an aggregate RQFII quota size of RMB19 billion.

During the year, renminbi-denominated bond funds, which invest primarily in renminbi-denominated debt securities issued or distributed outside Mainland, continued to broaden the range of renminbi products. We authorized four such funds, bringing the total number of SFC-authorized renminbi-denominated bond funds to eight.

Other new renminbi product types we authorized include: the world's first renminbi-denominated and traded gold exchange-traded fund (ETF) and the world's first renminbi REIT.



Lipper Fund Awards 2012



Listing ceremony of Hang Seng RMB Gold ETF

Strengthening regulation of ETFs

According to market research, Hong Kong is the second largest ETF market in Asia (after Japan) in terms of market capitalisation. We authorized 25 ETFs during the year, bringing the total number of SFC-authorized ETFs to 89 at end-March 2012. Total market capitalisation reached US\$97.4 billion at the end of the financial year, up 9.9% from the year-ago level of US\$88.6 billion.

Market data shows that at 31 March 2012, 24 ETFs in Hong Kong tracked the performance of A-share indices. Their average daily turnover represented about 64% of the total ETF turnover.

To enhance investor protection, we introduced a requirement whereby SFC-regulated domestic synthetic ETFs must top-up the collateral level to achieve at least 100% collateralization by 31 October 2011 to ensure there is no uncollateralized counterparty risk exposure arising from the use of financial derivatives to replicate index performance. Where the collateral taken by these ETFs is in the form of equity securities, the market value of such equity collateral must be equivalent to at least 120% of the related gross counterparty risk exposure.

Transferring regulation of structured products

Following the relevant legislative change that took effect in May 2011, the regulation of the public offers of structured products in the form of shares or debentures was transferred from the prospectus regime of the Companies Ordinance to the regime for public offers of investments under the SFO. Under the new regime, the issue of advertisements and offering documents for all structured products (regardless of their legal forms) that are publicly offered must be authorized by the SFC, unless otherwise exempted by the SFO. During the year, we authorized 85 structured products and 141 offering documents of structured products.

Reviewing product KFS, offering documents

Commencing 25 June 2011, SFC-authorized funds and investment-linked assurance schemes were required to provide investors with a product key facts statement (KFS) and an offering document that satisfied a number of additional disclosure requirements.

In our surveillance exercise on a number of KFSs of SFC-authorized unit trusts and mutual funds and offering documents of SFC-authorized investment-linked assurance schemes, we noted that most of the documents reviewed were generally in compliance with our disclosure requirements. Among the small number of cases with disclosure issues, issuers subsequently made efforts to meet the required standards. As part of our ongoing effort to assist the industry in meeting regulatory requirements, we provided them with guidance on the production and refinement of disclosure in the documents.

Releasing survey on fund management activities

In July 2010, we released the Fund Management Activities Survey, which showed that Hong Kong's combined fund management business reached \$10,091 billion in 2010 (up 18.6% from 2009), outperforming the previous record level of \$9,631 billion achieved in 2007. The increase suggests continuing inflows of investment capital into the Asia Pacific region.

Enforcement

Our efforts to fight crime and misconduct in the securities and futures markets continued in the past year. We made robust use of all of our enforcement options to punish offenders, deter others from violating rules and seek redress for affected investors. Through firm enforcement action, we sent strong and clear messages that we would not tolerate market misconduct and abuse that undermine investors' interests.

Taking firm action against rule breakers

During the year, we successfully prosecuted 37 entities (25 persons and 12 corporations), two of whom were convicted of nine counts of market manipulation and another was convicted of one count of insider dealing. We obtained orders to disqualify six company directors who failed to perform their duties properly. We also have civil actions pending before the courts to seek disqualification and compensation orders against a total of 16 individuals, as well as 80 criminal charges against 18 persons still to be heard.

Deploying section 213

Developments in two cases brought under section 213¹ of the SFO were particularly noteworthy:

■ Tiger Asia: Insider dealing and market manipulation

The Court of Appeal (CA) ruled in February 2012 against Tiger Asia Management LLC, a New York-based asset management company, and three of its senior officers. The firm had sought to dismiss our proceedings seeking remedial orders against it and the three officers for allegedly insider dealing in the shares of Bank of China and China Construction Bank Corporation (CCB), and manipulating the shares of CCB. Earlier in June 2011, the Court of First Instance (CFI) had ruled that without a pre-existing criminal conviction or a determination by the Market Misconduct Tribunal (MMT), it had no jurisdiction to make findings that these provisions had been contravened.

Upon our appeal, the CA ruled that section 213 contained valuable tools and ammunition for us to protect the investing public, which is an important objective of the SFO. We had contended that section 213 was intended clearly to give the SFC independent and self-standing remedies, in addition to the criminal process and the MMT, and that the CFI has jurisdiction to determine whether a person had contravened the SFO.



■ Hontex: False or misleading information

In May 2011, we applied to the CFI for final orders to secure a return of funds to public shareholders who had subscribed for shares in the initial public offering (IPO) of Hontex International Holdings Co, Ltd or had bought the shares following the listing. We alleged that Hontex had issued and distributed a prospectus in December 2009 that materially overstated key financials of the Hontex Group for 2006, 2007, 2008 and the six months ended 30 June 2009. The proceedings were commenced under section 213.

The case was heard in June 2012. In March 2010, the CFI made orders against Hontex and its four subsidiaries freezing up to \$997 million. We are seeking orders to use the money frozen towards repurchasing the shares of the public shareholders.

Taking actions against former senior executives

- For the first time, the court ordered former executives of a listed company to pay compensation to the company under section 214 of the SFO. In the case against former executives of Styland Holdings Ltd, the CFI:
 - ordered Kenneth Cheung Chi Shing, Styland's founder and former chairman, and his wife Yvonne Yeung Han Yi, a former executive director, to pay more than \$85 million in compensation to the company for entering into a number of transactions that were not in the company's interests but which directly or indirectly benefitted Cheung and Yeung, accepting that the transactions amounted to misfeasance;

¹ Section 213 of the SFO gives the SFC the power to apply to the CFI for an injunction and other orders when there are contraventions of the provisions of the SFO and specified provisions of the Companies Ordinance.

- disqualified Cheung and Yeung for 12 years each from becoming directors of any company, the longest term ever imposed in such proceedings;
- also disqualified former directors Miranda Chan Chi Mei and Steven Li Wang Tai for seven and six years respectively.
- We prosecuted Chui Wing Nin, a former senior executive of CITIC Pacific Ltd, for allegedly selling 81,000 shares of CITIC Pacific while in possession of confidential, price sensitive information, ahead of the company announcing a profit warning stemming from foreign exchange losses in 2008.
- On 27 February 2012, Lam Kwong Yu, a former independent non-executive director of Hong Kong Aircraft Engineering Company Ltd (HAECO), was sentenced to five months' imprisonment, suspended for two years, and fined \$50,000 after we took him to court for insider dealing in HAECO shares. It was found that Lam dealt in the shares after he was told about a proposed deal in which Cathay Pacific Airways Ltd, a substantial shareholder of HAECO, would sell its entire stake in the company to Swire Pacific Ltd, that would trigger a general offer and the deal would proceed the following week.

Winning first case against futures market manipulation

- The CFI ruled in our favour and granted a retrial of a case against Tsoi Bun, a futures trader, for manipulating the calculated opening prices of index futures contracts, following his acquittal of five charges at the Eastern Magistracy in January 2010.

After the re-trial of this first prosecution for manipulating Hong Kong's futures market, Tsoi was sentenced to six months' imprisonment, suspended for two years and fined \$500,000. A cold shoulder order also was imposed on him upon our request to prevent him for 12 months from dealing in futures contracts in the pre-market opening periods without the court's leave.

The SFC sought a review of the sentence because the fine was substantially less than the \$949,350 profit earned by Tsoi in committing the manipulation offences for which he was convicted. The magistrate declined to vary the fine imposed.

Enforcing information disclosure

- The CFI gave orders under section 214 to disqualify Li Xinggui, Zheng Yingsheng and Zhou Li Yang, former executive directors of Pearl Oriental Innovation Ltd, from being directors or being involved in the management of any corporation, without the leave of the court, for one year. The three failed to disclose material information to shareholders involving an unauthorized payment of RMB64.5 million, which amounted to about 25% of the company's total assets.

Combating market misconduct

With the enactment of the Securities and Futures (Amendment) Ordinance 2012 on 4 May 2012, we can combat market misconduct in a more streamlined and efficient manner by directly bringing proceedings before the MMT.

Since the establishment of the MMT in 2003, cases of suspected market misconduct have been brought before it indirectly via the Financial Secretary. So far, the MMT has concluded six cases and found that 18 entities (15 persons and three corporations) have engaged in market misconduct. This year, the MMT heard three cases and handed down its determination against one person.

In October 2011, the MMT determined that Vincent Sze Chun Ning had engaged in insider dealing in that while contemplating a takeover offer of ABC Communications (Holdings) Ltd (ABC), he disclosed relevant information to another person who he believed would use the information to deal in ABC shares. The MMT ordered that Sze shall not be a director of a listed company or take part in the management of any listed corporation for four years. Further, the MMT ordered Sze to pay the Government and the SFC a sum of more than \$4 million for the costs and expenses incurred. Sze has lodged an appeal against MMT's ruling, which is scheduled to be heard before the CA in early 2013.

In February and March 2012, the MMT held a substantive hearing regarding suspected insider dealing in the shares of Chaoda Modern Agriculture (Holdings) Ltd (Chaoda) in June 2009. In April 2012, the MMT found that George Stairs, a portfolio manager at Fidelity Management & Research Co, (a company based in the US that managed US-based Fidelity retail mutual funds), had engaged in insider dealing in that he sold Chaoda shares held by the fund he managed to avoid a loss while in possession of material and non-public price-sensitive information concerning the company. In May 2012, the MMT imposed a cold shoulder order on Stairs, banning him from dealing in any securities in Hong Kong without the leave of the court, for two years.

Disciplining licensees for infractions

During the year, we disciplined 38 licensees for various misconduct and imposed fines amounting to \$35.2 million. As can be seen from the major disciplinary cases summarised below, the infractions ranged from control and/or procedural inadequacies of licensed corporations to lack of integrity of licensed individuals.

Reinforcing compliance at corporate level

- Oasis Management (Hong Kong) LLC (Oasis) and its chief investment officer were reprimanded and fined \$7.5 million each for trading in shares of Japan Airlines Corporation on the Tokyo Stock Exchange. We alleged that Oasis adopted a trading strategy originated in Hong Kong, which appeared to have been designed to drive down the shares' closing price.
- We reprimanded and fined Citigroup Global Markets Asia Ltd (Citigroup) \$6 million for supervisory failures and delay in reporting to us a fraudulent scheme operated by a former licensed representative, Ramesh Kumar Chuharmal Sadhwani. Sadhwani was banned from re-entering the industry for 10 years following the determination of the Securities and Futures Appeals Tribunal (SFAT). Lisa Chan Sin Man, supervisor of the former licensed representative, had her licence suspended for eight months for failing to take sufficient action even though a number of "red flags" were brought to her attention. Citigroup agreed to compensate affected customers and engage an external auditor to review its internal control procedures.
- HSBC Trinkaus Investment Management Ltd was reprimanded and fined \$3 million and its licence was partially suspended for two years for having inadequate procedures to ensure client suitability, product due diligence and record keeping related to its distribution of equity-linked notes.
- Merrill Lynch (Asia Pacific) Ltd was reprimanded and fined \$3 million for inadequate systems, resulting in its failure to properly assess the financial situation and investment objectives of its customers and for not adequately documenting the investment advice and recommendation given to customers who invested in two index-linked notes.

Calling to task individual licensees

- Tang Siu Fong was banned from re-entering the industry for life for stealing clients' assets.
- We revoked the licence of Paco Ng Kar Lun and prohibited him from re-entering the industry for 10 years and banned Adrian Fong Wai Lap from re-entering the industry for three years. We found that Ng, in collaboration with Fong, attempted to profit from trading shares of Metallurgical Corporation of China Ltd in the grey market prior to its listing. Although the scheme eventually fell through, the conduct of Ng and Fong fell short of the standards of integrity and honesty expected of licensees.
- Philip Wan Ten Lok and Sunny Yan Kwok Ting were banned from re-entering the industry for six years and four years respectively for sponsor failures and misleading the SFC by an extensive fabrication exercise, following a determination by the SFAT. Both were accredited to Core Pacific-Yamaichi Capital Ltd (CPY), which was the sponsor for the listing of Tungda Innovative Lighting Holdings Ltd from 2002 to 2003. Wan, who supervised preparing a response to SEHK's request to address a complaint that Tungda had falsified invoices and overstated sales figures in its listing prospectus, was found to have given a false impression that CPY had conducted sufficient due diligence. Wan also undertook an extensive fabrication with Yan's assistance.

Enforcement activities	
Number of trading inquiries issued under S181 ¹	4,034
Number of investigations started	303
Number of investigations completed	220
Number of investigations completed within seven months (%)	142 (65%)
Number of persons charged in criminal proceedings	38*
Number of criminal charges laid	207*
Number of Notices of Proposed Disciplinary Action ²	39
Number of Decision Notices ³	38
Number of persons subject to ongoing civil proceedings	57
Compliance advice letters issued	240

¹ Section 181 of the SFO gives the SFC the power to require information from intermediaries about trading transactions, including the identity information of the ultimate clients, the particulars and instructions relating to the transactions.

² A Notice of Proposed Disciplinary Action is a notice issued by the SFC to regulated persons that it proposes to exercise its disciplinary powers, on grounds that they appear to be guilty of misconduct or not fit and proper.

³ A Decision Notice sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

* We brought a total of 207 criminal charges against 38 persons, with 22 charges laid against six for insider dealing or market manipulation.

For more statistics on our enforcement activities, please see SFC Activity Data on pages 53-54 and Breakdown of SFC Activity Data from pages 116-129.

Resolving more LB-related cases

Over the last 12 months, we made further progress to resolve issues stemming from the sale of Lehman Brothers (LB)-related structured products by reprimanding publicly two brokerages and reaching agreements with these brokerages as well as a bank involving repurchase offers of over \$1.2 billion.

Citibank (Hong Kong) Ltd agreed with the SFC and the HKMA to make a repurchase offer equal to 80% of the total value of each eligible client's investment in outstanding market-linked notes and equity-linked notes issued by LB and distributed by the bank. The total value of the repurchase offer was around \$1.06 billion, covering about 92% of clients holding the outstanding notes.

Core Pacific-Yamaichi (HK) Ltd (CPY) was reprimanded for failings in its internal systems and controls regarding the sale of Minibonds, Octave Notes and Constellation Notes. CPY agreed to, among other things, offer to repurchase from all its eligible clients all outstanding LB-related structured products at their original values and to compensate all its eligible former clients, whose holding(s) in LB-related structured products were mandatorily redeemed or sold after LB's bankruptcy. The total amount of repurchase offers and compensation was approximately \$9.6 million.

We issued a reprimand to Sun Hung Kai Investment Services Ltd and fined it \$4.5 million for deficiencies regarding the sale to retail clients of LB-related equity-linked notes. Thus a strong deterrent message was sent to the market on the importance of ensuring suitability of investment products and disclosing material information to clients.

Bringing cases to appellate courts and tribunal

Last year, we were met with a number of challenges to our enforcement actions and powers. We stood firm and succeeded in defending our actions in the appellate courts and the SFAT.

Criminal appeals

The CFI dismissed three individuals' appeals against their convictions.

- Pablo Chan Pak Hoe, for insider dealing in the shares of Universe International Holdings Ltd. The original sentence of a 240-hour community service was reinstated on technical ground;
- Thomas Chan Ping Keung, a director of Able Alliance International Ltd, for making false or misleading representations in seeking from us an extension of the deadline to submit audited accounts and financial books and records; and
- Chan Chun Wai, the director of Billion Global Asset Management Ltd, for holding out that he was carrying on and advertising a business in asset management without a licence.

Civil appeals and disciplinary appeals

As mentioned, we were successful before the CA in overturning the restrictive interpretation of section 213 of the SFO argued by Tiger Asia and its staff, which would have significantly hampered our ability to obtain relief for victims of market misconduct.

Cheung Keng Ching and Chou Mei, both former directors of Rontex International Holdings Ltd (now known as Siberian Mining Group Company Ltd), appealed against an order of the CFI requiring the company to obtain court approval for any compromise or settlement of its proceedings against Cheung, Chou and another former director, and the length of disqualification order imposed on Chou. Save that the CA reduced Chou's disqualification period from five to four years, the appeal was dismissed. This was the first case in which the CFI had ordered a listed company to bring compensation proceedings against former directors as a result of their misconduct.

Separately, the CFI dismissed a leave application for judicial review by Real Gold Mining Ltd seeking to challenge the process of the SFC in obtaining and dealing with information/documents concerning the company from third parties in our investigation of the company.

The SFAT upheld our decisions to impose lengthy prohibitions in three disciplinary review applications.

Keeping pace with volume expansion

We monitor the trading activities of Hong Kong's securities and futures market on a daily basis. In the fourth quarter of 2011, we upgraded our real-time securities trading monitoring system to cope with growth in trading volume. The maximum capacity of the upgraded system was boosted by about tenfold to handle 30,000 orders per second, 200 million orders and 13.3 million trades per trading day.

Monitoring for unusual market movements

We keep a close eye on the market to identify and inquire into unusual price and turnover movements that signal insider dealing, market manipulation and other market misconduct.

We made 4,034 inquiries relating to erratic share price and volume movements, seeking trading records from intermediaries in the process. On many occasions, our early inquiries stopped improper trading activities from perpetuating.

Flagging high shareholding concentration

Over the past year, we posted on the SFC site six announcements regarding a small number of shareholders holding a large number of shares of a given company. The announcements were meant to remind investors to exercise extreme caution when dealing in such shares as their price might fluctuate substantially even with a few shares changing hands.

Seeking leads for enforcement inquiries

In October 2011, we launched on the SFC site a new section entitled "Have You Seen These People?" to encourage the public to help us locate individuals who are sought in relation to enforcement inquiries but cannot be traced using traditional methods. The section contains details of individuals who are either the subjects of arrest warrants or who we believe have important information that may assist in other enforcement inquiries.

Regulatory collaboration

As a regulator in a world-class financial centre, we interact, communicate and collaborate with local, overseas and Mainland counterparts on issues of common interest or matters that require co-operation among multiple regulators and authorities.

During the year, we continued to participate in a number of task forces and committees of international standard setting bodies to work on implementing financial regulatory reforms, enhancing standards and facilitating market development. Similarly, we collaborated with various Mainland authorities and contributed to developing Hong Kong as a centre for offshore renminbi activities and international asset management. Locally, we worked closely with relevant regulatory authorities on regulatory issues that required joint efforts.

Towards resolving global regulatory issues

IOSCO

We continued to contribute to the work of IOSCO through active participation in its seven standing committees and all of its key task forces. Below are the highlights of our participation during the year:

- Our Senior Director of Intermediaries Supervision continued to chair the Standing Committee on the Regulation of Market Intermediaries. During the year, the committee published a consultation paper that set out suitability obligations applicable to intermediaries in the distribution of complex financial products. In addition, the committee is conducting a high-level comparison of two key capital frameworks for securities firms.
- As part of the ETF sub-group of the Standing Committee on Investment Management, we contributed to the consultation paper on principles for the regulation of ETFs.
- Under the Standing Committee on Investment Management, our active participation helped complete the principles for suspension of redemptions of collective investment schemes (CISs). We also offered input to the consultation report on principles for valuation and liquidity risk management of CISs, and studied money market fund systemic risk analysis and reform options.

- We commented and provided input to a number of reports released by the Task Force on OTC Derivatives Regulation, the Task Force on Commodity Futures Market, and the Standing Committee on Secondary Markets. These reports covered topics such as data reporting and aggregation of OTC derivatives transactions, mandatory clearing requirements for OTC derivatives, principles for regulation of commodity derivatives markets, and regulatory issues arising from technological changes.
- We also have been providing input to an annual publication to be issued by the Standing Committee on Risk and Research on assessment of key systemic risks impacting the securities markets.

Through our representation in the Implementation Task Force, we contributed significantly to the revision of IOSCO principles and methodology. IOSCO members are expected to adhere to the principles and apply the methodology to their respective legal and regulatory frameworks.

FSB

As a member of the Financial Stability Board's (FSB) Standing Committee on Standards Implementation (SCSI), we actively participate in its work. During the year, we:

- continued to support the SCSI's peer review programme and participated in the thematic review on compensation practices of major financial institutions and helped finalise the review reports on compensation practices and peer experience. In the peer review report, Hong Kong was recognised as a jurisdiction that had implemented in full the FSB's Principles for Sound Compensation Practices and their Implementation Standards;
- further supported the SCSI's Coordination Framework for Implementation Monitoring (CFIM), essentially a foundation for the FSB to collaborate with other standard-setting bodies to monitor and report on the implementation of the G-20's financial reform initiatives, including OTC derivatives market reforms, compensation practices, policy measures for the global systematically important financial institutions and shadow banking; and

- actively contributed to work regarding the Implementation Monitoring Network of the SCSI, which collects information on the progress of national authorities in implementing the G-20's and FSB's recommendations on financial reforms, identifies national differences in implementation and considers the needs to address them. (The national progress reports are posted on the FSB Web site.)

Other international regulatory forums

In the Market Structure Roundtable organised by the US Securities and Exchange Commission and the UK Financial Services Authority, we led the discussion on high-frequency trading, along with other topical issues discussed such as market fragmentation and undisplayed liquidity. Further meetings were held to exchange views on the regulatory reforms of OTC derivatives.

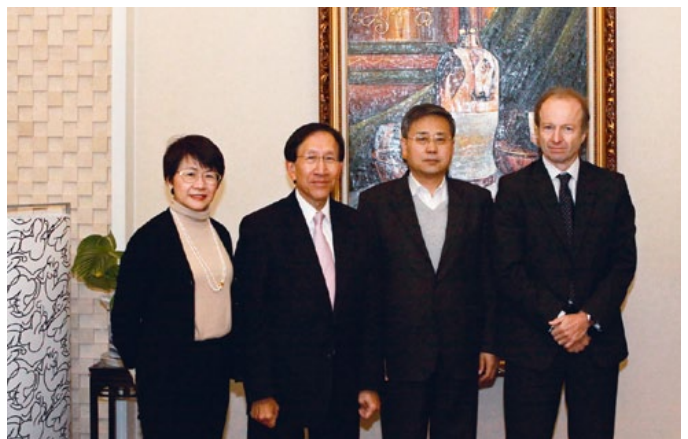
Our Deputy Chief Executive Officer and Executive Director of the Policy, China and Investment Products Division was appointed to co-chair a newly-created working group focusing on achieving the G-20's objective of mitigating systemic risk in the derivatives markets and increasing standardisation and central clearing of derivatives. The working group will develop a proposal to seek public comments regarding margin requirements for uncleared OTC derivatives. The working group is a collaborative initiative of the Basel Committee on Banking Supervision, IOSCO, the Committee on Payment and Settlement Systems (CPSS) and the Committee on the Global Financial System.

We continued to exchange views and share information with members of the OTC Derivatives Regulators' Forum on trade repositories (TRs) and OTC derivatives central counterparties (CCPs). The forum is developing co-operative oversight arrangements among authorities involving TRs and OTC derivatives CCPs with wide international memberships and working with the industry to provide reactions, perspectives and guidance that authorities may have with respect to any regulatory issues facing global TRs that are in operation or being established. Also, as a member of the Steering Committee of the CPSS-IOSCO Working Group, we contributed to the consultative report on new principles for financial market infrastructures.

In March 2012, we entered into a memorandum of understanding with the European Securities and Markets Authority (ESMA) regarding the supervision and exchange of information concerning CRAs. In the same month, ESMA announced that it considered the regulation of CRAs in Hong Kong to be in line with their regulation in the European Union. This decision by ESMA allows European financial institutions to continue using, for regulatory purposes, credit ratings that have been prepared in Hong Kong. European CRAs will also be in a position to endorse credit ratings issued by CRAs licensed in Hong Kong.



The 43rd MORC Meeting held in Sichuan



Visit to CSRC Chairman Guo Shuqing

Strengthening cross-border collaboration

As Mainland and Hong Kong capital markets become more intertwined and offshore renminbi businesses in Hong Kong continue to grow, most of the policy initiatives that we have been pursuing require support from multiple Mainland authorities and stakeholders. To deepen economic and financial co-operation between the Mainland and Hong Kong, we continued to strengthen our relationships with, and enlist support from, various Mainland authorities. During the year, we:

- held high-level discussions with a number of Mainland authorities to exchange views and garner their support for initiatives such as the RQFII scheme, renminbi foreign direct investment, renminbi bonds, and the Mainland and Hong Kong Closer Economic Partnership Arrangement;
- organised training and briefing sessions for Mainland officials and executives to further their understanding of the Hong Kong market, our regulatory regime, and the potential benefits and importance of closer financial co-operation across the border;
- provided support to the Government and gave analytical input to a number of initiatives between Hong Kong and Mainland regions and cities; our executives also spoke at various meetings and symposiums on Hong Kong's financial co-operation with Guangdong, Shanghai and Beijing; and
- exchanged views with the China Securities Regulatory Commission, China Securities Depository and Clearing Corporations as well as stock exchanges of both markets on issues relating to cross-border regulatory co-operation and development of cross-border investment products.

The above efforts also have been complementing our participation in developing Hong Kong into an international asset management centre and an offshore renminbi centre, as set out in the Mainland's Five-year Plan released in March 2011.

Working closely with local regulators

During the year, we collaborated with the HKMA, the Mandatory Provident Fund Schemes Authority (MPFA) and the Insurance Authority (IA) and some other local regulators on a number of regulatory issues.

- We worked closely with the HKMA in the process by which five banks transferred their sponsor business to SFC-licensed corporations.
- Jointly with the HKMA, the IA and the Customs and Excise Department, we developed generic guidelines to meet the requirements of the newly enacted Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance, which are applicable to all specified financial institutions.
- We also have been working closely with the HKMA to develop a regulatory regime for the OTC derivatives market in Hong Kong (see Market Infrastructure and Trading on pages 34-35 for details).
- Regarding the Government's proposals to create a new regulatory regime for MPF intermediaries, we worked with the MPFA to draft co-operative arrangements between the two regulators and held high-level meetings to discuss topical issues, such as employee choice arrangement.
- We also discussed with the IA issues concerning investment-linked assurance schemes and the development of KFSs.

Interacting with investors

In Hong Kong where overseas corporations and investors play an active role in capital markets, local investors are inevitably subject to risks and volatility originating from other parts of the world. The relatively high participation of retail investors in riskier investments with a derivative element only exacerbates their risk exposure to financial markets, which are increasingly interconnected.

To ensure that investors' interest is not compromised amid market growth, educating the investing public has been our key task further to maintaining a sound regulatory framework. In view of the sophistication of our markets, we endeavour not only to help investors keep up with product and market knowledge, but more importantly, to promote a responsible investing attitude.

In last year's volatile market, our education efforts often tied in with market development to help investors react promptly to changing circumstances. To stay close to the public, our personnel handle enquiries and complaints from those in need on a daily basis, which in turn helps us formulate our educational messages to clarify common misconceptions and help investors avoid investment scams.

In light of the full implementation of a package of new measures to enhance investor protection, we also continued to remind investors of their rights when being sold investment products.

Fostering responsible attitude

As part of our efforts to urge investors to adopt a responsible attitude towards investing, we launched in October a television commercial (TVC) with the slogan "Invest prudently/Signing means responsibility." As a sequel to the "Ask me" TVC in 2009, the new TVC has been aired for over 1,100 times on various television channels and financial Web sites. In addition to reminding investors to think twice before signing a document, the TVC also highlights investors' rights and responsibilities under the new investor protection measures.

Utilising electronic-media

We deployed the mass media considerably to reach out to as wide a range of target audiences as possible. During the year, we used approximately 1,800 airtime spots on television, another 90 on radio and 1,600 on public transport channels to broadcast our investor education messages.

- **'Outsmart II':** Riding on the success of the "Outsmart" television quiz show, we sponsored the production of the 10-episode sequel for broadcast on TVB Jade in February 2012. Programme host Dodo Cheng Yu Ling quizzed celebrities and artistes on their knowledge of various topics, including, investor protection, product risks and trading procedures. The correct answers were given by academic experts. Interested members of the public also could try answering the questions through a mobile application.



TV campaign: "Invest prudently Signing means responsibility"

- **'ATM'**: We also sponsored 20 investor education-related questions to be asked in the interactive quiz aired on now TV during the third quarter of 2011.
- **'Pointers for Investing'**: In March 2012, we launched the brand new three-minute-per-episode series on now TV, Cable TV and various popular news Web sites to explain the features and risks of popular investments. Topics covered included renminbi products, ETFs, derivative warrants and margin trading. Investors also were reminded of the importance of placing clear order instructions and tracking trading documents.



Brand new series "Pointers for Investing" on television channels and news Web sites

- **'InvestTalk'**: From November 2011 to January 2012, the 13-episode radio interview programme was broadcast on Metro Finance, featuring celebrities sharing their investment experience and an SFC representative explaining some dos and don'ts of investing.
- **Programmes on renminbi products**: In light of the emergence of RQFII funds, we explained the new product class on Commercial Radio Hong Kong (CRHK) in January 2012. Earlier in April 2011, we also helped investors understand the trading and clearing arrangements of listed renminbi securities over the financial programmes on CRHK and Radio Television Hong Kong. In addition, interviews with market professionals were aired on now TV and published in Hong Kong Economic Journal from April to May 2011 to shed light on how to invest wisely in renminbi securities.
- **'Smart on Bonds' webcast**: From April to May 2011, we placed five interview clips on the Ming Pao Web site to feature market professionals discussing topical issues on bond investing. The topics include interest rate risk and liquidity risk common to bond as an asset class, key features and risks of renminbi bonds, and the additional risks of investing in bond funds.
- **Other infomercials and videos**: We continued to run the 20-second infomercial series "Know the Protection Measures" hosted by To Kit to explain the new measures relating to sale of investment products on various television channels. On an ongoing basis, we also broadcast timely investor educational messages to help the public keep up with key features and risks of popular products and IPO investing.

Sounding alerts

Given persistent market volatility during the year, we frequently cautioned investors against potential risks. Through news releases and the *InvestEd Intelligence* newsletter, we explained, for instance, how margin calls worked with leveraged foreign exchange trading, stock, futures and options and reminded investors of their primary responsibility to maintain the required level of margin requirements.

We also drew investors' attention to various risks and trading misconceptions about derivative products, eg, warrants and callable bull/bear contracts, through our *Headline Daily* column.

We revise and expand the Alert List on our InvestEd site (www.InvestEd.hk) regularly. In the past 12 months, we added a total of 171 new unlicensed entities, suspicious Web sites, fake regulators and market operators to the list, which seeks to help the public identify and stay guarded against those entities believed to be, or to have been, targeting investors or claiming to have an association with Hong Kong, with the ulterior objective of making money from unsuspecting individuals.

Reinforcing new investor protection measures

Upon the full implementation of the package of new investor protection measures, we issued a booklet entitled "Know Your Rights in the Sales Process" to conclude all the new measures launched since June 2010. A story line was deployed to explain in plain language each measure relating to different stages of a product sale. These stories also were published in three local newspapers during November 2011 to January 2012.

We also issued a new edition of another booklet to help investors understand how to use KFS of funds, investment-linked assurance schemes and unlisted structured investment products.

Meanwhile, finer points of the new investor protection measures were explained in our bi-monthly e-newsletter *InvestEd Intelligence* and regular column in *Headline Daily*.

Enriching online learning

Our investor education site continued to be a major platform to disseminate information to the public. Last year, we added 39 articles and 94 videos and audio clips to our InvestEd site and revised certain sections to reflect the latest market development. Besides covering the investor protection measures, new online articles also discussed topical investment issues, including iBond¹, stapled securities², synthetic ETFs and new classes of renminbi investments.

To encourage the public to visit our InvestEd site we also ran promotion initiatives on popular local search engines – Yahoo! Hong Kong and Google Hong Kong. In the past 12 months, we have drawn 1,465,877 visits to our site.

Reaching out to investors

Besides using the mass media and online platforms, we also send staff into the community to reach out to different segments with the mission of fostering a proper investing attitude. In the process, we also aim to enhance the public's understanding of the working of the securities and futures markets.

¹ Inflation-linked bond

² Listed business enterprises with a trust structure

In the past year, we hosted a total of 57 seminars and workshops serving 8,465 public participants. Our audience included various community groups, students from secondary schools and tertiary institutions, the police force and civil servants.

We continued to explore new ways to provide investor education to the community. We approached the salaried class by arranging seminars for the staff of participating companies. By collaborating with the Elder Academy of The Open University of Hong Kong (OUHK) and the Elder Academy of Lingnan University, we also extended our reach to more mature citizens.

Our annual Investor Day held in February 2012 featured “market focus” as its theme. Jointly organised with OUHK, the full-day seminars attracted over 700 public participants. Academics and market professionals discussed hedging strategy in a volatile market, points to note when investing overseas, and how the new HSI Volatility Index works. Attendees also were reminded to adopt a proper attitude when investing in stock and bond markets.



Investor Day jointly held with Open University of Hong Kong

Earlier in June 2011, we co-organised the fifth annual seminar with the Hong Kong Society of Financial Analysts (HKSFA), attracting over 300 members of the public. Representatives from the industry and the HKSFA shared their views on how investors should read the prospectus of an IPO, investment strategies to combat inflation as well as popular topics such as REITs and the outlook on renminbi.

Investor-related activities

	2011/12	Change	2010/11	Change	2009/10
Educational booklets and articles	128	-8%	139	-6%	148
Participants in talks, seminars and workshops	8,465	-8%	9,223	13%	8,185
No. of times of broadcast of educational messages on radio/TV	4,265	24%	3,448	14%	3,024
InvestEd Web site average daily page views ¹	37,236	71%	21,830	29%	16,916
NAV of all compensation funds (\$ million)	2,157.9	2%	2,113.8	4%	2,023.8
■ Unified Exchange Compensation Fund	62.7	2%	61.6	5%	58.7
■ Investor Compensation Fund	2,095.2	2%	2,052.2	4%	1,965.1

¹ The figures refer to the average number of Web pages browsed per day during the reporting period.

Addressing public concerns, grievances

We received 1,969 complaints, 330 of which were reviewed by our various operational divisions, including 108 cases investigated by our Enforcement Division. In addition, 121 of them were referred to HKEx or other relevant financial regulators.

Public complaints overview

Nature of complaints	2011/12	2010/11
Conduct of licensed intermediaries and registered institutions	437	429
Listing-related matters and disclosure of interests	462	483
Market misconduct	465	415
Products	5	11
Other financial activities	439	393
Miscellaneous	16	3
Subtotal	1,824	1,734
Complaints related to Lehman Brothers	145	203
Total	1,969	1,937

Compensating investors

The Investor Compensation Fund is set up under Part XII of the SFO and managed by the Investor Compensation Co, Ltd (ICC), a subsidiary of the SFC. It provides statutory compensation to investors when a licensed brokerage or registered institution goes into default. Each claimant is entitled to a maximum compensation of \$150,000 for losses relating to securities trading and futures contracts respectively.

Under our supervision last year, the ICC continued to process remaining claims for clients of a brokerage that went into default in the past and claims against three brokerages relating to individual disputes; one claim was rejected.

Reaching out

	2011/12	Change	2010/11	Change	2009/10
Press releases issued	151	-6%	161	7%	151
Consultation papers issued	7	17%	6	0%	6
Consultation conclusions issued	6	-33%	9	350%	2
Technical publications	6	-33%	9	0%	9
Codes and guidelines issued	8	33%	6	500%	1
Corporate Web site average daily page views ¹	216,660	29%	168,212	46%	115,290
Public enquiries	8,448	-8%	9,193	-12%	10,434
Public complaints ²	1,969	2%	1,937	-29%	2,742

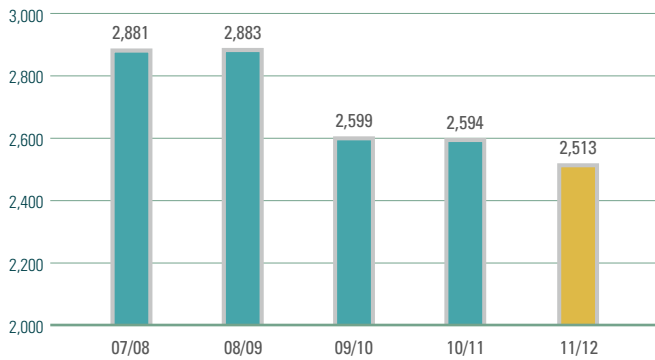
¹ The figures refer to the average number of Web pages browsed per day during the reporting period.

² The figures reflect the number of complainants.

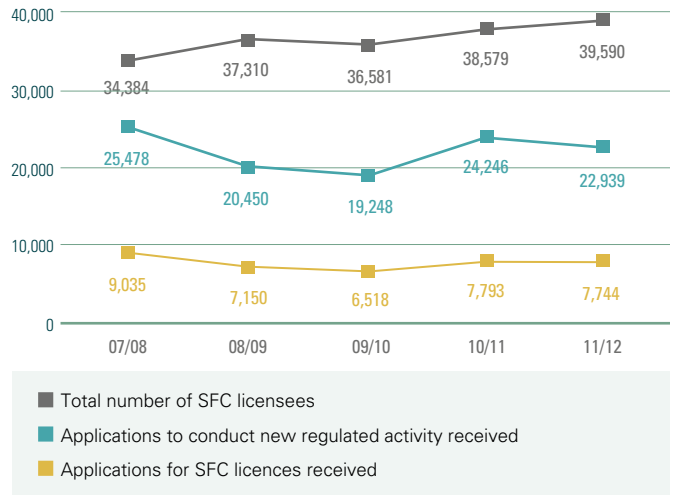
SFC activity data

These charts and tables are intended to show at a glance some top-line measurable aspects of our activities, which, in turn, are a reflection of the market. Except noted otherwise, the figures are cumulative for each reporting year and compared over a five-year period. For a breakdown of some of these top-line items, please see tables on pages 116-129.

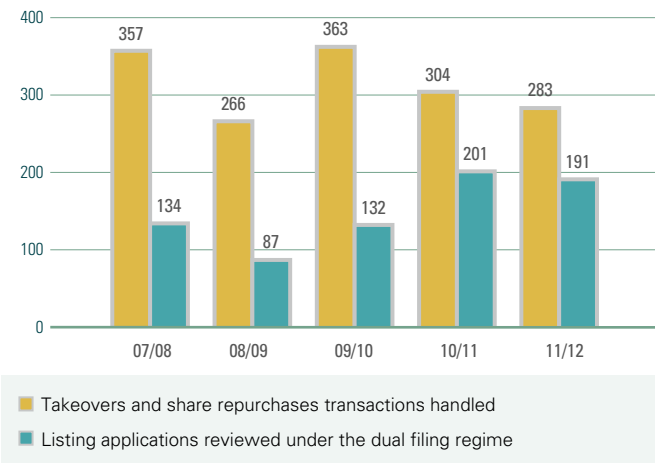
Number of collective investment schemes authorized



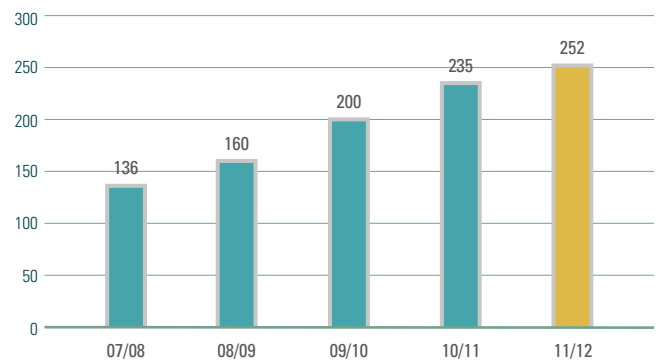
Licensing¹



Market-related transactions

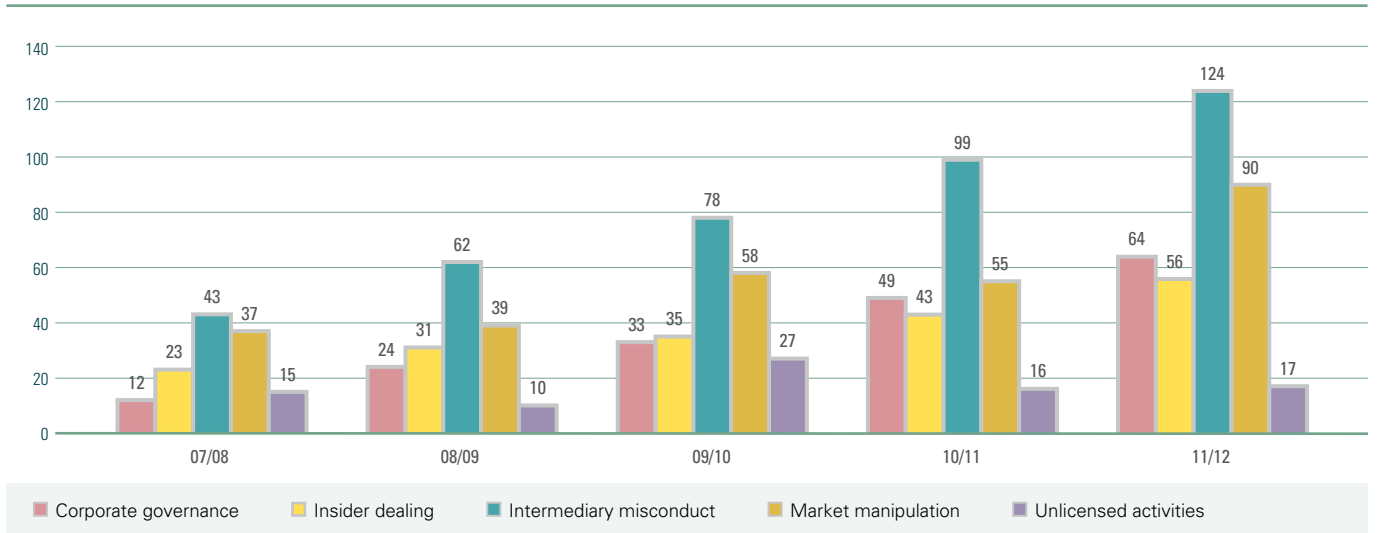


Number of risk-based, on-site inspections conducted

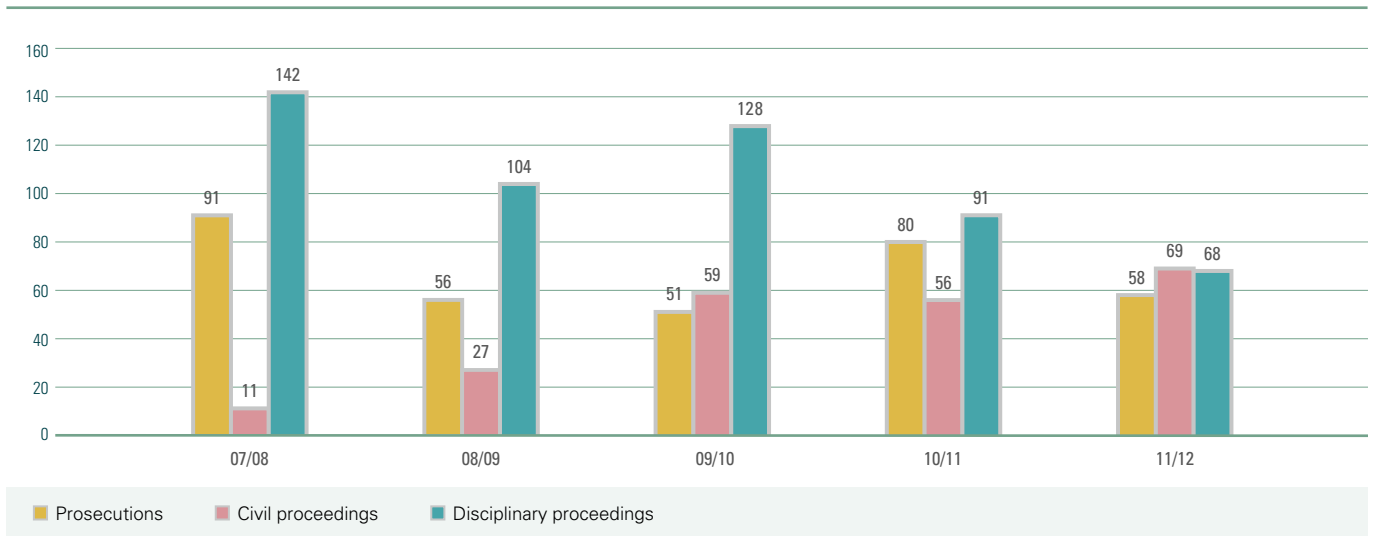


¹ This represents a snapshot view as at each financial year-end.

Investigations by nature



Number of persons subject to enforcement action



Corporate Social Responsibility



Some circuit board parts are recyclable and can be reused to continue their role in the world of electronics. We try to give back to the community by encouraging environmental protection, promoting civic-mindedness, and showing care for our own employees.

Corporate social responsibility (CSR) is as much about *giving* as *taking*. For CSR to be meaningful, we try to make every initiative a win-win situation whereby benefits are obtained for both our organisation and the community in which we operate. In the process, we also aim to set a good example for our stakeholders in the business community.

We adopt a CSR policy and practices that:

- encourage a positive contribution to society;
- improve our appeal as an employer in the eyes of current and prospective employees; and
- enhance our reputation among external stakeholders and the general public.

Chaired by the Chief Financial Officer & Senior Director of Corporate Affairs, the CSR Committee reports directly to the Executive Committee (ExCo) and oversees our CSR strategy and practices. Staffed by representatives from various units, the committee is mandated to:

- review the CSR vision, strategy, principles, framework and policies periodically to stay in step with changing times;
- execute the agreed initiatives;
- set targets and key performance indicators as well as criteria for performance measurement;
- review the initiatives for effectiveness against the measurements; and
- recommend improvements to the ExCo where appropriate.

The committee features three working groups to cater broadly to the needs of the community, the environment and our own people. These are: the Commission Volunteers Group, the Green Working Group and the Wellness Group.

Collaborating externally

During the year, we worked extensively with external CSR bodies to promote community engagement, environmental protection and staff wellness. Firstly, we integrated relevant initiatives promulgated by external CSR bodies into our policies and practice. Secondly, we partnered with community services organisations to extend the reach and to widen the scope of our volunteer work. More specifically, we:

- signed the Hong Kong Corporate Social Responsibility Charter of Community Business¹ to show our commitment to integrate CSR into our strategy and operations and to raise staff awareness of community work;
- joined the World Wide Fund’s (WWF) No Shark Fins Policy and pledged not to serve shark’s fin in activities that we organise and/or finance, thus demonstrating our commitment to help preserve the marine ecosystem;
- donated to a beneficiary surplus food from in-house events to help fight hunger and poverty under a partnership agreement with Foodlink Foundation; and
- conducted a survey to gather staff’s feedback on previously-held CSR activities and to seek suggestions for improvements.



Table tennis tournament



“Dreams come TRUE” sharing session



Visit to a community group

¹ Community Business is a membership-based non-profit organisation whose mission is to lead, inspire and support businesses in Hong Kong to improve continually their positive impact on people and the community.

Helping protect the environment

We continued to deploy information technology to help reduce paper consumption both within the organisation and externally with stakeholders. Programmes that are environment-friendly include the Data Management System, the electronic Financial Return System (e-FRR) and the SFC Online Portal. With the e-FRR system, it is estimated that over 1,160,000 pieces of paper have been saved since its implementation in November 2008. The Online Portal launched in September 2009 also has saved over 250,000 pieces of paper in terms of annual returns and notifications.

During the year, we launched the Case Management System to enhance process efficiency as well as reduce the use of paper. By allowing online review of investigation cases, it is estimated that we can save around 40,000 pieces of paper per year.

Some of our regulatory policies also have contributed to protecting the environment. For example, starting February 2011, companies seeking to list shares or debentures are allowed to distribute paper application forms without being accompanied by printed prospectuses, as long as the prospectus information is available on line.

Other ongoing efforts became our standard green practices; they include default duplex printing, zoning of office lighting, and reminders to staff to turn off their computers before leaving.

Activities organised include:

- Recycling of home appliances – With the support of our staff, 49 pieces of home appliances were donated to St. James' Settlement for the benefit of low-income families and the elderly.
- Tree planting – Our volunteers planted more than 40 trees along the Tan Shan River in Fanling under the guidance of the Hong Kong Green Nature Union.

- Natural product making – A workshop was organised for staff to learn to make lip balms using natural ingredients.
- Earth Hour 2012 – For the second year, we participated in the global Earth Hour organised by the WWF in March, in which staff pledged to turn off lights for a prescribed time period to support sustainable living. In the run-up to the Earth Hour, we sent to staff a series of environment-friendly tips.
- Geo-tour – To raise staff awareness of conservation and sustainable development of the environment, we organised a geological tour of Tung Ping Chau, an area renowned for its unusual rock formations, unspoilt landscape, bio-diversified coastline and historical artifacts.

Consumption statistics

	2011/12	2010/11	Year-on-year change
Paper (pcs/head)	11,470	12,693	-9.6%
Paper recycled (pcs)	4,865,000	5,062,200	-3.9%
Electricity (kwh)	3,527,280	4,016,742	-12.2%
Mileage ¹ (km)	1,556,039	1,585,738	-1.9%

¹ Estimated distance travelled by air for business engagements

Engaging the community

Through organising community service events, we aim to promote volunteerism and encourage staff to experience the joy of helping those in need. Last year, we adopted for the first time a cross-service approach that allowed us to reach out to more than one community group in a single activity.

- Making wishes come true – We continued to partner with the Hong Kong Family Welfare Society to conduct the “Dreams come TRUE” campaign. A sum of more than \$25,000 was raised from staff to help fulfil the 15 dreams of a group of teenagers. At a sharing session in September 2011, the teenagers shared with their sponsors their life goals and staged a number of performances as a token of their appreciation.
- Teaming up to volunteer – We joined a group of elderly volunteers from a Hong Kong Christian Service (HKCS) community centre to organise a number of activities, including a Christmas party, for the mentally-handicapped members of another HKCS organisation. While some of our staff offered their time, others donated money to support the activities.

We continued with our programme of “donation in lieu of corporate gift,” making nominal donations to charitable causes in the name of guest speakers. Last year, the donations went to the Tung Wah Group of Hospitals where past beneficiaries include Operation Smile, Singapore International School Foundation Ltd and St John’s Cathedral.

During the year, our staff participated in a blood donation drive, Skip Lunch Day 2012, and the Community Chest Dress Casual Day 2011. At last year’s Dress Casual Day, our donation was up 50% from the year before.

For the sixth consecutive year, we were named by the Hong Kong Council of Social Services as a “Caring Organisation” for our contribution to various welfare programmes and for our participation in community service.

Caring for staff

People are our greatest asset. Hence, we are committed to maintaining the wellbeing of our staff. During the year, we launched a number of wellness initiatives to cater for both their physical and mental wellness and to foster a healthy lifestyle. These activities were well received, recording full enrolment usually within a few days of notification to staff by e-mail.

Activity	Purpose	Outcome
Fruity days (Jul and Oct 2011, Jan and Mar 2012)	To encourage consumption of healthy food by offering free fruits to staff every quarter.	3,075 pieces of fruits were distributed.
<i>Qigong</i> presentation (Jul 2011)	To understand how <i>qigong</i> can help heal and strengthen the body.	50 colleagues learned the basic idea of the Five Elements Palms.
In-office vaccination (Nov 2011)	To protect staff from influenza ahead of the arrival of its peak season.	89 colleagues received the shots free of charge.
Sleep hygiene workshop (Nov 2011)	To help staff overcome stress and improve sleep quality.	50 colleagues attended to learn about the factors that affect sleep quality.
Massage days (Mar 2012)	To provide practical relief of staff’s physical stress on the neck and shoulders.	100 colleagues received a total of 50 hours of massage by professional therapists.
Health talk (Mar 2012)	To help staff reduce the chance of having neck and back pains.	40 colleagues attended the talk delivered by a registered physiotherapist on neck and back care.

CSR activity calendar

April-June 2011	July-September 2011	October-December 2011	January-March 2012
<ol style="list-style-type: none"> 1. "Dreams come TRUE" programme 2. CSR Committee meeting 	<ol style="list-style-type: none"> 1. Tree Planting Day 2. <i>Qigong</i> demonstration 3. In-house blood transfusion service 4. Fruity Day 5. "Dreams come TRUE" sharing session 6. Donation of used home and electrical appliances to St. James' Settlement 	<ol style="list-style-type: none"> 1. In-house green workshop: Natural Lip Balm Workshop 2. Fruity Day 3. CVG cross-over service project 4. Wellness workshop on sleep hygiene 5. On-site vaccination 6. CSR Committee meeting 	<ol style="list-style-type: none"> 1. "WWF Earth Hour" 2. Massage Day 3. Health talk 4. Fruity Day 5. Tung Ping Chau geo-tour 6. CSR reporting at ExCo meeting

Volunteer participation

	2011/12	2010/11	Year-on-year change
Staff participating in volunteer activities ¹	291	116	150%
Total volunteer hours ²	396³	583	-32%

¹ The figure reflects participation in all CSR activities.

² The figure reflects participation in community services only. Staff participation in green and wellness initiatives is not applicable.

³ One major, planned community event has been rescheduled for the next year.

For the coming year, our CSR working groups will be planning activities based on specific themes, namely, that of being a giver, living green and exercising for a healthier living. Since we formalised our CSR efforts, we have noticed an uptrend in volunteers and participation. Last year, the number of staff who participated in volunteer activities was up 150% from the previous year. To sustain the momentum, we will continue to review our initiatives and take into account our colleagues' feedback and ideas to further raise awareness and participation level.

Organisational Matters

An efficient organisation relies on a combination of people with the right skills, knowledge and vision as well as a congenial work culture and comprehensive operational processes. At the SFC, we strive to ensure that all these elements are in place so that we can play our regulatory role properly.

People

Encouraging engagement

Our core values clearly state that we encourage a proactive attitude, that we maintain professional standards, and that in our organisation, “people count.” Our work culture is to encourage active participation of all employees. These values have fostered an appropriate environment for our employees to contribute to the organisation and develop their career.

We are determined to institutionalise a change of culture within the organisation to live up to our core values. During the year, we took steps to reinforce behaviour by integrating these core values into our daily processes.

Leadership development is a significant aspect of our culture campaign. “Cultivating the SFC Values: Your Role as a Manager” was the title of a series of workshops we held to enable our managers to better deliver their managerial responsibilities and cultivate the desired organisational behaviour within their teams.

In response to the “Living our Values Employee Engagement Survey” launched in late 2010, divisions have taken steps to encourage and involve their people in creating a participative work environment. A cross-divisional working group drew up an action plan on organisation-wide issues such as, enhancing employee recognition and communication, increasing the frequency and variety of employee activities and maintaining a pleasant working environment.

The Staff Activities Committee continued to host a broad spectrum of networking and recreational activities under the motto, “Enriching Your Work Life.” Activities such as a table

tennis tournament, movie nights, a wine-tasting workshop, festive celebrations and the SFC’s anniversary dinner have helped strengthen social and working relationships among employees and develop a sense of belonging.

Reinforcing communication

We continued to host “CEO Sharing Sessions” during which our CEO updated our people on the latest market and regulatory issues and organisational matters that are of interest to staff. Last year, executive directors of different units also were invited to some of these sessions to share high-level insights on hot regulatory topics to foster a better understanding of the organisation’s work as a whole.

Similarly, the “Commission Connection Series” represented another new initiative to promote an understanding of the organisation among staff. Seminars were held to let different units share with other colleagues an update on their major achievements, upcoming projects, their focus and important market developments.

In addition, different units set up channels of communication either via Intranet or physical mailboxes for their people to voice concerns and make suggestions.

Bolstering recruitment

During the year, 61 positions were added to handle our increased workload. We also broadened our search and recruited executives and secondees from China, Australia, the United Kingdom and Ireland.

In its third year, the Graduate Trainee Programme recruited 16 graduates and achieved a retention rate of 90% in the past 12 months, bringing the total number of trainees to 42. Having completed their job rotation, trainees from our first intake in 2009 have taken up positions in operational units of their choice. We truly believe in grooming talent from within to add to our professional pool in support of our organisational development.



Wine tasting workshop



Staff Christmas party

Developing People

Continual staff development helps ensure that we have a motivated workforce of high calibre. Last year, we concentrated on upgrading capability and competency to deal with increasing market complexities both locally and abroad.

We developed customised training workshops to help our employees fine-tune certain disciplines. One example was a number of workshops on inspection skills directed both at inducting new joiners and sharpening the skills of existing people. In addition, Putonghua courses were tailor-made for employees in different areas to help them better handle issues related to the development of renminbi products in Hong Kong.

Other learning initiatives taken during the year are as follows:

- “iBank Series” – Investment banking professionals and market practitioners shared with us their operational models and the latest developments in the financial market.
- Overseas secondments and study trips – We broadened the knowledge base of our employees by sending them overseas on secondment. During the year, three of our executives spent up to three weeks overseas to gain more exposure in terms of fund authorization and supervision as well as inspection of credit rating agencies. They also

exchanged views with overseas counterparts on regulatory matters of mutual interest. In addition, we organised two study trips to Shenzhen for our people to gain a better understanding of issues such as the operation of the Mainland’s securities market, its financial and economic reforms, financial market developments and regulation, and the renminbi’s internationalisation.

- New e-learning modules – Topics introduced to our e-learning portal during the year include: enhancing information security awareness, and handling product authorization submissions and case evidence for investigations. Learning online has shortened the induction process for new employees, increased flexibility and enhanced cost efficiency.
- Learning Management System – We synchronised our in-house developed e-library with the off-the-shelf e-library of financial products and markets by launching a common platform. The system provides each learner with an ongoing learning record that captures information such as courses taken and progress of their individual development plan.
- Division-specific competency models – We shall continue with our efforts to complete a competency model, which underpins the development of a talent management framework.

Finances and staff

	2011/12	Change	2010/11	Change	2009/10
Income (\$ million)	1,445.7	-14%	1,683.8	-6%	1,798.4
Expenses including depreciation (\$ million)	901.6	16%	780.4	7%	729.7
Number of staff ¹	611	12%	544	9%	501

¹ The breakdown is as follows:

	31 March 2012		31 March 2011		31 March 2010	
	Actual	Budget	Actual	Budget	Actual	Budget
Professional	443	476	402	441	373	401
Support	168	172	142	146	128	135
	611	648	544	587	501	536

Lectures, seminars, workshops conducted

Topics	Total training hours 2011/12	Total training hours 2010/11	Change vs previous year
Technical skills and market updates	17,103	9,364	83%
Management skills	5,091	5,321	-4%
Language, technology and other skills	3,196	6,120	-48%

Acknowledging good performance

Our remuneration strategy is reviewed each year to ensure that we can attract and retain the right talent to meet our organisational goals. We also recognise individuals and teams for their outstanding contribution to the organisation through the annual SFC Employee Awards. During the year, seven employees received individual awards and eight teams were awarded for completing projects successfully through cross-divisional collaboration.

Enhancing process efficiency

Initiatives made

In addition to helping industry participants raise process efficiency through the SFC Online Portal (see also page 32), we took initiatives to streamline both regulatory and supportive workflow as follows:

- Case review efficiency improved – The Case Management System was launched to process more efficiently the reporting, review and status updating of enforcement cases. Also, the system supports portable devices to review case documents in digital format, thus reducing the use of paper.
- Cross-divisional systems integrated – Using Document Management System, a centralised document management platform, we improved workflow and encouraged information sharing regarding two major lines of our work, ie, investigations and investment products.
- Intranet upgraded – The revamped Intranet uses the latest technology to integrate various business systems and document repositories, once again, to promote sharing of information. Staff also can manage their work more productively using a personalised work page and an upgraded search capability in the new portal.

Other enhancements

- Information security enhanced – Our information security policy was revised to offer additional coverage on personal data privacy, information sharing principles and information security classification, helping staff integrate essential information security practices into daily operations. This was followed by a campaign to raise information security awareness among staff.
- Corporate site being revamped – To meet the changing demand on the use and search of online information, we are revamping the corporate Web site with focuses on improving its functionality, user-friendliness and search capability. The revamp is scheduled for completion in 2012.

Office accommodation

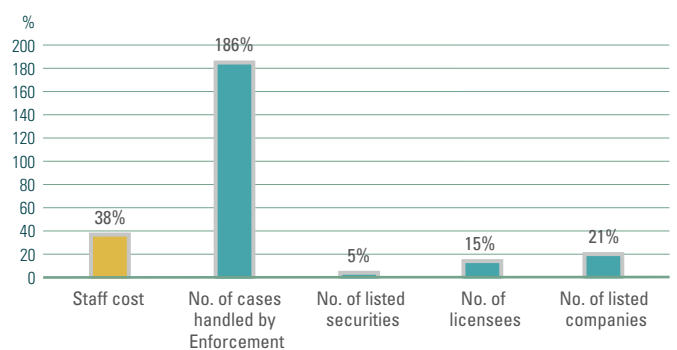
To ensure that we have adequate office space to cope with our operational expansion, we reviewed our office accommodation strategy with a view towards consolidating all operations into a single location. The first phase of office relocation was completed in December 2011; the second phase is scheduled for early 2013.

Financial performance explained

Expenditure

	2011/12	2010/11	2009/10
Staff costs	72.1%	72.4%	72.5%
Premises and related expenses	11.4%	11.4%	11.3%
Other expenses	12.0%	10.9%	11.6%
Depreciation	4.5%	5.3%	4.6%
	100%	100%	100%

Changes in staff costs vs level of market activities (2007/08-2011/12)



We managed to keep the costs of our ongoing regulatory activity at \$901.6 million, \$153.6 million below our original budget of \$1,055.2 million. Staff is our most valuable asset and accounted for over 70% of our total expenditures. Over the past five years, our staff costs increased just 38% although the number of cases handled by enforcement, listed securities, licensees and listed companies rose 186%, 5%, 15% and 21% respectively.

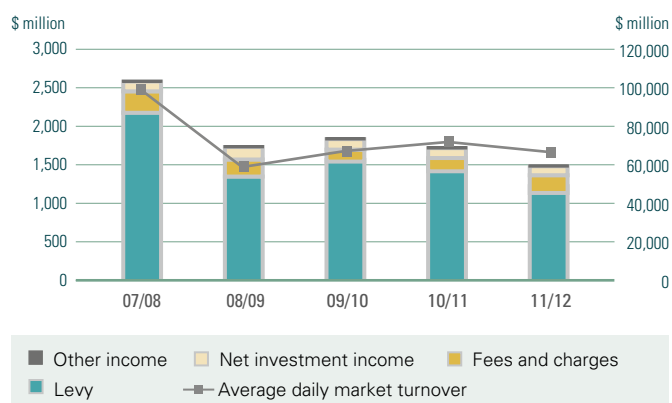
Funding

We are funded mainly by transaction levies and fees from market participants. The reduction of the levy on 1 October 2010 brought the levy down to the current rate of 0.003% of securities transactions, significantly lower than the rate of 0.0125% when the mechanism was first set up. Our fees are charged on the principle that users pay. Although our fee income is below the attributable costs of the fees, we have not raised our fees and charges since 1994/95.

Total revenue for the year was \$1.45 billion, down 13.7% from \$1.68 billion a year ago. Owing to the decline in the securities market turnover and reduction of the levy rate, our levy income dropped by 20.4% to \$1.09 billion from \$1.37 billion a year ago.

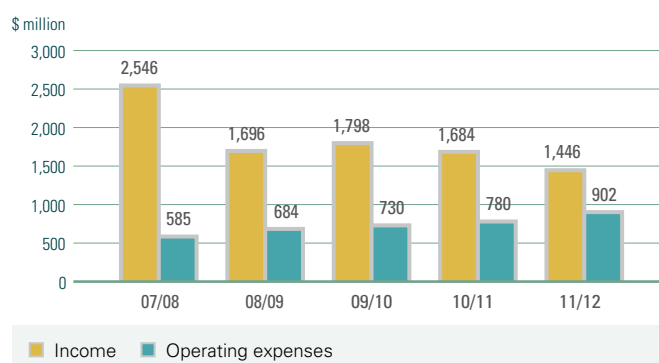
	2011/12	2010/11	2009/10
Levies	75.6%	81.6%	83.3%
Fees and charges	15.9%	10.2%	8.6%
Net Investment Income	8.0%	7.6%	7.6%
Others	0.5%	0.6%	0.5%
	100%	100%	100%

Income vs market turnover



The ratio of average expenses to income for the past five years was 40.1% and the average increase on expenses was 10.8%, and on income was 9.4%.

Income vs operating expenses



	11/12	10/11	09/10	08/09	07/08	5 year average
Expenses to income ratio	62.4%	46.3%	40.6%	40.3%	23.0%	40.1%

Surplus for the year amounted to \$544 million, down from \$903 million last year. At 31 March 2012, our reserves had accumulated to \$7.5 billion, which we managed in strict accordance with investment guidelines approved by the Financial Secretary.

Securities and Futures Commission

Independent auditor's report to the Securities and Futures Commission

(Established in Hong Kong under the Securities and Futures Commission Ordinance)

We have audited the consolidated financial statements of the Securities and Futures Commission (the "SFC") and its subsidiaries (together referred to as the "Group") set out on pages 65 to 85, which comprise the consolidated and the SFC statement of financial position as at 31 March 2012 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Hong Kong Securities and Futures Ordinance requires the directors of the SFC to prepare financial statements which give a true and fair view. The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the SFC and of the Group's affairs as at 31 March 2012 and of the Group's result and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

31 May 2012

Consolidated statement of comprehensive income

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
Income			
Levies		1,091,953	1,373,404
Fees and charges		230,074	171,696
Investment income	5	118,927	131,097
Less: custody and advisory expenses		(2,801)	(2,613)
Investment income net of third party expenses		116,126	128,484
Recoveries from Investor Compensation Fund		4,442	4,157
Other income	6	3,072	6,057
		1,445,667	1,683,798
Expenses			
Staff costs and directors' emoluments	7	650,564	564,876
Premises			
rent		73,525	63,642
other		29,128	25,640
Other expenses	8	108,130	85,162
Depreciation	10(a)	40,227	41,090
		901,574	780,410
Surplus and total comprehensive income for the year		544,093	903,388

The notes on pages 70 to 85 form part of these financial statements.

Consolidated statement of financial position

At 31 March 2012 (Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
Non-current assets			
Fixed assets	10(a)	49,364	46,689
Held-to-maturity debt securities	9	4,802,488	3,827,632
		4,851,852	3,874,321
Current assets			
Held-to-maturity debt securities	9	1,567,623	2,401,449
Debtors, deposits and prepayments	14	168,160	207,000
Bank deposits	11	1,035,893	602,190
Cash at bank and in hand	11	3,348	3,226
		2,775,024	3,213,865
Current liabilities			
Fees received in advance		73,835	68,657
Creditors and accrued charges		67,888	71,504
		141,723	140,161
Net current assets		2,633,301	3,073,704
Total assets less current liabilities		7,485,153	6,948,025
Non-current liabilities	13	15,432	22,397
Net assets		7,469,721	6,925,628
Funding and reserves			
Initial funding by Government	15	42,840	42,840
Accumulated surplus		7,426,881	6,882,788
		7,469,721	6,925,628

Approved and authorized for issue by the SFC on 31 May 2012 and signed on its behalf by

Ashley Alder
Chief Executive Officer

Eddy C Fong
Chairman

The notes on pages 70 to 85 form part of these financial statements.

Statement of financial position

At 31 March 2012 (Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
Non-current assets			
Fixed assets	10(b)	49,358	46,677
Held-to-maturity debt securities	9	4,802,488	3,827,632
		4,851,846	3,874,309
Current assets			
Held-to-maturity debt securities	9	1,567,623	2,401,449
Debtors, deposits and prepayments	14	167,959	206,862
Bank deposits	11	1,035,893	602,190
Cash at bank and in hand	11	3,026	2,909
		2,774,501	3,213,410
Current liabilities			
Fees received in advance		73,835	68,657
Creditors and accrued charges		67,359	71,037
		141,194	139,694
Net current assets		2,633,307	3,073,716
Total assets less current liabilities		7,485,153	6,948,025
Non-current liabilities	13	15,432	22,397
Net assets		7,469,721	6,925,628
Funding and reserves			
Initial funding by Government	15	42,840	42,840
Accumulated surplus		7,426,881	6,882,788
		7,469,721	6,925,628

Approved and authorized for issue by the SFC on 31 May 2012 and signed on its behalf by

Ashley Alder
Chief Executive Officer

Eddy C Fong
Chairman

The notes on pages 70 to 85 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2010	42,840	5,979,400	6,022,240
Total comprehensive income for the year	–	903,388	903,388
Balance at 31 March 2011 and 1 April 2011	42,840	6,882,788	6,925,628
Total comprehensive income for the year	–	544,093	544,093
Balance at 31 March 2012	42,840	7,426,881	7,469,721

The notes on pages 70 to 85 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

	2012 \$'000	2011 \$'000
Cash flows from operating activities		
Surplus for the year	544,093	903,388
Adjustments for:		
Depreciation	40,227	41,090
Investment income	(118,927)	(131,097)
Profit on disposal of fixed assets	(4)	(24)
	465,389	813,357
Decrease/(increase) in debtors, deposits and prepayments	26,062	(8,819)
Increase in fees received in advance	5,178	59,397
(Decrease)/increase in creditors and accrued charges	(3,616)	206
Decrease in non-current liabilities	(6,965)	(7,392)
Net cash generated from operating activities	486,048	856,749
Cash flows from investing activities		
Interest received	188,529	197,228
Held-to-maturity debt securities purchased	(2,599,374)	(2,503,382)
Held-to-maturity debt securities redeemed at maturity	2,401,520	1,523,827
Fixed assets purchased	(42,898)	(38,332)
Net cash used in investing activities	(52,223)	(820,659)
Net increase in cash and cash equivalents	433,825	36,090
Cash and cash equivalents at beginning of the year	605,416	569,326
Cash and cash equivalents at end of the year	1,039,241	605,416

Analysis of the balance of cash and cash equivalents:

	2012 \$'000	2011 \$'000
Bank deposits	1,035,893	602,190
Cash at bank and in hand	3,348	3,226
	1,039,241	605,416

Notes to the consolidated financial statements

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

1. Status and principal activities

The SFC is governed by Part II of the Hong Kong Securities and Futures Ordinance (the SFO). Under the SFO, the SFC has a duty to ensure an efficient, fair and transparent market and to promote public confidence and investor awareness in Hong Kong's securities, futures and related financial markets. In performing its duty, the SFC is required to act in the interest of the public and ensure that improper and illegal market activities are properly investigated. The registered office and principal place of business of the SFC is 8/F Chater House, 8 Connaught Road, Central, Hong Kong.

2. Income

Details of the funding of the SFC are set out in Section 14 and Sections 394 to 396 of the SFO. Major sources of funding include:

- (a) levies collected by the Stock Exchange of Hong Kong Limited, Hong Kong Futures Exchange Limited and Hong Kong Mercantile Exchange Limited on transactions recorded on the Exchanges at rates specified by the Chief Executive in Council; and
- (b) fees and charges in relation to its functions and services according to the provision of subsidiary legislation.

3. Significant accounting policies

(a) Statement of compliance

We have prepared the consolidated financial statements, which comprise the SFC and its subsidiaries (together referred to as the "Group"), in accordance with International Financial Reporting Standards ("IFRSs") (including applicable International Accounting Standards and Interpretations) issued by the International Accounting Standards Board ("IASB").

We set out below a summary of our significant accounting policies.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the SFC. Note 3(q) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the SFC for the current and prior accounting periods reflected in these financial statements.

The SFC has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 20).

(b) Basis of preparation

We have prepared these financial statements using the historical cost basis as the measurement basis. The accounting policies have been applied consistently by Group entities.

We prepare the financial statements in conformity with IFRSs which requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review the estimates and underlying assumptions on an ongoing basis. We recognise the revisions to accounting estimates in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

3. Significant accounting policies (cont'd)

(c) Basis of consolidation

Subsidiaries are those entities in which the SFC, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power or controls the composition of the board of directors. Control exists when the SFC has the power, directly or indirectly, to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. We include the financial statements of subsidiaries in the consolidated financial statements from the date that control commences until the date that control ceases. We eliminate all material intragroup balances and transactions and any unrealised profits and losses arising from intra-group transactions in preparing the consolidated financial statements.

(d) Recognition of income

We recognise income in the statement of comprehensive income provided it is probable that the economic benefits will flow to the Group and we can measure reliably the revenue and costs. We record our income as follows:

(i) Levies

We record levies from the Stock Exchange of Hong Kong Limited, Hong Kong Futures Exchange Limited and Hong Kong Mercantile Exchange Limited as income on an accrual basis.

(ii) Fees and charges

We record annual fees as income on a straight-line basis over the periods to which they relate. We record other fees and charges as income when they are receivable.

(iii) Investment income

We record investment income as it accrues using the effective interest method. It comprises (a) interest earned on bank deposits and held-to-maturity debt securities; and (b) the amortisation of premiums or discounts on purchases of held-to-maturity debt securities.

(e) Operating leases

We treat the rent payable under operating leases as an expense in equal instalments over the accounting periods covered by the lease term. We recognise lease incentives received in the statement of comprehensive income as an integral part of the aggregate net lease payments made.

(f) Employee benefits

We make accrual for salaries and allowances, annual leave, contributions to defined contribution schemes and the cost of non-monetary benefits in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, we state these amounts at their present values. Other benefits for services received are accrued when a contractual or constructive obligation arises for the SFC.

(g) Fixed assets and depreciation

We state fixed assets at cost less accumulated depreciation and any impairment losses (see note 3(o)). We charge depreciation to the statement of comprehensive income to write off the costs of fixed assets using the straight-line method over the estimated useful lives as follows:

Leasehold improvements	– 5 years or, if shorter, the life of the respective leases
Furniture and fixtures	– 3 to 5 years
Office equipment	– 5 years
Personal computers and software	– 3 years
Computer application systems	– 4 years
Motor vehicles	– 4 years

We capitalise subsequent expenditure only when it increases the future economic benefits embodied in the fixed assets. We recognise all other expenditure in the statement of comprehensive income as an expense as incurred.

Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

3. Significant accounting policies (cont'd)

(g) Fixed assets and depreciation (cont'd)

We review the carrying amounts of fixed assets for indications of impairment at the end of each reporting period. An impairment loss is recognised to the extent that the carrying amount of an asset, or the cash-generating unit to which it belongs, is more than its recoverable amount. The recoverable amount of an asset, or of the cash-generating unit to which it belongs, is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the assets. An impairment loss is reversed if there has been a favourable change in estimates used to determine the recoverable amount.

We recognise gains or losses arising from the retirement or disposal of an item of fixed assets, being the difference between the net disposal proceeds and the carrying amount of the item, in the statement of comprehensive income on the date of retirement or disposal.

(h) Investments

We state our investments in debt securities, which we have positive intention and ability to hold to maturity, initially at fair value and subsequently at amortised cost using the effective interest method less impairment losses, if any (see note 3(o)). We account for purchases and sales of debt securities on the settlement date.

(i) Related parties

For the purpose of these financial statements, we consider that the following are related parties of the SFC:

- (a) A person, or a close member of that person's family, is related to the SFC if that person:
 - (i) has control or joint control over the SFC;
 - (ii) has significant influence over the SFC; or
 - (iii) is a member of the key management personnel of the SFC or the SFC's parent.

- (b) An entity is related to the SFC if any of the following conditions applies:

- (i) The entity and the SFC are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity. As the SFC is an entity controlled by the Government of the Hong Kong Special Administrative Region, any transactions with other government departments and agencies under normal dealings are not necessarily regarded as related party transactions in the context of International Accounting Standard ("IAS") 24.

Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

3. Significant accounting policies (cont'd)

(j) Translation of foreign currencies

We translate foreign currency transactions during the year into Hong Kong dollars at the exchange rates ruling at the transaction dates. We translate monetary assets and liabilities denominated in foreign currencies into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. We recognise exchange gains and losses on translation in the statement of comprehensive income.

(k) Debtors and other receivables

We state debtors and other receivables initially at their fair value and thereafter at amortised cost less impairment losses. We review the carrying amount of debtors and other receivables at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, we reduce the carrying amount to the estimated recoverable amount by means of a charge to the statement of comprehensive income (see note 3(o)).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(m) Creditors and accrued charges

We state creditors and accrued charges initially at fair values and thereafter at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Investment in subsidiaries

We state an investment in a subsidiary at cost less any impairment losses in the statement of financial position.

(o) Impairment

(i) Recognition of impairment loss

We review the carrying amounts of the SFC's assets at the end of each reporting period to determine whether there is any objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the SFC about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor; or significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor. If any such evidence exists, we estimate the asset's recoverable amount. We recognise in the statement of comprehensive income the difference between the asset's carrying amount and the recoverable amount as an impairment loss whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

(ii) Calculation of impairment loss

We calculate the recoverable amount of the SFC's investments in held-to-maturity debt securities and receivables by discounting their expected future cash flows to their present value at the original effective interest rate inherent in the asset. We do not discount receivables with a short duration in the calculation of their recoverable amount. The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, we discount the estimated future cash flows to their present value at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, we determine the recoverable amount for the cash-generating unit to which the asset belongs.

(iii) Reversals of impairment loss

We reverse an impairment loss in respect of an asset in a subsequent period if the circumstances and events that are objectively linked to the write down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. We reverse an impairment loss only to the extent that the asset's carrying amount does not exceed the carrying amount that we should have determined, net of depreciation or amortisation, if we had not recognised any impairment loss.

Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

3. Significant accounting policies (cont'd)

(p) Provisions and contingent liabilities

We recognise a provision in the statement of financial position when the SFC has a legal or constructive obligation of uncertain timing or amount as a result of a past event, and it is probable that the SFC will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably. If the effect is material, we determine provisions by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the obligation as a contingent liability, unless the probability of outflow of economic benefits is remote. We also disclose possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the SFC. Of these, the following developments are relevant to the SFC's financial statements:

- IFRS 24 (revised 2009), *Related party disclosures*
- Improvements to IFRSs (2010)

The SFC has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. Taxation

Section 3(3) of the SFO exempts the SFC from Hong Kong taxes.

5. Investment income

	2012 \$'000	2011 \$'000
Interest income	175,751	187,211
Amortisation of premium on held-to-maturity debt securities	(57,909)	(57,475)
Amortisation of discount on held-to-maturity debt securities	1,085	1,361
	118,927	131,097

Interest income is derived as follows:

	2012 \$'000	2011 \$'000
Interest income from held-to-maturity debt securities	165,953	184,934
Other interest income	9,798	2,277
Total interest income on financial assets not at fair value through profit or loss	175,751	187,211

Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

6. Other income

	2012 \$'000	2011 \$'000
Investigation costs awarded	924	3,986
FinNet managed network and support fee	1,584	1,561
Sale of SFC publications	457	433
Gain on disposal of fixed assets	4	24
Others	103	53
	3,072	6,057

7. Staff costs and directors' emoluments

	2012 \$'000	2011 \$'000
Salaries and allowances	591,275	512,824
Retirement benefits	34,744	31,990
Medical and life insurance	16,840	14,577
Staff functions	1,571	1,323
Recruitment	4,951	3,447
Registration and membership fees	1,183	715
	650,564	564,876

The total number of staff as at 31 March 2012 was 614 (611 for the SFC and 3 for the Investor Compensation Company Limited) (at 31 March 2011: the total number of staff was 547 comprising 544 for the SFC and 3 for the Investor Compensation Company Limited).

Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

7. Staff costs and directors' emoluments (cont'd)

Directors' emoluments included in the above comprised:

	Directors' fee \$'000	Salaries, allowances & benefits in kind \$'000	Discretionary pay \$'000	Retirement scheme contribution \$'000	2012 Total \$'000	2011 Total \$'000
				(Note 1)		
Chief Executive Officer						
Martin Wheatley, JP (resigned 8 June 2011)	–	1,695	272	136	2,103	9,327
Ashley Alder (appointed 1 October 2011)	–	3,000	–	300	3,300	–
			(Note 3)			
Executive Directors						
Alexa Lam, JP	–	5,000	1,333	500	6,833	6,700
Brian Ho	–	4,237	1,144	423	5,804	5,534
Keith Lui	–	4,197	1,175	420	5,792	5,429
Mark Steward	–	4,400	1,320	440	6,160	5,830
Paul Kennedy (resigned 6 April 2010)	–	–	–	–	–	112
	–	22,529	5,244	2,219	29,992	32,932
Non-executive Chairman						
Dr Eddy C Fong, GBS, JP	841	–	–	–	841	702
Non-executive Directors						
The Hon Chan Kam-lam, SBS, JP	243	–	–	–	243	234
Angelina PL Lee, SBS, JP	243	–	–	–	243	234
Kenneth HW Kwok, BBS, SC, JP (retired 31 Dec 2010 (Note 2))	–	–	–	–	–	176
Professor Liu Pak Wai, SBS, JP (retired 31 Dec 2010 (Note 2))	–	–	–	–	–	176
Shengman Zhang (retired 31 Dec 2010 (Note 2))	–	–	–	–	–	176
Lawrence Lee, JP	243	–	–	–	243	234
Wong Kai Man, BBS, JP	243	–	–	–	243	234
Anderson Chow, SC	242	–	–	–	242	58
Professor Leonard Cheng Kwok-hon, JP	242	–	–	–	242	58
Carlson Tong, JP (appointed 1 April 2011)	242	–	–	–	242	–
	2,539	–	–	–	2,539	2,282
Total directors' emoluments	2,539	22,529	5,244	2,219	32,531	35,214

Note 1 This represents net contribution expenses accrued during the period ended 31 March 2012 in accordance with the accounting policy set out in note 3(f) on page 71. The future payment of contributions is subject to completion of a vesting period, which is based on total years of service with the SFC. The amount vested at 31 March 2012 was \$1,645,000 (At 31 March 2011: \$1,815,000).

Note 2 Retired having completed appointment period.

Note 3 Discretionary pay, if any, is to be approved in 2012/13.

Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

7. Staff costs and directors' emoluments (cont'd)

The aggregate of the emoluments of the five highest paid individuals in 2011/2012, representing the emoluments of four executive directors and one senior director, was \$28,975,000 (2010/2011: \$32,820,000 for five executive directors) with the breakdown as follows:

	2012 \$'000	2011 \$'000
Salaries, allowances & benefits in kind	20,967	24,349
Discretionary pay	5,912	6,069
Retirement scheme contribution	2,096	2,402
	28,975	32,820

Their emoluments are within the following bands:

	2012 No. of individuals	2011 No. of individuals
\$4,000,001 to \$4,500,000	1	0
\$4,500,001 to \$5,000,000	0	0
\$5,000,001 to \$5,500,000	0	1
\$5,500,001 to \$6,000,000	2	2
\$6,000,001 to \$6,500,000	1	0
\$6,500,001 to \$7,000,000	1	1
\$7,000,001 to \$7,500,000	0	0
\$7,500,001 to \$8,000,000	0	0
\$8,000,001 to \$8,500,000	0	0
\$8,500,001 to \$9,000,000	0	0
\$9,000,001 to \$9,500,000	0	1

Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

7. Staff costs and directors' emoluments (cont'd)

Employee benefits

We provide retirement benefits to our staff through a defined contribution scheme under the Occupational Retirement Schemes Ordinance (ORSO Scheme) and a Mandatory Provident Fund Scheme (MPF Scheme):

(a) ORSO Scheme**(i) General grade staff**

For general grade staff, we make monthly contributions equal to 12% of the fixed pay, subject to a vesting scale with the benefit fully vested upon completion of 10 years' service. We reinvest forfeited contributions for general grade staff who leave the SFC prior to qualifying for 100% disbursement of the contributions into the total pool of contributions that will be shared by the existing members in the scheme at the end of the scheme year. The amount so reinvested during the year was nil (2011: nil).

(ii) Professional staff

We use forfeited contributions in respect of professional staff who leave the SFC prior to qualifying for 100% disbursement of the contributions to offset the SFC's future contributions. The amount so forfeited during the year was \$3,713,000 (2011: \$2,952,000) and the amount so forfeited available at the end of the reporting period was \$86,000 (2011: \$602,000).

This scheme has obtained an exemption under Section 5 of the MPF Schemes Ordinance.

(b) MPF Scheme

We have participated in a master trust MPF Scheme since December 2000 and made contributions to the MPF Scheme in accordance with the statutory requirements of the MPF Schemes Ordinance.

8. Other expenses

	2012 \$'000	2011 \$'000
Training and development	7,271	5,920
Legal and professional services	26,297	20,714
Information and systems services	29,147	27,755
Auditor's remuneration	479	443
Funding for the Financial Dispute Resolution Centre	7,500	–
Funding for the Financial Reporting Council	4,410	4,200
Funding for the Hong Kong Securities Institute	1,200	–
Funding for the Investor Education Centre	980	–
Funding for the International Accounting Standards Committee Foundation	390	389
General office and insurance	6,476	5,370
External relations	20,618	18,996
Exchange loss	3,362	1,375
	108,130	85,162

Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

9. Held-to-maturity debt securities

The Group and the SFC

		2012 \$'000	2011 \$'000
Maturing after one year			
In the second to sixth years	– unlisted	2,467,808	1,756,248
	– listed in Hong Kong	124,343	–
	– listed outside Hong Kong	2,210,337	2,071,384
		4,802,488	3,827,632
Maturing within one year			
	– unlisted	592,326	451,746
	– listed in Hong Kong	–	95,323
	– listed outside Hong Kong	975,297	1,854,380
		1,567,623	2,401,449
		6,370,111	6,229,081
Amortised cost at 31 March			
	– unlisted	3,060,134	2,207,994
	– listed in Hong Kong	124,343	95,323
	– listed outside Hong Kong	3,185,634	3,925,764
		6,370,111	6,229,081
Market value at 31 March			
	– unlisted	3,073,401	2,205,710
	– listed in Hong Kong	124,877	95,836
	– listed outside Hong Kong	3,227,935	3,982,773
		6,426,213	6,284,319

The average yield to maturity of the debt securities was 0.9% at 31 March 2012 (2011: 1.5%).

Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

10. Fixed assets

(a) The Group

	Furniture, fixtures and leasehold improvements \$'000	Office equipment \$'000	Computer application systems \$'000	Personal computers and software \$'000	Motor vehicles \$'000	Total \$'000
Cost						
At 1 April 2011	68,699	7,912	180,516	55,703	1,599	314,429
Additions	11,500	393	18,965	12,045	–	42,903
Disposals	(9,533)	(214)	(72,395)	(2,677)	–	(84,819)
At 31 March 2012	70,666	8,091	127,086	65,071	1,599	272,513
Accumulated depreciation						
At 1 April 2011	63,527	5,194	153,474	44,404	1,141	267,740
Charge for the year	4,677	1,093	21,664	12,641	152	40,227
Written back on disposals	(9,533)	(213)	(72,395)	(2,677)	–	(84,818)
At 31 March 2012	58,671	6,074	102,743	54,368	1,293	223,149
Net book value						
At 31 March 2012	11,995	2,017	24,343	10,703	306	49,364
Cost						
At 1 April 2010	61,147	7,528	161,641	48,300	1,967	280,583
Additions	8,012	1,156	19,850	8,727	611	38,356
Disposals	(460)	(772)	(975)	(1,324)	(979)	(4,510)
At 31 March 2011	68,699	7,912	180,516	55,703	1,599	314,429
Accumulated depreciation						
At 1 April 2010	51,344	5,024	138,382	34,443	1,967	231,160
Charge for the year	12,643	942	16,067	11,285	153	41,090
Written back on disposals	(460)	(772)	(975)	(1,324)	(979)	(4,510)
At 31 March 2011	63,527	5,194	153,474	44,404	1,141	267,740
Net book value						
At 31 March 2011	5,172	2,718	27,042	11,299	458	46,689

Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

10. Fixed assets (cont'd)

(b) The SFC

	Furniture, fixtures and leasehold improvements \$'000	Office equipment \$'000	Computer application systems \$'000	Personal computers and software \$'000	Motor vehicles \$'000	Total \$'000
Cost						
At 1 April 2011	68,684	7,856	180,516	55,462	1,599	314,117
Additions	11,500	393	18,965	12,045	–	42,903
Disposals	(9,533)	(214)	(72,395)	(2,677)	–	(84,819)
At 31 March 2012	70,651	8,035	127,086	64,830	1,599	272,201
Accumulated depreciation						
At 1 April 2011	63,511	5,151	153,474	44,163	1,141	267,440
Charge for the year	4,677	1,087	21,664	12,641	152	40,221
Written back on disposals	(9,533)	(213)	(72,395)	(2,677)	–	(84,818)
At 31 March 2012	58,655	6,025	102,743	54,127	1,293	222,843
Net book value						
At 31 March 2012	11,996	2,010	24,343	10,703	306	49,358
Cost						
At 1 April 2010	61,132	7,472	161,641	48,059	1,967	280,271
Additions	8,012	1,156	19,850	8,727	611	38,356
Disposals	(460)	(772)	(975)	(1,324)	(979)	(4,510)
At 31 March 2011	68,684	7,856	180,516	55,462	1,599	314,117
Accumulated depreciation						
At 1 April 2010	51,328	4,987	138,382	34,209	1,967	230,873
Charge for the year	12,643	936	16,067	11,278	153	41,077
Written back on disposals	(460)	(772)	(975)	(1,324)	(979)	(4,510)
At 31 March 2011	63,511	5,151	153,474	44,163	1,141	267,440
Net book value						
At 31 March 2011	5,173	2,705	27,042	11,299	458	46,677

Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

11. Bank deposits and cash at bank

The effective interest rate on bank deposits and cash at bank at 31 March 2012 ranged from 0.34% to 2.09% (2011: 0.04% to 1.34%). These balances mature within one year at both 31 March 2012 and 31 March 2011.

12. Investments in subsidiaries

The SFC formed FinNet Limited (FinNet) on 6 November 2000 with an authorized share capital of \$10,000 and issued share capital of \$2 and Investor Compensation Company Limited (ICC) on 11 September 2002 with an authorized share capital of \$1,000 and issued share capital of \$0.2. Both FinNet and ICC are incorporated in Hong Kong.

The objective of FinNet is to operate an electronic network to facilitate payment and delivery transactions and interconnection of all financial institutions and financial entities in Hong Kong.

The objective of ICC is to facilitate the administration and management of the Investor Compensation Fund established under the SFO.

Both companies are wholly owned subsidiaries of the SFC. As at 31 March 2012, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$2.2 (2011: \$2.2). The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

The statement of financial position of FinNet as at 31 March 2012 was immaterial and its expenses have been paid by the SFC. We have not therefore consolidated FinNet in the Group's financial statements.

The financial statements of ICC are included in the consolidated financial statements.

13. Non-current liabilities

Non-current liabilities represent deferred lease incentives and provision for premises reinstatement cost. Deferred lease incentives consist of incentives granted by our landlord in connection with the lease of our office premises. We recognise the deferred lease incentives in our statement of comprehensive income on a straight line basis over the lease period from 2004 to 2017 as an integral part of the lease expense.

14. Debtors, deposits and prepayments

Debtors, deposits and prepayments include \$160,338,000 receivables classified as loans and receivables in accordance with the determination of IAS 39 (2011: \$196,758,000). Receivables are usually due within 30 days.

We do not provide an ageing analysis of debtors as there was no material overdue debtor balance included in "debtors, deposits and prepayments" as at 31 March 2012 and 2011.

15. Initial funding by Government

The Government provided funds to pay for the SFC's initial non-recurrent and capital expenditure. These funds are not repayable to the Government. The SFC is eligible to receive an appropriation from the Government in each financial year. Since the financial year ended 31 March 1994, the SFC has requested the Government not to make an appropriation to it. The SFC manages its funding requirements from its income and accumulated surplus.

Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

16. Capital commitments

Capital commitments outstanding at 31 March 2012 not provided for in the financial statements were as follows:

	2012 \$'000	2011 \$'000
Authorized and contracted for	29,366	29,158
Authorized but not contracted for	45,141	32,046

17. Commitment to pay rents for offices

During the year, we have entered into a new operating lease for the SFC's office premises for 11 years starting 1 November 2011. The lease is subject to a rent review on 1 September 2017. The rent we will have to pay after 1 September 2017 will be fixed on or before 1 July 2017 based on the then prevailing market rent but subject to a cap set out in the lease agreement.

At 31 March 2012 the minimum amount we are committed to pay in rent for our offices up to 31 August 2017 is as follows:

	The Group and the SFC	
	2012 \$'000	2011 \$'000
Payable next year	178,563	72,473
Payable in one to five years	736,774	76,265
Payable in more than five years	75,158	–
	990,495	148,738

During the year ended 31 March 2012, \$73,525,000 net of lease incentives, was recognised as an expense in the statement of comprehensive income in respect of operating leases (2011: \$63,642,000).

18. Related party transactions

We have related party relationships with the Unified Exchange Compensation Fund (UECF), the Investor Compensation Fund (ICF), Securities Ordinance (Chapter 333) – Dealers' Deposits Fund, Commodities Trading Ordinance (Chapter 250) – Dealers' Deposits Fund and Securities Ordinance (Chapter 333) – Securities Margin Financiers' Security Fund. In addition to the transactions and balances disclosed elsewhere in these financial statements, we have the following significant related party transactions.

(a) Reimbursement from the ICF for all the ICC's expenses, in accordance with Section 242(1) of the SFO

During the year, \$4,442,000 was recovered from ICF for ICC's expenses (2011: \$4,157,000). As at 31 March 2012, the amount due to ICF from ICC was \$85,000 (at 31 March 2011: \$128,000).

(b) Remuneration of key management personnel

We consider that the directors' emoluments as disclosed in note 7 are the only remuneration for key management personnel of the Group.

Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

18. Related party transactions (cont'd)

(c) Operating expenses of FinNet

During the year, all operating expenses incurred by FinNet were absorbed by the SFC. The amount absorbed for the year was \$22,000 (2011: \$20,000) including the provision for audit fee of \$11,100 (2011: \$10,500).

(d) Legal services provided by a non-executive director

Prior to his appointment, the Group engaged a non-executive director to provide legal services in respect of a number of matters. He continued to provide services in respect of matters commenced prior to his appointment. During the year, fees paid to him for such services amounted to \$496,000 (2011: \$489,000) under normal commercial terms and conditions.

19. Financial instruments

Financial instruments of the SFC comprise held-to-maturity debt securities, bank deposits, cash at bank and debtors. These are classified into different categories at inception in accordance with IAS 39, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: held to maturity and other financial liabilities.

The main financial risks of the SFC arise from its investments in held-to-maturity debt securities. The SFC confers upon its Executive Directors the power to act upon the advice received from an external investment adviser and to ensure that the portfolio's investments comply with the investment policy approved by the Financial Secretary which sets control limits on credit risk, market risk, interest rate risk, liquidity risk and foreign exchange risk. The Executive Directors report thereon to the SFC on a regular basis.

(a) Credit risk

The SFC's credit risk is primarily attributable to debt security investments. The Financial Secretary has approved our investment policy which, subject to other control limits, only allows the SFC to invest in high-quality dated securities, rated AA or above. The policy also limits the exposure to each organisation and each country, except for the US Treasury. During the year, the SFC complied with the above investment policy in order to manage its credit risk, and as a result, was not exposed to significant credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance.

(b) Interest rate risk

The SFC's interest bearing assets mainly comprise fixed interest rate bearing debt securities and bank balances. The SFC is subject to the risk that future cash flows from re-investments will fluctuate because of changes in market interest rates (re-pricing risk). The SFC manages re-pricing risk of its fixed rate debt securities by imposing different levels of concentration and maturity limits. The effective interest rates and maturity profile of the SFC's interest bearing assets are disclosed in the respective notes to the financial statements. At 31 March 2012, it is estimated that a general increase/decrease of 100 basis points, with all other variables held constant, would increase/decrease the SFC's surplus and accumulated surplus by approximately \$19,916,000 (2011: \$17,011,000). As at 31 March 2012 the average duration of the SFC's investment portfolio was 1.79 years (31 March 2011: 1.66 years).

The sensitivity analysis above is estimated as an annualised impact on interest income assuming the change in interest rates had occurred at the end of the reporting period. The analysis is performed on the same basis for 2011.

Notes to the consolidated financial statements (cont'd)

For the year ended 31 March 2012

19. Financial instruments (cont'd)

(c) Exchange rate risk

The only foreign currency investment allowed under the SFC's investment policy is US dollar dated securities. As the HK dollar is pegged to the US dollar, and since there were no other exchange rate exposures other than in US dollars and HK dollars, the SFC was not exposed to significant foreign exchange risk at the end of the reporting period.

(d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2012 and 2011 except for held-to-maturity debt securities as disclosed in note 9. The following summarises the major methods and assumptions used in estimating the fair values of these financial instruments.

- The fair value of listed held-to-maturity debt securities is based on quoted market prices at the end of the reporting period using current bid prices without any deduction for transaction costs. Fair values for unlisted debt investments are based on third party quotes.

20. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2012

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 March 2012 and which have not been adopted in these financial statements.

Effective for
accounting periods
beginning on or after

Amendments to IAS 1, <i>Presentation of financial statements – presentation of items of other comprehensive income</i>	1 July 2012
IFRS 13, <i>Fair value measurement</i>	1 January 2013
IFRS 9, <i>Financial instruments</i>	1 January 2015

The SFC is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to result in a restatement of SFC's results of operations and financial position.

Investor Compensation Fund (the Fund)

Report of the Investor Compensation Fund Committee (the Committee)

The members of the Committee present their annual report together with the audited financial statements for the year ended 31 March 2012.

Establishment of the Fund

Part XII of the Securities and Futures Ordinance (Chapter 571) established the Fund on 1 April 2003.

Financial statements

The surplus of the Fund for the financial year ended 31 March 2012 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 88 to 103.

Members of the Committee

The members of the Committee during the year ended 31 March 2012 and up to the date of this report were:

Mr Keith Lui (Chairman)
Mrs Alexa Lam
Mr Chow Ka Ming, Anderson, SC
Mr Tai Chi Kin (appointed on 1 April 2011)

Interests in contracts

No contract of significance to which the Fund was a party, and in which a Committee member of the Fund had a material interest, subsisted at the end of the financial year or at any time during the financial year.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Fund is to be proposed at the forthcoming Investor Compensation Fund Committee meeting.

By order of the Committee

Keith Lui
Chairman

4 June 2012

Independent auditor's report to the Securities & Futures Commission (the SFC)

We have audited the financial statements of Investor Compensation Fund (the Fund) established under Part XII of the Securities and Futures Ordinance set out on pages 88 to 103, which comprise the statement of financial position as at 31 March 2012 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The SFC's responsibility for the financial statements

The Securities and Futures Ordinance requires the directors of the SFC to prepare financial statements which give a true and fair view. The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 31 March 2012 and of its surplus and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

4 June 2012

Statement of comprehensive income

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
Income			
Net investment income	5	53,556	88,837
Exchange difference		(1,902)	1,695
Other investment income		49	–
Recoveries		–	4,569
		51,703	95,101
Expenses			
Investor Compensation Company Limited expenses	7	4,442	4,157
Compensation write-backs	8	–	(218)
Auditor's remuneration		102	95
Bank charges		794	770
Professional fees		3,373	3,239
		8,711	8,043
Surplus and total comprehensive income for the year		42,992	87,058

The notes on pages 92 to 103 form part of these financial statements.

Statement of financial position

At 31 March 2012 (Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
– Debt securities	9	1,664,886	1,608,583
– Pooled fund	9	232,304	224,824
Fair value adjustment on unsettled trades		–	15
Interest receivable		18,579	17,823
Due from Investor Compensation Company Limited		85	128
Fixed and call deposits with banks	10	153,839	189,486
Cash at bank	10	26,652	12,467
		2,096,345	2,053,326
Current liabilities			
Provision for compensation	8	150	150
Creditors and accrued charges		1,010	983
		1,160	1,133
		2,095,185	2,052,193
Net current assets			
		2,095,185	2,052,193
Net assets			
		2,095,185	2,052,193
Representing:			
Compensation fund			
Contributions from Unified Exchange Compensation Fund	11	994,718	994,718
Contributions from Commodity Exchange Compensation Fund	11	108,923	108,923
Accumulated surplus		991,544	948,552
		2,095,185	2,052,193

Approved and authorized for issue by the Securities and Futures Commission (the SFC) on 4 June 2012 and signed on its behalf by

Eddy C Fong
Chairman of the SFC

Ashley Alder
Chief Executive Officer of the SFC

The notes on pages 92 to 103 form part of these financial statements.

Statement of changes in equity

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

	Contributions from Unified Exchange Compensation Fund \$'000	Contributions from Commodity Exchange Compensation Fund \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2010	994,718	108,923	861,494	1,965,135
Total comprehensive income for the year	–	–	87,058	87,058
Balance at 31 March 2011 and 1 April 2011	994,718	108,923	948,552	2,052,193
Total comprehensive income for the year	–	–	42,992	42,992
Balance at 31 March 2012	994,718	108,923	991,544	2,095,185

The notes on pages 92 to 103 form part of these financial statements.

Statement of cash flows

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

	2012 \$'000	2011 \$'000
Cash flows from operating activities		
Surplus for the year	42,992	87,058
Net investment income	(53,556)	(88,837)
Exchange difference	1,902	(1,695)
Decrease in amount due from Investor Compensation Company Limited	43	133
Decrease in provision for compensation	–	(5,506)
Increase in accounts payable and accrued charges	27	88
Net cash used in operating activities	(8,592)	(8,759)
Cash flows from investing activities		
Purchase of debt securities	(633,209)	(509,650)
Sale or maturity of debt securities	565,399	409,036
Sale of equity securities	1,109	968
Interest received	53,831	57,623
Net cash used in investing activities	(12,870)	(42,023)
Net decrease in cash and cash equivalents	(21,462)	(50,782)
Cash and cash equivalents at beginning of the year	201,953	252,735
Cash and cash equivalents at end of the year	180,491	201,953

Analysis of the balance of cash and cash equivalents:

	2012 \$'000	2011 \$'000
Fixed and call deposits with banks	153,839	189,486
Cash at bank	26,652	12,467
	180,491	201,953

Notes to the financial statements

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

1. Purpose, limitation and principal activity

The Securities and Futures Ordinance (SFO) provides for the establishment of the Investor Compensation Fund (the Fund) to compensate investors who suffer a loss due to the default of an intermediary in relation to trading of products on Hong Kong Exchanges and Clearing Limited. The defaulting intermediary must be licensed or registered with the Securities and Futures Commission (SFC) for dealing in securities, futures contracts or securities margin financing.

The SFC is primarily responsible for the administration and management of the Fund in accordance with Section 238 of the SFO, but has transferred some functions to the Investor Compensation Company Limited (ICC) under Section 80 of the SFO. ICC is thus responsible for receipt, determination and payment of valid claims against the Fund in respect of defaults of intermediaries occurring on or after 1 April 2003. Upon making payment to a claimant, the SFC is subrogated to the claimant's right against the defaulter.

Pursuant to Section 244 of the SFO, the Chief Executive in Council has by order set the maximum amount of compensation at \$150,000 per claimant for a single default in relation to securities traded at the Stock Exchange of Hong Kong Limited (SEHK) or futures contracts traded at the Hong Kong Futures Exchange Limited (HKFE).

If amounts owed to claimants against the Fund exceed the Fund's net assets, the SFC would apportion compensation payments to claimants as provided in the Securities & Futures (Investor Compensation-Claims) Rules. The SFC would pay unpaid claim amounts when funds become available in the Fund.

2. Money constituting the Fund

The Fund mainly consists of the amounts paid from the two compensation funds, the Unified Exchange Compensation Fund (UECF) and the Commodity Exchange Compensation Fund (CECF) (wound up on 26 May 2006). The SFC will also pay into the Fund any remaining balance in the Securities Dealers' Deposits Fund, the Commodities Dealers' Deposits Fund and the Securities Margin Financiers' Security Fund after repaying the dealers' deposits and any money due to the registered dealers in accordance with Section 76 (11) of Schedule 10 of the SFO though it is not likely that these payments will be made within the coming year.

Other sources of money for the Fund include the levies chargeable on securities traded on SEHK and futures contracts traded on the HKFE, and returns earned on the investment of the Fund (see also note 5).

3. Significant accounting policies

(a) Statement of compliance

The Fund prepares its financial statements in accordance with International Financial Reporting Standards (IFRSs) (including applicable International Accounting Standards and Interpretations) issued by the International Accounting Standards Board (IASB). A summary of the significant accounting policies adopted by the Fund is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Fund. Note 3(m) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 15).

Notes to the financial statements (cont'd)

For the year ended 31 March 2012

3. Significant accounting policies (cont'd)

(b) Basis of preparation

We have prepared these financial statements using the historical cost basis as the measurement basis, except that we state financial instruments classified as designated at fair value through profit or loss at their fair value (see note 3(e)).

We prepare the financial statements in conformity with IFRSs which requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Recognition of income

We recognise income in the statement of comprehensive income provided it is probable that the economic benefits will flow to the Fund and we can measure reliably the revenue and costs. We record interest income as it accrues using the effective interest method.

(d) Translation of foreign currencies

We translate foreign currency transactions during the year into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. We translate monetary assets and liabilities denominated in foreign currencies that are stated at fair value into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. We record exchange gains and losses on translation in the statement of comprehensive income.

Notes to the financial statements (cont'd)

For the year ended 31 March 2012

3. Significant accounting policies (cont'd)

(e) Financial instruments

(i) Initial recognition

We classify the financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables and other financial liabilities.

We initially measure financial instruments at fair value, which normally will be equal to the transaction price, plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. We charge transaction costs on financial assets and financial liabilities at fair value through profit or loss immediately.

We account for financial assets and financial liabilities on the date the Fund becomes a party to the contractual provisions of the instrument. We use settlement date accounting to record regular purchase or sale of financial assets. From this date, we record in our books any gains and losses arising from changes in fair value of the financial assets or financial liabilities.

The Fund's financial instruments mainly consist of debt and equity securities designated at fair value through profit or loss. We state financial assets and liabilities under this category at fair value and recognise changes in the fair value in the statement of comprehensive income in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in the statement of comprehensive income.

(ii) Fair value measurement principles

We determine the fair value of financial instruments based on their quoted market prices on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments at the end of the reporting period without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices. Unlisted equity investments are shares in pooled funds. The fair value is determined based on the Fund's share in the net assets of the pooled funds as determined by the custodian.

(iii) Derecognition

We derecognise a financial asset when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership have been transferred.

We derecognise a financial liability when the obligation specified in the contract is discharged, cancelled or expired.

(iv) Offsetting

We offset the financial assets and financial liabilities and report the net amount in the statement of financial position where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Notes to the financial statements (cont'd)

For the year ended 31 March 2012

3. Significant accounting policies (cont'd)

(f) Impairment

(i) Recognition of impairment loss

We review the carrying amounts of the Fund's assets at the end of each reporting period to determine whether there is any objective evidence of impairment. If any such evidence exists, we estimate the asset's recoverable amount. We recognise in the statement of comprehensive income the difference between the asset's carrying amount and the recoverable amount as an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount.

(ii) Calculation of impairment loss

We calculate the recoverable amount of the Fund's receivables by discounting their expected future cash flows to their present value at the original effective interest rate inherent in the asset. We do not discount receivables with a short duration in the calculation of their recoverable amount.

(iii) Reversals of impairment loss

We reverse an impairment loss in respect of an asset in a subsequent period if the circumstances and events that are objectively linked to the write down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. We reverse an impairment loss only to the extent that the asset's carrying amount does not exceed the carrying amount that we would have determined if we had not recognised any impairment loss.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(h) Other receivables

We state other receivables initially at fair value and thereafter at amortised cost less impairment losses (see note 3(f)), unless the effect of discounting would be immaterial, in which case we state them at cost less impairment losses.

(i) Provision for compensation

We make provision for liabilities arising from claims resulting from defaults for which it is probable that the Fund will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably, independent of whether a notice calling for claims pursuant to Section 3 of the Securities & Futures (Investor Compensation-Claims) Rules has been published. The provision covers all such claims received up to the date on which the financial statements are approved by the SFC. If the effect is material, we determine provisions by discounting the expected future cash flows that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The maximum liability of the Fund to claims for each default case is set at \$150,000 per claimant.

As the Fund is continually updating information in respect of claims received, it is possible that the recent claim experience is not indicative of future payments that will be required for claims received as at the end of the reporting period. Any increase or decrease in the provision would affect profit and loss in future years.

Notes to the financial statements (cont'd)

For the year ended 31 March 2012

3. Significant accounting policies (cont'd)

(j) Creditors and accrued charges

We state creditors and accrued charges initially at fair value and thereafter at amortised cost unless the effect of discounting would be immaterial, in which case we state them at cost.

(k) Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(l) Related parties

For the purpose of these financial statements, a party is considered to be related to the Fund if:

- (a) A person, or a close member of that person's family, is related to the Fund if that person:
 - (i) has control or joint control over the Fund;
 - (ii) has significant influence over the Fund; or
 - (iii) is a member of the key management personnel of the Fund or the Fund's parent.
- (b) An entity is related to the Fund if any of the following conditions applies:
 - (i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(m) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Fund. Of these, the following developments are relevant to the Fund's financial statements:

- IFRS 24 (revised 2009), *Related party disclosures*
- Improvements to IFRSs (2010)

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. Taxation

The interest and profits on investments earned by the Fund are not subject to Hong Kong Profits Tax under Section 14 of the Inland Revenue Ordinance.

Notes to the financial statements (cont'd)

For the year ended 31 March 2012

5. Net investment income

	2012 \$'000	2011 \$'000
Interest income from bank deposits	425	248
Interest income on financial assets designated at fair value through profit or loss	45,847	48,807
Realised loss on disposal of equity securities	(39)	(10)
Realised loss on redemption/disposal of debt securities	(4,129)	(2,443)
Gain on revaluation of equity securities	8,954	40,979
Gain on revaluation of debt securities	2,498	1,256
Net investment income	53,556	88,837

6. Levy from SEHK/HKFE

From 1 April 2003, the Fund received a levy chargeable on leviable SEHK transactions and leviable HKFE contracts pursuant to Part 2 and Part 3 of the Securities and Futures (Investor Compensation – Levy) Rules.

After the Securities and Futures (Investor Compensation – Levy) (Amendment) Rules 2005 came into effect on 28 October 2005, a levy suspension and re-instatement mechanism was established whereby the investor compensation levies can be suspended when the net asset value of the Fund exceeds \$1.4 billion, and subsequently reinstated when the net asset value of the Fund falls below \$1 billion. Pursuant to the Securities and Futures (Investor Compensation – Levy) (Amendment) Rules 2005 and the Gazette on 11 November 2005, no person is required to pay any levy to the Fund in respect of a sale and purchase of securities and futures contract with effect from 19 December 2005.

7. ICC expenses

The SFC formed ICC in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the SFO. The Fund is responsible for funding the establishment and operation of ICC. For the year ended 31 March 2012, ICC incurred costs of \$4,442,000 for its operations (2011:\$4,157,000).

Notes to the financial statements (cont'd)

For the year ended 31 March 2012

8. Provision for compensation

	\$'000
Balance as at 1 April 2010	5,656
Less: compensation expenses/(write-backs) during the year ended 31 March 2011	(218)
Less: compensation paid during the year ended 31 March 2011	(5,288)
Balance as at 31 March 2011, 1 April 2011 and 31 March 2012	150

We maintained provision for liabilities arising from claims received resulting from one default case for which ICC has published a notice calling for claims pursuant to Section 3 of the Securities & Futures (Investor Compensation-Claims) Rules. The maximum liability of the Fund to claims for this case is set at \$150,000 per claimant. As at 31 March 2012 all provisions were expected to be paid within one year.

9. Financial assets designated at fair value through profit or loss

	2012 \$'000	2011 \$'000
(a) Debt securities		
(i) Listing status		
Listed – outside Hong Kong at quoted market prices	499,550	535,919
Listed – outside Hong Kong based on valuation techniques	112,595	109,436
Listed – in Hong Kong	167,820	143,605
Unlisted	884,921	819,623
	1,664,886	1,608,583
(ii) Maturity profile		
Within one year	664,820	552,995
After one year but within two years	246,059	443,101
After two years but within five years	607,328	484,958
After five years	146,679	127,529
	1,664,886	1,608,583
(iii) The weighted average effective interest rate of debt securities on 31 March 2012 was 1.9% (2011: 1.7%).		
(b) Pooled fund		
Unlisted	232,304	224,824

The pooled fund comprises mainly listed equity securities.

Notes to the financial statements (cont'd)

For the year ended 31 March 2012

10. Deposits with banks and cash at bank

The effective interest rate on deposits with banks and cash at bank at 31 March 2012 ranged from 0.2% to 0.9% (2011: 0.1% to 0.3%). The balances mature within one year at both 31 March 2012 and 31 March 2011.

11. Contributions from UECF and CECF

Under Sections 74(2) and 75(2) of Schedule 10 of the SFO, the SFC may pay into the Fund such sum of money from the UECF and the CECF as it considers appropriate after 1 April 2003. Up to 31 March 2012, the SFC had \$994,718,000 (2011: \$994,718,000) and \$108,923,000 (2011: \$108,923,000) paid into the Fund from the UECF and the CECF respectively.

The Fund defines "capital" as including contributions from the UECF and the CECF and the accumulated surplus.

12. Material related party transactions

We have related party relationships with the SFC, ICC and the UECF. During the year, there were no significant related party transactions other than those disclosed in the financial statements (refer to notes 7 & 11).

13. Financial risk management and fair values

The financial assets of the Fund mainly comprise debt securities and units in a pooled fund. The underlying investments of the pooled fund mainly comprise equity securities.

The main financial risks of the Fund arise from its investments in debt securities and units in the pooled fund. The SFC appoints external investment managers to manage the Fund's investments and to ensure that the portfolio's investments comply with the Fund's investment policy approved by the SFC which sets control limits on credit risk, market risk, interest rate risk, liquidity risk and foreign currency risk. The external investment managers report thereon to the SFC on a regular basis.

The Fund's exposure to these risks and the financial risk management policies and practices used by the Fund to manage these risks are described below.

Notes to the financial statements (cont'd)

For the year ended 31 March 2012

13. Financial risk management and fair values (cont'd)

(a) Credit risk

The Fund's Investment Policy and Administrative Guidelines (the Policy) only allows the Fund to invest in pooled funds, fixed rate dated securities rated A or above or in bank deposits. The Policy further limits the Fund's exposure to each issuer and each country, except for holdings of US Treasuries, any issuances by Hong Kong Government and specified multilateral agencies rated AAA by Moody's or S&P's and approved pooled funds. The Fund's investment managers are responsible for managing the portfolio and ensuring the portfolio's investments meet the Policy and restrictions and reports thereon on a monthly basis. During the year, the Fund complied with the above Policy and, as a result, was not exposed to significant credit risk. The maximum exposure to credit risk is the carrying value of the assets in the statement of financial position.

(b) Liquidity risk

The Fund's policy is to regularly monitor its liquidity requirement to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

The Fund's interest bearing assets mainly comprise fixed interest rate bearing debt securities and bank deposits. The Fund's bank deposits are exposed to short term bank deposit interest re-pricing risk.

The Fund is subject to the risk that future cash flows of a debt security will fluctuate because of changes in market interest rates. In order to manage the re-pricing risk, the Fund adopts a policy of maintaining duration at no more than 2.5 years within its debt securities portfolio. As at 31 March 2012 the duration was 1.79 years (31 March 2011: 1.82 years).

At 31 March 2012, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Fund's gains on revaluation of debt securities and the accumulated surplus by approximately \$32,407,000 (2011: \$32,492,000). Further, at 31 March 2012, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would increase the Fund's interest income and the accumulated surplus by approximately \$5,221,000 (2011: \$4,398,000). The extent of any decrease in interest rate is expected to be minimal which would decrease the Fund's surplus by an insignificant amount. Other components of the accumulated surplus would not be affected (2011: Nil) by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Fund's accumulated surplus that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Fund which expose the Fund to fair value interest rate risk at the end of the reporting period. The analysis is performed on the same basis for the year ended 31 March 2011.

Notes to the financial statements (cont'd)

For the year ended 31 March 2012

13. Financial risk management and fair values (cont'd)

(d) Foreign currency risk

The Fund's investment policy allows the Fund to have US dollar foreign exchange exposure. As the HK dollar is pegged with the US dollar, the Fund was not exposed to significant foreign exchange risk.

(e) Market risk

The investment activities of the Fund expose it to various types of market risks which are associated with the markets in which it invests, to the extent of the amount invested in debt and equity securities. Such risk will be reflected in the price and the carrying value of the financial assets concerned.

The Fund invests in units of a pooled fund, which mainly comprises listed equity securities, the performance of which is measured against the benchmark index MSCI AC Pacific ex Japan. It is estimated that a general increase/decrease of 24.8% in the benchmark index would increase/decrease the Fund's surplus and the accumulated surplus by approximately \$50,410,000 (2011: a general increase/decrease of 24.9% in the benchmark index would increase/decrease the Fund's surplus and the accumulated surplus by approximately \$48,337,000).

The sensitivity analysis above indicates the instantaneous change in the Fund's accumulated surplus that would arise assuming that the changes in the benchmark index had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Fund which expose the Fund to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Fund's investment in pooled fund would change in accordance with the historical correlation with the relevant benchmark index since the portfolio is diversified in terms of industry distribution and that all other variables remain constant. The analysis is performed on the same basis for 2011.

(f) Fair values of financial instruments

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in IFRS 7, *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2012 and 2011.

Notes to the financial statements (cont'd)

For the year ended 31 March 2012

13. Financial risk management and fair values (cont'd)

(f) Fair values of financial instruments (cont'd)

Where available, the fair value of the debt securities is the quoted market price. The fair value of unlisted debt securities is determined based on quotes from bond market-makers.

The fair value of the investment in the unlisted pooled fund is determined based on the Fund's share in the net assets of the pooled fund as determined by the custodian. The majority of the underlying assets of the pooled fund are listed securities.

Changes in the market conditions could materially affect fair value estimates. Any increase or decrease in the fair values of financial instruments would affect profit or loss in future years.

	2012			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Assets				
Trading securities				
– Listed	651,836	128,129	–	779,965
– Unlisted	99,215	785,706	–	884,921
Pooled fund				
– Unlisted	232,304	–	–	232,304
	983,355	913,835	–	1,897,190

	2011			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Assets				
Trading securities				
– Listed	663,537	125,423	–	788,960
– Unlisted	72,133	747,490	–	819,623
Pooled fund				
– Unlisted	224,824	–	–	224,824
	960,494	872,913	–	1,833,407

During the year there were no significant transfers between financial instruments in Level 1 and Level 2.

Notes to the financial statements (cont'd)

For the year ended 31 March 2012

14. Contingent liabilities

As at the date of this report, in addition to the provision made, as described in note 8, there are other claims received for which currently there is insufficient information to determine the likely level of payment.

The maximum liability in respect of these claims is \$525,000 (2011: \$600,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

15. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2012

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 March 2012 and which have not been adopted in these financial statements.

Effective for
accounting periods
beginning on or after

Amendments to IAS 1,

*Presentation of
financial statements –*

Presentation of items of

other comprehensive income

1 July 2012

IFRS 9, *Financial Instruments*

1 January 2015

The Fund is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.

Unified Exchange Compensation Fund (the Fund)

Report of the Securities Compensation Fund Committee (the Committee)

The members of the Committee present their annual report together with the audited financial statements for the year ended 31 March 2012.

Establishment of the Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Fund. However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. After settlement of all claims against the Fund and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund to the ICF.

Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.

Financial statements

The surplus of the Fund for the financial year ended 31 March 2012 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 106 to 115.

Members of the Committee

The members of the Committee during the year ended 31 March 2012 and up to the date of this report were:

Mr Keith Lui (Chairman)
Mrs Alexa Lam
Mr Chow Ka Ming, Anderson, SC
Mr Lo Wai Keung, David (appointed on 1 April 2011)
Mr Tai Chi Kin (appointed on 1 April 2011)

Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member of the Fund had a material interest, subsisted at the end of the financial year or at any time during the financial year.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Fund is to be proposed at the forthcoming Securities Compensation Fund Committee meeting.

By order of the Committee

Keith Lui
Chairman

22 May 2012

Independent auditor's report to the Securities & Futures Commission (the SFC)

We have audited the financial statements of the Unified Exchange Compensation Fund (the Fund) established under Section 99 of the repealed Hong Kong Securities Ordinance set out on pages 106 to 115, which comprise the statement of financial position as at 31 March 2012 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The SFC's responsibility for the financial statements

The repealed Hong Kong Securities Ordinance (Chapter 333) requires the directors of the SFC to prepare financial statements which give a true and fair view. The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 31 March 2012 and of its surplus and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

22 May 2012

Statement of comprehensive income

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
Income			
Interest income		420	173
Recoveries	5	(1)	1,666
		419	1,839
Expenses			
Auditor's remuneration		43	40
Professional fees		14	13
Sundry expenses		1	1
		58	54
Surplus and total comprehensive income for the year		361	1,785

The notes on pages 110 to 115 form part of these financial statements.

Statement of financial position

At 31 March 2012 (Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
Current assets			
Equity securities received under subrogation		1	1
Interest receivable		103	20
Fixed and call deposits with banks		72,647	71,565
Cash at bank		273	274
		73,024	71,860
Current liabilities			
Creditors and accrued charges	6	10,297	10,294
		10,297	10,294
Net current assets		62,727	61,566
Net assets		62,727	61,566
Representing :			
Compensation fund			
Contributions from SEHK	7	49,500	48,700
Excess transaction levy from SEHK	9	353,787	353,787
Special contribution		3,500	3,500
Additional contribution from SEHK		300,000	300,000
Additional contribution from the SFC		330,000	330,000
Special levy surplus	10	3,002	3,002
Accumulated surplus		17,656	17,295
		1,057,445	1,056,284
Contributions to Investor Compensation Fund	11	(994,718)	(994,718)
		62,727	61,566

Approved and authorized for issue by the Securities Compensation Fund Committee on behalf of the Securities and Futures Commission on 22 May 2012 and signed on its behalf by

Keith Lui
Chairman

Tai Chi Kin
Committee Member

The notes on pages 110 to 115 form part of these financial statements.

Statement of changes in equity

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

	2012 \$'000	2011 \$'000
Compensation Fund balance as at 1 April	61,566	58,681
Net contribution from SEHK	800	1,100
Total comprehensive income for the year	361	1,785
Compensation Fund balance as at 31 March	62,727	61,566

The notes on pages 110 to 115 form part of these financial statements.

Statement of cash flows

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

	2012 \$'000	2011 \$'000
Cash flows from operating activities		
Surplus for the year	361	1,785
Interest income	(420)	(173)
Decrease in equity securities received under subrogation	–	1
Increase/(decrease) in creditors and accrued charges	3	(11)
Net cash (used in)/generated from operating activities	(56)	1,602
Cash flows from investing activities		
Interest received	337	157
Net cash generated from investing activities	337	157
Cash flows from financing activities		
Contributions from SEHK	800	1,100
Net cash generated from financing activities	800	1,100
Net increase in cash and cash equivalents	1,081	2,859
Cash and cash equivalents at beginning of the year	71,839	68,980
Cash and cash equivalents at end of the year	72,920	71,839

Analysis of the balance of cash and cash equivalents:

	2012 \$'000	2011 \$'000
Fixed and call deposits with banks	72,647	71,565
Cash at bank	273	274
	72,920	71,839

Notes to the financial statements

For the year ended 31 March 2012 (Expressed in Hong Kong dollars)

1. Purpose, limitation and principal activity

The Fund provides compensation to investors who suffer a loss due to the default of an exchange participant of the Stock Exchange of Hong Kong Limited (SEHK). Part X of the repealed Securities Ordinance governs its operation.

SEHK receives and determines claims against the Fund. The Securities and Futures Commission (SFC) maintains and invests the money of the Fund and makes payments to claimants. Upon making payment to a claimant, the SFC is subrogated to the claimant's rights against the defaulter.

The repealed Securities Ordinance limits the total compensation amount that may be paid per exchange participant default to \$8 million. If allowed claims exceed the limit, payments are made proportionally to claimants. SEHK, with the approval of the SFC, can decide to exceed the limit if it considers, among other things, that the assets of the Fund so permit. For eight defaults since 1998, SEHK proposed and the SFC approved exceeding the limit via payment of up to \$150,000 per claimant or, if higher, the claimant's proportional share of the \$8 million limit.

If amounts owed to claimants against the Fund exceed the Fund's net assets, the SFC would apportion compensation payments to claimants as provided in the repealed Securities Ordinance. Unpaid claim amounts would be charged against future receipts by the Fund and paid when funds are available.

After the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. After settlement of all claims against the Fund and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund into the ICF. Claims for any defaults occurring after 31 March 2003 should be made against the ICF. If the sum of money in the Fund is not sufficient to meet its liabilities, the SFC shall pay into the Fund from the ICF the appropriate sum of money according to Section 242 of the SFO.

Apart from the above change and Section 112 of the repealed Securities Ordinance, under Section 74 of Schedule 10 of the SFO, Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund.

2. Money constituting the Fund

Before 1 April 2003, SEHK was required to keep deposited with the SFC \$50,000 for each SEHK trading right under the repealed Securities Ordinance. When the SFC makes compensation payments out of the deposits, the SFC may require SEHK to replenish the net amount paid after the SFC has exhausted its subrogated rights against the defaulter. The SFC pays to the SEHK the investment return earned on any remaining deposits net of Fund expenses. During the year, the SFC did not make such payment as the total of the compensation payments exceeded the deposits received from the SEHK (2011: Nil).

SEHK and the SFC have made contributions of their own money to the Fund. The SFC determines to retain investment returns earned on these contributions in the Fund.

Other sources of money for the Fund include: recoveries; SEHK replenishments detailed in note 14; special levy surplus detailed in note 10; and transaction levy received before the SFO became effective from 1 April 2003.

The Fund defines "capital" as including all elements of the Fund less contributions to the ICF and less contributions from SEHK (deposits for transferred trading rights) as disclosed on the face of the statement of financial position.

Notes to the financial statements (cont'd)

For the year ended 31 March 2012

3. Significant accounting policies

(a) Statement of compliance

The Fund prepares its financial statements in accordance with International Financial Reporting Standards (IFRSs) (including applicable International Accounting Standards and Interpretations) issued by the International Accounting Standards Board (IASB). A summary of the significant accounting policies adopted by the Fund is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Fund. Note 3(i) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 15).

(b) Basis of preparation

Under the SFO, the Fund will continue in operation until all claims against it and all its liabilities have been settled. As the Fund will eventually cease operation, we have prepared these financial statements on a break-up basis with assets stated at recoverable amounts. We have not provided for potential future claims and recoveries as these cannot be reliably estimated. We have also not provided in the financial statements for all expenses expected to be incurred subsequent to the end of the reporting period and up to the date operations will cease as these are estimated to be immaterial.

We prepare the financial statements in conformity with IFRSs which requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Recognition of income

(i) Interest income

We record interest income as it accrues using the effective interest method.

(ii) Recoveries

We recognise recoveries pursuant to Section 118 of the repealed Securities Ordinance as income to the Fund and recoveries re-distributed to claimants as expenses. We record recoveries received and re-distributed when and only when we can be virtually certain that the recoveries will be received and paid.

(iii) Replenishments by SEHK

We record replenishments from SEHK pursuant to Section 107 of the repealed Securities Ordinance as income of the Fund on a receipt basis. For the purpose of calculating the amount to be replenished by SEHK, we deem compensation payments up to the amount of \$8 million for each default to be charged to the contribution from SEHK.

Notes to the financial statements (cont'd)

For the year ended 31 March 2012

3. Significant accounting policies (cont'd)

(d) Impairment

(i) Recognition of impairment loss

We review the carrying amounts of the Fund's assets at the end of each reporting period to determine whether there is any objective evidence of impairment. If any such evidence exists, we estimate the asset's recoverable amount. We recognise in the statement of comprehensive income the difference between the asset's carrying amount and the recoverable amount as an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount.

(ii) Calculation of impairment loss

We calculate the recoverable amount of the Fund's receivables by discounting their expected future cash flows to their present value at the original effective interest rate inherent in the asset. We do not discount receivables with a short duration in the calculation of their recoverable amount.

(iii) Reversals of impairment loss

We reverse an impairment loss in respect of an asset in a subsequent period if the circumstances and events that are objectively linked to the write down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. We reverse an impairment loss only to the extent that the asset's carrying amount does not exceed the carrying amount that we would have determined if we had not recognised any impairment loss.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(f) Creditors and accrued charges

We state creditors and accrued charges initially at fair value and thereafter at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(g) Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefit is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(h) Related parties

For the purpose of these financial statements, a party is considered to be related to the Fund if:

- (a) A person, or a close member of that person's family, is related to the Fund if that person:
 - (i) has control or joint control over the Fund;
 - (ii) has significant influence over the Fund; or
 - (iii) is a member of the key management personnel of the Fund or the Fund's parent.
- (b) An entity is related to the Fund if any of the following conditions applies:
 - (i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).

Notes to the financial statements (cont'd)

For the year ended 31 March 2012

3. Significant accounting policies (cont'd)

(h) Related parties (cont'd)

- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(i) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Fund. Of these, the following developments are relevant to the Fund's financial statements:

- IFRS 24 (revised 2009), *Related party disclosures*
- Improvements to IFRSs (2010)

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. Taxation

Section 87 of the Hong Kong Inland Revenue Ordinance exempts the Fund from Hong Kong Profits Tax.

5. Recoveries

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators had advised SFC that shares were allocated to the Fund under its subrogation rights, subject to paying a processing fee to the liquidators. The Fund recognised as recoveries the sale proceeds of shares allocated and the remaining shares at market value as of 31 March 2012 after deducting relevant processing fees and charges for collecting and selling the shares received.

The shares allocated to the Fund under its subrogation rights are classified as designated at fair value through profit and loss securities in accordance with the determination in IAS 39, Financial instruments: Recognition and measurement. According to IFRS 7, Financial instruments: Disclosures, these subrogated shares should be classified as level 1 financial instruments as they all have quoted market price (unadjusted) in an active market for an identical instrument. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in "Recoveries". Dividend income, if any, is also recognised in "Recoveries".

6. Creditors and accrued charges

Creditors and accrued charges comprised mainly compensation payments re-established for those cheque payments that were not cleared over six months from the cheque issuing date and accrued auditor's remuneration.

These liabilities are classified as financial liabilities measured at amortised cost in accordance with the determination in IAS 39 unless the effect of discounting would be immaterial, in which case they are stated at cost. They are due on demand or within one year and are unsecured.

7. Set-off of SEHK deposits and refunds/contributions from SEHK

According to Section 104 of the repealed Securities Ordinance, SEHK contributes to the Fund in respect of each trading right at the rate of \$50,000 per trading right. In the absence of claims or other provisions as set out in Section 106 of the repealed Securities Ordinance, the SFC must refund to SEHK the deposit within six months after the relinquishment. During the year, deposits of \$1,300,000 in respect of 26 new trading rights were received from SEHK.

During the year, the SFC had refunded to SEHK of \$500,000 in respect of the deposit of 10 relinquished trading rights. As at 31 March 2012, there are 6 trading rights in total that have been relinquished but not yet refunded.

Notes to the financial statements (cont'd)

For the year ended 31 March 2012

7. Set-off of SEHK deposits and refunds/contributions from SEHK (cont'd)

The movement of contributions from SEHK during the year was as follows:

	2012 \$'000	2011 \$'000
Balance brought forward	48,700	47,600
Add: 26 new trading rights issued (2011: 34)	1,300	1,700
Less: 10 relinquished trading rights refunded (2011: 12)	(500)	(600)
Balance carried forward	49,500	48,700

8. Contingent liabilities

As at the date of this report, there is no outstanding claim against the Fund.

In relation to the default cases, any excess of recovered amounts (refer to note 5), if any, will be re-distributed to claimants. As the timing of re-distribution and amount of these potential excess amounts are uncertain at the date of this report, we disclose this as a contingent liability.

9. Excess transaction levy from SEHK

SEHK paid these amounts to the Fund from 1992 to 1994 under an agreement with the SFC and the Financial Secretary concerning SEHK's budget and its receipt of transaction levy.

10. Special levy surplus

In November 2000, the former Financial Services Bureau of the HKSAR Government transferred to the Fund \$3,002,000 under the provisions of the Exchanges (Special Levy) Ordinance.

11. Contributions to Investor Compensation Fund

When the SFO and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Under Section 74(2) of Schedule 10 of the SFO, the SFC may after 1 April 2003 pay into the ICF, which came into operation after 1 April 2003, such sum of money from the Fund as it considers appropriate. Total contributions paid into the ICF up to 31 March 2012 amounted to \$994,718,000 (2011: \$994,718,000).

12. Material related party transactions

We have related party relationships with the ICF and the SFC. During the year, there were no significant related party transactions other than those disclosed in the financial statements.

13. Financial risk management

The Fund's interest bearing assets mainly comprise deposits at banks which mature or re-price in the short term, as a result of which the Fund is subject to a limited exposure to interest rate risk due to fluctuations in the prevailing market rates. At 31 March 2012, it is estimated that a general increase/decrease of 100 basis points in the interest rates, with all other variables held constant, would increase/decrease the Fund's surplus and accumulated surplus by approximately \$726,000 (2011: \$716,000). Other components of accumulated surplus would not be affected (2011: Nil) by the changes in interest rates. The exposure to credit and liquidity risks arises in the normal course of the Fund's operation. The Fund is not exposed to any foreign exchange risk as all transactions and balances are denominated in HK dollars.

The Fund's credit risk is primarily attributable to amounts at bank. Management's policy is that bank balances are placed only with licensed banks rated P-1 or A-1 by Moody's or S&P respectively.

The Fund's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

Notes to the financial statements (cont'd)

For the year ended 31 March 2012

14. Replenishments from SEHK

Under Section 107 of the repealed Securities Ordinance, the SFC may require SEHK to replenish the Fund with an amount that is equal to that paid in connection with the satisfaction of the claim (limited to \$8,000,000 per each defaulted case) after the SFC has exhausted all relevant rights of action and other legal remedies against the defaulter.

Up to 31 March 2012, SEHK has replenished \$16,361,000 to the Fund. In compliance with Section 107 of the repealed Securities Ordinance, if no further recoveries were to be collected, the SFC may require SEHK to further replenish \$70,816,000 to the Fund as follows:

	2012 \$'000	2011 \$'000
Compensation paid up to the \$8 million limit as set out in Section 109(3) of the repealed Securities Ordinance	100,738	100,738
Less: Recoveries received for compensation paid up to \$8 million	(29,946)	(29,946)
Add: Recoveries re-distributed to claimants	16,385	16,385
Less: Replenishments from SEHK	(16,361)	(16,361)
Net amount the SFC may request SEHK for replenishment	70,816	70,816

Under Section 74(3) of Schedule 10 of the SFO, the SFC having allowed sufficient funds to meet claims, may reimburse SEHK for the deposits paid by SEHK into the Fund for each trading right. The reimbursement of these SEHK deposits may be set off against further replenishments required from SEHK.

Replenishment from SEHK are not recognised in the statement of financial position given that the Fund is not aware of any need for requesting SEHK for replenishment in the near future.

15. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2012

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 March 2012 and which have not been adopted in these financial statements.

Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income* Effective for accounting periods beginning on or after 1 July 2012

IFRS 9, *Financial Instruments* 1 January 2015

The Fund is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.

Breakdown of SFC activity data

Table 1 Number of investment products authorized

	2011/12	2010/11	2009/10
Unit trusts and mutual funds	1,863	1,944	1,968
Investment-linked assurance schemes	254	248	239
Pooled retirement funds	35	35	34
MPF master trust schemes	39	40	37
MPF pooled investment funds ¹	297	305	296
Others ²	25	22	25
Total	2,513	2,594	2,599

¹ 125 funds included in this category were offered both as retail unit trusts as well as pooled investment funds for MPF purposes.

² Other schemes comprised 16 paper gold schemes and nine REITs.

Table 2 Authorized unit trusts and mutual funds – by type

	Number	%	Total NAV ¹ (US\$ million)	%
Bond	330	19.63	324,078	31.96
Equity	995	59.13	436,280	43.03
Diversified	78	4.70	32,345	3.19
Money market	40	2.38	100,535	9.92
Fund of funds	82	4.88	7,817	0.77
Index	111	6.60	105,118	10.37
Guaranteed	22	1.31	712	0.07
Hedge	6	0.36	704	0.07
Other specialised ²	17	1.01	6,284	0.62
	1,681	100	1,013,873	100
Umbrella structures	182			
No. of authorized funds	1,863			

¹ Net Asset Value as at 31 December 2011.

² Includes Futures and Options Funds, Structured Funds and Funds that invest in financial derivative instruments.

Table 3 Authorized unit trusts and mutual funds – by origin

	Umbrella funds	Sub-funds	Single funds	Total	%	Total NAV ¹ (US\$ million)	%
Hong Kong	56	145	60	261	14.01	33,408	3.30
Luxembourg	54	1,014	2	1,070	57.43	634,092	62.54
Ireland	32	248	2	282	15.14	217,853	21.49
Guernsey	2	1	0	3	0.16	0	0.00
United Kingdom	5	43	5	53	2.84	40,333	3.98
Other Europe	0	0	2	2	0.11	16	0.00
Bermuda	3	16	3	22	1.18	4,528	0.45
British Virgin Islands	1	4	0	5	0.27	23	0.00
Cayman Islands	29	102	26	157	8.43	11,058	1.09
Others	0	0	8	8	0.43	72,562	7.15
No. of authorized funds	182	1,573	108	1,863	100	1,013,873	100

¹ Net Asset Value as at 31 December 2011 (excluding “umbrella funds”).

Table 4 Renminbi bonds: authorization of offer and marketing documents

	2011/12	2010/11	2009/10
Authorizations granted under section 105 of the SFO	0	4 ¹	4
Authorizations granted to register prospectuses under the Companies Ordinance	0	2 ²	3 ³

¹ Include one renminbi bond offering with a retail issue size of RMB4,000 million.

² Two renminbi bond offerings with an aggregate retail issue size of RMB3,000 million.

³ Three renminbi bond offerings with an aggregate retail issue size of RMB5,974 million.

Table 5 Unlisted retail structured products¹: authorization of offer and marketing documents

	2011/12	2010/11	2009/10
Structured products ² authorized	85	N/A	N/A
Authorizations granted under section 105 of the SFO	141	84	24
Authorizations granted to register prospectuses under the Companies Ordinance	0	0	0

¹ Comprises the common structured products such as equity linked investments and equity linked deposits.

² The power for the SFC to authorize structured products under the Securities and Futures Ordinance came into effect on 13 May 2011. The number is on a "one product per key facts statement" basis.

Table 6 Number of Licensees as at 31 March 2012 vs last year

	Corporations		Representatives		Responsible Officers		Total		Change
	2012	2011	2012	2011	2012	2011	2012	2011	
Stock Exchange Participants	453	440	11,618	11,552	1,568	1,486	13,639	13,478	+1%
Futures Exchange Participants	117	117	952	931	150	123	1,219	1,171	+4%
Stock Exchange and Futures Exchange Participants	65	63	3,984	3,447	380	360	4,429	3,870	+14%
Non-Participants	1,205	1,132	15,890	16,074	3,208	2,854	20,303	20,060	+1%
Total	1,840	1,752	32,444	32,004	5,306	4,823	39,590	38,579	+3%

Table 7 New listing applications

	2011/12	2010/11	2009/10
Total listing applications received	191	201	132
Applications for transfer from GEM to Main Board	9	17	6
Listed	102	117	79
Cases lapsed / withdrawn / rejected ¹	35	11	13

¹ As at 31 March 2012.

Table 8 Takeovers activities

	2011/12	2010/11	2009/10
Codes on Takeovers and Mergers and Share Repurchases			
General and partial offers under Takeovers Code	29	29	37
Privatisations	9	6	9
Whitewash waiver applications	31	30	41
Other applications under the Takeovers Code	209	224	254
Off-market and general offer repurchases	2	2	9
Other applications under the Share Repurchases Code	3	13	13
Total	283	304	363
Takeovers Bulletins	4	4	4
Executive Statements			
Sanctions imposed with parties' agreement ¹	2	2	1
Takeovers and Mergers Panel			
Meetings for review of the Takeovers and Share Repurchases Codes	3	1	1
Hearings before the Panel (disciplinary and non-disciplinary)	2	2	3
Statements issued by the Panel ²	2	2	1

¹ Pursuant to section 12.3 of the Introduction to the Codes on Takeovers and Mergers and Share Repurchases.

² Pursuant to section 16.1 of the Introduction to the Codes on Takeovers and Mergers and Share Repurchases.

Table 9 Breaches by licensed corporations noted during inspections

Nature of Breaches	2011/12	2010/11	2009/10
Failure to comply with Financial Resources Rules	13	14	12
Failure to safekeep client securities	9	10	7
Failure to maintain proper books and records	9	6	15
Failure to safekeep client money	18	10	21
Unlicensed dealing and other registration issues	2	2	6
Breach of licensing condition	6	2	1
Breach of requirements of contract notes / statements of account / receipts	17	22	30
Failure to make filing / notification	1	1	1
Breach of margin requirements	2	3	5
Marketing malpractices	1	1	0
Illegal short selling of securities	1	0	2
Dealing malpractices	2	1	2
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission	80	88	132
Breach of Corporate Finance Adviser Code of Conduct	1	10	16
Breach of Fund Manager Code of Conduct	20	24	12
Non-compliance with anti-money laundering guidelines	102	28	6
Breach of other rules and regulations of the Exchanges	5	20	15
Internal control weaknesses	93	121	107
Others	54	39	51
Total	436	402	441

Table 10 Successful prosecutions**Insider dealing¹**

Case	Defendants	Date of conviction	Fine (\$) / Penalty	Investigation costs awarded (\$)
1	LAM Kwong Yu	27.2.2012	50,000 and 5 months' imprisonment suspended for 2 years	107,131

Market manipulation¹

Case	Defendants	Date of conviction	Fine (\$) / Penalty	Investigation costs awarded (\$)
1	LAM Lok Yin	7.6.2011	89,100 and 120 hours' community service	60,007
2	TSOI Bun	30.1.2012	500,000 and 6 months' imprisonment suspended for 2 years and cold shoulder order to prohibit TSOI to trade in futures contracts during Pre-Market Openings for 1 year	45,838
Total: 2 entities			589,100	105,845

Unlicensed activities¹

Case	Activities / Defendants	Date of conviction	Fine (\$)	Investigation costs awarded (\$)
Unlicensed dealing in securities				
1	LAW Look Tend	1.9.2011	10,000	2,701 ²
2	LEUNG Bing Yiu	1.9.2011	25,000	18,909
3	LO Kam Chung	24.11.2011	10,000 and 80 hours' community service	25,652
Unlicensed investment adviser				
4	Billion Global Asset Management Ltd	23.8.2011	10,000	20,002
Issued advertisement relating to carrying on of regulated activities while unlicensed				
5	LAW Look Tend	1.9.2011	12,000	16,208 ²
Total: 5 entities			77,000	83,472

¹ Cases where fines were below \$10,000 are not shown here.

² LAW Look Tend was convicted of the offences of unlicensed dealing and issuing advertisement relating to carrying on of regulated activities while unlicensed in the same hearing. LAW was ordered to pay total investigation costs of \$18,909.

Table 10 Successful prosecutions (cont'd)**Disclosure of interests¹**

Case	Defendants	Date of conviction	Fine (\$)	Investigation costs awarded (\$)
1	CHUI Chuen Shun	4.4.2011	42,000	28,625
2	IU Chung	14.4.2011	40,000	8,642
3	CQS (Hong Kong) Ltd	26.5.2011	12,000	21,931
4	KAN Che Kin Billy Albert	28.7.2011	26,400	16,196
5	TSANG Kwok Man	25.8.2011	25,000	43,701
6	BHL Solar Technology Co. Ltd	28.11.2011	15,000	8,310
7	China Technology Development Group Corporation	28.11.2011	15,000	8,310
8	Li Alan	28.11.2011	30,000	8,310
9	Chong Kin Ngai	22.12.2011	65,000	15,719
10	Lei Shing Hong Investment Ltd	1.3.2012	50,000	31,448
11	Lei Shing Hong Capital Ltd	1.3.2012	25,000	–
12	Lei Shing Hong Ltd	1.3.2012	25,000	–
Total: 12 entities			370,400	191,192

¹ Cases where fines were below \$10,000 are not shown here.

Table 11 Most significant disciplinary action

Item	Company / Name	Date of action	Conduct	Action / SFAT decision
1	HSBC Trinkaus Investment Management Ltd	4.5.2011	Inadequate procedures in relation to distribution of equity linked notes	Reprimanded and fined \$3 million Licence partially suspended for 2 years
2	Core Pacific-Yamaichi International (H.K.) Ltd	12.5.2011	Internal systems and controls in relation to sale of Minibonds, Octave Notes and Constellation Notes	Reprimanded and agreed to repurchase LB-related structured products from eligible customers involving a total value of about \$9.6 million
3	Merrill Lynch (Asia Pacific) Ltd	12.5.2011	Internal control failings in relation to sale of index-linked notes	Reprimanded and fined \$3 million
4	Quam Securities Company Ltd CHIU Chun Kit, Calvin	19.5.2011	Internal control deficiencies in handling Mainland clients' accounts	Reprimanded and fined \$1 million Reprimanded and fined \$300,000
5	TSIEN Pak Cheong, David	14.6.2011	Insider dealing	Banned for 10 years. Decision of SFAT reaffirmed by Court of Appeal
6	Sun Hung Kai Investment Services Ltd	21.6.2011	Failings in relation to sale of LB-related equity-linked notes	Reprimanded and fined \$4.5 million
7	Citibank (Hong Kong) Ltd	8.7.2011	Distribution of market-linked notes and equity-linked notes issued by LB	Citibank agreed to repurchase the LB notes from eligible customers involving a total value of about \$1.06 billion
8	Taifair Securities Ltd KWOK Fai	15.8.2011	Internal control deficiencies and misappropriation of clients' assets	Reprimanded and fined \$400,000 Reprimanded and fined \$100,000
9	LUK Ka Cheung, Steve	23.8.2011	Insider dealing	Banned for 10 years
10	Oasis Management (Hong Kong) LLC Seth Hillel FISCHER	15.9.2011	Trading malpractices	Reprimanded and fined \$7.5 million Reprimanded and fined \$7.5 million

Table 11 Most significant disciplinary action (cont'd)

Item	Company / Name	Date of action	Conduct	Action / SFAT decision
11	TANG Siu Fong	27.9.2011	Misappropriation of clients' accounts	Banned for life
12	Citigroup Global Markets Asia Ltd CHAN Sin Man, Lisa	3.10.2011	Delay in reporting suspected misconduct to SFC and insufficient supervision	Reprimanded and fined \$6 million Licence suspended for 8 months
13	WAN Ten Lok YAN Kwok Ting, Sunny	11.10.2011	Forgery and sponsor failures	Banned for 6 years, following determination by SFAT Banned for 4 years, following determination by SFAT
14	CHAU Shuk Man, Emilie	12.10.2011	Failures to disclose secret account and to avoid conflicts of interests	Banned for 2 years
15	Solomon Independent Financial Advisors Ltd LEUNG Wing Kam, Connie	13.10.2011	Facilitating unlicensed activities	Reprimanded and fined \$1.5 million Licence suspended for 7 months
16	WOO Sai Cheung	28.10.2011	Illegal short selling with secret accounts	Licence suspended for 18 months
17	CHANG Wa Shan	2.11.2011	Insufficient management supervision	Reprimanded and fined \$200,000
18	NG Kar Lun, Paco FONG Wai Lap, Adrian	13.2.2012	Trading overpriced shares in the grey market	Licence revoked and banned for 10 years Banned for 3 years
19	LI Junfeng	1.3.2012	Maintaining secret accounts and misleading the SFC	Licence suspended for 14 months
20	HUI Chi Cheung, Miranda	2.3.2012	Conducting unauthorized trading transactions in clients' accounts	Banned for 10 years
21	Ramesh Kumar Chuharmal SADHWANI	26.3.2012	Operating a fraudulent scheme	Banned for 10 years, following determination by SFAT

Table 12 Other enforcement action

		2011/12	2010/11	2009/10
(1)	No. of s.179 ¹ enquiries commenced	23	17	17
(2)	No. of s.181 ² enquiries commenced (no. of letters sent)	175 (4,034)	160 (4,165)	167 (4,141)
(3)	No. of s.182 ³ directions issued	296	252	269
(4)	No. of show cause letters ⁴ issued	1	0	0
	No. of Section 8 ⁴ directions issued	1	0	1
(5)	No. of cases with search warrants executed	15	22	14
(6)	No. of compliance advice letters issued	240	185	230
(7)	Criminal litigation			
	(a) Insider dealing			
	No. of persons summonsed summarily (summonses laid)	3 (12)	0 (0)	2 (5)
	No. of persons charged on indictment (no. of charges)	0 (0)	0 (0)	0 (0)
	(b) Market manipulation			
	No. of persons summonsed summarily (summonses laid)	3 (10)	9 (76)	8 (44)
	No. of persons charged on indictment (no. of charges)	0 (0)	0 (0)	0 (0)
	(c) Others			
	No. of persons summonsed summarily (summonses laid)	32 (185)	56 (285)	24 (134)
	No. of persons charged on indictment (no. of charges)	0 (0)	0 (0)	0 (0)
(8)	Civil litigation			
	(a) S.213 ⁵ action			
	No. of persons against whom s.213 action is ongoing	41	28	26
	No. of persons against whom s.213 action was completed	3	4	3
	(b) S.214 ⁶ action			
	No. of persons against whom s.214 action is ongoing	16	14	13
	No. of persons against whom s.214 action was completed	9 ⁷	5	12
	(c) Others			
	No. of persons against whom other civil action is ongoing	0	2	1
	No. of persons against whom other civil action was completed	0	2	3

Table 12 Other enforcement action (cont'd)

		2011/12	2010/11	2009/10
(9)	Disciplinary enquiries			
	No. of Notices of Proposed Disciplinary Action ⁸ issued	39	29	59
	No. of Notices of Decision ⁹ issued (including s.201 ¹⁰ agreement)	38	49	78
(10)	SFAT cases			
	No. of ongoing cases	0	7	8
	No. of completed cases	8	13	7

¹ Section 179 of the SFO gives the SFC the power to compel the production of records and documents from persons related to a listed corporation in relation to fraud or other misconduct.

² Section 181 of the SFO gives the SFC the power to require information from intermediaries about trading transactions, including the identity information of the ultimate clients, the particulars and instructions relating to the transactions.

³ Section 182 of the SFO gives the SFC the power to investigate SFO offences, market misconduct, fraud, misfeasance and disciplinary misconduct, etc.

⁴ A Section 8 direction is issued by the SFC pursuant to Section 8 of the Securities and Futures (Stock Market Listing) Rules, directing The Stock Exchange of Hong Kong Ltd (SEHK) to suspend trading in the shares of a listed corporation on grounds that the market is misinformed, disorderly or unfair.

A show cause letter is sent by the SFC to inform a listed corporation that it is minded to exercise its power under Section 8 of the Securities and Futures (Stock Market Listing) Rules to direct the SEHK to suspend trading in the shares of the company, in the absence of a satisfactory explanation.

⁵ Section 213 of the SFO gives the SFC the power to apply to the Court of First Instance (CFI) for an injunction and other orders when there are contraventions of the provisions of the SFO and specified provisions of the Companies Ordinance.

⁶ Section 214 of the SFO gives the SFC the power to apply to the CFI for a range of orders, including disqualification orders against directors, where the business or affairs of a listed corporation is conducted in a manner which is oppressive or unfairly prejudicial to its members.

⁷ Two out of these nine persons appealed against the orders made in 2010. The appeal was heard and the Court of Appeal handed down judgment in May 2011.

⁸ A notice issued by the SFC to regulated persons that it proposes to exercise its disciplinary powers, on grounds that they appear to be guilty of misconduct or not fit and proper.

⁹ A notice that sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

¹⁰ Section 201 of the SFO gives the SFC the power to resolve disciplinary proceedings by agreement when the SFC considers it appropriate to do so in the interest of the investing public or in the public interest.

Table 13 Requests for regulatory co-operation

	2011/12		2010/11		2009/10	
	In	Out	In	Out	In	Out
Enforcement-related requests for assistance	104	104	93	74	88	89
Licensing-related requests for assistance	76	964	86	1,068	144	847

"In" represents requests received, while "out" are requests made.

Table 14 Comparison with overseas regulatory agencies

It is difficult to obtain detailed data, in a consistent format, for sensible comparison of key performance measures with other regulators and this is complicated further by the different mandates which each of these regulators have. Nevertheless, we have set out in this table some key data relating to the size of certain other regulators for the interest of readers.

All foreign currency amounts have been translated into Hong Kong dollars with the exchange rate on 31 March of each of the three years.

	2011/12	2010/11	2009/10
SFC (year ended on 31 March)¹			
Number of staff (at year-end date)	611	544	501
Total expenditure (\$ million)	902	780	730
US Securities and Exchange Commission (SEC) (year ended on 30 September)²			
Number of staff (at year-end date)	3,946 ⁵	3,844 ⁶	3,748
Total expenditure (\$ million)	10,557 ⁵	9,434 ⁶	8,553
UK Financial Services Authority (FSA) (year ended on 31 March)³			
Number of staff (at year-end date)	4,000 ⁷	3,337 ⁸	3,150
Total expenditure (\$ million)	6,464 ⁷	5,977 ⁸	5,014
Australian Securities & Investment Commission (ASIC) (year ended on 30 June)⁴			
Number of staff (at year-end date)	Data not available	1,893	1,932
Total expenditure (\$ million)	Data not available	3,106	2,756

¹ The SFC is an independent non-governmental statutory body funded mainly by a market levy and is responsible for regulating the securities and futures markets in Hong Kong.

² The US SEC is an independent, non-partisan, quasi-judicial regulatory government agency with responsibility for administering the federal securities laws.

³ The FSA is an independent non-governmental body funded by the firms it regulates. It has been given statutory powers to regulate the financial services in the UK including authorization and regulation of deposit taking, insurance, mortgage lending, general insurance advice, mortgage advice and investment business.

⁴ The ASIC is an independent Commonwealth government body which enforces and regulates company and financial services laws to protect consumers, investors and creditors.

⁵ Budget figures extracted from FY2013 Congressional Justification.

⁶ Actual figures extracted from FY2013 Congressional Justification.

⁷ Budget figures extracted from FSA Business Plan 2011/2012.

⁸ Actual figures extracted from FSA Annual Report 2010/11.

Table 15 Statistical information and financial position of the Hong Kong securities industry¹

	As at 31.12.2011	As at 31.12.2010	As at 31.12.2009
Total number of securities dealers & securities margin financiers	856	831	769
Total number of active cash clients ²	1,042,151	1,113,657	957,651
Total number of active margin clients ²	135,201	132,101	138,772
Total number of active clients (-5%)	1,177,352	1,245,758	1,096,423
Balance sheet	(\$ million)	(\$ million)	(\$ million)
Cash in hand and at bank ³	294,981	292,827	276,962
Amounts receivable from margin clients ⁴	50,171	58,468	40,160
Amounts receivable from clients and other dealers arising from dealing in securities	99,286	138,422	120,754
Proprietary positions	114,284	173,873	143,467
Other assets	142,096	147,754	137,182
Total assets (-14%)	700,818	811,344	718,525
Amounts payable to clients and other dealers arising from dealing in securities	252,342	287,645	263,372
Total borrowings from financial institutions	61,430	71,558	48,572
Short positions held for own account	62,492	107,211	36,891
Other liabilities	96,764	126,899	177,965
Total shareholders' funds	227,790	218,031	191,725
Total liabilities and shareholders' funds (-14%)	700,818	811,344	718,525

Remarks:

¹ Data were extracted from the monthly Financial Returns submitted in accordance with the Securities and Futures (Financial Resources) Rules by licensed corporations licensed for dealing in securities or securities margin financing. Figures reported by an overseas incorporated licensed corporation that carries out its principal business activities outside Hong Kong and operates in Hong Kong as a branch office were excluded from these computations.

² Active clients are clients for whom the licensed corporation is required to prepare and deliver monthly statements of account in respect of the relevant reporting month in accordance with the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.

³ Cash in hand and at bank includes trust monies held on behalf of clients totalled \$115,368 million (31.12.2010: \$119,475 million).

⁴ Average collateral coverage represents the number of times the aggregate market value of securities collateral deposited by margin clients over the total amount of margin loan due from these clients on a given date on an industry-wide basis:

As at 31.12.2011	As at 31.12.2010
3.9	4.7

Table 15 Statistical information and financial position of the Hong Kong securities industry¹ (cont'd)

	12 months to 31.12.2011	12 months to 31.12.2010	12 months to 31.12.2009
Profit and loss	(\$ million)	(\$ million)	(\$ million)
Total value of transactions ⁵	57,159,686	54,372,754	46,347,239
Net securities commission income	25,953	31,079	31,676
Gross interest income	6,399	5,280	3,979
Other income ⁶	77,524	82,365	62,841
Total operating income (-7%)	109,876	118,724	98,496
Total overheads and interest expense	103,764	102,224	90,164
Total operating profit (-63%)	6,112	16,500	8,332
Net profit on proprietary trading	3,671	10,606	12,905
Net profit for the period (-64%)	9,783	27,106	21,237

⁵ The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

⁶ Other income comprises fund management fee income, corporate finance income, inter-company management fee income and others.

Table 16 Stock market

	2011/12	2010/11	2009/10
Number of listed companies on the Stock Exchange	1,510	1,426	1,332
Main Board	1,337	1,258	1,158
Growth Enterprise Market	173	168	174
Market capitalisation (\$ billion)	19,775.3	21,396.9	18,055.6
Main Board	19,690.7	21,259.1	17,920.9
Growth Enterprise Market	84.6	137.8	134.7
Average daily market turnover (\$ million)	66,543.1	71,862.9	67,138.1
Main Board	66,328.5	71,363.8	66,725.6
Growth Enterprise Market	214.6	499.1	412.5

Committees, panels and tribunal

A number of committees and panels have been set up to advise the SFC on various matters and perform other functions as set out in their terms of reference. This section outlines the work of these committees and panels and provides a membership list by type in alphabetical order. For information on the **Audit Committee, Remuneration Committee, Budget Committee** and **Executive Committee**, please see our discussion in the Corporate Governance chapter.

SFC committees

Academic and Accreditation Advisory Committee

Approves industry-based courses and examinations for the purpose of meeting the licensing competence requirements, endorses applications from professional bodies and tertiary institutions as recognised institutions for providing continuous professional training, advises the SFC on areas to study in the context of enhancing Hong Kong's position as an international financial centre and provides input for the development of industry-related courses and training programmes.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Chairman

TISDALL Stephen Clifford

Members

Prof CHAN Chi Fai, Andrew, SBS, JP	PICKERELL Blair Chilton
ESPINA Anthony	SHEK Chi Fai, Derek
Prof LAU Hing Ling, Amy	SO Yuk Sing, Christine
Prof LUI Ting Ming, Francis	VAS CHAU Lai Kun, Judy
Dr MAK Sui Choi, Billy	

Secretary

YUEN Ho Duen, Judith

No. of meetings: 0

Average attendance rate: N/A

Advisory Committee

Advises the Commission on any matter of policy regarding the performance of its functions.

Chairman

FONG Ching, Eddy, GBS, JP

Members

ALDER Ashley Ian (from 1.10.2011)	LEUNG Margaret, JP
CHAN Henry (to 31.5.2011)	LI Brian David Man-bun (from 1.6.2011)
CHEONG, Ying Chew Henry	Dr LIN Yong
CHEUNG Katherine Marn-kay (from 1.6.2011)	LO Peter Chi-wai (from 1.6.2011)
CHEW Fook-aun	TSANG Frederick Sui-cheong (from 1.6.2011)
DICKENS, Mark Francis, JP	WHEATLEY Martin, JP (to 8.6.2011)
EU Andrew Douglas	WONG Anna Wai-kwan (from 1.6.2011)
FU Yu Ning (to 31.5.2011)	WONG Kwai-lam (to 31.5.2011)
Dr HU Zulu, Fred (to 31.5.2011)	WONG Shou Yeh, David (to 31.5.2011)
LAM CHEUNG, Alexa, JP	WU Thomas Jefferson

No. of meetings: 4

Average attendance rate: 81.4%

Committee on Real Estate Investment Trusts

Advises the Commission on general policy matters or regulatory issues that are related to the Code on Real Estate Investment Trusts (REITs), the overall market development of REITs, the property or securities market or investment management in Hong Kong or elsewhere, professional practices or guidelines that are involved in the operation of REITs, and fund investment or management in general.

During the year, the Committee met once to discuss policy issues in relation to REITs.

Chairman

LAM CHEUNG, Alexa, JP

Members

CHENG Wai Meng, Milton	LAW Shing Mui, Alice
Prof CHENG Yu Shek, Joseph, JP	LEUNG Kar Cheung, Catherine
Dr CH' IEN Kuo Fung, Raymond	LIM Chai Geok
CHOI Fung Yee, Christina	LUI Yin Tat
FOK Glenn	LYNN Sui Yuen, Robert
HO Yin Tung, Brian	MAGUIRE John Martin
KONG YAO FAH Sew Youne	NIGHTINGALE Anthony John Liddell
Dr KWOK Chi Piu, Bill	Prof PANG Tsan Wing, SBS

Secretary

CHAN DUEN, Grace

No. of meetings: 1

Average attendance rate: 76.9%

Disciplinary Chair Committee

Members are nominated by the Nominations Committee on the basis that they are duly experienced and legally qualified persons. Their role is to act as Chairman of the Takeovers and Mergers Panel in disciplinary proceedings under the Codes on Takeovers and Mergers and Share Repurchases (Codes) or of the Takeovers Appeal Committee on a case-by-case basis.

During the year, there were no disciplinary proceedings under the Codes nor meetings of the Takeovers Appeal Committee involving members of this Committee.

Members

CHAN Kin Keung, Anthony, SC	LI Gladys Veronica, SC
CHAN King Sang, Edward, SC	NG Kar Fai, Peter, SC
HO Ambrose, SC	WONG Yuk Lun, Horace, SC

No. of meetings: 0

Average attendance rate: N/A

Investor Compensation Fund Committee

Administers the Investor Compensation Fund and regulates its procedures in accordance with Part XII of the Securities and Futures Ordinance.

During the year, the Committee met once to consider the financial statements of the Fund and dealt with other administrative matters.

Chairman

LUI Kei Kwong, Keith

Members

CHOW Ka Ming, Anderson, SC LAM CHEUNG, Alexa, JP TAI Chi Kin (from 1.4.2011)

No. of meetings: 1

Average attendance rate: 100%

Investor Education Advisory Committee

Provides ideas and support to the SFC in setting its investor education targets.

In the past year, the Committee met once to review the SFC's investor education work for the first six months of fiscal 2011 and share insights into areas that the SFC should focus on.

Chairman

WAN Chi Yiu, Andrew

Members

CHAN King Cheung	Dr MAK Sui Choi, Billy
CHIU Lai Kuen, Susanna	PAN San Kong, Terry
CHOW Ka Leung, Louis	SIN Tak Wah
LECKIE Stuart Hamilton, OBE, JP	TAI Chi Kin
LEE Kam Wing, Bruno	WONG Wan Ming, Rosa
LEE Yiu Wing	

Alternate Members

CHEUNG Marn-kay, Katherine (to 11.10.2011)	LO Wai Keung, David
LAM Po Yee (from 27.10.2011)	TAM Sau Ngor, Vera

Secretary and Ex officio

LAI, Ivy Wan Ying

No. of meetings: 1

Average attendance rate: 85%

Nominations Committee

Nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee.

During the year, the Nominations Committee met once to consider the appointment and reappointment of members to the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee.

Ex officio Members

ALDER Ashley Ian (Chairman) (from 1.10.2011)	HO Yin Tung, Brian
CLARK Stephen Edward	WHEATLEY Martin, JP (Chairman) (to 8.6.2011)

Members

CHOW Ka Ming, Anderson, SC	Dr FONG Ching, Eddy, GBS, JP
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Alternate members to CLARK Stephen Edward

GRAHAM David	LIU Chee Ming
KO, Teresa Yuk Yin, JP	MAGUIRE John Martin

No. of meetings: 1

Average attendance rate: 80%

Products Advisory Committee

The Committee may be consulted by the SFC on a wide range of matters relating to the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products, the SFC Code on MPF Products and the Code on Pooled Retirement Funds, overall market environment, industry practices and novel product features. Members' term of appointment is from the Committee's establishment on 10 August 2010 to 31 March 2012.

During the year, the Committee held a sub-group meeting to discuss new renminbi products in Hong Kong.

Chairman

LAM CHEUNG, Alexa, JP

Members

Dr AU King Lun, MH	LEE Mun Nang (from 29.4.2011 to 31.3.2012)
Prof CHAN Kalok	Prof LIU Pak-wai, SBS, JP
CHAN King Cheung, BBS	LUK Kin Yu, Peter
CHING Kerry Kim Wai (from 28.11.2011 to 31.3.2012)	MAHOMED Ferheen
CHOI Fung Yee, Christina	MAK Tat Cheung
CHOW Ka Leung, Louis	MASSEY LI Susan Hong
FUNG Hau Chung, Andrew	McSHANE Darren Mark
FUNG Ka Shing, Bernard	MURRAY Alastair Elliot
GOOD Nicholas Michael Whateley	NORONHA Virginia
HEUNG Shu Fai	NOYES Keith Samuel
HON Wai Ming, Angel	PICKERELL Blair Chilton
HSU David	RICHARDSON David Alexander
KWAN Sau Ha	SHIU Barbara
LAU Ka Shi, Betsy	TSANG Jacob Chung
LAW Shing Mui, Alice	WONG Wan Ming, Rosa
LEE Chi Kee, Trevor (from 28.11.2011 to 31.3.2012)	YIP Chi Leung
LEE Kevin	

Secretary

POON Wing Yee, Loreen

No. of meetings: 1

Average attendance rate: 80%

Public Shareholders Group

Advises on issues relating to shareholders' rights and interests.

During the year, the Group met four times and discussed a number of issues, including the listing of overseas companies, the Securities and Futures (Amendment) Bill 2011 regarding the Proposed Statutory Codification of Certain Requirements to Disclose Price Sensitive Information by Listed Corporations, the Hong Kong Institute of Chartered Public Accountants's proposals to modernise Hong Kong accountants' report regime, trading halt policy and rights issues.

Chairman

HO Yin Tung, Brian

Members

BROWN Melissa	PHADNIS Dhananjay
CHAN Chi Keung, Raymond	PULLING Edward
KWOK Lam Kwong, Larry, BBS, JP	SHAH Asit Sudhir
MUH Anthony Yi Tong	Prof SO Raymond
NGAN Wai Wah	YE Xiang

No. of meetings: 4

Average attendance rate: 59%

Securities Compensation Fund Committee

Administers the Unified Exchange Compensation Fund and regulates its procedures in accordance with Part X of the repealed Securities Ordinance which, under section 74 of Schedule 10 to the Securities and Futures Ordinance, continues to apply to and in relation to any claim for compensation from the Fund made before 1 April 2003.

During the year, the Committee met once to consider the financial statements of the Fund and dealt with other administrative matters.

Chairman

LUI Kei Kwong, Keith

Members

CHOW Ka Ming, Anderson, SC	LO Wai Keung, David (from 1.4.2011)
LAM CHEUNG, Alexa, JP	TAI Chi Kin (from 1.4.2011)

No. of meetings: 1

Average attendance rate: 100%

SFC Dual Filing Advisory Group

Advises on treatment of cases and policy issues under the dual filing regime.

During the year, there were no circumstances that called for the convening of a meeting of the Group.

Members

BROWN Stephen James	IP Koon Wing, Ernest
CHAN Yuk Sing, Freeman	KERR William Walter Raleigh
CHOW Siu Lui	LEE Carmelo Ka Sze
CLARK Stephen John	LEE Raymond
FONG Chi Wai, Alex	NESBITT Gavin Paul
HOWE Christopher John	YEUNG Eirene

No. of meetings: 0

Average attendance rate: N/A

SFC (HKEC Listing) Committee

Exercises powers and functions equivalent to those of the Main Board and GEM Listing Committees of The Stock Exchange of Hong Kong Ltd (SEHK) when actual or potential conflicts arise between the interests of Hong Kong Exchanges and Clearing Ltd and those of the proper performance of SEHK's listing functions. In such cases, the relevant SEHK functions may be exercised by the SFC.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Chairman

Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting

Members

ALDER Ashley Ian	STEWART Mark Robert
KEYES Terence Francois	TISDALL Stephen Clifford
KO, Teresa Yuk Yin, JP (to 31.3.2012)	TSOI Tong Hoo, Tony
LAM CHEUNG, Alexa, JP	WONG Tin Yau, Kelvin, DBA, FHKIoD
LUI Kei Kwong, Keith	YOUNG Andrew John (from 1.4.2011)
PHENIX Paul Anthony (from 1.4.2011)	

No. of meetings: 0

Average attendance rate: N/A

SFC (HKEC Listing) Appeals Committee

Exercises powers and functions equivalent to those of The Stock Exchange of Hong Kong Ltd's (SEHK) Listing Appeals Committee when actual or potential conflicts arise between the interests of the Hong Kong Exchanges and Clearing Ltd and those of the proper performance of SEHK's listing functions. In such cases, the relevant powers and functions may be exercised by the SFC.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Chairman

Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting

Members

The Hon CHAN Kam-lam, SBS, JP
 Prof Leonard K CHENG, JP
 CHOW Ka Ming, Anderson, SC
 Dr FONG Ching, Eddy, GBS, JP

LEE Pui Ling, Angelina, SBS, JP
 LEE Lawrence, JP
 TONG Carlson, JP
 WONG Kai-man, BBS, JP

No. of meetings: 0

Average attendance rate: N/A

Share Registrars' Disciplinary Committee

Hears and determines disciplinary matters relating to share registrars in the first instance.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Chairman

LIU Swee Long, Michael

Deputy Chairman

CHARLTON Julia Frances

Members

CHIONG Chung Seng, Desmond
 FONG Loong Choon, Julian
 LIU Yun Bonn (from 1.4.2011)
 NESBITT Gavin Paul
 NG Wai Sum, Sam

NORRIS Nicholas Andrew
 RICHARDSON David Alexander
 SHAFTESLEY Colin
 TANG Yuen Shun, Cynthia
 WONG Shiu Hoi, Peter

No. of meetings: 0

Average attendance rate: N/A

Share Registrars' Disciplinary Appeals Committee

Hears and determines appeals from the Share Registrars' Disciplinary Committee. Members of the Share Registrars' Disciplinary Appeals Committee for the hearing of each appeal case brought before it consists of members of the Share Registrars' Disciplinary Committee who did not preside or participate in the disciplinary hearing of that case.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Takeovers and Mergers Panel

Hears disciplinary matters in the first instance and reviews rulings by the Executive at the request of any party dissatisfied with such a ruling. Considers novel, important or difficult cases referred to it by the Executive. Reviews, upon request by the SFC, the provisions of the Codes on Takeovers and Mergers and Share Repurchases (Codes) and the Rules of Procedure (Rules) for hearings under the Codes and recommends appropriate amendments to the Codes and Rules to the SFC.

During the year, the Panel met three times to consider various policy issues under the Codes and twice to rule on matters relating to the application of the Codes.

Chairman

CLARK Stephen Edward

Deputy Chairmen

GRAHAM David

KO, Teresa Yuk Yin, JP

LIU Chee Ming

MAGUIRE John Martin

Members

CHAN Yuk Sing, Freeman

CHARLTON Julia Frances

DENNY Roger Michael

DESAI Kalpana

IP Koon Wing, Ernest

KWOK Tun Ho, Chester

LAM Sung Lai, Edward

LEE Pui Ling, Angelina, SBS, JP

LIU Che Ning

LIU Swee Long, Michael

LIU Yun Bonn

LO Kin Ching, Joseph

LUNG Hak Kau

MA, Ka Ming, Teresa

NESBITT Gavin Paul

NORRIS Nicholas Andrew

RODGERS Daniel James

SABINE Martin Nevil

SWIFT, Christopher Lee

TAN Siew Boi, May

TORTOISHELL Andrew

VAS CHAU Lai Kun, Judy

WEBB David Michael

WINTER Richard David

YEH V-Nee

YU Ka Po, Benita

No. of policy meetings: 3

Average attendance rate: 56%

No. of transaction-related meetings: 2

Average attendance rate: N/A

Takeovers Appeal Committee

Reviews disciplinary rulings of the Takeovers and Mergers Panel at the request of an aggrieved party for the sole purpose of determining whether any sanction imposed by the Panel is unfair or excessive.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Members

CHAN Yuk Sing, Freeman	LIU Che Ning	SABINE Martin Nevil
CHARLTON Julia Frances	LIU Chee Ming	SWIFT, Christopher Lee
CLARK Stephen Edward	LIU Swee Long, Michael	TAN Siew Boi, May
DENNY Roger Michael	LIU Yun Bonn	TORTOISHELL Andrew
DESAI Kalpana	LO Kin Ching, Joseph	VAS CHAU Lai Kun, Judy
GRAHAM David	LUNG Hak Kau	WEBB David Michael
IP Koon Wing, Ernest	MA, Ka Ming, Teresa	WINTER Richard David
KO, Teresa Yuk Yin, JP	MAGUIRE John Martin	YEH V-Nee
KWOK Tun Ho, Chester	NESBITT Gavin Paul	YU Ka Po, Benita
LAM Sung Lai, Edward	NORRIS Nicholas Andrew	
LEE Pui Ling, Angelina, SBS, JP	RODGERS Daniel James	

No. of meetings: 0

Average attendance rate: N/A

Independent panels and tribunal

Arbitration Panel under Securities and Futures (Leveraged Foreign Exchange Trading) Arbitration Rules

Resolves disputes in accordance with the Securities and Futures (Leveraged Foreign Exchange Trading) (Arbitration) Rules.

During the year, no new cases were received and there was no outstanding case as at 31 March 2012.

Chairman

CHAN Siu Chung, Justin

Deputy Chairman

LAM Yuk Kun, Lawrence

Members

CHAN Kang Muk, Woody	LAU Cheuk Hang, Philip	LEE Pui Shan, Rosita
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Process Review Panel for the Securities and Futures Commission

Reviews and advises the SFC upon the adequacy of the SFC's internal procedures and operational guidelines governing the action taken and operational decisions made by the SFC and its staff in the performance of its regulatory functions, including the receipt and handling of complaints, licensing and inspection of intermediaries, and disciplinary action.

Chairman

CHOW Wing Kin, Anthony, SBS, JP

Members

CHIU Chi Cheong, Clifton

CHOW Yuen Yee

Dr FONG Ching, Eddy, GBS, JP

FUNG Hau Chung, Andrew, JP

Prof HO Yan Ki, Richard

LAI Ying Sie, Benedict, SBS, JP

Dr LAM Kit Lan, Cynthia

LEE Jor Hung, Dannis, BBS

Dr the Honourable LEUNG Mei Fun, Priscilla, JP

LIU Che Ning

SUN Tak Kei, David, BBS, JP

Securities and Futures Appeals Tribunal

Reviews a range of regulatory decisions made under the Securities and Futures Ordinance by the SFC and to determine any question or issue arising out of or in connection with any review.

Chairmen

The Hon Mr Justice HARTMANN Michael John, Justice of Appeal of the Court of Appeal of the High Court (from 1.1.2012)

The Hon Mr Justice SAUNDERS John Lonsdale, SBS, Judge of the Court of First Instance of the High Court (to 31.12.2011)

STUART-MOORE Michael, GBS (from 1.1.2012)

The Hon Mr Justice WRIGHT Alan Raymond, Judge of the Court of First Instance of the High Court (from 1.1.2012)

Members

CHAN Kam Wing, Clement

CHAN Yuen Fan, Florence

Prof CHANG Chieh, Eric

CHEONG Ying Chew, Henry

CHIN Vincent

CHIU Lai Kuen, Susanna

CHU Koh Ann

CHUI Yik Chiu, Vincent

Dr HU Zhanghong

KWAN Pak Chung, Edward

KWOK Lam Kwong, Larry, BBS, JP

KWOK Pui Fong, Miranda

Dr LAM Kit Lan, Cynthia

LAM Sze Cay, Kevin

LIM Wai Tin, Cynthia

LIN C, James

LIU Swee Long, Michael

Prof LOW Chee Keong

MURRAY Alastair

TANG Yuen Shun, Cynthia

TSAI Wing Chung, Philip

TSANG Sui Cheong, Frederick

WONG Wai Kwan, Anna

WONG Yuen Fai, Stanley, JP

YUNG Wen Yee, Wendy

Abbreviations

Australian Securities and Investments Commission	ASIC
Automated trading service	ATS
Chief Executive, HKSAR	CE
Chief Executive Officer, SFC	CEO
China Securities Regulatory Commission	CSRC
Collective investment schemes	CISs
Committee on Payment and Settlement Systems	CPSS
Coordination Framework for Implementation Monitoring	CFIM
Corporate social responsibility	CSR
Court of Appeal	CA
Court of First Instance	CFI
Credit rating agencies	CRAAs
Dual-Tranche-Dual-Counter	DTDC
Electronic Financial Return System	e-FRR
European Securities and Markets Authority	ESMA
European Union	EU
Exchange-traded fund	ETF
Executive Committee, SFC	ExCo
Executive Directors, SFC	EDs
Financial Dispute Resolution Centre Ltd	FDRC
Financial Secretary	FS
Financial Services Authority	FSA
Financial Stability Board	FSB
Group of Twenty	G-20
Hong Kong Exchanges and Clearing Ltd	HKEx
Hong Kong Monetary Authority	HKMA
Hong Kong Society of Financial Analysts	HKSFA
Hong Kong Special Administrative Region	HKSAR
Initial public offering	IPO
Insurance Authority	IA
International Organization of Securities Commissions	IOSCO
Investor Compensation Co, Ltd	ICC
Legislative Council	LegCo
Lehman Brothers	LB
Mandatory Provident Fund Schemes Authority	MPFA
Market Misconduct Tribunal	MMT
Memoranda of understanding	MOU
Non-executive directors, SFC	NEDs
Over-the-counter	OTC
Product Key Facts Statement	KFS
Real Estate Investment Trusts	REITs
Renminbi Qualified Foreign Institutional Investor	RQFII
Securities and Exchange Commission	SEC
Securities and Futures Appeals Tribunal	SFAT
Securities and Futures Ordinance	SFO
Standing Committee on Standards Implementation	SCSI
Systematically important financial institutions	SIFIs
The Open University of Hong Kong	Ouhk
The Stock Exchange of Hong Kong Ltd	SEHK
Trade repositories	TRs

Publisher Information

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8 Connaught Road Central
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