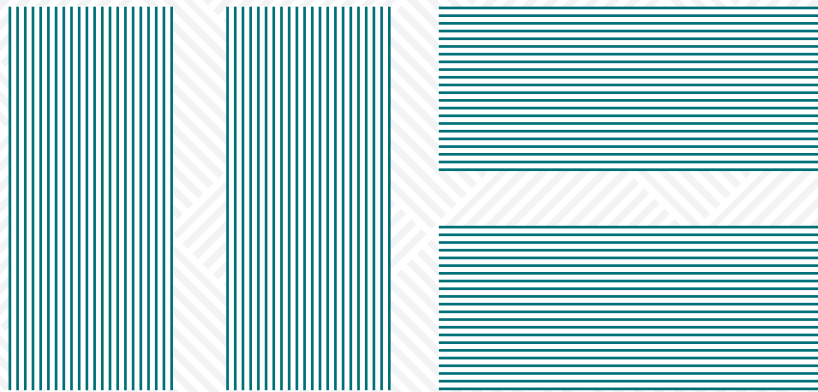




SECURITIES AND
FUTURES COMMISSION

證券及期貨事務監察委員會



Regulation for Quality Markets

Annual Report 2016-17

Our logo

The SFC logo symbolises our mission of creating a fair and level playing field. Lines between the blocks form the Chinese character “正”, which means fairness and justice. The square signifies a solid legal framework and the parallel bars represent equal treatment.

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Message from Chairman and CEO

There can be no doubt that change is a permanent feature of our markets. Innovation, new business models and cross-boundary market connectivity present significant opportunities for Hong Kong, but they also bring risks which must be managed. As global markets become more competitive and complex, we maintain a tight focus on the advancement of Hong Kong's position as a leading international financial centre.

New regulatory approach

The challenges ahead will cut across all of our regulatory functions. To address them, we have adopted a "One SFC" approach and introduced organisational changes which deploy our existing resources and expertise more effectively. The operating divisions responsible for enforcement, intermediaries and listing matters were reorganised, while cross-divisional working groups were set up to tackle more serious market problems. This more specialised, collaborative and multi-disciplinary approach allows us to deliver fast and responsive regulation.

Earlier, more targeted intervention helps minimise damage to our markets and irreparable harm to affected investors. We pay particular attention to those problems which pose the most significant or systemic risks. By focusing on the greatest threats we achieve better regulatory outcomes, and this provides the impetus for better market behaviour.

Furthermore, we have been transparent about signalling our actions and intentions to the market as early as possible. This front-loaded, "real-time" regulatory approach is already making an impact in listing-related matters and in intermediary supervision.

Investor protection is always a vital part of our mission. It is essential for Hong Kong's future success that retail and institutional investors – both local and international – have confidence in a robust regulatory framework which delivers undoubted accountability, efficiency and transparency.



Carlson Tong
Chairman

“
We adopt a "One SFC" approach and introduce organisational changes to deploy our resources and expertise more effectively.”

Facilitating market development

Our broader objectives include encouraging a more diverse listed market trading on fundamentals and establishing Hong Kong as the premier asset management hub in Asia. In pursuing them, we strive to combine sound regulation with the development of new products and platforms and the pursuit of reciprocal overseas market access.

To give Hong Kong retail and institutional investors more options, we are fostering the expansion of a mix of wholesale and retail intermediaries and platforms to provide a wider range of more affordable retail investment products as well as to service increasingly diversified cross-boundary capital flows. A related aim is to ensure that Hong Kong offers hedging and

Message from Chairman and CEO



Ashley Alder
CEO

“
We strive to combine sound regulation with the development of new products and platforms and the pursuit of overseas market access.”

other derivative products, whether exchange-traded or over-the-counter, which meet the needs of global and Mainland institutional capital to manage evolving Mainland and other risks.

Anchoring Hong Kong as a competitive international equity fund raising centre is a top priority. Last year, the public took a keen interest in our joint consultation with Hong Kong Exchanges and Clearing Limited on listing reform. A common objective should be a more vibrant market, targeting a more diverse range of quality listings, with more participation from local and international investors.

The launch of Shenzhen-Hong Kong Stock Connect in December 2016 further enhanced Hong Kong's role as a gateway for investors to access Mainland markets

and to manage Mainland exposures. The regulatory basis for these developments hinges on cross-boundary supervisory and enforcement cooperation. The type and intensity of reciprocal cooperation with the China Securities Regulatory Commission has been transformed over the past three years and we will continue to build on this progress.

Our influence in the international regulatory community, in particular through the chairmanship of the Board of the International Organization of Securities Commissions, has contributed to Hong Kong's reputation as a key influencer of global regulatory benchmarks.

In our day-to-day work, prudent resource allocation and robust financial controls enable us to effectively deliver on our statutory objectives and operational priorities. We also remain committed to corporate social responsibility efforts which centre on the impact our work has on the community and the environment.

A foundation for the future

In the years to come, effective regulation and strong ties with other regulators, particularly on the Mainland, will remain essential for healthy and sustainable market development. The strategic priorities set out in the following pages detail the ways in which we now use the full range of our powers to achieve our statutory objectives and provide a sound basis for market development.

We are confident that we are well placed for the challenges ahead and for this we would like to thank the Board and our staff for their dedication, hard work and support.

Carlson Tong
Chairman

Ashley Alder
CEO

Strategic Priorities

As a statutory regulator, we have the duty to keep in mind the need to maintain Hong Kong's status as a competitive international financial centre. Pre-eminently, this involves promoting high-quality markets. Our most pressing need is to keep ahead of and facilitate the rapid changes which are affecting the financial industry, whether this is about technological transformation or greater cross-boundary market connectivity between the Hong Kong and mainland China markets.

Managing these changes is particularly important in view of Hong Kong's developing role enabling international capital to interact with Mainland opportunities and Mainland capital to be matched with opportunities overseas. Despite recent attention paid to capital flows and currency stability, it is clear that over the past decade the pace of Mainland market opening-up and liberalisation has accelerated.

Meanwhile, the size and composition of two-way capital flows and the financial services activities positioned around them have changed significantly. In Hong Kong, Mainland investors have joined international institutional and local retail investors in the markets, while local and international firms have been joined by Mainland firms. Mainland firms now account for a significant share of our initial public offering (IPO) sponsor business and margin loans. Their growing presence means that the Mainland has overtaken the United States as the source of the largest number of shareholder groups controlling our licensed corporations.

Future market development initiatives to advance Hong Kong's position as an international financial centre and our approach to regulation are two interlinked aims. Both must be responsive to rapid developments in our own market and around the world, while at the same time ensuring we are on top of any attendant risks. Inevitably, when a key selling point for Hong Kong is that its legal and regulatory system engenders confidence, then more effective, responsive regulation is a necessary pre-condition for market development.

A new approach to regulation

As the markets we regulate become more complex, global and interconnected, the challenges we face increasingly cut across all of our regulatory functions. To address them, we have adopted a "One SFC" approach to combine and deploy the full range of our regulatory tools to achieve our statutory objectives. In our daily operations, we stay focused on discharging our statutory duty to make efficient use of our resources.

As far as possible, we strive to proactively identify and tackle problems early, paying special attention to those which pose the most significant or systemic risks to our markets. We are increasingly using early intervention and a front-loaded and "real-time" regulatory approach, including in listing-related matters, and to signal to the intermediary community where our conduct and prudential attention will be focused.

We are increasingly using early intervention and a front-loaded, "real-time" regulatory approach.

Across the board, we will be more transparent and rapid in explaining the reasons for many of our actions. And more timely, impactful enforcement sends a strong deterrent message to achieve better regulatory outcomes as well as shape future market behaviour.

A multi-disciplinary approach makes our operations agile and efficient and allows us to maximise the impact of our actions. For example, a new initiative pools resources from three divisions (Intermediaries, Corporate Finance and Enforcement) to implement a concerted strategy to tackle listed company issues. Setting up more specialised teams within these three divisions also focuses resources and develops our expertise. In our enforcement casework, incorporating legal advice earlier in the process also helps improve efficiency and achieve a speedier conclusion to cases.

Strategic Priorities

We also follow the development of financial technologies and how they intersect with securities market regulation. In advancing our risk data strategy, we focus on benchmarking to global regulatory standards and adopting new technologies to supplement our risk-identification, monitoring and surveillance capabilities.

The right approach to regulation will be key to managing the changes ahead. Already, our recent actions on Growth Enterprise Market (GEM) listings, including clearer guidance on our regulatory stance and expectations of intermediaries, have had an immediate impact. Overall, we will more actively use the powers vested in the SFC to provide a sound basis for Hong Kong to progress as a leading international financial centre.

Current initiatives

We are making progress on a number of initiatives to address these complex challenges whilst facilitating healthy, sustainable market development and addressing emerging risks.

Listing matters

We have been taking a proactive approach towards policy and market development as well as risks falling within the SFC's statutory remit. For instance, in the beginning of 2017 we issued a guideline to sponsors, underwriters and placing agents on the standards of conduct that are expected of them in the listing and placing of GEM IPO stocks, as well as a joint statement with The Stock Exchange of Hong Kong Limited (SEHK) regarding the price volatility of GEM stocks.

In April 2017, we explained how we would apply our powers under the Securities and Futures (Stock Market Listing) Rules (SMLR)¹ to clarify a pathway for IPOs of suitable "Belt and Road" companies, while in May 2017, we issued guidance on the use of valuations in corporate transactions.

We are liaising with Hong Kong Exchanges and Clearing Limited (HKEX) on its proposals for Listing Rules changes covering both GEM and a proposed New Board. To enhance accountability, transparency and efficiency across the system, we will also conclude the joint consultation on the structure of listing regulation to clearly delineate the SFC's statutory role, as a regulator under the Securities and Futures Ordinance and the SMLR, and SEHK's non-statutory role, under its Listing Rules.

We will communicate our key priorities more clearly and quickly.

In our day-to-day work, the restructuring of the Corporate Finance Division into four integrated teams focusing on IPOs, post-IPO matters, takeovers and debt securities will help us work in a more coordinated and timely fashion.

Intermediaries

The number of firms and individuals licensed by us has grown rapidly, and many of them are using highly sophisticated technology. To navigate the changing industry landscape, we are repositioning the way we supervise intermediaries and will communicate our key priorities more clearly and quickly.

To better align licensed firms' governance structures with the responsible officer and regulated persons regime, we recently introduced the Manager-In-Charge initiative which will help foster a stronger sense of senior management responsibility and a compliance culture to drive proper conduct and behaviour.

Increasingly, we use thematic reviews to tackle specific risks as they emerge and are enhancing early public notifications of our inspection priorities to promote the industry's awareness of emerging issues and risks.

¹ The SFC is empowered under section 6 of the SMLR to require further information from the listing applicant and, where necessary, to object to, or impose conditions on, the listing of the securities under an application defined in section 2 of the SMLR, unless the securities are offered as part of a capitalisation issue, pre-emptive offer, substitutions or employee share option scheme as exempted under section 4 of the SMLR.

Strategic Priorities

For example, following up on last year's assessment of money laundering and terrorist financing risks in the securities sector, we will conduct thematic inspections of selected licensed corporations to evaluate the effectiveness of their measures and controls to mitigate such risks.

In addition, after our recent thematic review on algorithmic trading, we issued a circular in December 2016 and organised a forum in May 2017 to share with the industry our observations and good practices and to elaborate on related requirements in the Code of Conduct².

During the year, we also conducted thematic reviews on alternative liquidity pools, best execution and client facilitation, and we will share the results with the industry in the coming months.

Cybersecurity remains a supervisory priority in light of the increase in hacking incidents. Following a thematic inspection of internet brokers' resilience to hacking risks, we identified controls to be incorporated into baseline cybersecurity requirements which were the subject of a consultation launched in May 2017. In addition, we are helping to organise an industry-wide crisis simulation exercise in October 2017 to increase awareness of emerging threats.

In a month-long consultation in March 2017, we proposed changes to enhance market transparency and promote consistency in the application of the Securities and Futures (Professional Investor) Rules, while at the same time addressing the business needs of intermediaries and their clients without compromising investor protection.

The reorganisation of the Intermediaries Division around four key segments of the market – asset management, global institutions, Greater China institutions and Asian institutions – has helped us enhance our knowledge of specific industry segments and enabled a more outcomes-based supervisory approach.

Asset management

Establishing Hong Kong as Asia's leading asset management centre is a key priority, and its attractiveness as a preferred funds domicile and asset management hub has been bolstered by the Mutual Recognition of Funds (MRF) programme. These enable the local fund industry to tap overseas markets and provide additional investment opportunities in Hong Kong for both domestic and overseas investors. Following the MRF arrangements with the China Securities Regulatory Commission (CSRC) and the Swiss Financial Market Supervisory Authority, we are now discussing similar arrangements with a number of other European authorities. We are also in discussions with the CSRC on including exchange-traded funds as eligible securities under Stock Connect.

Establishing Hong Kong as Asia's leading asset management centre and broadening fund distribution channels are key priorities.

Broadening fund distribution channels and widening the diversity of products on offer in Hong Kong are also important. In a recent consultation on online distribution and advisory platforms, we proposed new guidelines and tailored guidance to the industry on the design and operation of online platforms and clarified how the suitability requirement would operate in the online environment. We hope this will enable more distribution channels to flourish, lead to greater investor choice at lower costs, and generally facilitate the development of online distribution and advisory platforms for the benefit of both the industry and investors.

We are continuing our discussions with the Government, HKEX and other industry stakeholders on arrangements for an exchange-based platform

² The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

Strategic Priorities



Chairman Mr Carlson Tong speaking at the SFC Regulatory Forum

for fund distribution. We are also preparing a public consultation on the subsidiary legislation and an SFC code for open-ended fund companies in Hong Kong which, when enacted, will provide the industry with the choice of an attractive, alternative investment fund vehicle.

Local regulation in line with international standards is a necessary precondition to realise Hong Kong's ambition to be a dominant asset management centre. In light of international regulatory and market developments, and following a recent market consultation, we will be enhancing the overall regulation of the asset management industry with a focus on commissions and independent advice, safe custody of fund assets and liquidity management.

Similarly, we are conducting a holistic review of the Code on Unit Trusts and Mutual Funds in order to align the regulatory requirements governing SFC-authorized funds with international benchmarks.

In light of heightened attention on protecting investors' assets globally, we are reviewing our regulatory regime governing trustees and custodians of client assets.

We remain focused on ways to enhance how we regulate and authorise investment products offered to the public and monitor compliance with regulatory requirements. We plan to introduce further streamlined measures to reduce the processing time for approving scheme changes and authorisations of revised offering documents of authorised funds including mandatory

provident funds and pooled retirement funds. In light of global trends in data collection, we are also examining the existing reporting requirements for public funds in Hong Kong.

Markets

The launch of Shenzhen-Hong Kong Stock Connect in December 2016 further strengthened Hong Kong's role connecting the Mainland and the rest of the world. Building on this, we will remain focused on Hong Kong as a gateway for international investors to access the Mainland market, further enhancing regulatory cooperation with Mainland authorities to ensure the smooth operation of cross-border trading links.

We will also actively support and engage in initiatives for Hong Kong to develop its role as a place where financial market participants can manage more complex risks, particularly those relevant to mainland China investments across different asset classes. In this area the potential is significant for Hong Kong amid the Mainland's increasing integration with the global economy.

We will further enhance regulatory cooperation with Mainland authorities to ensure the smooth operation of cross-border trading links.

We are now working with HKEX to enhance its clearing risk management processes in view of the expansion of its business and the latest international regulatory developments, as well as to address regulatory issues arising from its latest strategic plan. In addition, we are implementing our enhanced supervisory approach to HKEX, focused on conducting regular on-site inspections of HKEX's non-listing related operations. This is important to ensure the robustness and resilience of our market infrastructure.

Strategic Priorities



Chief Executive Officer Mr Ashley Alder addresses an industry conference

In today's larger and more complex markets, identifying transaction orders directly at a client level rather than at a broker level can help us conduct more efficient and effective surveillance of trading activities. We are working closely with HKEX to devise an operational model to accomplish this for the entire Hong Kong market, and will consult the market in due course. An investor identification model is also being considered for northbound trading activities under Stock Connect.

We expanded the scope of the excess position limits for futures and options contracts to ensure they remain appropriate to meet the needs of our market. In preparation for the introduction of a paperless securities market, we are reviewing clearing and settlement arrangements with HKEX to identify the changes needed and the potential impact on market participants.

A new over-the-counter (OTC) derivatives regulatory framework is being implemented in phases in Hong Kong to fulfil international commitments aimed at improving transparency, mitigating systemic risk and preventing market abuse. Mandatory clearing, which requires certain standardised products to be cleared through designated central counterparties, was introduced in September 2016, and expanded mandatory reporting commences in July 2017.

To facilitate a smooth transition to the new framework, we conducted a survey to collect information on OTC derivatives activities carried out by intermediaries and their affiliated companies. We are now finalising proposed changes to the rules relating to capital and other prudential requirements for licensed corporations engaging in OTC derivatives activities.

Enforcement

Last year we conducted a comprehensive strategic review of our enforcement priorities, tools and organisational structure. Of the risks we identified, those which pose the most serious and imminent threats relate to corporate fraud and misfeasance, insider dealing, market manipulation, intermediaries misconduct, gatekeeping by sponsor firms and mis-selling of financial products.

Accordingly, we prioritised our resources by forming both permanent and temporary specialised teams which help us handle increasingly complex cases more efficiently while building up our expertise by addressing each of the key risks identified by our divisions which have frontline contact with the market. This has already achieved faster results such as a number of settlements with investment banks for a variety of internal control failures, including some related to position limits, electronic trading systems and conflicts of interest.

To deliver strong deterrent messages, we do not hesitate to impose sanctions, including suspensions or revocations of licences when the misconduct is particularly serious. Recently, we took action against a number of sponsor firms with a view to improving standards in the sector and targeted the directors and senior officers of listed companies who fail to discharge their duties.

Moreover, we have made it clear that firms and individuals are encouraged to cooperate with us in resolving our concerns and for this we will give them credit. In appropriate cases, cooperation can facilitate a possible early resolution. This in turn allows us to achieve earlier remedial outcomes to compensate investors harmed by misconduct.

Strategic Priorities

Investors

Investor protection is a vital part of our mission, as it is essential for Hong Kong's future success that local and overseas retail and institutional investors have confidence in a robust regulatory framework which delivers undoubted accountability and transparency whilst protecting them from investments which are overly complex or difficult to understand. For example, our consultation on online distribution and advisory platforms addresses the difficulty retail investors may have in fully understanding the nature and risks associated with a complex product based only on information posted on an online platform.

The Investor Education Centre, an SFC-funded subsidiary, provides comprehensive financial information, tools and educational resources to help individuals manage their money wisely.

It is essential that investors have confidence in a regulatory framework which delivers accountability and transparency.

We recently conducted a study of possible enhancements to the investor compensation regime and will consult the public on proposed changes.

Regulatory collaboration

Increasing capital market integration calls for close and effective communication with our Mainland counterparts as well as regular high-level engagement with Mainland authorities and government agencies.

We have a unique and increasingly essential reciprocal relationship with Mainland regulators as our interests converge on matters of common concern arising from larger and more complex cross-boundary capital flows and intermediary activity. We will further strengthen cross-border regulatory cooperation through sharing information and formalising cooperation arrangements.

Locally, our collaboration with the Hong Kong Monetary Authority ranges from thematic policy projects to onsite reviews of financial services which straddle securities activities and banking institutions. We also participate in regional supervisory colleges for the supervision of global financial institutions.

We work to achieve closer cooperation with authorities in other jurisdictions, including through our involvement in global regulatory bodies.

Since the appointment of Mr Ashley Alder, our Chief Executive Officer, as Chairman of the Board of the International Organization of Securities Commissions (IOSCO), we have worked with the IOSCO Secretariat to make IOSCO's work more relevant to its wider membership, to promote interaction between members from emerging and developed markets, and to clarify the intersection between IOSCO's policy work and that of the Financial Stability Board (FSB)³.

As the Chairman of the IOSCO Board, Mr Alder sits on the FSB's Plenary and its Steering Committee. Our senior staff actively participate in IOSCO's and FSB's committees and working groups.

³ The FSB was established by the leaders of the G20 countries in 2009 as an international body to promote global financial stability through the implementation and monitoring of international policies and standards.

SFC at a Glance

Mission statement

As a financial regulator in an international financial centre, the SFC strives to strengthen and protect the integrity and soundness of Hong Kong's securities and futures markets for the benefit of investors and the industry.

Mandates

Our work is defined and governed by the Securities and Futures Ordinance (SFO), which sets out our powers, roles and responsibilities. We have six statutory objectives:

- Maintain and promote a fair, efficient, competitive, transparent and orderly securities and futures industry
- Help the public understand the workings of the industry

- Provide protection for the investing public
- Minimise crime and misconduct in the industry
- Reduce systemic risks in the industry
- Assist the Government in maintaining Hong Kong's financial stability

In 2012, the SFO was amended to broaden our statutory investor education objective. As a result, we delegated our education function to a wholly-owned subsidiary, the Investor Education Centre, which has a broad mandate to provide financial consumer education and information. Another wholly-owned subsidiary, the Investor Compensation Company Limited, was established in 2003 to manage and administer claims against the Investor Compensation Fund.

As of 31 March 2017

49

authorised automated trading services

262

SFC-authorized renminbi investment products

+16%

735

Hong Kong-domiciled SFC-authorized funds

2,780

authorised collective investment schemes

245

listing applications reviewed under the dual filing regime

+12%

108

enquiries raised with listed companies on disclosure irregularities

494

takeovers and share buy-backs transactions handled

+14%

Note: Unless specified, figures are for the full year from 1 April 2016 to 31 March 2017.

SFC at a Glance

Regulatory functions

Our work can be divided into the following key areas:

Intermediaries

We set standards for industry practitioners seeking to be, and to remain, licensed. We supervise licensed corporations, including securities brokers, futures dealers, leveraged forex traders, fund managers, investment and corporate finance advisers and credit rating agencies, with a focus on both business conduct and financial soundness.

Investment products

We perform gate-keeping functions in authorising investment products offered to the public and monitoring compliance with disclosure and other

requirements. We also work to facilitate market growth and product innovation, particularly in supporting the development of Hong Kong as an asset management hub and a premier offshore renminbi centre.

Listings and takeovers

We oversee the listing-related functions of The Stock Exchange of Hong Kong Limited (SEHK) as well as public companies' mergers, takeovers, privatisations and share buy-backs. We monitor the timeliness of corporate disclosures under the statutory inside information disclosure regime and vet listing applications alongside SEHK under the dual filing regime, in addition to enhancing listing rules. We also perform risk-based reviews of particular companies and broader thematic reviews of activities which may signal corporate misconduct.

414

investigations initiated

591

investigations completed

+36%

54

licensees disciplined

\$93 million

in fines

548

compliance advice
letters issued

+21%

8,960

requests for trading records from
intermediaries

+12%

27

disqualification and
restorative orders

SFC at a Glance

Market infrastructure

We conduct day-to-day supervision and monitoring of exchanges and clearing houses, share registrars and authorised automated trading services providers. In addition, we formulate policies to facilitate the development of market infrastructure and to build links with Mainland and international markets. We also collect quantitative information about the financial markets as a means to help reduce systemic risks.

Enforcement

Through our surveillance, investigative and disciplinary work, we combat misconduct and malpractice in the securities and futures markets. Where appropriate, we take action to remedy the effects of market misconduct by applying to the court for injunctive and remedial orders. We work with other law enforcement agencies and overseas regulatory bodies on investigations where required.

Regulatory collaboration

To ensure our regulatory framework is aligned with global standards, we work closely with local, Mainland and overseas regulators. We contribute to international initiatives through our active participation in the International Organization of Securities Commissions and other global rule-setting forums. We collaborate with authorities in mainland China and regulators in other jurisdictions to deepen financial integration and regulatory cooperation.

Stakeholders

We maintain close communication with stakeholders to help them understand our work and the rationale behind it. When formulating policies, we consult the industry and the investing public through a variety of channels.

42,872

licensees and registrants
as of 31 March 2017

7,838

new licence applications

387

new corporate licence applications

+54%

23,121

applications to conduct
new regulated activity

11,094

licensees for asset
management activities

312

risk-based, on-site
inspections of intermediaries

1,755

breaches noted during
on-site inspections

74

circulars to industry

Note: Unless specified, figures are for the full year from 1 April 2016 to 31 March 2017.

SFC at a Glance

History and background

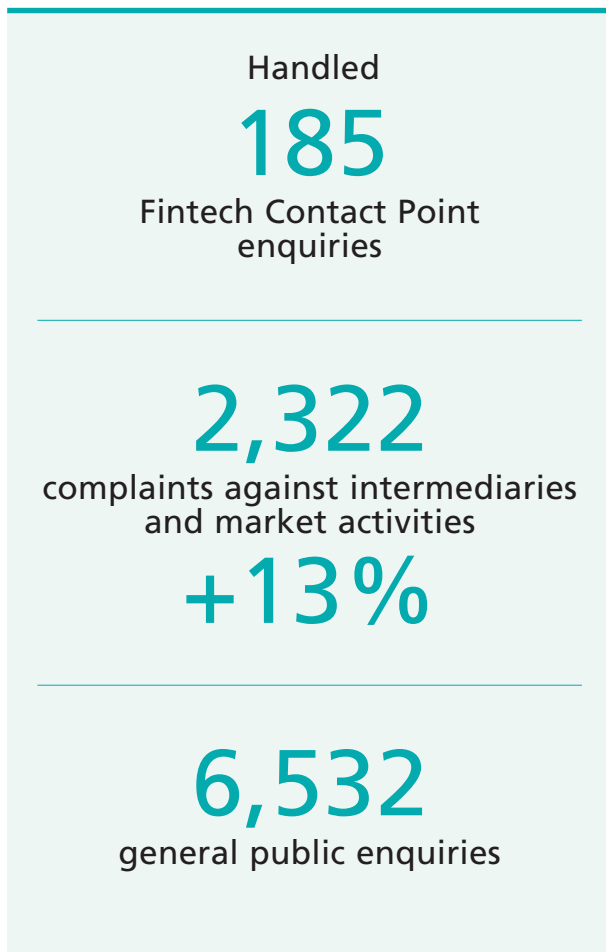
The securities and futures markets in Hong Kong were largely unregulated until 1974 when legislation was introduced to regulate the industry following a market crash the previous year. Under the legislation, regulation was conducted on a part-time basis by two separate commissions, one for securities and another for commodities trading.

Another major market crash in 1987 triggered the formation of the Securities Review Committee chaired by chartered accountant Ian Hay Davison. Its report, released in 1988, recommended the establishment of a single statutory body outside the civil service, headed and staffed by full-time professionals and funded primarily by the market. It also proposed that this body

be vested with broad investigative and disciplinary powers so it could carry out its regulatory functions properly.

In May 1989, the SFC was officially established as an independent statutory regulator following the enactment of the Securities and Futures Commission Ordinance. Further reviews to improve the regulatory regime were conducted after the 1997 Asian financial crisis. The SFO came into effect on 1 April 2003, consolidating and modernising the ordinances previously regulating Hong Kong's securities and futures markets.

Although the SFO provides for the Government to fund the SFC, the SFC has been self-funded through fees and transaction levies since the early 1990s.



Corporate Governance

We strive to promote transparency, accountability and integrity. Sound corporate governance is essential to ensure we carry out our regulatory functions properly and effectively.

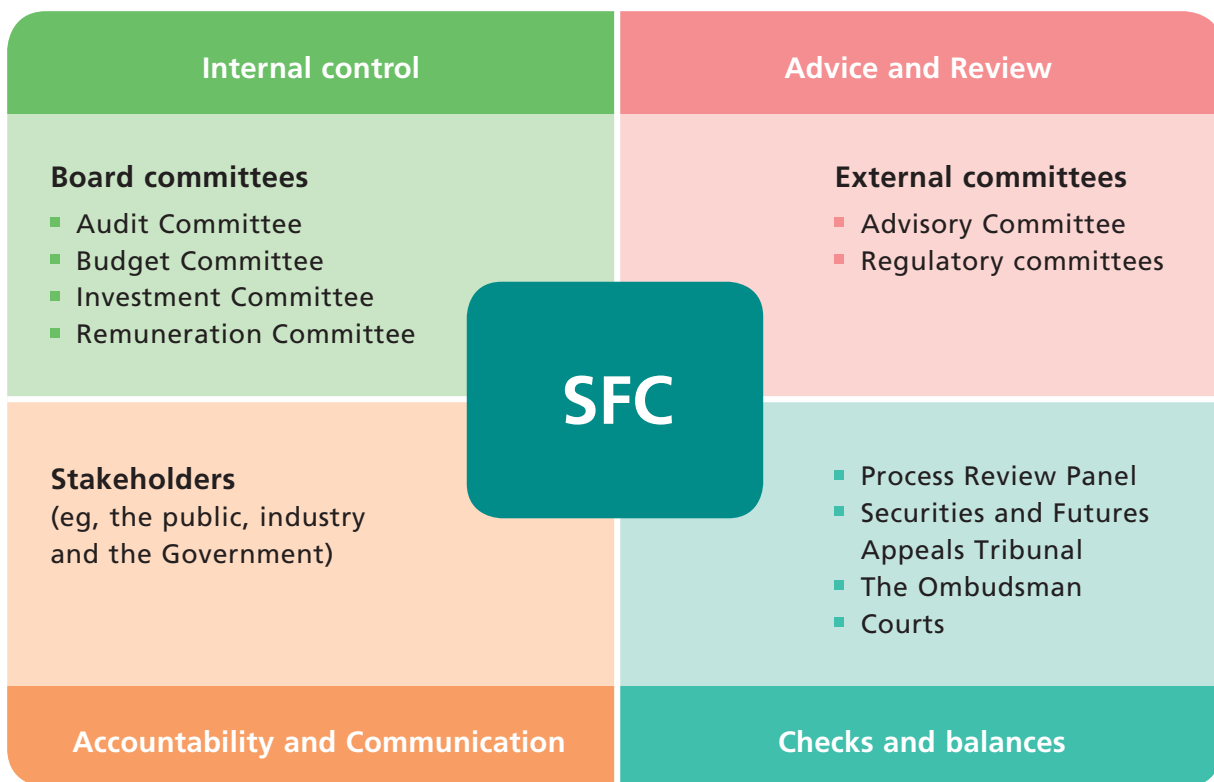


Corporate Governance

Governance framework

A well-defined management structure, high standards of conduct, comprehensive operational and financial control procedures and independent checks and balances are the pillars of our corporate governance framework. This framework is also consistent with best governance practices for public bodies including those set out in *Corporate Governance for Public Bodies – A Basic Framework*, published by the Hong Kong Institute of Certified Public Accountants.

Key components of our governance framework



Corporate Governance

Board members



1	2			
3	4	5		
6	7	8	9	
10	11	12	13	14

- | | | | |
|----------------------------------------------------------------|-----------------------------------------------------------------------|----------------------------------------------------------------------|------------------------------------------------------|
| 1 Carlson Tong
Chairman | 5 Edward Cheng
Non-Executive Director | 9 Teresa Ko
Non-Executive Director | 12 Mary Ma
Non-Executive Director |
| 2 Ashley Alder
Chief Executive Officer | 6 Christina Choi
Executive Director,
Investment Products | 10 Julia Leung
Executive Director,
Intermediaries | 13 Kelvin Wong
Non-Executive Director |
| 3 Thomas Atkinson
Executive Director,
Enforcement | 7 Brian Ho
Executive Director,
Corporate Finance | 11 Keith Lui
Executive Director,
Supervision of Markets | 14 William Wong, SC
Non-Executive Director |
| 4 Albert Au
Non-Executive Director | 8 Lester Huang
Non-Executive Director | | |

Note: During the year, Prof Leonard Cheng served on the Board as Non-Executive Director until 31 December 2016 and Mr James Shipton served on the Board as Executive Director until 18 June 2016.

Corporate Governance

Board

The Board is responsible for supervising and directing our work and plays an important role in ensuring that we perform our regulatory functions effectively. It sets the SFC's overall direction and policies, provides strategic guidance to senior management and oversees the work of the Executive Committee (ExCo).

Constitution

The constitution and proceedings of the Board are stipulated by the Securities and Futures Ordinance (SFO). Board members are appointed for a fixed term by the Chief Executive of the Hong Kong Special Administrative Region (HKSAR) or the Financial Secretary under delegated authority, and their appointment terms and conditions are determined by the Government. Board members' emoluments for the year are disclosed on page 113.

As of 31 March 2017, the Board comprised six Executive Directors (EDs), including the Chief Executive Officer (CEO); and eight Non-Executive Directors (NEDs), including the Chairman.

NEDs come from diverse backgrounds. They bring to the Board a wide range of experience and expertise as well as a variety of perspectives and independent points of view.

See pages 29-33 for the full list of Board members and their biographies.

Chairman and CEO

The roles of the non-executive Chairman and the CEO are separate and distinct. Their major responsibilities include:

Chairman

- Leading the Board in setting the SFC's policies, strategy and overall direction
- Monitoring the executive team's performance
- Counselling the CEO on how the organisation is run

CEO

- Assuming executive responsibility for day-to-day operations of the SFC
- Developing strategic objectives, including setting the SFC's agenda and priorities, and implementing them as agreed with the Board

- Assigning responsibilities to senior management and supervising their work
- Reporting regularly to the Board

Executive Directors and Non-Executive Directors

The roles of our EDs and NEDs are complementary. EDs are responsible for the daily operations of the SFC and each has executive duties in key functions including corporate finance, enforcement, intermediaries, market operators and investment products. NEDs provide guidance on and monitor the performance of the organisation's functions.

Governance practices

We endeavour to maintain clear and proper processes to facilitate the working of an efficient and accountable Board and uphold high standards of corporate governance. The following practices are in place to achieve this:

- Arrange for the Board to hold monthly meetings and quarterly policy meetings as well as special and off-site meetings
- Provide Board members with relevant information before meetings to enable thorough consideration of agenda items
- Circulate draft minutes of the Board meetings to members for comment
- Furnish Board members with information regarding our operations and financial condition on a monthly basis
- Keep the Board apprised of our policies and operations as appropriate
- Require Board members to observe policies regarding conflicts of interest
- Provide induction briefings for new Board members to enable them to better understand the organisation and their responsibilities

The Board regularly conducts a self-assessment exercise to improve its effectiveness. The exercise assesses basic board responsibilities and the performance of individual members. Assessment results are reported to the Board on an anonymous basis.

The Commission Secretariat is tasked with ensuring good corporate governance. It supports the Board and senior management, assists them in dealing with organisation-wide policies and initiatives and ensures that Board proceedings follow relevant policies and procedures. The Commission Secretariat also liaises

Corporate Governance

with Board members, organises their meetings, and acts as the central contact point with the Government, the Legislative Council (LegCo) and its members, fellow regulators and other public bodies.

Board appointments

On 21 April 2017, Mr Ashley Alder was reappointed as CEO for a three-year term effective from 1 October 2017.

Mr Thomas Atkinson was appointed as ED of Enforcement for a three-year term effective from 3 May 2016 and Ms Christina Choi was appointed as ED of Investment Products for a three-year term effective from 1 August 2016.

On 19 June 2016, Ms Julia Leung, then ED of Investment Products, succeeded Mr James Shipton as ED of Intermediaries.

Mr Edward Cheng was appointed as NED for a two-year term effective from 1 January 2017.

In addition, four NEDs were reappointed for two-year terms: Ms Teresa Ko (from 1 August 2016), Dr William Wong, SC (from 1 August 2016), Dr Kelvin Wong (from 20 October 2016) and Mr Albert Au (from 26 May 2017). Prof Leonard Cheng stepped down as an NED at the end of his six-year term.

New Executive Directors

Two EDs, Mr Thomas Atkinson and Ms Christina Choi, joined our Board during the year. They shared some thoughts about their new roles.

International mindset

Mr Atkinson, a native of Canada, joined the SFC as ED of Enforcement in May 2016 from a similar role at the Ontario Securities Commission. Earlier in his career, holding progressively senior roles at the Toronto Stock Exchange helped him develop a thorough understanding of securities markets.



Having diverse experiences is important, added Mr Atkinson, as it develops a mindset for dealing with complex situations. As a university student, he spent his summers in the Canadian oil fields working closely with people from very different personal and educational backgrounds. The work was physically and technically demanding, and taught him to identify the strengths of each individual and coordinate their abilities.

I want us to focus on high-impact enforcement cases to bring the strongest possible deterrent effect in a timely manner.

Thomas Atkinson

In his new role, Mr Atkinson has found that the Hong Kong market presents a unique set of enforcement challenges. It is highly international with a large number of listed companies which have business operations elsewhere. This makes it essential for the SFC to maintain collaborative relationships with regulators in other jurisdictions, he concluded.

Local perspective

Born and raised in Hong Kong, Ms Choi spent 11 years at the SFC prior to her appointment as ED of Investment Products in August 2016. Formerly a partner at an international law firm, she told us that working on complex capital market transactions on the Mainland and around the region helped her better understand the market and the industry.

Her time at the SFC brought home to Ms Choi the importance of teamwork. She quickly found that SFC staff complement one another with their broad range of backgrounds and expertise, including lawyers, accountants and market professionals.

Looking ahead, Ms Choi said the SFC is focused on diversifying and broadening Hong Kong's role as an international financial centre. The aim is to make Hong Kong a preferred centre for asset and risk management for international investors, supported by a world-class regulatory regime. In working toward this goal, Ms Choi stressed, she always keeps in mind the importance of being pragmatic and innovative and finding common goals and mutual benefits.

We are working on a broad agenda of initiatives to support the development of Hong Kong as a fully-fledged international asset management centre.

Christina Choi

Corporate Governance

Board meetings

Regular Board meetings are held at least monthly. In addition, the Board meets quarterly to conduct in-depth discussions of policy issues and also convenes special meetings as needed. An annual off-site meeting discusses strategic objectives and management priorities.

Last year, 18 Board meetings were held with an average attendance rate of 91%.

Meeting attendance record

Meetings attended/held	Board	Audit Committee	Budget Committee	Investment Committee	Remuneration Committee	Executive Committee
Chairman						
Carlson Tong	18/18	–	–	4/4	1/1	–
Executive Directors						
Ashley Alder	18/18	–	1/1	2/4	–	20/23
Thomas Atkinson ¹	17/17	–	–	–	–	20/21
Christina Choi ²	11/11	–	–	–	–	15/17
Brian Ho	18/18	–	–	–	–	21/23
Julia Leung	18/18	–	1/1	–	–	21/23
Keith Lui	18/18	–	–	3/4	–	19/23
James Shipton ³	4/4	–	–	1/1	–	6/6
Non-Executive Directors						
Albert Au ⁴	16/18	2/2	0/1	4/4	1/1	–
Edward Cheng ⁵	4/4	–	–	–	1/1	–
Leonard Cheng ⁶	10/14	–	1/1	–	–	–
Lester Huang ⁷	15/18	–	–	–	0/1	–
Teresa Ko	17/18	1/2	0/1	–	1/1	–
Mary Ma ⁸	14/18	2/2	–	3/4	1/1	–
Kelvin Wong	15/18	2/2	1/1	3/4	1/1	–
William Wong, SC	12/18	0/2	–	–	1/1	–
Senior Director and Chief Counsel						
Andrew Wan	–	–	–	4/4	–	21/23
Andrew Young	–	–	–	–	–	22/23
Interim Head, Enforcement						
Maureen Garrett ⁹	–	–	–	–	–	2/2

¹ Appointed as a member of the Board and Executive Committee effective 3 May 2016.

² Appointed as a member of the Board effective 1 August 2016 and Executive Committee effective 19 June 2016.

³ Appointment expired on 18 June 2016.

⁴ Appointed as Deputy Chairman of the Budget Committee effective 1 January 2017, after serving as a member since 26 May 2015.

⁵ Appointed as a member of the Board and Remuneration Committee effective 1 January 2017.

⁶ Appointment expired on 31 December 2016.

⁷ Appointed as Deputy Chairman of the Remuneration Committee and a member of the Budget Committee effective 1 January 2017.

⁸ Appointed as Chairman of the Budget Committee effective 1 January 2017.

⁹ Appointment expired on 2 May 2016.

Corporate Governance

SFC committees

Board committees

Each of our four board committees is chaired by an NED and focuses on clearly-defined areas of the SFC's operations. The presence of the NEDs serves as an effective check and balance on the SFC's management decisions.

Committee	Membership	Responsibilities	Meetings
Audit Committee	Five NEDs	<ul style="list-style-type: none"> Reviews annual financial statements Recommends the appointment of external auditors Coordinates the scope of the external audit and reviews audit findings Examines management procedures to ensure effective financial and internal controls 	Two
Budget Committee	Four NEDs and two EDs [#]	<ul style="list-style-type: none"> Examines and approves the parameters and bases used in the annual budget Conducts the mid-year budget review Reviews the annual budget and makes recommendations to the Board 	One
Investment Committee	Four NEDs, two EDs and a Senior Director [#]	<ul style="list-style-type: none"> Advises on the SFC's fund management policies, strategies and investment guidelines Recommends the appointment of investment managers and advisers and monitors their performance including compliance with the investment guidelines Advises on investment risk management and asset allocation and monitors the performance of investments 	Four
Remuneration Committee	Eight NEDs	<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 	One

[#] In a non-voting capacity.

Corporate Governance

New Non-Executive Director

Mr Edward Cheng, who joined the SFC as an NED in January 2017, started his career as a solicitor in London and later became an entrepreneur running public companies in Hong Kong. He shared some reflections on his new role.

Joining the Board, Mr Cheng quickly found that the SFC does much more than monitor the market. He saw firsthand how the Board takes an active role in discussing policies and strategies as well as considering new initiatives in response to rapid changes in the financial world.



Compared with other boards he served on, the SFC is unique in that the Board has to keep in mind that its decisions affect Hong Kong's financial industry at large, Mr Cheng noted. In his new role, he hopes to contribute by sharing his views from his entrepreneurial background as well as from a public policy perspective.

Summing up, Mr Cheng strongly believes that good corporate governance helps organisations achieve their goals. In particular, he emphasised, people are the key factor for establishing, implementing and reviewing clear policies and rules.

The Board plays an important role in maintaining a sound regulatory regime and enhancing Hong Kong's competitiveness as an international financial centre.

Edward Cheng

External committees

External committees are set up under the SFO and are made up of a large number of outside members who reflect the diverse interests and concerns of market participants. They play important roles in the governance of the SFC.

The Advisory Committee offers insight and advice on policy matters related to the performance of the SFC's functions. The majority of members are external representatives appointed by the Financial Secretary under authority delegated by the HKSAR Chief Executive. The Committee is headed by the Chairman and includes the CEO and not more than two other EDs.

Each regulatory committee specialises in a particular area such as market supervision, investment products, shareholders' rights and interests, listings, takeovers and mergers, or the compensation fund. Appointed by the Board, members include NEDs, EDs, representatives from the industry and other stakeholders. There were 15 regulatory committees as at the end of March 2017.

See pages 166-174 for the responsibilities and membership lists of the external committees.

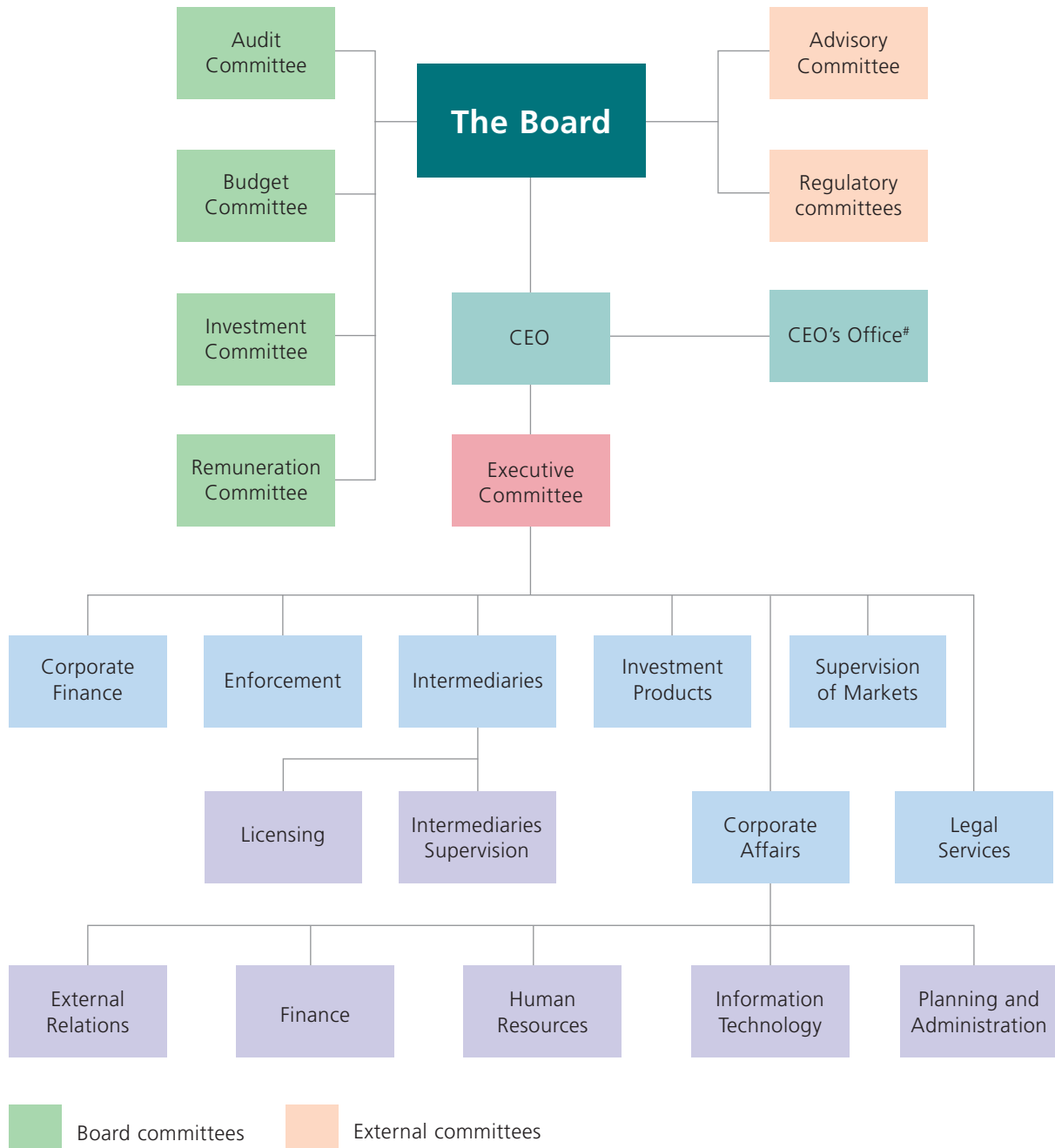
Executive Committee

ExCo, the highest executive body within the organisation, performs administrative, financial and management functions as delegated by the Board and ensures that the SFC functions effectively. ExCo is chaired by the CEO and also includes all other EDs, the Chief Counsel, and the Chief Financial Officer and Senior Director (Corporate Affairs).

ExCo meets regularly to consider policy and operational proposals and funding requests from different divisions of the organisation. In the year, 23 ExCo meetings were held with an average attendance rate of 91%.

Corporate Governance

Organisational structure



CEO's Office includes five units, namely the Commission Secretariat, International Affairs, Mainland Affairs, Press Office, and Risk and Strategy.

Corporate Governance

Standards of conduct

As a regulator, we require a high standard of integrity and conduct from our staff to promote and maintain public confidence. In addition to complying with relevant legal obligations, staff are required to adhere to our code of conduct which spells out our standards in detail and covers confidentiality, conflicts of interest, personal investments and acceptance of gifts and hospitality. Each staff member is given a copy of the code. Failure to comply with the code may result in disciplinary action.

Amendments to our code of conduct took effect in 2016 to ensure that we appropriately identify and manage conflicts of interest and related conduct issues. To ensure staff are aware of the revised code, this year we launched an e-course for all new and existing staff to complete.

Accountability and transparency

Stringent policies and procedures are in place to ensure that we act with credibility, fairness and transparency.

Delegation of authority

We have a system of delegation of authority to clearly delineate the authority of the Board and different levels of the executive management. The Board delegates certain regulatory powers and functions to EDs, with power to sub-delegate to staff in their respective divisions, as permitted under the SFO, to facilitate the discharge of their duties in daily operations.

Budgeting

We follow a disciplined approach in drawing up our budget, which is prepared based on a policy of tightly controlling expenditures, as befits a publicly-funded organisation. We make prudent assumptions, exercise robust financial control and identify areas where resources could be re-deployed to meet evolving operational needs, achieve regulatory priorities and maximise efficiency. During the budget process,

divisions critically assess their resources for the following year and we carefully examine all requests. The annual budget, after consideration by the Budget Committee and approval by the Board, is submitted to the Financial Secretary for approval and then tabled before LegCo.

Investment

We attach great importance to the prudent management of our reserves, guided by the goal of long-term financial sustainability. Our reserves are managed according to investment guidelines approved by the Financial Secretary. We have delegated responsibility for the selection, retention and management of the investments of our Reserve Fund and the Investor Compensation Fund to external investment managers, and we regularly review their performance. The external managers have confirmed that they adopt the Principles of Responsible Ownership¹ in their undertakings to manage these investments.

Financial control and reporting

Our policies and procedures for financial control help us uphold a high standard of integrity and exercise rigorous controls on the use of public funds. We engage an independent external firm to conduct an annual review of our financial control procedures and policies to ensure they are practical and robust.

We adopt the appropriate financial reporting standards and voluntarily observe applicable requirements stipulated in the Hong Kong Companies Ordinance when preparing our financial reports. We adopt the Hong Kong Financial Reporting Standards for preparing financial statements and disclosing financial information and follow good market practice to ensure that our financial reports are transparent and informative.

¹ Issued by the SFC in March 2016, these principles, which are voluntary, aim to provide guidance on how investors should fulfil their ownership responsibilities in relation to investments in Hong Kong listed companies.

Corporate Governance

Our practices include:

- Selecting relevant accounting policies and applying them consistently
- Appointing an external firm to conduct an interim review and annual audit
- Presenting our interim and annual financial statements to the Audit Committee for consideration
- Seeking the Board's approval of the quarterly and annual financial statements and publishing them in our quarterly and annual reports
- Reporting key financial data to the Board and ExCo on a monthly basis
- Providing regular reports to the Government
- Attending meetings at LegCo, including meetings of the Panel on Financial Affairs, to present the annual budget and explain policy initiatives and other issues of public interest

Handling complaints and grievances

We extend our principles of accountability and transparency to our complaints handling procedures. Reports of improper practices of the SFC or our staff can be made under our procedures for handling complaints against the SFC or its employees. These cover dissatisfaction with the manner in which the SFC or our staff carried out or failed to carry out our duties. Detailed procedures for the public to lodge a complaint are available on our website.

Efficient use of resources

We regularly review our corporate resources and space requirements to ensure that we operate efficiently.

As the markets we regulate are complex and develop quickly, we set up a number of cross-divisional project teams to work on policies or initiatives which are related to the work of multiple divisions. This allows us to coordinate the work of different parts of the organisation and manage our resources effectively.

Stakeholder communication

We engage a wide range of stakeholders including the Government, LegCo members, the financial services industry, regulatory counterparts and the general investing public in a proactive, timely and effective manner².

We respond to public enquiries orally and in writing while striving to meet the timelines set out in our performance pledges. We conduct public consultations and publish consultation conclusions before implementing a regulatory change. Annual and quarterly reports keep the public informed of our key regulatory work and finances. Industry-related publications, reports and surveys address more specialised topics. Press releases announce our latest regulatory actions and other SFC news.

We also work with stakeholders to explain and clarify our policies and procedures and discuss specific regulatory areas at seminars or other events.

We adopt an open approach to disclosing information, subject to the secrecy provisions of the SFO. Our corporate website (www.sfc.hk) provides up-to-date, easily accessible public information, which is constantly updated and enriched.

We emphasise effective internal communication within the organisation. Besides utilising our intranet and internal circulars, we organise regular CEO Sharing Sessions and briefings by senior executives on the work of various divisions to keep staff informed of the latest developments and our current regulatory priorities.



² See Stakeholder communication on pages 77-80.

Corporate Governance

Risks

Our market environment is dynamic. To perform our regulatory functions effectively, it is essential for us to identify, assess and manage external and internal risks in a timely and systematic manner.

External risks

Our market contingency plan sets out measures for dealing with different emergency situations which may affect Hong Kong's securities and futures markets. Rehearsing the plan on a regular basis helps us react promptly, appropriately and in a coordinated manner when a crisis situation arises.

While each division closely monitors and manages regulatory risk in its respective area, the Risk and Strategy Unit assists in risk identification and strategy-setting. A regularly updated risk register provides senior management with an overview of risks relevant to our operations as well as strategies for responding to them. In addition, we began a project to enhance our use of risk data³.

Internal risks and control

We are subject to possible internal risks associated with our operations, including financial risks and threats to our information and office security. Internal control measures are in place to address these risks.

Our financial control policies and procedures define the scope and responsibility of the administrative, financial and management functions, including but not limited to the appointment of consultants, fee collection, investments, expenditures and budgeting. These policies and procedures are designed to ensure accountability and transparency and to conform to rigorous controls on the use of public funds. Periodically, we conduct a holistic review to ensure they are current, practical and robust.

In addition, the annual financial control review conducted by an independent external firm includes a risk-based review of our internal controls to assess our adherence to them and to evaluate and enhance their adequacy. The scope of each review is approved by the Audit Committee and the findings, together with recommendations, are submitted to ExCo for consideration and reported back to the Audit Committee. This year, the review included banking and investment procedures as well as financial transaction analysis and recruitment processes, and led to subsequent revisions to related policies and procedures.

We put the following measures in place to provide for safe and smooth operations:

- A regularly updated business resumption plan addresses readily identifiable risks, including technical problems, fires, natural disasters and other emergencies. The scope of the plan covers office premises, communications and computer services.
- An information security policy provides guidance on how to protect the confidentiality and integrity of information. The policy is revised from time to time to keep up with changes in technology and processes.
- Access controls protect our information and systems from unauthorised access, use or modification.
- Office access controls safeguard against unauthorised entry to our premises.



³ See Risk assessment on page 72.

Corporate Governance

Independent checks and balances

Independent bodies provide external checks and balances on our operational work to ensure fairness in our decision making, observance of due process and proper use of our regulatory powers. Apart from 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 Ombudsman.

Independent body	Relevant functions	SFC-related tasks handled in 2016-17
Process Review Panel <ul style="list-style-type: none"> An independent panel established by the HKSAR Chief Executive in 2000 Comprises representatives from various sectors and two ex-officio members, namely the SFC Chairman and a representative from the Department of Justice 	<ul style="list-style-type: none"> Reviews and advises on the adequacy of our internal procedures and operational guidelines, including those for the handling of complaints and licensing applications, inspection of intermediaries, product authorisation, corporate finance transactions and the exercise of investigation and disciplinary powers 	<ul style="list-style-type: none"> Reviewed 59 cases and published its annual report in October 2016
Securities and Futures Appeals Tribunal <ul style="list-style-type: none"> Chaired by current or former judges appointed by the HKSAR Chief Executive and comprising two other members drawn from a panel appointed by the Financial Secretary under delegated authority 	<ul style="list-style-type: none"> Reviews specified decisions made by the SFC Has power to confirm, vary or set aside decisions made by the SFC (and where a decision is set aside, substitute any other decision it considers appropriate) or refer the matter back to the SFC with directions 	<ul style="list-style-type: none"> Received a request to review one new case Decided on two cases brought forward from 2015-16 Allowed two cases to be withdrawn (including one which was brought forward from 2015-16)
The Ombudsman	<ul style="list-style-type: none"> Handles public complaints against the SFC and its staff for alleged maladministration 	<ul style="list-style-type: none"> Commenced six preliminary inquiries
Courts	<ul style="list-style-type: none"> Handle judicial reviews of SFC decisions 	<ul style="list-style-type: none"> Handled six applications for judicial review

Corporate Governance

Performance pledges

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

		Cases meeting the pledge		
		2016/17	2015/16	2014/15
Applications for subordinated loan or modification/ waiver of requirements under SFO				
Commence review of application upon receipt	2 business days	100%	95%	99%
Authorisation of investment products¹				
Take-up of applications upon receipt	5 or 2 business days ²	100%	100%	100%
Preliminary response to applications after take-up for investment-linked assurance schemes (ILAS) and paper gold schemes	7 business days	100%	100%	100%
Preliminary response to applications after take-up for other products	14 business days	100%	100%	100%
Enquiries				
Preliminary replies	5 business days	100%	100%	100%
Processing of licensing applications³				
Corporations	15 weeks	100%	100%	100%
Representatives (provisional licences)	7 business days	100%	100%	100%
Representatives (normal licences)	8 weeks	100%	100%	100%
Representatives (responsible officers)	10 weeks	100%	99%	99%
Transfer of accreditation	7 business days	97% ⁴	98%	98%
Complaints against intermediaries and market activities				
Preliminary response	2 weeks	99.7% ⁵	99.9%	99.9%

¹ Different performance pledges were applicable before the implementation of the revamped fund authorisation process on 9 November 2015.

² The pledge of five business days is applicable to the following products:

- Unit trusts and mutual funds (including eligible Mainland funds seeking authorisation under the Mutual Recognition of Funds (MRF) arrangement between the Mainland and Hong Kong with effect from 9 May 2016)
- Mandatory provident fund products (including pooled investment funds)
- Pooled retirement funds

The pledge of two business days is applicable to other products including MRF funds (prior to 9 May 2016), ILAS, paper gold schemes and real estate investment trusts.

³ During the year, we processed 14,738 applications that were subject to performance pledges, 12,373 of which were processed within the applicable period. The completion of the vast majority of the remaining 2,365 applications was delayed for reasons beyond our control (eg, unresolved fitness and propriety issues, outstanding vetting requests, applicants failing to provide essential information, requests by applicants that we delay finalising their applications). To more accurately reflect our performance, these applications are not included in the percentages stated.

⁴ For cases in these categories in respect of which we did not meet our performance pledges, usually the delay was short and resulted from unexpected complications, such as abnormal increases in our workflow and resulting resourcing difficulties.

⁵ Six cases failed to meet the pledge.

Corporate Governance

This year, performance pledges for our work on takeovers and mergers matters were published on our corporate website and explained in detail in the December 2016 issue of the *Takeovers Bulletin*. From January to March 2017, 99.7% of takeovers and mergers-related applications and transactions met the performance pledges. Details of the response times are listed in the following table.

Consultations and rulings under sections 6 and 8 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs (Codes)	
<i>Applications for rulings and consultations with the Executive</i>	
– All ruling applications and consultations under the Codes (except for those set out below)	5 business days ⁶
– Applications for rulings that are conditional on obtaining shareholders' approval in a general meeting	Normally within 5 business days before the relevant general meeting
– Fast track EFM/EPT applications and EFM/EPT annual confirmations ⁷	10 business days
– All other EFM/EPT applications	21 business days
Comments and clearance of announcements and documents under Rule 12 of the Takeovers Code	
<i>First draft of firm intention announcement under Rule 3.5 of the Takeovers Code</i>	
– No complex Code issues involved	2 business days
– Complex Code issues involved	3 business days ⁸
<i>All other announcements (including revised drafts)</i>	
– No complex Code issues involved	1 business day
– Complex Code issues involved	3 business days ⁸
<i>All drafts of shareholders' documents⁹</i>	
	5 business days

⁶ If the subject matter involves complex Code issues, the time limit will be extended to 21 business days and the applicants will be informed of this.

⁷ EFMs and EPTs refer to exempt fund managers and exempt principal traders as defined under the Codes.

⁸ The parties will be informed of the longer time needed.

⁹ Including offer documents, offeree board circulars, whitewash circulars, scheme documents and share buy-back circulars.

Corporate Governance

Carlson TONG SBS, JP Chairman

From 20 October 2012
Current appointment expires on 19 October 2018

Other SFC-related positions

- Chairman: Investment Committee and Advisory Committee
- Member, Remuneration Committee
- Member: Nominations Committee and SFC (HKEC Listing) Appeals Committee
- Member, Process Review Panel for the SFC

Current offices and public service

- Chairman, University Grants Committee
- Member, Exchange Fund Advisory Committee, Hong Kong Monetary Authority
- Member, Banking Advisory Committee, Hong Kong Monetary Authority
- Member, HKEX Listing Nominating Committee
- Member, Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR

Past offices and public service

- Chairman, Hong Kong Sports Institute Limited (2012-2017)
- Chairman, English Schools Foundation (2011-2015)
- Chairman, Employees' Compensation Insurance Levies Management Board (2007-2013)
- KPMG: Chairman, KPMG China (2007-2011); Chairman, KPMG Asia Pacific and Member, KPMG Global Board (2009-2011)
- Main Board and Growth Enterprise Market Listing Committee, The Stock Exchange of Hong Kong Limited: Chairman (2006-2008), Member (2002-2006)

Ashley ALDER JP Chief Executive Officer

From 1 October 2011
Current appointment expires on 30 September 2020

Other SFC-related positions

- Chairman, Nominations Committee
- Member: Budget Committee and Investment Committee
- Member: Advisory Committee and SFC (HKEC Listing) Committee

Public service

- Board of International Organization of Securities Commissions: Chairman (since May 2016); Vice-Chairman (Dec 2015-May 2016)
- Member, HKEX Listing Nominating Committee
- Council Member, Treasury Markets Association
- Vice President, The Hong Kong Institute of Bankers

Past SFC position

- Executive Director, Corporate Finance (2001-2004)

Past offices

- Herbert Smith: Partner and Head of Asia (2004-2011); Partner (1994-2001); Associate (1986-1994)

Thomas ATKINSON Executive Director, Enforcement

From 3 May 2016
Current appointment expires on 2 May 2019

Other SFC-related positions

- Member: Securities Compensation Fund Committee, Investor Compensation Fund Committee and SFC (HKEC Listing) Committee

Past offices

- Director of Enforcement, Ontario Securities Commission (2009-2016)
- President and CEO, Market Regulation Services Inc. (2001-2007)
- Vice President, Regulation Services, Toronto Stock Exchange (1996-2001)
- Assistant Crown Attorney, Ontario Court of Justice (1993-1996)

Notes:

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

During the year, Prof Leonard Cheng served on the Board as Non-Executive Director until 31 December 2016 and Mr James Shipton served on the Board as Executive Director until 18 June 2016.

The Nominations Committee nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee. See pages 166-174 for information about SFC external committees.

Corporate Governance

Albert AU BBS Non-Executive Director

From 26 May 2015
Current appointment expires on 25 May 2019

Other SFC-related positions

- Chairman, Audit Committee
- Deputy Chairman, Budget Committee
- Member: Investment Committee and Remuneration Committee
- Member, SFC (HKEC Listing) Appeals Committee

Current offices and public service

- Special Advisor, BDO Limited
- Independent Commission Against Corruption: Chairman, Corruption Prevention Advisory Committee, and Member, Advisory Committee on Corruption
- Chairman, Professional Services Advisory Committee, Hong Kong Trade Development Council
- Vice Chairman, Hong Kong Coalition of Professional Services Limited
- Café de Coral Holdings Limited: Independent Non-Executive Director and Chairman of Audit Committee
- Independent Non-Executive Director, Hong Kong International Theme Parks Limited

Past public service

- Member, Hong Kong Housing Authority (2011-2017)
- Hong Kong Productivity Council: Council Member and Chairman of Audit Committee (2010-2015)
- Member, Air Transport Licensing Authority (2007-2013)
- Member, General Committee, Federation of Hong Kong Industries (2007-2013)
- President, Hong Kong Institute of Certified Public Accountants (2008)

Edward CHENG SBS, JP Non-Executive Director

From 1 January 2017
Current appointment expires on 31 December 2018

Other SFC-related positions

- Member, Remuneration Committee
- Member, SFC (HKEC Listing) Appeals Committee

Current offices and public service

- Deputy Chairman and Chief Executive, Wing Tai Properties Limited
- Chairman, Lanson Place Hospitality Management Limited

- Independent Non-Executive Director, Orient Overseas (International) Limited
- Independent Non-Executive Director, Standard Chartered Bank (Hong Kong) Limited
- Board Member, Airport Authority Hong Kong
- Member, Commission on Strategic Development

Past SFC-related positions

- Member: Takeovers and Mergers Panel and Takeovers Appeal Committee (1994-2005)

Past public service

- Chairman, University Grants Committee (2011-2015)
- Chairman, Urban Renewal Authority (2004-2007)
- Council Member, Hong Kong Polytechnic University (2006-2009)
- Member, Advisory Committee on Corruption, Independent Commission Against Corruption (2004-2009)
- Member, Steering Committee on Innovation and Technology (2004-2008)
- Council Member, City University of Hong Kong (2003-2007)
- Council Lay Member, Hong Kong Institute of Certified Public Accountants (2004-2005)
- Member, Executive Committee, Hong Kong Housing Society (2000-2004)
- Member, Operations Review Committee, Independent Commission Against Corruption (1997-2003)
- Council Member, Education University of Hong Kong (formerly known as The Hong Kong Institute of Education) (2000-2002)

Christina CHOI Executive Director, Investment Products

From 1 August 2016
Current appointment expires on 31 July 2019

Other SFC-related positions

- Chairman: Committee on Real Estate Investment Trusts and Products Advisory Committee
- Member, SFC (HKEC Listing) Committee

Public service

- Member, Financial Services Advisory Committee, Hong Kong Trade Development Council
- Member, Asian Financial Forum Steering Committee, Hong Kong Trade Development Council

Past SFC positions

- Senior Director, Investment Products (2012-2016)
- Director, Investment Products (2005-2012)

Past offices

- Partner, Clifford Chance (2001-2004)

Corporate Governance

Brian HO

Executive Director, Corporate Finance

From 28 August 2006
Current appointment expires on 27 August 2018

Other SFC-related positions

- Chairman, Public Shareholders Group
- Member: Advisory Committee, Committee on Real Estate Investment Trusts and Nominations Committee

Public service

- Member, HKEX Listing Nominating Committee

Past SFC position

- Senior Director, Corporate Finance (2000-2006)

Lester HUANG JP

Non-Executive Director

From 15 November 2015
Current appointment expires on 14 November 2017

Other SFC-related positions

- Deputy Chairman, Remuneration Committee
- Member, Budget Committee
- Member, SFC (HKEC Listing) Appeals Committee

Current offices and public service

- PC Woo & Co: Managing Partner and Co-Chairman
- Member, Hospital Authority
- President, The Hong Kong Federation of Youth Groups
- Fellow, The Hong Kong Institute of Directors
- Chairman, Standing Committee on Language Education and Research
- Ex-officio Member, Education Commission

Past public service

- Chairman, Board of Advisors of Radio Television Hong Kong (2010-2016)
- Non-Executive Director, Urban Renewal Authority Board (2013-2016)
- Director, The Hong Kong Mortgage Corporation Limited (2009-2016)
- President, The Law Society of Hong Kong (2007-2009)
- Member, Exchange Fund Advisory Committee, Hong Kong Monetary Authority (2010-2016)
- Member, Standing Committee on Judicial Salaries and Conditions of Service (2010-2015)

Teresa KO JP

Non-Executive Director

From 1 August 2012
Current appointment expires on 31 July 2018

Other SFC-related positions

- Deputy Chairman, Takeovers and Mergers Panel
- Member: Audit Committee, Budget Committee and Remuneration Committee
- Member: Investor Compensation Fund Committee, Nominations Committee, Securities Compensation Fund Committee, SFC (HKEC Listing) Appeals Committee and Takeovers Appeal Committee
- Chairman, Investor Compensation Company Limited

Current offices and public service

- Freshfields Bruckhaus Deringer: China Chairman and Partner
- Chairman, Standing Committee on Disciplined Services Salaries and Conditions of Service

Past public service

- Council Member, The Hong Kong University of Science and Technology (2013-2016)
- Member, Expert Advisory Committee for Mergers and Acquisitions, China Securities Regulatory Commission (2012-2016)
- Member, Exchange Fund Advisory Committee, Hong Kong Monetary Authority (2010-2016)
- Member, Standing Committee on Disciplined Services Salaries and Conditions of Services (2011-2013)
- Listing Committee, The Stock Exchange of Hong Kong Limited: Chairman (2009-2012); Deputy Chairman (2006-2009)
- Member, Standing Committee on Company Law Reform (2005-2011)
- Independent Director, Travel Industry Council of Hong Kong (2005-2010)

Corporate Governance

Julia LEUNG SBS

Executive Director, Intermediaries

From 2 March 2015
Current appointment expires on 1 March 2018

Other SFC-related positions

- Chairman: Academic and Accreditation Advisory Committee
- Member, Budget Committee
- Member, SFC (HKEC Listing) Committee

Past offices and public service

- Julius Fellow, International Economics, Chatham House (2014)
- Under Secretary for Financial Services and the Treasury, Hong Kong Special Administrative Region Government (2008-2013)
- Executive Director, Hong Kong Monetary Authority (2000-2008)

Publication

- *The Tides of Capital* (London: OMFIF Press, 2015)

Keith LUI

Executive Director, Supervision of Markets

From 28 August 2006
Current appointment expires on 27 August 2018

Other SFC-related positions

- Chairman: Investor Compensation Fund Committee and Securities Compensation Fund Committee
- Member, Investment Committee
- Member: Advisory Committee and SFC (HKEC Listing) Committee
- Director, Investor Compensation Company Limited

Public service

- Member, HKEX Risk Management Committee

Past SFC positions

- Senior Director, Supervision of Markets (2004-2006)
- Senior Director, Corporate Affairs (2002-2004)
- Commission Secretary (2001-2004)

Mary MA

Non-Executive Director

From 15 November 2013
Current appointment expires on 14 November 2017

Other SFC-related positions

- Chairman, Budget Committee
- Member: Audit Committee, Investment Committee and Remuneration Committee
- Member, SFC (HKEC Listing) Appeals Committee

Current offices

- Managing Partner, Boyu Capital
- Independent Non-Executive Director, Lenovo Group Limited
- Non-Executive Director: Unilever PLC and Unilever N.V.

Past offices and public service

- Non-Executive Director, Stelux Holdings International Limited (2012-2016)
- Non-Executive Director, Wumart Stores (2010-2014)
- Member, Listing Committee, The Stock Exchange of Hong Kong Limited (2009-2013)
- Independent Non-Executive Director, Standard Chartered Bank (Hong Kong) Limited (2004-2013)
- Non-Executive Director, Daphne International Holdings Limited (2009-2011)
- Partner, TPG Capital and Co-Chairman, TPG China (2007-2011)
- Director, Shenzhen Development Bank (2007-2010)
- Member, Dean's Council of the Kennedy School of Harvard University (2002-2007)
- Senior Vice President and Chief Financial Officer, Lenovo Group Limited (1990-2007)
- Director, Bureau of International Co-operation, Chinese Academy of Sciences (1978-1990)

Corporate Governance

Dr Kelvin WONG JP Non-Executive Director

From 20 October 2012
Current appointment expires on 19 October 2018

Other SFC-related positions

- Deputy Chairman: Audit Committee and Investment Committee
- Member, Remuneration Committee
- Member, SFC (HKEC Listing) Appeals Committee
- Chairman, Investor Education Centre

Current offices and public service

- Executive Director and Deputy Managing Director, COSCO SHIPPING Ports Limited
- Immediate past Council Chairman, The Hong Kong Institute of Directors
- Member, Financial Reporting Council
- Member, Operations Review Committee, Independent Commission Against Corruption

Past offices and public service

- Council Chairman, The Hong Kong Institute of Directors (2009-2014)
- Convenor-cum-Member, Financial Reporting Review Panel (2013-2016)
- Member, Standing Committee on Company Law Reform (2010-2016)
- Member, Main Board and Growth Enterprise Market Listing Committee, The Stock Exchange of Hong Kong Limited (2007-2013)

Dr William WONG SC Non-Executive Director

From 1 August 2014
Current appointment expires on 31 July 2018

Other SFC-related positions

- Chairman, Remuneration Committee
- Member, Audit Committee
- Member: Nominations Committee and SFC (HKEC Listing) Appeals Committee

Current offices and public service

- Senior Counsel, Des Voeux Chambers
- Fellow, Chartered Institute of Arbitrators
- Member, Appeal Tribunal, Hong Kong Federation of Insurers
- Member, The Board of Review (Inland Revenue Ordinance)
- Member, Bar Council of the Hong Kong Bar Association
- Chairman, Hong Kong Bar Association Special Committee on China Practice Development
- Member, Hong Kong Bar Association Special Committee on Barristers Qualification Examination
- Member, Hong Kong Bar Association Special Committee on Greater China Affairs
- Trustee, Board of Trustees, United College, the Chinese University of Hong Kong
- Director, The Hong Kong Middle Temple Society

Past public service

- Member, Hong Kong Bar Association Special Committee on Solicitors' Rights of Audience (1998-2000)

Our People

Regulating complex and fast-moving markets in an international financial centre requires a considerable variety of knowledge, skills and expertise. Our staff members include qualified accountants, lawyers and chartered financial analysts (CFAs) with extensive professional experience. We also develop new talent in-house through our Graduate Trainee programme.

Professional perspectives

High-calibre professional standards are the baseline for the effective discharge of our regulatory responsibilities, which range widely from licensing and enforcement to market supervision, gate-keeping and policymaking. Professionals from a wide range of disciplines can be found in many different roles throughout the organisation. Nine of our people talked about their professional development at the SFC.

Accounting connects with many aspects of the SFC's work and fully a quarter of our staff are qualified accountants. Previous accounting experience gives them a keen sense of the market which they use to pick up signs of irregularities when inspecting licensed firms or conducting market surveillance. Similarly, auditing experience cultivates the skills needed to understand different business models when vetting listing or licensing applications.

About one in seven of us hold a legal qualification. As regulators, much of our daily routine involves the law. Legal training gives an edge when it comes to grasping the principles behind our rules, and is useful for our staff who handle disciplinary proceedings against financial institutions and those who ensure appropriate protections for investors in investment products. Sharp analytical and communication skills are crucial when developing policies and drafting rules and regulations.



1. Ron Chiong
4. Kenneth Lau
7. Jimmy Chan

2. Wilson Lo
5. Fiona Tse
8. Suet Peng Siew

3. Stephen Shek
6. Raymond Kwok
9. Annie Chan

Our People

The CFAs on our staff find that their training provides for a more comprehensive understanding of our evolving markets as well as skills they can use to gauge the impact of our policies, such as how new initiatives might affect markets. With their industry knowledge they can readily communicate with external parties when handling complaints against market malpractice and responding to enquiries on specialised topics such as financial technology.

Professionals' emphasis on high ethical standards is also an asset for a public body. Those professionals who joined us from private practice, where they mostly focused on commercial matters in the interests of specific clients, take pride in serving the greater good and upholding the public's expectations of our expertise, integrity and impartiality. Fostering an inclusive environment is important to make the most of professional skills and expertise, as diversity provides for broader perspectives when reaching decisions. Doing the right thing for the markets is the shared mission that drives us forward.

Developing talent

Launched in 2009, our Graduate Trainee programme is the gateway for university graduates to join the SFC. To find out more, we spoke with four members of the first intake who are now in managerial roles.

Over the course of three years, trainees rotated through different sections of the organisation before being assigned a full-year placement in a specific role. They also led volunteering activities and other staff events to promote workplace quality and work-life balance.

They especially appreciated well-structured training which imparted technical knowledge as well as soft skills. The broad exposure provided by the rotations



Samuel Chan, Siki Lin, Mandy Chang and Aico Li

helped them form an overall understanding of our work, while handling front-line duties sharpened their problem-solving abilities. Trainees also learned from personal mentors who shared their experience and knowledge.

One major benefit of the structured programme was that it allowed trainees to identify their own interests and abilities before being assigned to a specific area. Over the longer term, this approach develops staff who have a strong regulator's mindset, thereby sustaining our professional culture.

The programme has become an essential component of our people development strategy, ensuring a constant intake of fresh graduates who introduce new ideas and contribute to a dynamic working environment. The former trainees all agreed that it provides a unique and challenging opportunity to join a specialised regulatory body.

Highlights of the Year



Asia Pacific Takeovers Regulators Conference



First L&I product listing ceremony



IOSCO Board meeting

Photo credit: IOSCO General Secretariat

May 2016

- IOSCO appoints the SFC's Chief Executive Officer Mr Ashley Alder as Chairman of its Board.
- Mr Thomas Atkinson is appointed Executive Director of Enforcement.
- The SFC hosts the fourth Asia Pacific Takeovers Regulators Conference.
- Formal adoption of the revamped authorisation process for unit trust and mutual fund applications and the six-month application lapse policy for mandatory provident fund and pooled retirement fund products.

June 2016

- Ms Julia Leung is appointed Executive Director of Intermediaries.
- The gazettal of an amendment ordinance enables the introduction of a new open-ended fund company structure in Hong Kong.
- Authorisation of the first batch of leveraged and inverse products for listing on SEHK.
- The SFC and HKEX jointly issue a consultation on proposed enhancements to SEHK's decision-making and governance structure for listing regulation.

August 2016

- Ms Christina Choi is appointed Executive Director of Investment Products.

September 2016

- Implementation of mandatory clearing and related record-keeping obligations for over-the-counter derivatives.

October 2016

- The SFC hosts the IOSCO Board meeting.

November 2016

- The Market Misconduct Tribunal concludes its first case involving breaches of the disclosure obligations imposed on listed companies.
- Launch of a consultation on proposals to enhance asset management regulation and point-of-sale transparency.
- First SFC Regtech and Fintech Contact Day.

Highlights of the Year



SFC Regtech and Fintech Contact Day



Shenzhen-Hong Kong Stock Connect launch



Manager-In-Charge industry briefing

December 2016

- Trading through Shenzhen-Hong Kong Stock Connect commences.
- The SFC signs a Memorandum of Understanding on mutual recognition of funds with FINMA.
- An SFC-SEHK joint press release cautions the market about our close scrutiny on highly dilutive rights issues and open offers.
- Introduction of the Manager-In-Charge initiative.
- New circulars clarify licensees' existing suitability obligations.
- Relaunch of the SFC's *Enforcement Reporter*.

January 2017

- The SFC and SEHK issue a joint statement on GEM-related regulatory issues. The SFC also releases guidance to intermediaries on the standards of conduct expected of sponsors, underwriters and placing agents when listing and placing new GEM stocks.

February 2017

- Requirement that all individuals submit their licensing applications, notifications and annual returns via the SFC Online Portal takes effect.

March 2017

- Publication of a consultation on proposed changes to the professional investor regime.
- Release of consultation conclusions on proposals to enhance the position limit regime for futures and options contracts.
- The SFC provides further guidance on its regulatory approach to GEM listing applications.

FINMA: The Swiss Financial Market Supervisory Authority
 GEM: Growth Enterprise Market
 HKEX: Hong Kong Exchanges and Clearing Limited
 IOSCO: International Organization of Securities Commissions
 L&I: Leveraged and inverse
 SEHK: The Stock Exchange of Hong Kong Limited

Operational Review

We endeavour to ensure stability, competitiveness and orderliness in the financial markets through our principal areas of work: intermediaries, investment products, listings and takeovers, enforcement, and market infrastructure.



Overview

The following tables highlight our work during 2016-17. More details are provided in subsequent chapters.

Regulation	
Listing regulation	Launched a joint consultation with Hong Kong Exchanges and Clearing Limited (HKEX) on proposed enhancements to The Stock Exchange of Hong Kong Limited's (SEHK) decision-making and governance structure for listing regulation
	Issued a joint press release with SEHK cautioning the market about highly dilutive rights issues and open offers. Also issued two statements on GEM ¹ -related regulatory issues to ensure new applicants' compliance with the listing rules and provide further guidance on our regulatory approach
Senior management accountability	Introduced the Manager-In-Charge initiative to clarify licensed firms' senior management accountability with new requirements taking effect on 18 April 2017
Client agreement requirements	Requirements including the incorporation of a new clause in client agreements to ensure that financial products are reasonably suitable took effect on 9 June 2017
Suitability obligations	Clarified existing suitability obligations and provided guidance on their application under certain scenarios
Asset management	Launched a public consultation on proposals to enhance the regulation of the asset management industry and point-of-sale transparency
Liquidity risk management	Issued a circular to set out principles and good practices for fund managers to ensure effective liquidity risk management of SFC-authorized funds
Professional investor rules	Launched a public consultation on proposed enhancements to rules for prescribing professional investors
Position limits	Concluded a consultation on proposed enhancements to the position limit regime for futures and options contracts which took effect on 1 June 2017
OTC derivatives	Implemented the second stage of the over-the-counter (OTC) derivatives reform, introducing mandatory clearing and related record-keeping obligations in September 2016
OFC	The gazettal of the Securities and Futures (Amendment) Ordinance 2016 enabled the introduction of a new open-ended fund company (OFC) structure in Hong Kong

Intermediary licensing, conduct and practices	
Licensing	The total number of licensees and registrants in Hong Kong reached a record high of 42,872
Mandatory online submissions	Required all individuals to submit their licensing applications, notifications and annual returns via the SFC Online Portal from 1 February 2017
On-site inspections	Conducted 312 risk-based on-site inspections of intermediaries
Thematic reviews	Issued a circular on algorithmic trading and commenced reviews of alternative liquidity pools as well as best execution and client facilitation services

¹ Growth Enterprise Market.

Overview

Market development	
Stock Connect	Trading under Shenzhen-Hong Kong Stock Connect commenced on 5 December 2016
Mutual recognition of funds	Signed a Memorandum of Understanding (MoU) with the Swiss Financial Market Supervisory Authority on mutual recognition of funds, allowing eligible Swiss and Hong Kong public funds to be distributed in the other market through a streamlined vetting process
Fund authorisation	Formally adopted the initiatives to enhance the authorisation process for new fund applications and for new mandatory provident funds and pooled retirement fund products
ETFs	Authorised the first futures-based crude oil exchange-traded funds (ETFs), the first two German UCITS ² ETFs cross-listed in Hong Kong and the first batch of ETFs with US dollar, Hong Kong dollar and renminbi trading counters
L&I products	Authorised the first batch of leveraged and inverse (L&I) products tracking foreign stock indices in June 2016 and the first batch tracking Hong Kong stock indices in March 2017
Futures contracts	Approved HKEX's proposal to introduce the first exchange-traded fixed income futures contract referenced to Mainland interest rates

Enforcement	
Surveillance	Made 8,960 requests for trading and account records from intermediaries as a result of surveillance of untoward price and turnover movements
Investigations	Completed 591 investigations and laid 46 criminal charges against eight individuals and two corporations and secured convictions against two persons and two corporations
Disciplinary actions	Took disciplinary action against 54 licensed corporations and individuals with total fines amounting to \$93 million, imposed bans on 25 individuals, and suspended and revoked the licences of eight persons for various wrongdoing
Notable cases	In two cases involving internal control failures, reprimanded Morgan Stanley Hong Kong Securities Limited and The Hongkong and Shanghai Banking Corporation Limited, and fined them \$18.5 million and \$2.5 million respectively
	Reprimanded State Street Global Advisors Asia Limited and two JP Morgan entities, and fined them \$4 million and \$5.6 million respectively for separate regulatory breaches
	Reprimanded and fined BNP Paribas Wealth Management \$4 million for overcharging its clients
	The Market Misconduct Tribunal (MMT) ruled that Greencool Technology Holdings Limited's founder and former chairman, and four of its senior executives disclosed false or misleading information
	The MMT found Andrew Left of Citron Research guilty of disclosing false or misleading information in a research report on Evergrande Real Estate Group Limited

² Undertakings for collective investment in transferable securities.

Overview

Listings, takeovers and corporate conduct	
Listing applications	Reviewed 245 listing applications received via SEHK
Takeovers matters	Supervised 494 takeovers-related transactions and applications
Corporate conduct	<p>In monitoring company announcements, used our information gathering power under section 179³ on 106 occasions. Established a cross-divisional working group to utilise all our available regulatory tools and capabilities to address listed company-related misconduct</p> <p>In the first concluded case commenced by the SFC in relation to late disclosure of inside information, the MMT fined AcrossAsia Limited and two of its former senior executives a total of \$2 million</p>

Regulatory collaboration	
International	<p>Mr Ashley Alder, our Chief Executive Officer, was appointed as Chairman of the Board of the International Organization of Securities Commissions (IOSCO) in May 2016</p> <p>Hosted the IOSCO Board meeting and its enforcement committee meeting in Hong Kong</p>
Regional	Hosted the fourth Asia Pacific Takeovers Regulators Conference, a forum for takeovers regulators to discuss recent developments in the region
Mainland China	Organised high-level meetings and joint seminars with the China Securities Regulatory Commission to strengthen cooperation
MoUs	<p>Entered into an MoU with the US Financial Industry Regulatory Authority and a separate MoU with the US Securities and Exchange Commission on mutual assistance in the supervision and oversight of regulated entities</p> <p>Signed a memorandum of cooperation with the Financial Services Agency of Japan to consult, cooperate and exchange information regarding certain types of central counterparties</p>

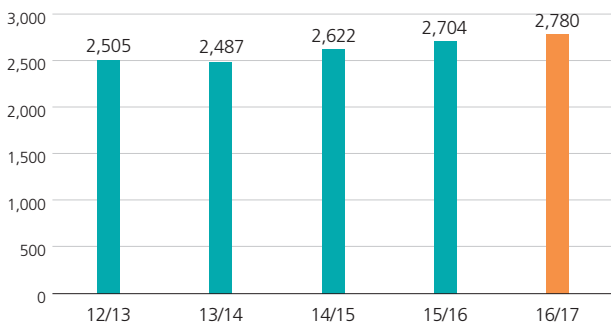
Stakeholder communication	
Financial technology	Hosted the first SFC Regtech and Fintech Contact Day with a focus on how emerging regulatory and financial technologies intersect with securities regulation
Industry briefings	Organised 40 workshops to explain our rules
Industry publications	<p>Published 13 thematic publications</p> <p>Relaunched the <i>Enforcement Reporter</i> as a biannual publication on our enforcement work to increase transparency and promote a compliance culture</p>

³ Section 179 of the Securities and Futures Ordinance gives the SFC the power to compel the production of records and documents from persons related to a listed company.

SFC activity data

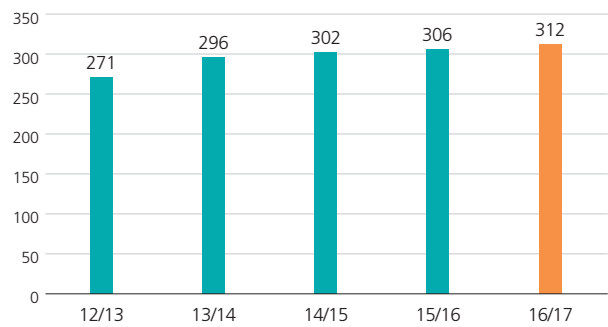
These charts are intended to show at a glance some top-line data on our activities. See Breakdown of SFC activity data on pages 159-165 for more details.

Authorised collective investment schemes

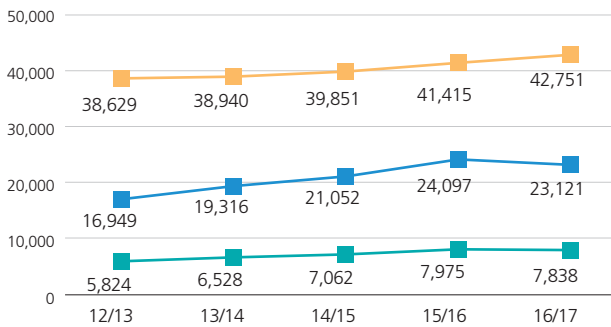


Note: Figures represent a snapshot view as at each financial year-end.

Risk-based on-site inspections of intermediaries

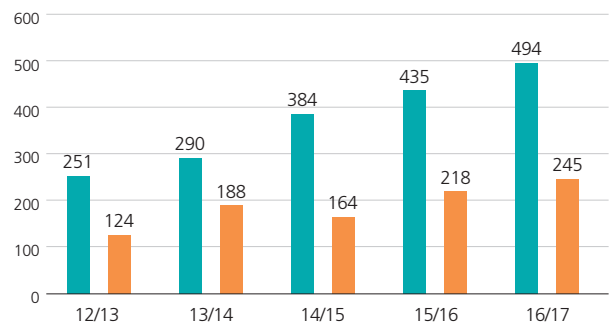


Licensing



- Total number of SFC licensees as at each financial year-end
- Applications to conduct new regulated activity
- Applications for SFC licences

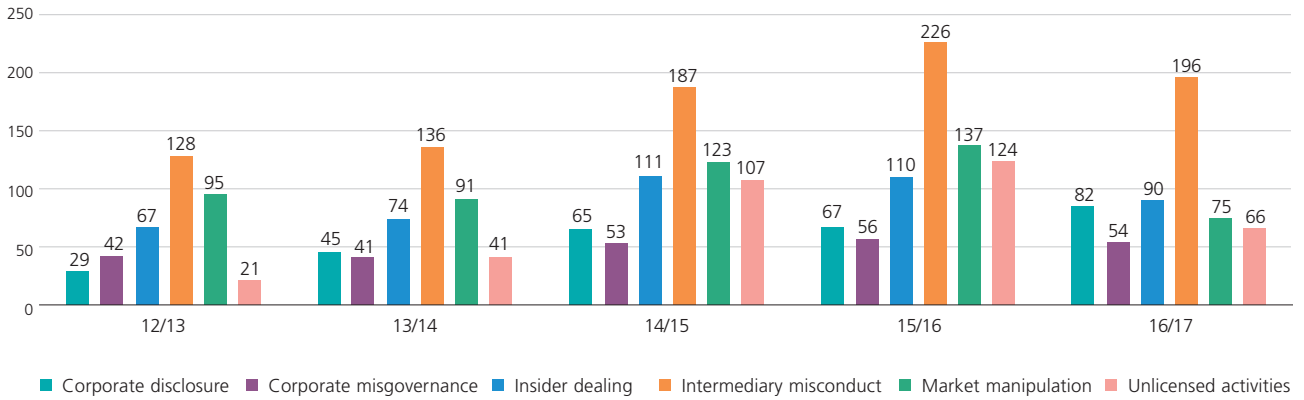
Takeovers and listing applications



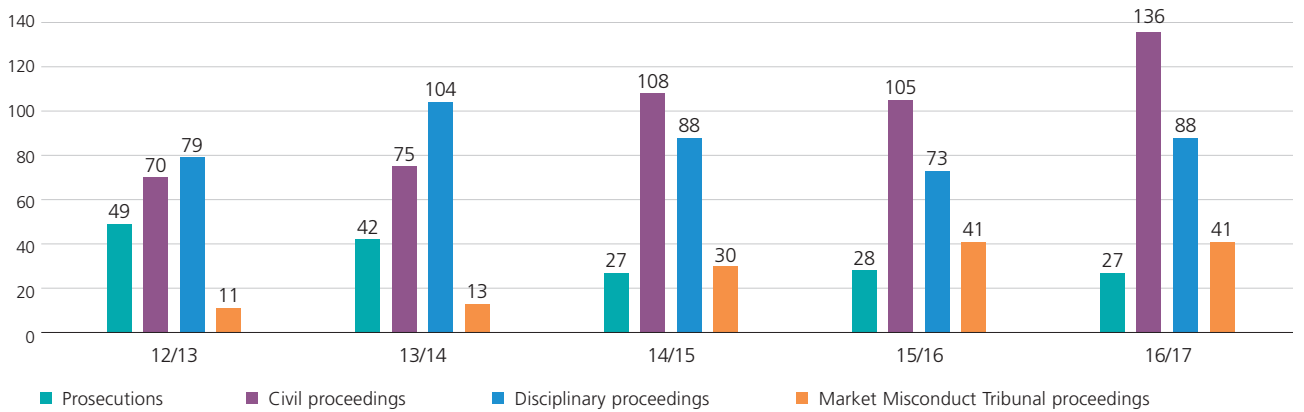
- Takeovers and share buy-backs transactions handled
- Listing applications reviewed under the dual filing regime

SFC activity data

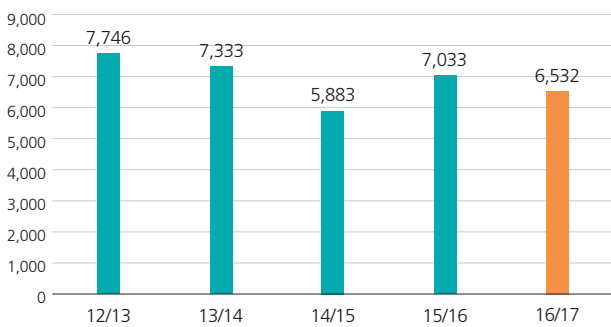
Investigations



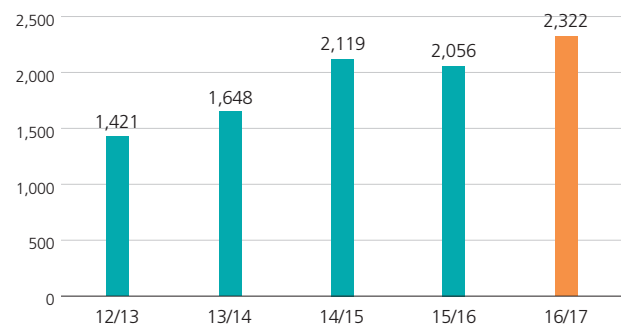
Individuals/corporations subject to enforcement action



General public enquiries



Complaints against intermediaries and market activities



Intermediaries

We license qualified corporations and individuals to operate as intermediaries in our markets under the Securities and Futures Ordinance (SFO). As part of our ongoing supervision, we conduct on-site inspections and off-site monitoring of licensed corporations¹ with a particular focus on prudential and business conduct issues.

Licence applications

The number of corporate and individual licensees continued to grow during the year. We received 7,838 new licence applications², down 2% from last year, while the number of new corporate applications rose to 387 from 251.

As of 31 March 2017, the number of licensees and registrants totalled 42,872, up 3% from a year earlier, while the number of licensed corporations increased 13% to 2,484 in the same period. These were both record highs since the implementation of the regulatory regime under the SFO on 1 April 2003.

Annual licensing fees have been waived since 2012 and the current waiver extends to 31 March 2018.

To enhance the efficiency of the licensing application process, all individuals' licensing applications, notifications and annual returns must be submitted to us via the SFC Online Portal starting 1 February 2017. In preparation, we enhanced the portal and our licensing forms and conducted six briefing sessions for more than 600 industry participants.

Licensees

	Corporations [#]		Representatives		Responsible Officers		Total [#]		Change
	As at 31.3.2017	As at 31.3.2016	As at 31.3.2017	As at 31.3.2016	As at 31.3.2017	As at 31.3.2016	As at 31.3.2017	As at 31.3.2016	
Stock exchange participants	512	470	11,068	11,183	1,830	1,652	13,410	13,305	0.8%
Futures exchange participants	112	111	921	944	196	165	1,229	1,220	0.7%
Stock exchange and futures exchange participants	69	67	4,914	4,797	522	498	5,505	5,362	2.7%
Non-stock/non-futures exchange participants	1,791	1,560	16,086	15,772	4,730	4,196	22,607	21,528	5%
Total	2,484	2,208	32,989	32,696	7,278	6,511	42,751	41,415	3.2%

[#] These figures exclude 121 registered institutions as at 31 March 2017 and 119 as at 31 March 2016.

¹ Broadly, licensed corporations include investment banks, securities brokers, futures dealers, leveraged forex traders, fund managers, investment advisers, sponsors and credit rating agencies.

² The figure does not include applications for provisional licences and registered institutions. During the year, we received 3,906 provisional licence applications compared with 4,378 in the previous year.

Enhancing regulatory standards

Senior management accountability

With a view to foster a stronger sense of senior management responsibility and drive proper conduct and behaviour, we issued a circular in December 2016 to introduce the Manager-In-Charge (MIC) initiative. Under new requirements which took effect on 18 April 2017, corporate licence applicants must submit management structure information and organisational charts to the SFC, while existing licensed corporations are required to submit this information by 17 July 2017.

The circular sets out who should be regarded as members of senior management of licensed corporations, which are expected to designate fit and proper individuals to be MICs of each of eight core functions. MICs of overall management oversight and key business lines are expected to be responsible officers in respect of the regulated activities they oversee, or should have applied to become responsible officers by 16 October 2017.

To facilitate the industry's understanding of the initiative, we briefed business and industry associations and addressed the Alternative Investment Management Association Asia Pacific (AIMA APAC) Annual Forum 2017. We organised a series of workshops with about 3,000 participants in early 2017 and also published more than 40 frequently asked questions (FAQs) to provide additional guidance.

Intermediaries



Ms Julia Leung, Executive Director of Intermediaries, addresses the AIMA APAC Annual Forum 2017 on the MIC regime

Suitability obligations

In circulars and updated FAQs issued in December 2016, we clarified that posting an advertisement for an investment product or disseminating a research report may not trigger the suitability obligations³ in the absence of a direct communication with a client. We also provided guidance and examples of when suitability obligations would be triggered by interactive communications between licensees and clients. In addition, we issued further guidance on licensees' compliance with suitability obligations such as product due diligence and the documentation of the rationale for investment recommendations⁴.

New client agreement requirements

From 9 June 2017, all intermediaries are required to incorporate a new clause into client agreements to ensure that the financial products which they solicit the sale of, or recommend, to clients are reasonably suitable for them. Also, intermediaries are not allowed to incorporate any clause in the client agreements which is inconsistent with their obligations under the Code of Conduct or mis-describe their services to clients⁵. A circular and FAQs published in September 2016 provided more guidance on the new requirements.

Account opening practices

In addition, we issued an advisory circular to provide more guidance to the industry on compliance with the regulatory requirements for opening accounts, particularly the Code of Conduct requirement to verify client identities in non-face-to-face situations such as on-boarding clients online.

³ This refers to the requirement in paragraph 5.2 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (Code of Conduct) to ensure the suitability of a recommendation and solicitation made to a client is reasonable.

⁴ See also Investment products on page 54.

⁵ These requirements were introduced following an 18-month transitional period to cater for circumstances where intermediaries, despite their best efforts, encounter practical difficulties in re-executing agreements with existing clients.

⁶ See also Listings and takeovers on page 55.

⁷ The survey collected information on OTC derivatives activities carried out by intermediaries and their affiliated companies.

GEM initial public offerings

As part of our initiative to address the significant price volatility of listings on the Growth Enterprise Market (GEM), we conducted a thematic review of selected placing agents whose practices had resulted in a high concentration of shareholdings amongst a small number of placees. Based on our findings and after soft consultation with the industry, we issued guidelines⁶ on 20 January 2017 to remind placing agents and sponsors of their obligations under the Code of Conduct and Corporate Finance Adviser Code of Conduct and to provide guidance on the standards of conduct expected of them when arranging placings for GEM listings.

We issued a circular to financial advisers in relation to valuations in corporate transactions involving listed companies in May 2017 to coincide with the issuance of a guidance note on directors' duties in the context of such valuations.

Professional investor rules

To enhance market transparency and promote consistency in the application of the Professional Investor Rules, we launched a one-month public consultation in March 2017 on proposals which aim to standardise the rules for prescribing professional investors. In specifying the types of assets to be counted towards meeting the monetary threshold, expanding the definition of corporations as professional investors and allowing alternative evidence to demonstrate professional investor qualification, the proposed amendments cater for the business needs of intermediaries and their clients without compromising investor protection. Consultation conclusions will be published in due course.

Financial resources rules

Following a 2015 public consultation and a 2016 survey⁷, we are finalising proposed changes to the Securities and Futures (Financial Resources) Rules (FRR) relating to capital and other prudential requirements for licensed corporations engaging in over-the-counter (OTC) derivatives activities. We target to issue the consultation conclusions later this year with necessary modifications and additional proposals to take into account the comments and suggestions received.

Intermediaries

Regulated activities

In Hong Kong, companies and individuals must be licensed by or registered with the SFC before they can engage in regulated activities, as defined under the SFO, in the securities and futures markets and the non-bank leveraged foreign exchange market. The following table lists the current 10 types of regulated activities together with examples.

1 Dealing in securities

- Trade stocks, stock options, bonds or mutual funds for clients
- Place and underwrite securities

2 Dealing in futures contracts

- Trade futures contracts (eg, index or commodities futures) for clients

3 Leveraged forex trading

- Buy or sell foreign exchange for clients on a margin basis

4 Advising on securities

- Give investment advice to clients relating to trading securities
- Issue research reports or analyses on securities

5 Advising on futures contracts

- Give investment advice to clients relating to trading futures contracts
- Issue research reports on futures contracts

6 Advising on corporate finance

- Act as a sponsor for a listing applicant
- Advise on the Codes on Takeovers and Mergers and Shares Buy-backs and compliance with the Listing Rules

7 Automated trading services

- Operate an electronic trading platform for matching client orders

8 Securities margin financing

- Provide financing to clients for the purchase of stocks using clients' stocks as collateral

9 Asset management

- Manage public or private funds
- Manage funds or a portfolio of securities or futures contracts for clients on a discretionary basis

10 Credit rating services

- Prepare reports on the creditworthiness of companies, bonds and sovereigns

Intermediaries

Loss-making brokers

In view of the increasing number of loss-making brokers, we adopted a pre-emptive approach to the supervision of the financial risks of brokers which are thinly capitalised. We aim to motivate these brokers to maintain a sufficient liquid capital buffer to cover their losses and also raise their awareness of the need to ensure compliance with the FRR at all times. Where appropriate, we may consider taking proportionate regulatory action to manage their risk of breaching the FRR, such as requiring them to provide voluntary undertakings or imposing appropriate licensing conditions to ensure compliance.

Financial resolution regime

The Financial Institutions (Resolution) Ordinance (FIRO), which establishes a regime in Hong Kong for the orderly resolution of financial institutions⁸, was passed by the Legislative Council and gazetted in June 2016. We continued to work with the Financial Services and the Treasury Bureau, the Hong Kong Monetary Authority (HKMA) and the Insurance Authority to prepare for the new regime, which is expected to come into operation in the second half of 2017. Together with the other authorities, we began a two-month joint consultation in November 2016

Breaches noted during on-site inspections

	2016/17	2015/16	2014/15
Internal control weaknesses ^a	598	571	307
Breach of Code of Conduct ^b	441	388	236
Non-compliance with anti-money laundering guidelines	201	223	117
Failure to safekeep client money	62	45	28
Failure to safekeep client securities	58	41	40
Others	395	416	381
Total	1,755	1,684	1,109

^a Comprised deficiencies in management review and supervision, operational controls over the handling of client accounts, segregation of duties, information management, adequacy of audit trail for internal control purposes, among other weaknesses.

^b Commonly related to risk management, record keeping, client agreements, safeguarding of client assets and management responsibilities.

Note: Also see Table 4 in Breakdown of SFC activity data on page 161 for more details.

⁸ Financial institutions within the regime's scope include systemically important financial institutions in the banking, insurance, and securities and futures sectors, as well as certain financial market infrastructure.

⁹ The Protected Arrangements Regulation is designed to impose appropriate constraints on the authorities to mitigate the risk that resolution powers under the FIRO are exercised in a manner that might undermine the economic effect of certain key specified financial arrangements.

on the Protected Arrangements Regulation⁹ to be made as subsidiary legislation under the FIRO. The consultation conclusions were issued in April 2017.

Cybersecurity

In response to the increase in hacking incidents reported by securities brokers in recent years, we launched a public consultation in May 2017 on proposed baseline requirements to reduce and mitigate hacking risks associated with internet trading. Seminars were organised to brief the industry on the consultation following its launch. The proposed baseline requirements provide further guidance on existing requirements in the Code of Conduct while also leveraging and consolidating the various controls suggested in cybersecurity circulars issued since early 2014. A key proposal mandates two-factor authentication to verify client identity at login.

The consultation followed a thematic review in late 2016 of the resilience to hacking risks of brokers engaged in internet trading. The review comprised a fact-finding survey, onsite inspections, discussions with system vendors and benchmarking against local and overseas regulatory requirements and market practices. We shared our findings and discussed the proposed baseline requirements in industry workshops and meetings with broker associations in January 2017.

Intermediaries

Industry trends

We completed a number of ad hoc surveys and assessments during the year, including an investment product sales survey, a study of retail futures brokers, and money laundering and terrorist financing risk assessment of the securities sector. We also commenced a review of our current data and information collection channels, and specifically the need to collect any additional information about the operational and control measures which licensed corporations adopt to manage risks associated with their business activities.

Sale of non-exchange traded investment products

We conducted a biennial survey on the sale of non-exchange traded investment products¹⁰ and published the results in December 2016. By enabling us to better

understand the industry landscape and obtain an overview of the types and value of investment products sold, this survey helps us supervise the selling practices of licensed corporations.

Futures brokers

We conducted a fact-finding exercise on the business profiles and risk management controls and practices of a number of exchange participants of Hong Kong Futures Exchange Limited (HKFE) that mainly serve retail clients. The results of the exercise were published in April 2017. We will provide further guidance on the key areas of concern identified, such as the assessment criteria for established clients under the rules of the HKFE and setting-off arrangements between a client's different trading accounts.

Statistical information and financial position of the Hong Kong securities industry^a

	As at 31.12.2016	As at 31.12.2015	As at 31.12.2014
Securities dealers and securities margin financiers	1,104	1,002	951
Active clients	1,556,695	1,501,816	1,339,192
Total assets (\$ million)	1,078,521	1,089,976	1,080,545

	12 months to 31.12.2016	12 months to 31.12.2015	12 months to 31.12.2014
Total value of transactions ^b (\$ million)	63,495,134	84,787,467	57,970,022
Total operating profit (\$ million)	14,131	26,404	15,390

^a Data were extracted from the monthly financial returns submitted under the Securities and Futures (Financial Resources) Rules by 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.

^b The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

Note: Also see Table 8 in Breakdown of SFC activity data on page 165 for more details.

¹⁰ Previous surveys were conducted and published in 2012 and 2014.

Intermediaries



Anti-money laundering

We completed an assessment of the securities sector as part of the money laundering and terrorist financing risk assessment exercise in Hong Kong conducted according to the Financial Action Task Force Recommendations. During the exercise, we engaged with other regulators, law enforcement agencies and industry practitioners. We also participated in a joint agency workshop in which the World Bank provided comments on our assessment. The assessment report is expected to be issued in 2017. Additionally, we gave seminar presentations on anti-money laundering to about 1,800 industry participants.

Licensing Handbook

To provide easier access to licensing information, we published a new Licensing Handbook in April 2017 consolidating information previously issued in our Licensing Information Booklet and in a number of FAQs and circulars. The licensing section of our website was also revamped to make it more user-friendly.

Net asset value of compensation funds

	As at 31.3.2017 (million)	Change	As at 31.3.2016 (million)	Change	As at 31.3.2015 (million)
Unified Exchange Compensation Fund ^a	72.9	2.1%	71.4	2%	70
Investor Compensation Fund ^b	2,280.4	3.1%	2,210.9	-0.2%	2,214.8
Total	2,353.5	3.1%	2,282.3	-0.1%	2,284.8

^a See pages 145-158 for the financial statements of the Unified Exchange Compensation Fund (UECF). The Investor Compensation Fund (ICF) was established by the SFO on 1 April 2003 to replace the UECF. After settlement of all claims against the UECF and its other liabilities, any remaining balance will be transferred to the ICF.

^b See pages 126-144 for the financial statements of the ICF.

Investor Compensation Fund

The Investor Compensation Company Limited (ICC), a wholly-owned SFC subsidiary, received 10 claims this year, including five against a defaulting broker on which we issued a Restriction Notice in January 2015. The ICC processed 19 claims during the year.

Investor compensation claims

	2016/17	2015/16	2014/15
Received	10	39	430 ^a
Processed	19	450	5
– Compensation payments made	14	413	2
– Rejected	4	19	1
– Withdrawn	1	4	2 ^b
– Reconsidered	0	14	0

^a Including 427 claims against a broker on which we issued a Restriction Notice in January 2015.

^b Including the last claim related to a broker which defaulted in 2007.

During the year, we conducted a study of the current investor compensation regime which helped us consider enhancements to provide better protection for investors. A public consultation is planned on proposed changes to the regime.

Intermediaries

Intermediary inspection focuses

While all licensed corporations are subject to risk-based routine inspections, we increasingly use thematic reviews to address specific and more complex risks in the market.

Areas of our inspection focus during the year included:

Selling practices

We noted major deficiencies and non-compliance in the sale of certain investment products including improper product due diligence, inadequate know-your-client processes and insufficient suitability assessments. For example, some corporate bonds carry complex features or inherent risks such as the lack of a secondary market. We initiated investigations into the more serious breaches. We also issued circulars and FAQs to provide further guidance on licensed firms' suitability obligations.

Cybersecurity

In early 2017, we completed a thematic review of the resilience to hacking risks of brokers engaged in internet trading. After considering local and overseas market practices and regulatory requirements, the effectiveness and relevance of various controls, implementation costs and the potential impact on the user experience, we proposed baseline requirements, including two-factor authentication for client login, to help internet brokers reduce and mitigate hacking risks.

Algorithmic trading

A thematic review of licensed firms assessed whether they have appropriate and specific policies, procedures and controls in place to ensure compliance with the algorithmic trading requirements stipulated in the Code of Conduct. Following the review, our observations, the identified good practices and further guidance to elaborate on the algorithmic trading requirements in the Code of Conduct were shared with the industry in a December 2016 circular as well as a May 2017 forum.

Alternative liquidity pools

In September 2016, we commenced a thematic review of the operations of selected licensed corporations' alternative liquidity pools (ALPs) to assess whether they are in compliance with the relevant requirement in the Code of Conduct and to gather information about market developments. Our observations and good practices will be shared with the industry in 2017.

Best execution and client facilitation

A November 2016 circular notified the industry of the start of a thematic review in response to the market's demand for more prescriptive guidelines and further regulations related to best execution and client facilitation. The review focuses on understanding current market practices and assessing licensed corporations' compliance controls. We will share our findings with the industry in a thematic report and issue further guidance.

Conflicts of interest – Review with HKMA

In February 2017, we completed a joint offsite review with the HKMA which assessed potential conflicts of interest arising from the sale of in-house products among the licensed corporations and the registered institution within a global financial group. Deficiencies were identified in structured products distribution, product due diligence and management supervision, among other areas.

Investment banks and sponsors

Our inspections of selected investment banking groups revealed control deficiencies and non-compliance related to ALPs, corporate governance, front-office supervision and client facilitation trades, as well as the inappropriate involvement of research analysts in an initial public offering (IPO) deal. Our inspections of IPO sponsors revealed substandard due diligence and issues with the disclosure of information in prospectuses.

Broker activities

We identified non-compliance with the requirements relating to licensing, the Code of Conduct and the anti-money laundering guideline¹ by some introducing brokers and their connected execution brokers. We issued a circular outlining our concerns and preventive measures. A separate circular followed on our inspections of licensed firms' business activities under Shanghai-Hong Kong Stock Connect.

Anti-money laundering

We conducted thematic inspections of anti-money laundering and counter-terrorist financing compliance. A January 2017 circular to licensed corporations highlighted common deficiencies in firm-level risk assessment, customer due diligence, monitoring and reporting suspicious transactions and monitoring compliance. Practical examples and detailed guidance were provided to help strengthen anti-money laundering and counter-terrorist financing systems.

¹ The Guideline on Anti-Money Laundering and Counter-Terrorist Financing.

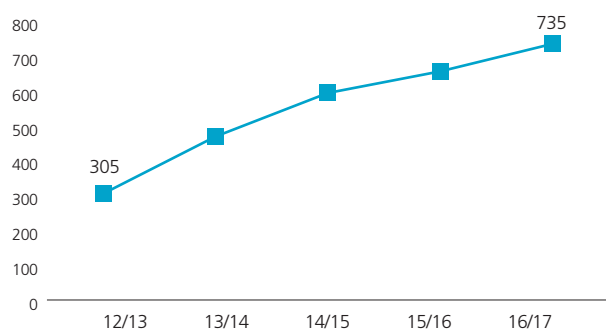
Investment products

We maintain a robust regulatory regime for authorising and regulating investment products offered to the public and monitor their ongoing compliance with regulatory requirements.

Our major policy initiatives are formulated to facilitate market growth and product innovation while supporting the overall goal of developing Hong Kong as a full-service asset management centre and preferred place of funds domicile.

Hong Kong-domiciled SFC-authorized funds

+140%
in five years



Facilitating market development

Authorisations

A total of 2,780 SFC-authorized collective investment schemes (CIS) were on offer to the public as of 31 March 2017. During the year, we authorised 202 CIS, comprising 180 unit trusts and mutual funds, two investment-linked assurance schemes (ILAS) and 20 mandatory provident fund (MPF) pooled investment funds.

We also authorised 100 unlisted structured investment products for public offering during the year.

Authorised CIS

	As at 31.3.2017	As at 31.3.2016	As at 31.3.2015
Unit trusts and mutual funds	2,203	2,133	2,045
ILAS	300	301	294
Pooled retirement funds	34	34	35
MPF schemes	35 ^a	37	37
MPF pooled investment funds	182 ^b	173	185
Others	26 ^c	26	26
Total	2,780	2,704	2,622

^a 56 authorised constituent funds under these MPF schemes were related to the default investment strategy (DIS).

^b Of which 20 were DIS-related.

^c Comprising 15 paper gold schemes and 11 real estate investment trusts (REIT).

Unlisted structured investment products

	2016/17	2015/16	2014/15
Unlisted structured investment products ^a	100	94	108
Authorisations granted under section 105 of the SFO ^b	84	85	94

^a On a "one product per key facts statement" basis, the number of unlisted structured investment products authorised during the period, most of which were equity-linked investments and deposits.

^b Offering documents and advertisements of unlisted structured investment products offered to the Hong Kong public.

Investment products

Renminbi products

This year, we authorised one unlisted fund and one exchange-traded fund (ETF) investing onshore in the Mainland securities markets¹. The total number of these authorised unlisted funds and ETFs stood at 67 and 26 respectively, and the aggregate RQFII quota utilised by these funds amounted to RMB10.9 billion as of 31 March 2017.

During the year, we authorised 98 unlisted structured investment products that can be denominated in renminbi, including a gold-linked deposit, or that can be linked to renminbi-denominated reference assets.

ETFs and leveraged and inverse products

We authorised 46 new ETFs for listing on The Stock Exchange of Hong Kong Limited, including the first futures-based crude oil ETF, the first two German UCITS² ETFs cross-listed in Hong Kong and the first batch of ETFs with US dollar, Hong Kong dollar and renminbi trading counters.

In June 2016, we authorised the first batch of leveraged and inverse (L&I) products tracking foreign stock indices and in March 2017 we authorised the first batch tracking Hong Kong stock indices. A total of 30 L&I products were authorised during the year.

REITs

As of 31 March 2017, there were 11 SFC-authorised REITs with market capitalisation of about US\$28.9 billion.

MPF schemes

To prepare for the implementation of the default investment strategy (DIS) launched on 1 April 2017, together with the Mandatory Provident Fund Schemes Authority we authorised 28 DIS-related constituent fund applications and seven DIS-related pooled investment fund applications.

SFC-authorised renminbi investment products

	As at 31.3.2017
Unlisted products	
Unlisted funds investing onshore through RQFII, Stock Connect and CIBM	67
Unlisted funds investing primarily in offshore dim sum bonds, fixed income securities and money market instruments	19
Paper gold schemes with renminbi features	1
Recognised Mainland funds under Mainland-Hong Kong Mutual Recognition of Funds	49
Unlisted structured investment products with renminbi features ^a	98
Listed products	
ETFs investing onshore through RQFII and Stock Connect ^b	26
Renminbi gold ETFs ^c	1
Renminbi REITs	1

^a The number is on a "one product per key facts statement" basis.

^b These ETFs adopt a dual-counter model, offering investors both a Hong Kong dollar counter and a renminbi counter for secondary trading purposes.

^c Only includes gold ETF denominated in renminbi.

¹ These unlisted funds and ETFs are renminbi-denominated funds which primarily invest in Mainland securities markets through the Renminbi Qualified Foreign Institutional Investor (RQFII) quota, Stock Connect and the China Interbank Bond Market (CIBM).

² Undertakings for collective investment in transferable securities.

Investment products



Ms Christina Choi, Executive Director, Investment Products, addresses the Hong Kong Securities and Investment Institute seminar

Streamlined processing

On 9 May 2016, we formally adopted the revamped fund authorisation process for unit trusts and mutual funds and the six-month application lapse policy for MPF products. As of the end of March 2017, the overall average processing time for fund applications under the revamped process decreased by 51% from 4.5 months before the revamp to 2.2 months, with an average processing time of 1.4 months for standard applications and 2.7 months for non-standard applications. The average processing time for MPF constituent funds was 2.9 months³ and none of these applications lapsed.

Also on 9 May 2016, the revamped process was extended to Mainland mutual recognition of funds (MRF) applications which were initially classified as non-standard applications under the two-stream approach given that the Mainland MRF scheme was in the early stage of implementation. The average processing time for these applications under the revamped process until the end of March 2017 was 3.6 months, down 36% from 5.6 months. With effect from 19 December 2016, Mainland MRF applications were classified as standard or non-standard applications. The target average processing time for standard applications is between one to two months.

To facilitate the management of SFC-authorized funds by asset management companies, we are reviewing how our procedures for approving scheme changes and authorising revised offering documents could be further streamlined.

³ Most of these applications were DIS-related constituent fund applications which were highly standardised.

Mutual recognition of funds

Switzerland

On 2 December 2016, we signed a Memorandum of Understanding (MoU) on MRF with the Swiss Financial Market Supervisory Authority. The MoU allows eligible Swiss and Hong Kong public funds to be distributed in the other market through a streamlined vetting process. This marks the first time local Hong Kong funds have direct access to the investing public in a European market.

To facilitate preparations for this arrangement, we held a total of four industry briefings in December 2016 and January 2017. We also issued a circular, frequently asked questions and an information checklist to provide guidance on specific requirements and application procedures.

Mainland China

As of 31 March 2017, we authorised 49 Mainland funds under the Mainland-Hong Kong MRF scheme and the China Securities Regulatory Commission authorised six Hong Kong funds. We continue to work closely with the Mainland authorities in refining the initiative.

Open-ended fund companies

A legal framework for open-ended fund companies (OFCs) in Hong Kong was established following the gazettal of the Securities and Futures (Amendment) Ordinance on 10 June 2016. The OFC regime will provide more flexible choices of investment fund vehicles in addition to unit trusts. We are preparing a consultation on subsidiary legislation and an OFC regulatory code.

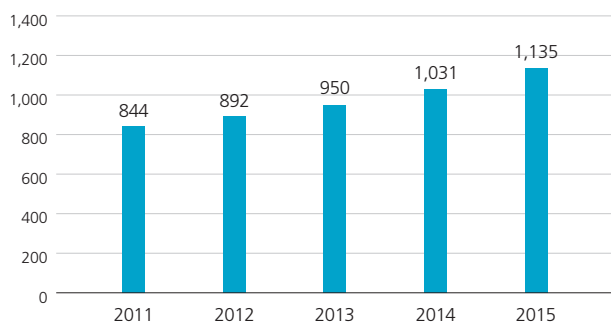
Investment products

Fund management activities

We published the 17th annual Fund Management Activities Survey in July 2016. Amid a tumultuous year for the global markets, Hong Kong's combined fund management business decreased slightly by 1.6% year-on-year to \$17,393 billion as of 31 December 2015.

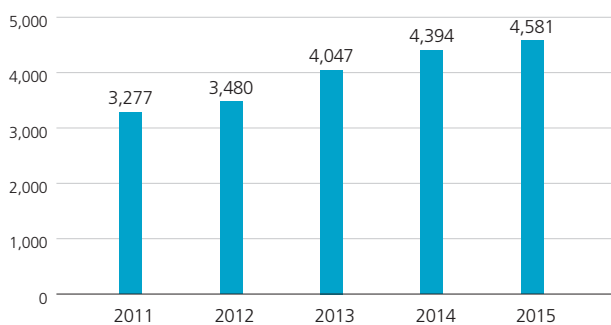
The number of corporations licensed for asset management in Hong Kong increased by 10.1% in 2015, while the number of staff engaged in core asset management activities increased by 4.3%.

Corporations licensed for asset management in Hong Kong



Source: SFC

Staff engaged in core asset management activities



Source: Fund Management Activities Survey

Enhancing regulation

Online distribution and advisory platforms

In view of the increasing popularity of online investment services, we have reviewed how the existing conduct requirements, including the suitability obligations, should be implemented in the context of online distribution and advisory platforms. In this connection, we launched a three-month public consultation on proposed guidelines for online platforms in May 2017.

Asset management

To enhance the regulation of the asset management industry and point-of-sale transparency in Hong Kong, we launched a three-month public consultation in November 2016. We reviewed major international regulatory developments and considered the views of the industry in formulating our proposals. Key topics covered include commissions and independent advice, securities lending and repurchase agreements, custody of fund assets, liquidity risk management and disclosure of leverage by fund managers. We will issue the consultation conclusions after careful review and consideration of the comments received.

To align our regulatory requirements with international developments and standards, we are conducting a holistic review of the Code on Unit Trusts and Mutual Funds with an aim to launch a public consultation on proposed enhancements.

Liquidity risk management

Following a focused review of the liquidity risk management practices of a number of asset managers of SFC-authorized funds, we issued a circular to provide guidance to the industry based on our findings as well as on international regulatory principles and good practices.

Listings and takeovers

We oversee listing and takeovers matters in Hong Kong, including takeovers and merger activities, the dual filing regime for listing applicants, disclosure requirements, corporate conduct and the listing-related functions of The Stock Exchange of Hong Kong Limited (SEHK). We also review listing and takeovers-related policies to promote the development of a fair and orderly securities market in Hong Kong.

Listing policy

Listing regulation

On 17 June 2016, the SFC and Hong Kong Exchanges and Clearing Limited (HKEX) launched a joint consultation on proposed enhancements to SEHK's decision-making and governance structure for listing regulation. The proposals aim to enhance coordination between the SFC and SEHK to proactively address the regulatory needs of Hong Kong's securities market and maintain our competitiveness as an international financial centre. The consultation period ended on 18 November, and the SFC and SEHK are analysing the responses received.

Rights issues and open offers

Together with SEHK, we issued a joint press release in December 2016 cautioning the market that rights issues and open offers which substantially dilute the interests of non-subscribing minority shareholders will be kept under close scrutiny.

Growth Enterprise Market (GEM)

Jointly, the SFC and SEHK conducted a holistic review of the Listing Rules including those relating to GEM. SEHK plans to issue a consultation paper on a review of GEM, in parallel with the release of a concept paper on SEHK's proposal to introduce a New Board.

On 20 January 2017, the SFC and SEHK issued a joint statement on GEM-related regulatory issues including unusual price volatility, high shareholding concentration and headcount planting to ensure new applicants' compliance with GEM Listing Rules. On the same day, we issued guidance to intermediaries

on the standards of conduct expected of sponsors, underwriters and placing agents when listing and placing new GEM stocks.

We issued another statement on 13 March to provide an update and further guidance on our regulatory approach. This includes the way in which we raise concerns directly with listing applicants, sponsors, underwriters and placing agents, and take decisions pursuant to the powers granted to us under the Securities and Futures Ordinance (SFO).



Mr Brian Ho (left), Executive Director, Corporate Finance, at the 17 June SFC-HKEX press briefing

Annual review of SEHK's work

In June 2016, we published a report on our 2015 annual review of SEHK's performance in its regulation of listing matters. The review focused on the decision-making processes and procedures of the Listing Department, particularly in the issuance of Listing Rules-related guidance, processing of reverse takeovers transactions, as well as the monitoring of liquidity provision performance of structured products issuers.

We concluded that SEHK's operational procedures and decision-making processes, other than certain procedures involving the issuance of guidance to the market, were appropriate to enable it to discharge its statutory obligations to maintain an orderly, informed and fair market during the period. The report also identified certain areas for SEHK to enhance its performance.

Listings and takeovers

Initial public offerings (IPOs)

We vet listing applications alongside SEHK under the dual filing regime which allows us to raise enquiries on the basis of insufficient or inadequate disclosures and to object to a listing if it appears to us that it would not be in the interest of the investing public or in the public interest for the securities to be listed (please refer to the sidebar below).

We received 245 listing applications via SEHK during the year – a record high since the dual filing regime commenced on 1 April 2003 and shared with SEHK our comments or concerns on 238 of them. Five listing applications were returned by SEHK, and an eight-week moratorium¹ was imposed, because the application proofs or related documents were not substantially complete.

New listing applications

	2016/17	2015/16	2014/15
Total listing applications ^a	245	218	164
Cases lapsed/withdrawn/rejected during the year	38	26	13
Cases returned ^b	5	3	6 ^c
New listings	148 ^d	131	125

^a Including applications for transfer from GEM to the Main Board (2016/17: 18; 2015/16: 12; 2014/15: 17).

^b These listing applications were returned by SEHK because the application proofs or related documents were not substantially complete.

^c Including one listing application which was returned after 31 March 2015.

^d Including six successful transfers from GEM to the Main Board (2015/16: 12; 2014/15: 8).

Listing applications submitted under the dual filing regime

Under the dual filing regime, listing applicants and listed companies file applications and disclosure materials with the SFC via SEHK. Among the 245 listing applications received during the year, we identified a number of problematic cases in which fundamental issues were not properly identified and addressed before the initial listing applications were submitted.

In two cases, we noted that the reporting accountants engaged for listing applicants' earlier listing attempts raised significant audit issues which remained unresolved when the listing applications lapsed. In both cases, the applicants submitted their current listing applications with a different set of sponsors and reporting accountants about two years after postponing their previous listing plans.

In one case, the applicant was unable to address irregular audit findings identified by, and failed to highlight certain unusual business practices to, its former reporting accountants. This called

into question the truthfulness and fairness of the applicant's financial information, including payments from customers through third-party payers and the cancellation of a purchase of machinery after making a large prepayment.

We had grave concerns about the accuracy of another applicant's financial information in view of the seriousness of the outstanding audit issues raised by its former reporting accountants. These included material differences between its Mainland subsidiaries' financial information filed with Mainland authorities and that set out in the subsidiaries' respective Mainland audit reports.

In a third case, the applicant's shareholders had a history of selling off their entire equity interests in a similar business shortly after listing it, casting doubt on their commitment to the applicant's business and raising questions about whether the listing application was made with a view to manufacturing a shell.

¹ The respective applicants can only submit a new listing application with a new application proof no less than eight weeks after the return.

Listings and takeovers

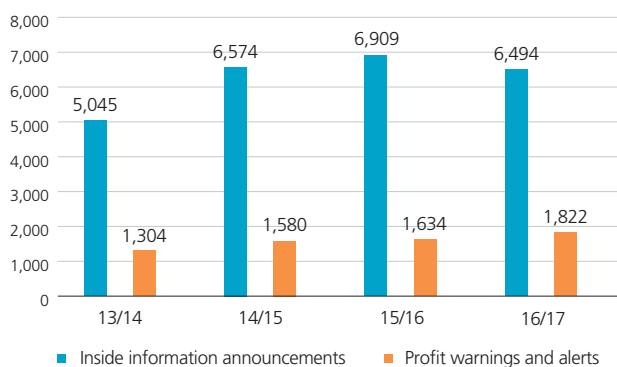
Following the issuance of the 20 January 2017 joint statement regarding GEM stocks, we shared with SEHK our enquiries in relation to a number of GEM listing applications to establish whether the conditions for an open market would exist at the time of listing. Under section 8 of the Securities and Futures (Stock Market Listing) Rules, we directed SEHK to suspend dealings in a GEM stock on its first day of trading as it appeared that there may not have been an open market in the shares.

Post-IPO

Oversight of listed companies

We monitor company announcements on a daily basis to identify corporate misconduct and disclosure irregularities, including behaviour that is prejudicial to the interests of shareholders, non-disclosure of inside information in a timely manner and false or misleading disclosures. During the year, we raised 108 enquiries with listed companies. We used our information gathering power under section 179² of the SFO on 106 occasions.

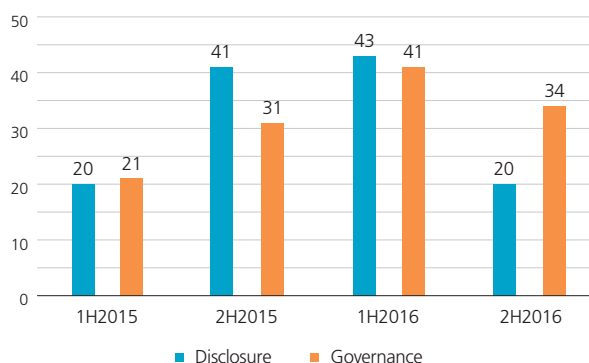
Inside information announcements, profit warnings and alerts



Source: HKEX

During the year, we focused on more significant governance issues related to listed companies, paying additional attention to transactions and events which are potentially detrimental to shareholders. Such cases tended to be more complex compared to previous years.

Cases with S179 directions



Source: SFC

Note: Disclosure cases mainly involved late or inadequate disclosure, omission of material information or disclosure of false or misleading information. Governance cases were related to overvalued acquisitions, misstatements in company financials, misappropriation of funds and highly dilutive fund raising transactions.

There was a notable increase in the total number of inside information announcements from January 2013, when the new disclosure regime came into effect, to March 2016. This year, the number of inside information announcements was 6% lower than in the previous year, but 29% higher than in 2013/14.

In November 2016, the Market Misconduct Tribunal (MMT) ruled that AcrossAsia Limited, its former chairman and former chief executive officer failed to disclose inside information as soon as reasonably practicable and fined them a total of \$2 million. This marks the first time the MMT made a finding of breaches of the disclosure obligations imposed on listed companies since they became effective in 2013.

Corporate Regulation Newsletter

As part of our efforts to enhance the quality of disclosures by listed companies and to improve corporate behaviour in general, we published the fourth issue of our *Corporate Regulation Newsletter* in December 2016. The latest issue encouraged listed companies to provide more meaningful disclosures and brought changes in accounting standards to their attention.

² Section 179 of the SFO gives the SFC the power to compel the production of records and documents from persons related to a listed company in relation to fraud or other misconduct.

Listings and takeovers

Takeovers matters

In Hong Kong, takeovers, merger, privatisation and share buy-back activities affecting public companies are regulated by the Codes on Takeovers and Mergers and Share Buy-backs (Codes). The Codes aim to afford equality of treatment of shareholders, to mandate disclosure of timely and adequate information to enable shareholders to make an informed decision, as well as to ensure a fair and informed market in the shares of companies affected by such activities.

Takeovers and Mergers Panel rulings

The Takeovers and Mergers Panel met twice this year to rule on certain Takeovers Code-related matters.

In April, the Panel ruled that Alibaba Group Holding Limited³ breached the Takeovers Code in its 2014 acquisition of CITIC 21CN Company Limited, as certain agreements between Alibaba Group and a shareholder of CITIC 21CN during the acquisition process constituted a special deal with favourable conditions which was not extended to all shareholders. The whitewash waiver granted to Alibaba Group in April 2014 was thus invalidated and a mandatory general offer obligation was triggered. However, the Panel waived the obligation in light of difficulties in determining the general offer price.

In September, the Panel upheld the Takeovers Executive's⁴ ruling that the consideration in the form of cash and securities offered by Favourite Number Limited for shares of L&A International Holdings Limited already complied with the Takeovers Code and that there was no basis to alter it as requested by L&A.

Supervision of takeovers activities

Both the number and complexity of takeovers-related transactions and applications increased during the year. In addition, we handled an increased number of investigations and enquiries related to the Takeovers Code and sanctioned a number of parties. We anticipate that investigations and enquiries will remain an important focus of our supervision of takeovers activities in Hong Kong for some time.

We publicly criticised China New Way Investment Limited and their related parties in May and Southwest Securities International Investment Limited and their related parties in December for acquiring shares in offeree companies within six months after the close of an offer at above the offer price in contravention of the equality of treatment principle under the Takeovers Code.

Multi-disciplinary efforts to address listed company misconduct

In 2016, we established a cross-divisional working group to develop and implement an organisation-wide strategy to tackle listed company-related misconduct. This includes corporate fraud and misbehaviour as well as market manipulation, whether committed by management alone or aided by intermediaries.

The working group, designated ICE (Intermediaries, Corporates, Enforcement), comprises our Chief Executive Officer and Executive Directors of the Intermediaries, Corporate Finance and Enforcement divisions, together with the Legal Services Division. It meets regularly to review and discuss our strategy and approach.

For example, the group may consider key areas of concern in prioritising enforcement cases as well as the most appropriate measures to hold both firms and their senior management accountable for their failings. It also promotes coordination across the organisation as in our recent interventions in the GEM IPO process.

Listed company-related misconduct poses one of the greatest threats to the interests of the investing public and the integrity of the Hong Kong markets. Drawing on all our available regulatory tools, powers and capabilities, the working group maximises our ability to manage complex operational matters and to develop and implement appropriate policies to address this threat.

³ Alibaba Group refers to Alibaba Group Holding Limited separately or together with any its subsidiaries.

⁴ This refers to the Executive Director of the SFC's Corporate Finance Division or his delegate.

Listings and takeovers

Fulfilling disclosure obligations during an offer or a possible offer is important to ensure a high degree of transparency, which in turn is essential to the efficient functioning of the market. In June, we publicly censured two units of the Bank of America Merrill Lynch Group for failing to disclose dealings in relevant securities in two transactions in 2015 as required under the Takeovers Code.

In November, we publicly censured Zheng Dunmu, chairman and executive director of Changgang Dunxin, and imposed a 24-month cold shoulder order for failing to make a mandatory general offer under the Takeovers Code when the 2% creper threshold was crossed. This deprived shareholders of the right to receive an offer as not all of them were given the opportunity to exit.

Promoting compliance

During the year, we took a number of steps to promote the orderly conduct of takeovers activities in Hong Kong. We reminded parties to an offer or a transaction to avoid unnecessary trading suspensions, and informed the market that we may not grant

whitewash waivers for transactions which do not comply with the Listing Rules and other applicable rules and regulations.

To uphold the principle of full and prompt information disclosure by all persons concerned with an offer, we now require regular update announcements to be made in all potential Codes transactions until the time of an announcement of a firm intention to make an offer, as well as when there is a lengthy period between the announcement of a firm intention to make an offer and the time when the offer document is issued.

In September, we introduced a new filing form for all applications for rulings made under section 8⁵ of the Introduction to the Codes. Applicants are warned that it is an offence under section 384(3) of the SFO⁶ to provide any record or document⁷ to the SFC which is false or misleading in a material particular.

In the December issue of the *Takeovers Bulletin*, we published our performance pledges for handling transactions and applications (see page 28).

Takeovers activities

	2016/17	2015/16	2014/15
General and partial offers under the Code on Takeovers and Mergers	73	50	55
Privatisations	13	7	7
Whitewash waiver applications	37	51	31
Other applications under the Code on Takeovers and Mergers [#]	365	323	279
Off-market and general offer share buy-backs	4	1	3
Other applications under the Code on Share Buy-backs [#]	2	3	9
Total	494	435	384

[#] Including stand-alone applications and those made during the course of a Code-related transaction.
Note: Also see Table 3 in Breakdown of SFC activity data on page 160 for more details.

⁵ This requires all applications for a ruling under the Codes to take the form of a written submission addressed to the Executive. The submission should be comprehensive and contain all relevant information which the Executive will require to render a fully informed decision.

⁶ Section 384(3) provides that a person commits an offence if he knowingly or recklessly provides any record or document which is false or misleading in a material particular, and he has received prior written warning from the SFC, in relation to the record or document. A person who commits an offence under section 384(3) is liable to a fine and imprisonment.

⁷ Including any subsequent records or documents provided in connection with the matter.

Market infrastructure

To ensure orderly markets, we supervise and monitor exchanges and clearing houses in Hong Kong. During the year, we made progress on a number of initiatives to enhance the securities and futures markets.

Supervision of HKEX

We worked with Hong Kong Exchanges and Clearing Limited (HKEX) during the year to implement our enhanced supervisory approach which includes regular on-site inspections of HKEX's non-listing related operations. Separately, we are working with HKEX to enhance its clearing risk management processes in view of the expansion of its business and the latest international regulatory developments.

We approved HKEX's introduction of a Closing Auction Session (CAS) and Volatility Control Mechanism (VCM) to align with international standards and maintain market efficiency. The CAS was launched on 25 July 2016 to facilitate trade execution of certain securities, including major index constituents and all exchange-traded funds, at closing prices. The VCM, which imposes a price limit for trading in major constituent stocks and futures contracts for short periods under extreme price movements, was introduced in the securities market on 22 August 2016 and in the derivatives market on 16 January 2017.

We also approved various derivatives products proposed by HKEX to meet the trading and hedging needs of market participants (see table). In March 2017, we approved HKEX's proposal to introduce a five-year China Ministry of Finance Treasury Bond Futures contract, which was Hong Kong's first exchange-traded fixed income futures contract referenced to Mainland interest rates.

Stock Connect

The launch of Shenzhen-Hong Kong Stock Connect on 5 December 2016, two years after the launch of Shanghai-Hong Kong Stock Connect, marked a milestone which further strengthened Hong Kong's role as a "Super Connector" between the Mainland and the rest of the world. The Stock Connect scheme provides for mutual trading access between the Mainland and Hong Kong stock markets by allowing investors to trade eligible shares listed on the other market subject to daily quotas (see sidebar on page 62).

Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect are each subject to northbound daily quotas of RMB13 billion and southbound daily quotas of RMB10.5 billion.

Aggregate quotas under Shanghai-Hong Kong Stock Connect were abolished in August 2016 following our joint announcement with the China Securities Regulatory Commission on the in-principle approval for Shenzhen-Hong Kong Stock Connect. There are no aggregate quotas under Shenzhen-Hong Kong Stock Connect.

Derivatives products approved

	Trading commenced
Four cash-settled renminbi currency futures contracts against: <ul style="list-style-type: none"> ▪ US dollar ▪ euro ▪ Japanese yen ▪ Australian dollar 	30 May 2016
Mini-Hang Seng China Enterprises Index options contract	5 September 2016
One renminbi options contract against US dollar	20 March 2017
Five-year China Ministry of Finance Treasury Bond Futures contract	10 April 2017

Investor identification

We discussed with HKEX the development of an investor identification model to improve our capability to conduct effective surveillance of the Hong Kong markets and are working on the details of a mechanism to enable us to capture client identification-related information for orders submitted by brokers. Separately, to facilitate market surveillance by Mainland exchanges, an investor identification model is also being considered for northbound trading under Stock Connect.

Market infrastructure

Position limit regime

In September 2016, we began a two-month consultation on proposed enhancements to the position limit regime for futures and options contracts which aim to expand the scope of excess position limits that can be granted to qualified market participants. The enhancements help to ensure the regime remains appropriate to the needs of the Hong Kong financial market. The majority of respondents indicated their support for the proposals. We published the consultation conclusions in March 2017 and the related legislative amendments took effect on 1 June 2017.

Short position reporting

With effect from 15 March 2017, we expanded the short position reporting requirements to all securities which are permitted for short selling under the rules of The Stock Exchange of Hong Kong Limited. Prior to the effective date, we arranged a two-month pilot test for market participants to prepare for the new requirements. The expansion improved our ability to monitor short selling activities and allowed us to publish aggregated short positions for all relevant securities to enhance market transparency.

OTC derivatives

The over-the-counter (OTC) derivatives reform mandated by the G20 aims to improve transparency, mitigate systemic risk and prevent market abuse. The second stage of the OTC derivatives reform was implemented in September 2016 with the introduction of mandatory clearing and related record-keeping obligations. The expansion of mandatory reporting requirements to transactions in five key asset classes¹ will commence in July 2017. Meanwhile, we are finalising proposed changes to the Securities and Futures (Financial Resources) Rules relating to capital and other prudential requirements for licensed corporations engaging in OTC derivatives activities.²

To enhance clearing choices for market participants, we approved four clearing houses including OTC Clearing Hong Kong Limited (OTC Clear) as designated central counterparties for OTC derivatives in August 2016. A Hong Kong-incorporated subsidiary of HKEX, OTC Clear provides clearing services for standardised OTC derivatives. We also approved OTC Clear's product and service proposals for cross currency swaps and client clearing.

Automated trading services

Under the Securities and Futures Ordinance (SFO), two regimes regulate automated trading services (ATS) providers. Typically, those that offer facilities similar to those of a traditional exchange or a clearing house are authorised by Part III under the SFO. Intermediaries that provide dealing services with ATS as an added facility are licensed under Part V of the SFO.

Over the past year, we approved eleven applications from overseas regulated exchanges, clearing houses and electronic trading facilities; of these, we granted authorisations to LCH Limited, Japan Securities Clearing Corporation and Chicago Mercantile Exchange Inc. to provide mandatory clearing services for OTC derivatives transactions in Hong Kong. Trades were mainly in stock options, benchmark index futures and options, interest rate futures and commodity futures. The average daily trading volume originating from Hong Kong to these overseas exchanges was about 293,000 contracts for the 12 months ended 31 March 2017.

ATS providers	As at 31.3.2017	As at 31.3.2016	As at 31.3.2015
Under Part III	49	38	32
Under Part V	24	24	25

¹ Interest rate, foreign exchange, equity, credit and commodity derivatives.

² See Intermediaries on pages 44-50.

Market infrastructure

Mainland-Hong Kong Stock Connect

The launch of Shenzhen-Hong Kong Stock Connect on 5 December 2016 expanded mutual stock market access between the Mainland and Hong Kong and further consolidated Hong Kong's position as a major offshore renminbi centre. Following on the introduction of Shanghai-Hong Kong Stock Connect two years earlier, Shenzhen-Hong Kong Stock Connect expanded the number of Hong Kong shares eligible for trading through southbound links from 313 (representing approximately 84% of Hong Kong market capitalisation) to 421 (87%).

Both trading links have run smoothly. Under Shanghai-Hong Kong Stock Connect, from 17 November 2014 to 2 December 2016, average daily northbound trading (including buy and sell trades) was RMB4.9 billion, or 0.3% of trading in the Mainland markets, and average daily southbound trading (including buy and sell trades) was RMB2.8 billion, or 1.9% of trading in the Hong Kong market.

From 5 December 2016 to 31 March 2017, average daily trading (Shanghai plus Shenzhen) was RMB5.8 billion through the northbound link (of which 67% to Shanghai and 33% to Shenzhen), representing 0.7% of trading in the Mainland market. In the same period, average daily trading was RMB6 billion through the southbound link (of which 86% from Shanghai and 14% from Shenzhen), representing 4.7% of trading in the Hong Kong market.

While Stock Connect provides unprecedented opportunities for investors, it also presents new challenges for regulators charged with market oversight. To strengthen cross-boundary regulatory and enforcement cooperation, we signed memoranda of understanding with the China Securities Regulatory Commission in October 2014 and November 2016, and together we closely monitor the trading links for conduct and operational risks.

	Eligible shares	Daily trading quota	Cumulative net buy ^a
Shanghai-Hong Kong Stock Connect			
Northbound Shanghai Trading Link	<ul style="list-style-type: none"> Constituents of the SSE 180 Index and SSE 380 Index Shares listed on the Shanghai Stock Exchange (SSE) of companies which have issued both A shares and H shares 	RMB13 billion	RMB146.4 billion
Southbound Hong Kong Trading Link	<ul style="list-style-type: none"> Constituents of the Hang Seng Composite LargeCap Index and Hang Seng Composite MidCap Index Shares listed on The Stock Exchange of Hong Kong Limited (SEHK) of companies which have issued both A shares on the SSE and H shares on SEHK 	RMB10.5 billion	RMB377 billion
Shenzhen-Hong Kong Stock Connect			
Northbound Shenzhen Trading Link	<ul style="list-style-type: none"> Constituents of the SZSE Component Index and SZSE Small/Mid Cap Innovation Index which have a market capitalisation of RMB6 billion or above Shares listed on the Shenzhen Stock Exchange (SZSE) of companies which have issued both A shares and H shares 	RMB13 billion	RMB48 billion
Southbound Hong Kong Trading Link	<ul style="list-style-type: none"> Constituents of the Hang Seng Composite LargeCap Index and Hang Seng Composite MidCap Index Constituents of the Hang Seng Composite SmallCap Index which have a market capitalisation of \$5 billion or above Shares listed on SEHK of companies which have issued both A shares and H shares 	RMB10.5 billion	RMB25.1 billion

^a From launch to 31 March 2017.

Enforcement

To send strong deterrent messages, it is essential that we focus on high-impact cases which pose the greatest risks to the investing public. During the year, we conducted a comprehensive review of our enforcement approach, tools and priorities to focus our enforcement strategy and allocate our resources appropriately.

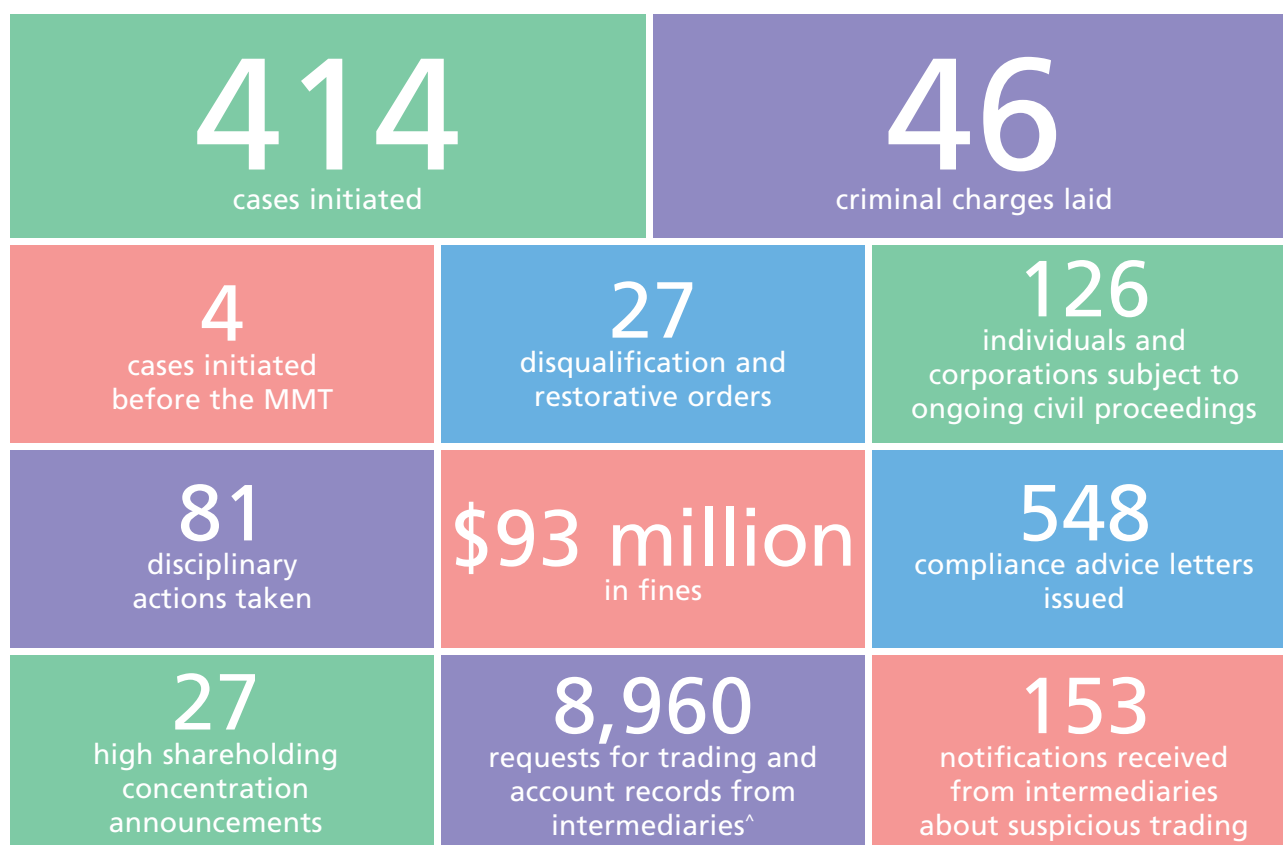
Our tools under the SFO

We use the full spectrum of sanctions and remedies available to us under the Securities and Futures Ordinance (SFO).

We have broad powers to hold directors and individuals responsible for misconduct committed by the companies they manage. We can discipline licensed intermediaries through reprimands, fines¹ and suspensions or revocations of licences, and can apply to the court for injunctive and remedial orders against wrongdoers in favour of victims.

In dealing with market misconduct, such as insider dealing and market manipulation, we can institute criminal prosecutions or bring cases directly to the Market Misconduct Tribunal (MMT).

Our work in figures[#]



[#] Data as of 31 March 2017.

[^] These requests were made as a result of our surveillance of untoward price movements and turnover.

¹ Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.

Enforcement

During the year, we commenced 414 investigations and laid 46 criminal charges against eight individuals and two corporations and secured convictions against four persons and two corporations.

We applied for disqualification and restorative orders against 26 persons and one corporation. Civil actions seeking financial redress and other remedial orders against 126 persons and corporations in 29 cases are pending before the court.

Disciplinary action was taken against 29 persons and 25 corporations. In addition, we commenced four cases before the MMT against nine corporations and persons for alleged insider dealing or market manipulation.

We also issued 548 compliance advice letters to address areas of regulatory concern and to raise standards of conduct and compliance in the industry.

Surveillance work

We monitor trading on The Stock Exchange of Hong Kong Limited and the Hong Kong Futures Exchange Limited on a daily basis and conduct preliminary inquiries to detect possible market manipulation or insider dealing. We also engage with firms to review how they perform their monitoring and surveillance functions.

Our surveillance of untoward price and turnover movements resulted in 8,960 requests for trading and account records from intermediaries. We also received and assessed 153 notifications from intermediaries² regarding suspicious equity and derivative trading. Year-on-year, the total number of market surveillance cases rose 5%.

In addition, we posted 27 announcements on our website reminding the investing public to exercise caution when trading in shares of listed companies where a small number of shareholders hold a high concentration of shares.



Enforcement actions

Corporate fraud and misbehaviour

This is a top enforcement priority, especially when it relates to listed companies. Notable cases included:

- The MMT found that between 2001 and 2005, Gu Chujun, Greencool Technology Holdings Limited's founder and former chairman, and four of its senior executives disclosed false or misleading information. As a result, Greencool's consolidated net asset value was exaggerated in several annual reports and results announcements. We are conducting proceedings under section 213³ of the SFO against Gu in the Court of First Instance (CFI).
- We commenced legal proceedings in three cases in the CFI:
 - We are seeking disqualification orders against Hanergy Thin Film Power Group Limited's former chairman, Li Hejun, and four current independent non-executive directors for alleged breach of directors' duties, and also a regulatory order to facilitate the payment of outstanding receivables due to Hanergy.

² Intermediaries are required to report clients' suspected market misconduct to the SFC in accordance with the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

³ Section 213 of the SFO gives the SFC the power to apply to the CFI for injunctions and other orders under specified conditions.

Enforcement

Seeking redress for investors

Our timely and concerted efforts to combat fraud enabled most investors in Descartes Athena Fund SPC, a collapsed private hedge fund, to recover part of their investments.

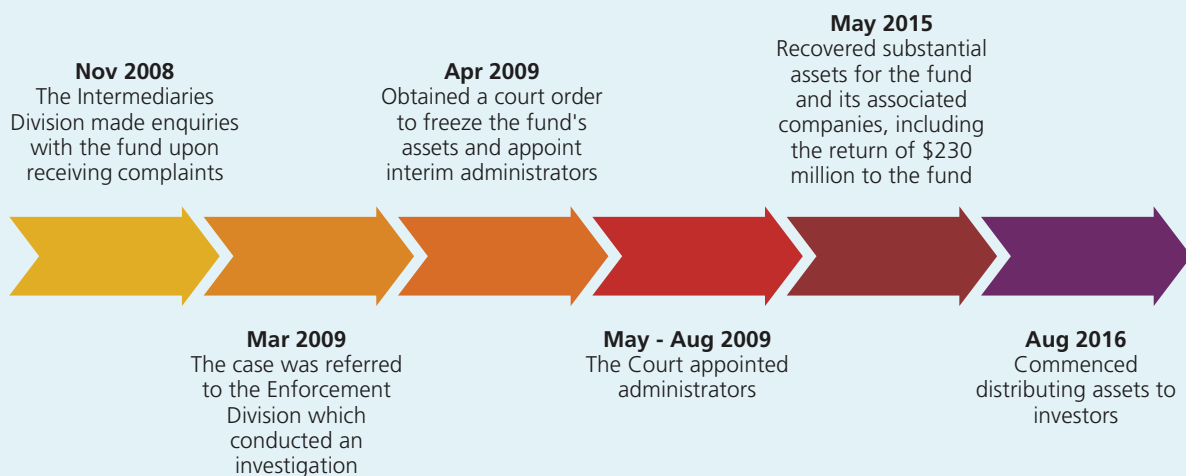
When the fund's operators were pressed for redemptions, they purported to liquidate the fund and sent false documents to investors which appeared to be issued by a major accounting firm. Our Intermediaries Division made enquiries with the fund upon receiving investors' complaints and referred the case to the Enforcement Division for investigation.

Prompted by concerns that client monies were at risk of dissipation, the High Court granted our urgent application in April 2009 seeking the appointment of

administrators as well as injunction orders to freeze the fund's assets. After administrators were appointed, the fund was wound up in its place of incorporation. Around \$230 million was subsequently recovered for distribution to creditors, including about 340 overseas investors.

In achieving successful enforcement outcomes, we draw on a wide range of our expertise and maintain close cooperation among our various divisions, including Enforcement, Legal Services and Intermediaries. The joint efforts of the multi-disciplinary team which handled this case were recognised with a team SFC Employee Award in 2016.

Our investigation into Descartes Athena Fund SPC



Recovered
\$230 million
for investors

Over
300
investors recouped part
of their investment

Enforcement

- We sought disqualification orders against Quincy Hui Kwong Hei, managing director, Andrew Liu, former non-executive director, and eight current and former directors of Freeman Financial Corporation Limited⁴ for alleged breach of directors' duties in Freeman's acquisition and disposal of a stake in Liu's Holdings Limited. We also sought a court order that Hui and Liu compensate Freeman \$76.8 million, equivalent to the alleged loss it suffered in the transactions.
- We sought disqualification orders against Tse On Kin, former chairman and executive director of Kong Sun Holdings Limited and China Sandi Holdings Limited, for allegedly concealing his interests in the companies' share placements in 2009. We also sought court orders that Tse account for his alleged profit from the sale of the shares and compensate Kong Sun.
- The CFI disqualified senior executives of two companies from being directors or being involved in the management of any listed or unlisted company in Hong Kong:
 - three former senior executives of China Best Group Holding Limited were disqualified for breaching their duties in handling a proposed acquisition of interests in a coal mine in 2008. One executive was disqualified for 10 years, and two others for six years.
 - three former executive directors, including the chairman, of First Natural Foods Holdings Limited were disqualified for providing false bank statements to the company's auditors and obstructing its provisional liquidators from performing their duties. The chairman was disqualified for 12 years and ordered to repay \$84 million, and the other two executive directors were disqualified for eight years.
- In the first concluded case commenced by the SFC in relation to late disclosure of inside information, the MMT ruled that AcrossAsia Limited, its former chairman Albert Saychuan Cheok and its chief executive officer Vicente Binalhay Ang failed to disclose inside information as soon as reasonably practicable and fined them a total of \$2 million.
- The MMT found that Yorkey Optical International (Cayman) Limited, its chief executive officer Nagai Michio and financial controller Ng Chi Ching failed to disclose inside information as soon as reasonably practicable. The company and Nagai were each fined \$1 million. Nagai and Ng were disqualified from serving as a director or being involved in the management of any listed corporation in Hong Kong for 18 and 15 months respectively.
- The MMT ruled that Mayer Holdings Limited and nine of its current and former senior executives failed to disclose inside information as soon as reasonably practicable. The company and nine current and former senior executives were fined \$10.2 million. Two of the senior executives were disqualified from serving as directors or being involved in the management of a listed corporation for 20 months while the rest were disqualified for 12 months.



Insider dealing and market manipulation

Key enforcement actions included:

- The MMT found Andrew Left of Citron Research guilty of disclosing false or misleading information in a research report on Evergrande Real Estate Group Limited. He was banned from trading securities in Hong Kong for the maximum period of five years and ordered to disgorge his \$1.6 million profit from shorting Evergrande shares. Left is appealing certain aspects of the MMT decision.

⁴ Now known as Freeman FinTech Corporation Limited.

Enforcement

- The MMT found that Augustine Cheong Kai Tjeh, a former senior executive of an affiliate of Titan Petrochemicals Group Limited, and his mother Gan Ser Soon, engaged in insider dealing in the shares of Titan. The MMT ordered Cheong and Gan to disgorge \$2.4 million in losses avoided and prohibited them from dealing in regulated financial products for two years and one year respectively.
- Proceedings were commenced in the MMT against Samantha Keung Wai Fun, former CEO of China AU Group Holdings Limited⁵, Wu Hsiu Jung and Chen Kuo-chen for false trading in China AU shares from 25 August 2009 to 21 April 2010.
- We obtained an interim freezing order from the CFI prohibiting Yik Fong Fong from removing from Hong Kong assets valued up to \$26 million in relation to our ongoing investigation into suspected insider dealing in the shares of TeleEye Holdings Limited⁶. Two of Yik's alleged associates were required under a consent order to pay \$13 million into court, equivalent to the profit made from the alleged insider dealing.
- We issued restriction notices to four companies which are not subjects of our investigations:
 - Kingsway Financial Services Group Limited and BOCI Securities Limited were prohibited from processing the shares and cash held in client accounts which may be connected with suspected insider dealing. We withdrew the restriction notice issued to Kingsway after obtaining court orders from the CFI. Our investigations continue.
 - Interactive Brokers LLC and Interactive Brokers Hong Kong Limited were prohibited from dealing with certain client assets which are the suspected proceeds of market manipulation or fraud.
- Court-appointed administrators finished returning \$43.7 million to nearly 1,600 investors who were victims of insider dealing by Tiger Asia Management LLC and two of its senior officers.

⁵ Now known as Skynet Group Limited.

⁶ Now known as CircuTech International Holdings Limited.

⁷ Now known as Food Idea Holdings Limited.

Intermediary misconduct

During the year, we disciplined 25 corporations, four responsible officers and 25 licensed representatives, resulting in total fines of \$93 million. Key disciplinary actions included:

- We reprimanded and fined Morgan Stanley Hong Kong Securities Limited \$18.5 million over its internal control failures. In making the determination, we considered Morgan Stanley's cooperation during our investigation and its agreement to engage an independent reviewer to ensure future compliance with regulatory requirements.
- We revoked the licences of Richmond Asset Management Limited and Graham Frank Bibby, its responsible officer and sole owner, and banned Bibby from re-entering the industry for 10 years for soliciting clients to invest in a company and a land plot in Thailand in which Bibby and his wife held substantial undisclosed interests.
- We revoked the licences of Goodcape Securities Limited and its responsible officers, Tang Lin Sun and Chang Siu Ming, for misappropriating client funds. Tang and Chang were prohibited from re-entering the industry for life and three years respectively.
- We fined Quam Capital Limited \$800,000 for failing to discharge its duties as a sponsor when preparing the listing prospectus of Gayety Holdings Limited⁷ on the Growth Enterprise Market (GEM).
- We reprimanded and fined BOCOM International (Asia) Limited \$15 million for failing to discharge its duties as a sponsor in relation to the listing application of China Huinong Capital Group Company Limited.

Enforcement

Other disciplinary actions

Market manipulation

Company/Name	Conduct	Action	Date
Derek Ong	Conspired to manipulate the Korea Composite Stock Price Index 200	Banned from re-entering the industry for 10 years	17.11.2016
Wong Lap Yin	Manipulated the share price of China Nonferrous Metals Company Limited and carried out unauthorised trades in a client's account	Banned from re-entering the industry for three years	1.8.2016
Ku Yuen Leung	Created a false or misleading appearance in the market for shares of Agricultural Bank of China Limited to drive up the prices of five related call warrants	Suspended for 18 months	23.8.2016

Unauthorised trading

Company/Name	Conduct	Action	Date
Lam Yuk Wai	Committed misconduct including over 100 unauthorised transactions	Banned from re-entering the industry for life	29.12.2016
Ma Yu Lung	Accepted order instructions from unauthorised individuals and colluded with account holders	Banned from re-entering the industry for eight years	26.1.2017
Chan Hau Wing	Conducted unauthorised trades in a client's account	Banned from re-entering the industry for two years	13.6.2016
Ko Cho Ting	Executed suspicious client orders and operated a secret securities account	Suspended for two years	3.8.2016

Internal control failures

The following companies were reprimanded and fined:

Company/Name	Conduct	Fine	Date
Merrill Lynch Far East Limited and Merrill Lynch (Asia Pacific) Limited	Failures related to the reporting of large open positions, electronic trading systems and research reports	\$15 million	24.3.2017
BNP Paribas Wealth Management	Overcharged its clients	\$4 million	31.8.2016
SynerWealth Financial Limited	Failures related to 65 short-selling orders and the obligation to report deficiencies in its trading system to the SFC in a timely manner	\$2.7 million	31.5.2016
The Hongkong and Shanghai Banking Corporation Limited	Failures related to position limits and regulatory breaches	\$2.5 million	14.9.2016
DBS Vickers (Hong Kong) Limited	Failures related to under-segregation of client money and regulatory breaches	\$2 million	16.3.2017
GMO-Z.com Forex HK Limited	Failures in its electronic trading system for leveraged foreign exchange contracts, deficiencies in order execution and slippage in handling procedures	\$1.6 million	9.2.2017

Enforcement

Criminal convictions

The following individuals were banned for life:

Company/Name	Conduct	Date
Chow Ho Cheung Andrew	Convicted of fraud and theft	21.4.2016
Liu King Yee	Convicted of fraud	27.6.2016
Chau Hang Yu and Chow Chun Yin Steve	Convicted of fraud	7.9.2016
Chen Chia Hui	Convicted of bribery	5.10.2016
Li Lee	Convicted of fraud and offering an advantage to an agent	13.2.2017

Regulatory breaches

The following companies were reprimanded and fined:

Company/Name	Conduct	Fine	Date
FXCM Asia Limited ^a	Breaches in relation to its foreign exchange order execution practices	\$4 million	19.10.2016
State Street Global Advisors Asia Limited	Failure to comply with regulatory requirements in the management of the Tracker Fund of Hong Kong	\$4 million	15.6.2016
J.P. Morgan Securities (Asia Pacific) Limited and JPMorgan Chase Bank, National Association	Breaches in relation to disclosure failures in research reports and offering offshore-listed index options without the required licences	J.P. Morgan Securities (Asia Pacific) Limited – \$3 million JPMorgan Chase Bank, National Association – \$2.6 million	20.10.2016
MIS Services Limited	Failure to comply with regulatory requirements under the SFC Code on MPF Products and the Fund Manager Code of Conduct	\$3 million	3.1.2017
Guangdong Securities Limited ^b	Failure to comply with AML ^c guidelines when handling third-party payments	\$3 million	6.3.2017
Qilu International Securities Limited ^d	Failure to comply with AML regulatory requirements when handling third-party fund deposits	\$2.6 million	14.3.2017
Value Partners Limited and Value Partners Hong Kong Limited	Failure to comply with regulatory requirements in managing two SFC-authorized funds	\$2 million each	25.1.2017
Schroder Investment Management (Hong Kong) Limited	Failure to disclose notifiable interests in Hong Kong-listed shares held in its client portfolios managed by Schroders plc and its subsidiaries	\$1.8 million	15.6.2016
Guotai Junan Securities (Hong Kong) Limited	Failure to provide details of the ultimate clients of certain transactions	\$1.3 million	30.5.2016

^a Now known as Rakuten Securities Hong Kong Limited.

^b Now known as Sinolink Securities (Hong Kong) Company Limited.

^c Anti-money laundering.

^d Now known as Zhongtai International Securities Limited.

Enforcement

Enhanced cooperation

We are actively building a long-term strategic relationship with the China Securities Regulatory Commission (CSRC) to ensure effective enforcement collaboration in surveillance and joint investigations. Cross-jurisdictional market manipulation was also the subject of the joint CSRC-SFC enforcement seminar in Xi'an.

Locally, we collaborate closely with the Hong Kong Monetary Authority when investigating authorised institutions' misconduct under the SFO. During the year, we held joint training and sharing sessions to gain more understanding of one another's regulatory work.

Since we entered into a memorandum of understanding with the Department of Justice (DoJ) in March 2016, the efficiency and effectiveness of our joint efforts with the DoJ in handling criminal cases

have been considerably enhanced, while turnaround time for cases submitted to the DoJ for advice has been reduced.



Mr Thomas Atkinson, Executive Director, Enforcement, addresses the Pan Asian Regulatory Summit 2016

Photo credit: Thomson Reuters

Our approach to enforcement

In November 2016, we completed a strategic review of our enforcement priorities, tools and policies in response to the increasing volume and complexity of our enforcement caseload. The review aimed to align our enforcement work with organisation-wide priorities, maximise deterrent effects, enhance collaboration with our regulatory partners and ensure efficient resource allocation.

New enforcement focus

We now focus our resources on high-priority cases which pose the greatest threats to investors and the Hong Kong markets, particularly those related to corporate fraud and misbehaviour, market manipulation and intermediary misconduct.

We will take a more holistic enforcement approach targeting systemic issues. For multiple failings identified within a company or a corporate group, we will assess whether they are attributable to systemic weaknesses. When trends in misconduct or criminal behaviour become apparent, we will find ways to address them which look beyond individual cases.

To effectively protect Hong Kong's world-class markets, we must develop a multi-dimensional approach to securities regulation where all functions such as regulatory gatekeeping, supervision and enforcement work as a team to further our regulatory objectives.

In addition, we will recognise cooperation and timely, transparent disclosure of material misconduct by companies and individuals. These facilitate our investigations and may promote early settlements. They also help enable prompt remedial actions.

New structure

Our focused enforcement approach was complemented by establishing four specialised teams targeting key risks identified during our strategic review. These include corporate fraud and misfeasance, insider dealing and market manipulation as well as intermediary misconduct such as conflicts of interest, misappropriation of client assets and investment bank malpractice.

We also formed four temporary specialised teams to tackle serious emerging risks, including sponsor misconduct in initial public offerings, irregularities on GEM, know-your-client and AML control failings and mis-selling of specific investment products.

Other teams will be formed as we identify new risks and likewise teams will be disbanded when we consider that the relevant risks have been addressed.

Thomas Atkinson, Executive Director, Enforcement

Enforcement

Promoting compliance

We relaunched the *Enforcement Reporter* as a biannual publication in December 2016 to increase the transparency of our work, promote a compliance culture in the industry and provide industry stakeholders with regular information and advice on our enforcement actions and priorities.

During the year, we also explained our enforcement philosophy and approach at various public and private speaking engagements, including the first public speech by Mr Thomas Atkinson, Executive Director of Enforcement, at the Thomson Reuters 7th Pan Asian Regulatory Summit in November 2016.

We provided the public with timely updates on emerging risks as we identified them. In a September press release on our investigations into a number

of licensed brokers with suspected inadequate AML internal controls, we shared our concerns and reminded firms to enhance their efforts in this area.



Enforcement activities

	2016/17	2015/16	2014/15
S179 ¹ inquiries commenced	27	24	21
S181 ² inquiries commenced (number of letters sent)	301 (8,960)	286 (7,997)	293 (9,752)
S182 ³ directions issued	407	507	553
Investigations started	414	515	553
Investigations completed	591	436	362
Investigations completed within seven months (%)	270 (46%)	222 (51%)	252 (70%)
Individuals/corporations charged in criminal proceedings	10	20	15
Criminal charges laid ⁴	46	107	71
Notices of Proposed Disciplinary Action ⁵ issued	49	35	36
Notices of Decision ⁶ issued	56	42	46
Individuals/corporations subject to ongoing civil proceedings	126	100	93
Compliance advice letters issued	548	453	302
Cases with search warrants executed	34	31	53

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 company 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.

⁴ The SFC brought a total of 46 criminal charges against eight individuals and two corporations.

⁵ 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.

⁶ A notice that sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

Note: Also see Table 7 in Breakdown of SFC activity data on page 164 for more details.

Risk assessment

We adopt a holistic approach using a variety of tools to identify and deal with complex risks relating to the securities and futures markets, including through active communication with the industry and other stakeholders.

Risk data strategy

To identify, assess and mitigate risks associated with the industry, our regularly updated internal risk register provides an overview of potential emerging and systemic risks related to financial activities, institutions, infrastructures and products. The register serves as the basis for our senior management’s risk-focused discussions and strategic decision making.

This year, we launched a new risk data strategy which aims to use technology to enhance our daily work, including processes ranging from regulatory

risk identification to intermediary monitoring and market surveillance, and to broaden our understanding of the latest trends in the markets. Elements of the strategy include reviewing the risk data we collect, benchmarking against major overseas regulators and analysing social media information.

Crisis simulation exercise

In March 2017, we hosted an introductory briefing for industry participants in a whole industry crisis simulation exercise to be held later this year which aims to increase the industry’s awareness of existing and emerging threats facing the financial services sector, such as cyber attacks, and provides an opportunity for them to review their crisis response strategies.



Global regulatory engagement

We take an active part in global regulatory policymaking through our involvement in international rule-setting bodies and our engagement with Mainland and regional regulators.

IOSCO

The SFC plays a leading role in the International Organization of Securities Commissions (IOSCO) which develops, implements and promotes adherence to internationally-recognised standards for securities regulation.

- In May 2016, Our Chief Executive Officer (CEO) Mr Ashley Alder was appointed as Chairman of the IOSCO Board, the organisation's governing and standard setting body. During the year, the IOSCO Board endorsed a holistic approach to help IOSCO focus on useful and impactful projects to benefit the wider securities sector.
- In October 2016, we hosted the IOSCO Board meeting in Hong Kong where senior regulators from more than 30 member jurisdictions discussed the prioritisation of IOSCO's work and reviewed the progress of workstreams on margin requirements, central counterparties, asset management and market conduct.
- As Chairman of the IOSCO Board, Mr Alder co-chairs the Committee on Payments and Market Infrastructure (CPMI) – IOSCO Steering Group, which focuses on policy work related to central counterparties and on monitoring the implementation of the Principles for Financial Market Infrastructures¹.
- Since November 2015, Mr Alder has chaired the Task Force on Market Conduct, which focuses on individual behaviour and responsibility, particularly in the fixed income and commodities markets. Its final report is expected to be published in mid-2017.
- Mr Alder was the Chairman of the IOSCO Asia-Pacific Regional Committee (APRC) until May 2016. Under Mr Alder's leadership, the APRC established an annual forum with the European Commission and the European Securities and Markets Authority to facilitate discussion of the impact of European Union regulations on financial markets in the Asia Pacific region. The inaugural forum took place in Singapore in October 2016.
- Ms Bénédicte Nolens, Senior Director of Risk and Strategy, serves as Vice Chair of the Committee on Emerging Risks.

Requests for regulatory cooperation

	2016/17		2015/16		2014/15	
	Received	Made	Received	Made	Received	Made
Enforcement-related requests for assistance	155	112	92	160	94	111
Licensing-related requests for assistance	125	1,101	124	1,104	110	1,058

¹ In April 2012, the Committee on Payment and Settlement Systems and IOSCO published the report on Principles for Financial Market Infrastructures, which establishes new international standards for central securities depositories, securities settlement systems, central counterparties and trade repositories, and payment systems that are systemically important.

Global regulatory engagement

The SFC is represented in all eight IOSCO policy committees, the Assessment Committee and all key task forces.

- Mr Stephen Po, former Senior Director of Intermediaries Supervision², chaired the Committee on Regulation of Market Intermediaries until December 2016.
- We actively participate in IOSCO's Committee on Enforcement and the Exchange of Information and the Multilateral Memorandum of Understanding Screening Group, which aims to prevent and detect breaches of securities laws and regulations in global financial markets and seeks to implement global enforcement cooperation under the international standard for cooperation and information exchange. We hosted the committee's meeting in Hong Kong in November 2016.



IOSCO's enforcement committee meeting in Hong Kong

Financial Stability Board

The SFC is an active participant in the work of the Financial Stability Board (FSB). We collaborate closely with the Hong Kong Monetary Authority, the Office of the Commissioner of Insurance and the Government of the Hong Kong Special Administrative Region (HKSAR) on FSB initiatives related to the securities sector.

- As Chairman of the IOSCO Board, Mr Alder is a member of the FSB's Plenary and its Steering Committee, which focus on monitoring the progress of the Group of Twenty reforms from a financial stability perspective. The SFC is also a member of the FSB's Standing Committee on Standards Implementation and participates in its Implementation Monitoring Network which conducts an annual exercise to review the progress of global financial reforms.
- The SFC is also a member of the FSB Regional Consultative Group for Asia, where it contributes to the monitoring of global financial reforms and provides policy input from the Hong Kong perspective.
- To ensure the views of Asian markets and securities regulators are reflected in policy recommendations, we participated in various FSB workstreams during the year, including the Workstream on Other Shadow Banking Entities and the OTC Derivatives Working Group. Additionally, in the Workstream on Structural Vulnerabilities we actively took part in the FSB's January 2017 recommendations to address vulnerabilities from asset management activities, which have implications for open-ended funds.

² Mr Po retired from the SFC in January 2017.

Global regulatory engagement

Mainland China

We collaborate with Mainland and local authorities to support Hong Kong's long-term strategic development amid the continuous opening of Mainland financial markets.

In June 2016, our Chairman Mr Carlson Tong and CEO Mr Alder met with a Vice Premier of the State Council to exchange views on connectivity between Hong Kong and the Mainland capital markets as well as interactions between China and IOSCO. They also met with the Chairman of the China Securities Regulatory Commission (CSRC) to discuss cross-border regulatory cooperation, and held discussions with the Governor of the People's Bank of China on regulatory developments affecting the securities markets.

We worked closely with the CSRC and other Mainland regulatory authorities to ensure the smooth launch of Shenzhen-Hong Kong Stock Connect as well as the stable operation of the expanded Stock Connect programme³. We also regularly interact with the CSRC in high-level discussions on cross-border policies and regulatory cooperation initiatives, as well as for closer operational collaboration. Effective SFC-CSRC enforcement efforts facilitated the completion in November 2016 of the CSRC's investigations into the first market manipulation case under Stock Connect.



SFC Chairman Mr Carlson Tong and CSRC Chairman Mr Liu Shiyu at the signing ceremony for Shenzhen-Hong Kong Stock Connect

In light of the recent growth in the number of Mainland financial institutions establishing subsidiaries in Hong Kong, we maintain close communication with Mainland financial regulators including the CSRC, China Banking Regulatory Commission and China Insurance Regulatory Commission to ensure proper supervision of cross-border operations. In early November 2016, we jointly organised a seminar with the CSRC in Shanghai for Mainland brokers and fund managers with business operations in Hong Kong.



SFC-CSRC enforcement seminar in Xi'an

To strengthen collaboration in surveillance and joint investigations, the SFC and the CSRC co-hosted an enforcement seminar in November 2016 in Xi'an where experts from the US, UK, Canada and Australia discussed market manipulation and misconduct issues.

We support the HKSAR Government in strengthening Hong Kong's cooperative relationship with Guangdong, Shenzhen, Shanghai and other Mainland regions to facilitate Hong Kong financial institutions' access to the Mainland market⁴.

During the year, we met with Mainland government agencies, exchanges and think-tanks to explore opportunities for Hong Kong amid the Mainland's increasing integration with the global economy. We also jointly organised seminars and training programmes with Mainland authorities for senior executives to enhance their understanding of one another's regulatory work.

³ See Market infrastructure on pages 60-62.

⁴ In 2016, under the Closer Economic Partnership Arrangement, the first two Hong Kong-funded securities companies were approved to set up operations in Shanghai, and the first foreign majority-owned joint-venture fund management company was established in Qianhai, Shenzhen.

Global regulatory engagement

Bilateral agreements

In December 2016, we signed a Memorandum of Understanding (MoU) on Switzerland-Hong Kong Mutual Recognition of Funds and Asset Managers with the Swiss Financial Market Supervisory Authority (FINMA). The MoU allows eligible Swiss and Hong Kong public funds to be distributed in the other market through a streamlined vetting process⁵.

To facilitate mutual assistance in the supervision and oversight of regulated entities that operate on a cross-border basis in Hong Kong and the US, we entered into an MoU with the US Financial Industry Regulatory Authority in May 2016, as well as a separate MoU with the US Securities and Exchange Commission in January 2017.

In August 2016, the SFC and the Financial Services Agency of Japan signed a memorandum of cooperation to consult, cooperate and exchange information regarding certain types of central counterparties which provide services in our respective jurisdictions.



Signing MoU with FINMA

Other engagement

In May 2016, we hosted the fourth Asia Pacific Takeovers Regulators Conference, a forum for takeovers regulators to discuss recent developments in the region. More than 20 participants from eight countries in the region attended the conference to discuss topics including shareholder activism, crowd-funding, special deals and waivers from mandatory offers.

In November 2016, we organised the eighth MoU meeting with the Taiwan Financial Supervisory Commission where we discussed various cooperation initiatives and shared Hong Kong's experience in regulating financial intermediaries.

Global rule setting

Our participation in global standard-setting bodies ensures that we are able to contribute to the process for formulating regulations which may have an impact on our markets.

This is particularly important for Hong Kong, which hosts a large number of international firms that form an integral part of our open and dynamic financial industry.

This year marked a number of important milestones for the SFC's international work. In May 2016, our CEO Mr Alder was appointed to lead the global securities rule-setter IOSCO. In October 2016,

we organised the IOSCO Board meeting in Hong Kong.

In addition, we became increasingly involved in the work of the Financial Stability Board whose focus has recently expanded to take in the securities sector, particularly in areas such as market conduct and asset management.

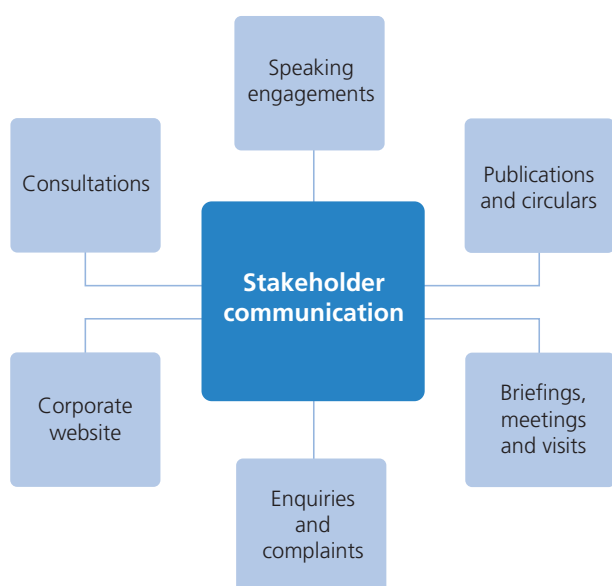
More broadly, we worked closely with overseas regulators, authorities and industry bodies to formulate and implement a variety of initiatives to help keep our regulatory framework aligned with international standards and to promote Hong Kong's status as an international financial centre.

⁵ See Investment products on pages 51-54.

Stakeholder communication

Through our organisation-wide stakeholder engagement programme, we strive to promote timely, concerted and effective outreach which helps stakeholders understand our work and to keep them informed about up-to-date regulatory information.

Multiple stakeholder communication channels



Industry

We maintain an open and productive dialogue with industry associations, professional bodies and other industry participants. During the year, this dialogue focused on a wide variety of topics such as listing regulation, senior management accountability and suitability obligations.

When we propose rules under the Securities and Futures Ordinance, we consistently exceed statutory requirements for public consultation by consulting on both proposed and amended non-statutory codes and guidelines prior to their implementation. We issue consultation papers containing detailed proposals and conduct both formal and informal discussions with relevant stakeholders to seek their views as part of the consultation process. After we complete our analysis, we issue a consultation conclusions paper summarising the main comments received and setting out our conclusions. Over the past year, we published four consultation papers and two consultation conclusions.

We regularly organise meetings and briefings to keep industry participants well-informed about regulatory developments. During the year, we organised 40 workshops to explain our rules, including 10 workshops on the Manager-In-Charge initiative for about 2,200 industry participants.

Since the March 2016 launch of the SFC Fintech Contact Point as a dedicated portal to receive enquiries and requests from the financial technology (Fintech)

Publications and other communications

	2016/17	2015/16	2014/15
Press releases	134	114	137
Consultation papers	4	5	8
Consultation conclusions	2	9	6
Industry-related publications	13	11	15
Codes and guidelines	4	3	7
Circulars to industry	74	68	48
Corporate website average daily page views [#]	59,952	51,020	44,954
General public enquiries	6,532	7,033	5,883

[#] The average number of web pages browsed per day during the reporting period.

Stakeholder communication

community, we have engaged with a wide range of stakeholders including financial institutions, industry organisations and start-ups. Through this dialogue, we hope to see better investor outcomes such as easier comparability of investment options, fees and investment returns as well as greater investor choice and diversification. In November 2016, we hosted the SFC Regtech and Fintech Contact Day (see sidebar below).

During the year, our senior executives proactively interacted with the industry, taking part in 85 speaking engagements on a wide range of topics within our remit. We also supported 13 seminars or events organised by industry bodies.

Our publications aim to provide updates on our regulatory work, topical issues and other developments. During the year, we published 13 thematic publications, including periodic newsletters, market reviews and surveys. In December 2016, we

relaunched the *Enforcement Reporter*, a biannual publication which aims to provide the market with updates on our key enforcement priorities.

Circulars and frequently-asked questions are posted on the SFC website to help the industry better understand regulatory issues. We issued 74 circulars this year.



Photo credit: Thomson Reuters

Regtech and Fintech Contact Day

More than 150 senior delegates from financial institutions attended the first SFC Regtech and Fintech Contact Day which we hosted on 7 November as part of the inaugural Hong Kong Fintech Week¹.



The full-day event, sponsored by InvestHK and supported by the Asia Securities Industry and Financial Markets Association and the Hong Kong Investment Funds Association, focused on how regulatory technology (Regtech) and financial technology (Fintech) intersect with our regulatory remit.

Hong Kong is an ideal place for Fintech entrepreneurs to set up as it is a leading international financial centre and provides first-class market access to the Mainland and the rest of Asia.

James Lau

Opening remarks were delivered by Mr James Lau, Acting Secretary for Financial Services and the Treasury of the Hong Kong Special Administrative Region, followed by a welcome address by Mr Ashley Alder, SFC Chief Executive Officer, who highlighted that the event is part of a series of initiatives to enhance our understanding of Fintech.

Professor Douglas Arner from the Faculty of Law of the University of Hong Kong delivered a keynote speech on the role of Regtech in regulating rapidly transforming financial systems. Also at the event, a number of service providers gave presentations on robo-advice, automation and big data analytics.

The day concluded with a panel discussion on the regulatory implications of new technologies featuring representatives of the SFC, Hong Kong Monetary Authority, Hong Kong Exchanges and Clearing Limited and the Office of the Privacy Commissioner for Personal Data.

Regtech presents enormous opportunities to both regulatees, in helping them ensure compliance with regulatory standards, and regulators, in the performance of their functions.

Ashley Alder

¹ Held from 7 to 11 November 2016, Hong Kong Fintech Week highlighted the latest trends in Fintech development.

Stakeholder communication

Government

We attend Legislative Council (LegCo) meetings, including meetings of the Panel on Financial Affairs and relevant Bills Committees, to provide legislators with details of our policy initiatives, explain the rationale behind our work and answer questions. We also respond to enquiries and complaints referred to us or raised by LegCo members and other government agencies.

Through regular meetings and reports, we maintain close liaison with the Financial Services and the Treasury Bureau and provide updates on our regulatory initiatives. Furthermore, we provide assistance and information to other government bureaux and departments on various issues.

Regulatory counterparts

We play an active role in international regulatory cooperation through our participation in the International Organization of Securities Commissions and the Financial Stability Board (see Global regulatory engagement on pages 73-76).

To foster effective regulatory cooperation, we maintain close contact with local, Mainland and overseas regulatory counterparts. With other authorities and exchanges, we signed four memoranda of understanding (MoU) and held more than 40 MoU meetings during the year. We received visitors and delegates from Mainland and overseas authorities.



Mr Brian Ho, Executive Director of Corporate Finance, addresses the Hong Kong Independent Non-Executive Director Association's Greater China INED Forum

Complaints against intermediaries and market activities

	2016/17	2015/16	2014/15
Conduct of licensees	411	338	672
Conduct of registered institutions	39	34	30
Listed companies and disclosure of interests	739	631	532
Market misconduct ^a	221	265	277
Product disclosure	8	9	1
Unlicensed activities	116	128	80
Breach of offers of investments	141	21	40
Boiler rooms and suspicious websites	330	310	206
Scams and frauds ^b	132	100	30
Other financial activities not regulated by SFC ^c	185	220	251
Total	2,322	2,056	2,119

^a Primarily, alleged market manipulation and insider dealing.

^b Such as identity fraud and impersonation.

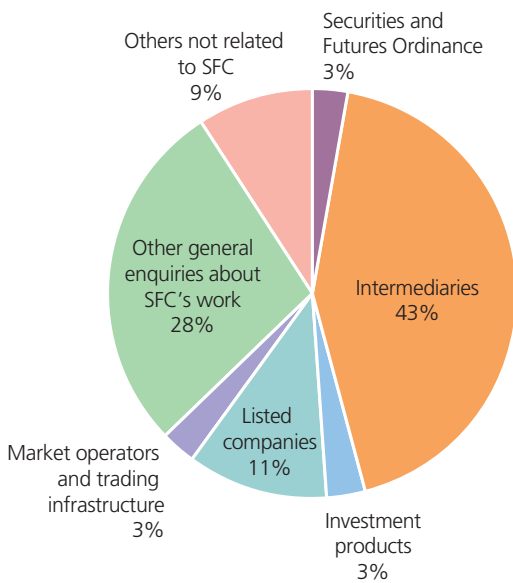
^c For example, bullion trading, banking complaints.

Stakeholder communication

The public

We seek to address enquiries and public concerns regarding the markets we regulate. During the year, we received a total of 6,532 general enquiries by phone or in writing.

General public enquiries



Complaints against intermediaries and market activities are first reviewed by our Complaints Control Committee, comprising senior executives from across the organisation, and are then allocated to responsible divisions for assessment where appropriate.

During the year, we handled 2,322 complaints. A total of 1,229 cases¹ were allocated for further review and 455 were referred to Hong Kong Exchanges and Clearing Limited or other financial regulators.



To increase public understanding of Hong Kong's financial regulatory framework and of our work, we received over 260 visitors from local and overseas institutions and our senior executives delivered key messages in media interviews. We issued 134 press releases to inform the public of the latest regulatory actions and other SFC news.

We published our *Annual Report 2015-16* and three quarterly reports. Our reporting efforts were recognised with a Gold prize in the Hong Kong Management Association's Best Annual Reports Awards 2016, and a Gold award, public sector category, in the Hong Kong Institute of Certified Public Accountants' 2016 Best Corporate Governance Disclosure Awards.

Our corporate website provides stakeholders with up-to-date information about our work. Website enhancements this year included revamping the codes and guidelines section to make it easier to search for both current and archived information as well as adding quick links to circulars and a list of designated central counterparties under the over-the-counter derivatives regime.

¹ One case may comprise multiple complaints.

Corporate Social Responsibility

Our corporate social responsibility initiatives focus on supporting sustainable markets, caring for the community, protecting the environment and promoting staff wellness.



Corporate Social Responsibility

As a regulator in an international financial centre, we are committed to acting as a socially responsible organisation. We strive to incorporate corporate social responsibility (CSR) principles into our daily operational decisions and practices.

Governance

Our CSR efforts are coordinated by a dedicated committee which reports directly to the SFC’s Executive Committee (ExCo). The CSR Committee is chaired by the Chief Financial Officer and Senior Director of Corporate Affairs, and includes members from different units across the organisation. It is charged with:

- formulating and developing our CSR vision, principles, framework and policies
- organising and promoting CSR activities
- setting objectives, targets and key performance indicators to measure the effectiveness of our CSR efforts

The CSR Committee has three working groups. Each is responsible for planning and implementing initiatives under a specific theme.

We explain our CSR goals, principles and activities on both our corporate website and intranet, and we circulate an internal quarterly e-newsletter to update staff about our CSR activities and outcomes. The newsletter also provides a platform for participants to share first-hand accounts of our CSR activities and for all staff to provide feedback.

	Focus	2016/17	2017/18
Commission Volunteers Group 	Community	Making a difference through volunteering	Reach out, help out, volunteer
Green Working Group 	Environment	Think green, live green	Environmental sustainability is our responsibility
Wellness Group 	People	Your health, we care	Good health is your wealth

Our efforts to care for the community, the environment and our employees were recognised by the Hong Kong Council of Social Service which named us a “Caring Organisation” for the eleventh consecutive year.



Hike for Hunger



Making sticky-rice dumplings with the Hong Chi Association

Corporate Social Responsibility

Marketplace support

As a statutory body, we consider the impact of our regulatory work on Hong Kong's financial markets. Over the years, we have taken measures to enhance industry-wide operational efficiency, minimise resource consumption and reduce the paperwork burden for both the SFC and industry participants.

Raising industry-wide operational efficiency

During the year, we implemented a mandatory online submission initiative which requires individual applicants and licensees to submit licensing applications, notifications and annual returns via the SFC Online Portal. This enables us to handle an increasing number of applications and helps enhance the efficiency of the licensing application process.

To reduce the industry's compliance burden and paper consumption, we ceased issuing printed licences¹ to licensed individuals as of November 2015. Details of licensed individuals are now only available on our online Public Register of Licensed Persons and Registered Institutions.

In addition, an online system to streamline the submission and posting of Rule 22² dealing disclosures under the Code on Takeovers and Mergers has been in operation since 2014.

The Mixed Media Offer process, another measure which aims to reduce paper consumption, allows listed applicants and listed companies to distribute paper application forms for public offers so long as the prospectus is available online.

Promoting professional competence

We impose continuous professional training (CPT) requirements³ on licensees to maintain their professional competence. This year, our senior executives delivered 28 hours of CPT-eligible training to licensees.

Every year, we fund the Hong Kong Securities and Investment Institute in support of its training and examinations on regulatory regimes. We also provide funding to the Financial Reporting Council which aims to uphold the quality of listed companies' financial reporting as well as to the Financial Dispute Resolution Centre to provide an effective and cost-efficient channel for financial institutions and their individual customers to resolve their monetary disputes.



WiFA's panel on environmental, social and corporate governance

The SFC hosted a panel on environmental, social and corporate governance organised by Women in Finance Asia (WiFA) in May 2016. At the event, senior executives from our Corporate Finance and Intermediaries divisions discussed ways to improve corporate behaviour and corporate governance as well as asset managers' approaches towards responsible ownership. We also hosted a WiFA educational session on climate change and sustainable investment in March 2017.

¹ We will continue to issue printed licences for licensed corporations and certificates of registration for registered institutions, and these must be exhibited prominently at their places of business.

² Rule 22 of the Code on Takeovers and Mergers requires parties to an offer and their respective associates to disclose dealings in relevant securities of the offeree company and the offeror (in the case of a securities exchange offer) conducted for themselves or on behalf of discretionary clients during an offer period.

³ Under the SFC's Guidelines on Continuous Professional Training, licensees are required to complete a minimum of five CPT hours per calendar year for each type of regulated activity.

Corporate Social Responsibility

Community

We provide staff with volunteering and engagement opportunities to make a positive impact on the community. We offer volunteering leave to encourage staff participation in community service.

This year, 110 staff spent a total of 471 hours volunteering. Our staff engaged with different members of the community, including minorities, the single elderly and the intellectually challenged.

Our staff also support community services through donations and fundraising events. This year, we raised a total of \$70,648 through the Standard Chartered Marathon, a Christmas charity sale and three

Community Chest events: Dress Casual Day, Skip Lunch Day and Green Day. The Commission Volunteers Group made a general call for donations in August 2016 which exceeded its target of \$15,000 to raise \$17,300 to fund a household renovation project (see sidebar on page 86).

Donating used items to charities allows us to give back to the community and reduce wastage. This year, we donated used personal computers (PCs), printers and servers to Caritas Hong Kong's computer refurbishment project which prolongs the lifecycle of computers and accessories and reduces landfill usage. We participated in the 2017 Suits for Success initiative organised by WIFA to donate professional clothing for young adults in need.

Volunteering for the community

The Commission Volunteers Group (CVG) aims to encourage a culture of volunteerism by organising activities for our staff. The group's current and former chairpersons discussed how they put CSR principles into action.



Ignatius Lie and Shanice Kwan, current and former CVG chairpersons

According to the current CVG chairperson, Ignatius Lie, the group seeks to reach out to a variety of disadvantaged groups via activities which have a long-term impact. It also aims to increase staff's sense of belonging and self-fulfilment while providing memorable experiences which encourage future volunteering.

During Shanice Kwan's term as chairperson, she was most proud of a Christmas fundraiser which involved making festive gifts with needy children. All the gifts were bought up at an in-house charity sale, raising

funds to benefit the children who took part. More significantly, the activity instilled in the children a sense of achievement.

Lie explained that each year CVG members try to come up with new ideas. Sometimes inspiration comes from previous events or community service, as when Lie visited a single elderly person and noticed the flat was in need of serious repair. He decided to take action to improve the living environments of those in need and this led to the CVG's household renovation project (see sidebar on page 86).



Christmas charity sale

Lie's experience with the CVG taught him that people need to make human connections. Just having a conversation with a needy person can make a greater difference than providing material things, he concluded. Both Lie and Kwan are gratified that CVG activities are consistently oversubscribed, and they encouraged staff to spend even more time volunteering for the benefit of the community.

Corporate Social Responsibility

Volunteering events

Month	Activity	Purpose	Outcome
Jun 2016	Making sticky-rice dumplings to celebrate the Dragon Boat Festival	To provide more opportunities for socialisation for the intellectually challenged	Together with members from the Hong Chi Association, 22 volunteers made sticky-rice dumplings
Jul 2016	Dog walking	To raise awareness about animal welfare	17 volunteers raised \$1,800 for Hong Kong Dog Rescue
Jul 2016	Blood donation	To raise awareness of the importance of maintaining a stable blood supply	Nearly 50 staff donated blood for the Hong Kong Red Cross Blood Transfusion Service
Sep 2016	Elderly home visit	To connect with the elderly community	25 volunteers visited and delivered Mid-Autumn lucky bags to the elderly in Wong Tai Sin in collaboration with the Community Chest of Hong Kong
Nov 2016	Household renovation project	To enhance the quality and safety of homes for those in need	17 volunteers renovated 10 households at So Uk Estate (see sidebar on page 86)
Dec 2016	Making Christmas gifts with children	To interact with and raise funds for underprivileged children	29 volunteers made Christmas ornaments together with needy children for an in-house charity sale, raising nearly \$3,700 for the Hong Kong Society for the Protection of Children
Mar 2017	Hike for Hunger	To raise funds for food and daily necessities for orphans and street children in Cambodia	26 volunteers hiked from King's Road to Tai Tam Reservoir and raised \$5,700 for Sunshine Action



Making ornaments with needy children

Corporate Social Responsibility

Contributions

	2016/17	2015/16	2014/15
Number of staff participating in volunteering activities	110	137	134
Total volunteering hours	471	548	558
Funds raised for community causes (\$)	70,648	186,789	128,980
Corporate sponsorships for community causes# (\$)	9,000	18,000	12,000

Including donations in lieu of corporate gifts made in the names of guest speakers invited to our in-house training seminars.



Certificate for Friends of the Earth's Plant a Tree project

Homes get a makeover

In November 2016, our volunteers teamed up with Repair Fairy, an external volunteering group, to take part in the SFC's first household renovation project. Funded by an organisation-wide donation drive which raised \$17,300, the project aimed to improve the living environments of low-income families and single elderly.

After attending a three-hour training session to learn basic home-improvement techniques, 17 volunteers spent more than 150 hours refurbishing 10 homes at So Uk Estate, a public housing estate undergoing redevelopment.

On renovation day, the volunteers put their skills to work painting internal walls, installing curtain rails and fixing door locks. Installing flooring was the most demanding task, as it involved crouching or squatting for more than five hours to chip away gravel, cement over uneven areas and glue down tiles.

Aside from acquainting volunteers with home repair skills, the project encouraged problem-solving and teamwork. Most importantly, it achieved a meaningful outcome for residents, and the most rewarding part of the day came when they were able to see the completed renovations.



Corporate Social Responsibility

Environment

Being an environmentally-friendly organisation means we need to manage and reduce our impact on the environment and raise green awareness amongst staff and stakeholders. We encourage staff to reduce, reuse, repair and recycle through our internal protocol, *A guide to working "Green" at the SFC*.

We adopt a number of green practices in our workplace to drive smarter use of resources including paper and power:

- sharing meeting materials on tablet PC's;
- using internal electronic processes for training course enrollment, conference room booking, expense claims, overseas travel records, pay slips, leave applications, appraisals and paperless diaries to save time and paper;
- using auto timers to adjust indoor lighting after office hours;
- reducing electricity usage at our data centres;
- providing recycling bins for newspapers;
- sorting cans and bottles for recycling;
- replacing paper holiday greeting cards with e-cards;
- recycling used red packets in support of Greener Action's campaign.



Tai O eco-tour

Consumption and recycling

	2016/17	2015/16	2014/15
Consumption			
Paper (pieces/head)	10,857	11,831	12,191
Electricity (kWh)	4,770,712	4,078,591	3,973,481
Recycling			
Paper (kg)	30,852	26,048	25,933
Toner and printer ink cartridges	1,130	1,008	1,035

We extend our green efforts beyond the workplace by supporting the World Wide Fund for Nature's global warming prevention and environmental conservation causes:

- No Shark Fins Policy: We have in place an organisation-wide policy pledging not to serve sharks' fins at any SFC event.
- Earth Hour 2017: This is the seventh year we took part in this annual energy conservation event by encouraging staff to switch off lights for one hour.

Throughout the year, we engaged with our staff on environmental protection initiatives to raise awareness about ecological sustainability. These included an eco-tour to Tai O's Coastal Wetlands and Yim Tin Mangrove Forest, as well as a visit to the HKFYG⁴ Organic Farm for farming and producing organic food. Together with Friends of the Earth Hong Kong, we also planted 35 trees in the headstream of the Dongjiang River to enrich the biodiversity of Jiangxi Province while conserving a vital source of water for Hong Kong.



Walking the dog

⁴ Hong Kong Federation of Youth Groups.

Corporate Social Responsibility

All in the family

As part of our community engagement efforts, CSR activities are open to family members and friends of our staff. For three consecutive years, Audrey, aged seven, joined CSR events along with her father, Henry To, Manager, Supervision of Markets.

“I would like my daughter to know that we all have social responsibility,” To related. “Also, these CSR events are great opportunities to spend quality time with my family while working together for a meaningful cause.”

For one CSR activity, Audrey visited Silverstrand Beach to clean up the shoreline together with her father and his colleagues. They collected a variety of items from bottle caps to styrofoam and shoes. It made a visible difference by the end of the day and brought home to Audrey the importance of keeping the environment clean.

At another event, she joined children and teenagers from Po Leung Kuk for a tour at The Chinese University of Hong Kong to learn about ecological sustainability and green living. Most importantly, Audrey was able to share the experience with children from different backgrounds who provided her with a new perspective.



Beach clean-up

Workplace

Staff wellness is essential for a more productive and healthier workforce. We launched a number of initiatives during the year to enhance wellness and health awareness in the workplace:

- introductory Thai boxing and fitness class;
- distribution of fitness bands to promote a healthy living;
- sharing healthy lunch recipes;

- free on-site influenza vaccinations and health screening; and
- talks on neck and back care, stress management and worksite ergonomics.

For more on our employee engagement and development opportunities, see Corporate Developments on pages 90-97.



Visiting an organic farm



Corporate Social Responsibility

CSR Activity Calendar

April – June 2016

- Community Chest Green Day
- Introductory Thai boxing and fitness class
- Making sticky-rice dumplings with the Hong Chi Association**
- Plant a Tree project



October – December 2016

- HKFYG Organic Farm visit
- Free on-site influenza vaccinations and health screening
- Health talk on neck and back care, stress management and worksite ergonomics
- Household renovation project at So Uk Estate**
- Making Christmas gifts with children



July – September 2016

- Community Chest Dress Casual Day
- Tai O eco-tour
- Blood donation day
- Fitness band distribution
- Care for animals: Walk the dog**
- Elderly home visit



January – March 2017

- Community Chest Skip Lunch Day
- Red packet recycling**
- Earth Hour
- Massage day
- Hike for Hunger
- Healthy lunch recipe sharing



Corporate Developments

Building an efficient organisation driven by an effective and engaged workforce is crucial for us to carry out our regulatory work.



Corporate Developments

Our organisational support focuses on ensuring our resources are used appropriately, keeping our information technology systems up-to-date, communicating with our stakeholders in a timely manner and providing a full range of legal services to support our regulatory work.

People

Professional development

Continually enhancing the professional capabilities of our staff and equipping them with the right knowledge and skills is important for the SFC to operate effectively. Our work in people development incorporates our core values – “professional”, “proactive” and “people count”.

We offer training based on identified learning and development needs. During the year, each employee spent an average of 31 hours on structured learning courses, including workshops, seminars and training programmes.

To provide a supportive environment for career development, this year we launched a cross-divisional exchange programme for staff to broaden their work experience through short-term internal secondments and organised briefing sessions to increase staff awareness of available resources.

To keep staff updated about the market and other issues, we invited local and overseas regulators and industry professionals to discuss a variety of topics including financial products, regulatory changes and market developments on the Mainland and overseas. We also arranged secondments of 19 staff to the China Securities Regulatory Commission, visits to regulatory counterparts in Shenzhen and Shanghai and workshops on Mainland-related themes.

Training and e-learning

	2016/17	2015/16	2014/15
Percentage of employees who participated in internal training [#]	95%	95%	91%
Average hours of internal training per employee [#]	31	34.2	32.1
Number of employees who undertook e-learning	198	175	164

[#] Including lectures, workshops and seminars.

Our Chief Executive Officer (CEO) communicated important organisational matters, discussed regulatory initiatives and addressed staff questions at regular CEO sharing sessions. Other senior management shared new developments with staff at Commission Connection Series events.

As part of our employee engagement initiatives, we held two sessions of our “Ask Me Anything” luncheon series to provide young professionals with opportunities to raise ideas, suggestions or concerns directly with a member of the Executive Committee. The senior management also shared their career and personal journeys during the sessions, which are kept small to foster greater interaction among participants.



“Ask Me Anything” luncheon series

We continued our Leading with Effectiveness and Professionalism (LEAP) programme which supports employee growth and helps build effective teams. By the end of the year, 78% of our people managers had completed the programme.

During the year, we recruited six graduate trainees in the eighth annual intake for our Graduate Trainee Programme. We placed 38 summer and winter interns in various divisions.

To acknowledge and reward outstanding performance and encourage our staff to strive for continuous development, we recognised four individuals and 13 teams in our annual Employee Awards.

Corporate Developments

Mentoring talent

We introduced an organisation-wide mentoring programme to enhance the professional and personal development of our staff. Over the course of a year, committed senior staff met regularly with more junior colleagues to share their knowledge and experience.

We organised sharing sessions, workshops and other events to create a supportive environment for mentors and mentees to connect. To keep the momentum going, participants received regular newsletters with mentoring tips.

Josie Chan, Manager, felt more engaged with her work after hearing firsthand about the experiences of her mentor, Judith Yuen, Associate Director. Being mentored also made Josie more self-aware and better prepared to map out her career path.



Judith Yuen and Josie Chan

The experience was also rewarding for Judith, who enjoyed guiding a new colleague to a better understanding of the SFC's operations. Advising Josie helped Judith look at things from different perspectives and improve her mentoring skills.

Mark Kong, Assistant Manager, developed confidence and polished his interpersonal skills through his participation in the programme. He particularly appreciated that his mentor, Guan Tan, Senior Manager, was keen to share his institutional knowledge about the SFC and its role in the development of global financial regulations.

For Guan, sharing his knowledge with new colleagues was a gratifying experience. Because mentors were paired up with mentees from different divisions, the programme fosters personal connections across the organisation. He encouraged more colleagues to take part in the future.



Mark Kong and Guan Tan

Breakdown of staff

	As at 31.3.2017		As at 31.3.2016		As at 31.3.2015		As at 31.3.2014	
	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
Professional	677	729	651	698	608	666	571	610
Support	190	188	190	195	185	186	182	184
Total	867	917	841	893	793	852	753	794

Employee statistics

	As at 31.3.2017	As at 31.3.2016	As at 31.3.2015
Male	283	278	258
Female	584	563	535
Average years of service	7.7	7.2	7
Female staff at Senior Manager grade or above	59%	59%	57%

Corporate Developments

Quality workplace

As an equal opportunity employer and an employer of choice, we promote employment practices that foster diversity and respect for employees' rights as well as a safe, quality work environment.

We promote a sense of belonging through inter-organisational activities in addition to other cross-divisional and cross-grade opportunities for staff to mingle. During the year, our teambuilding activities included participation in dragon boat races as well as in basketball and badminton tournaments with fellow regulators.

Our Women's Network¹ organised activities for all staff on a variety of topics, including women's health, executive presence and personal branding. We supported a Women in Finance Asia (WiFA) event on corporate governance as well as HeForShe², United Nations (UN) initiative to promote gender equality in the workplace.

In support of the breastfeeding-friendly workplace initiative, we provide an appropriate and friendly environment for post-natal employees where practicable.



Team building



Badminton
Tournament



Basketball Supervisory Cup

Basketball Supervisory Cup

Technology

Enhancing efficiency

This year we introduced a number of information systems to increase efficiency (also see sidebar on page 94):

- A revamped investment product authorisation system to receive information directly from licensed corporations and fund houses via the SFC Online Portal and standardise internal processes;
- A new enterprise case management system to enhance the sharing of case information within the organisation;
- A new search centre and search tool to look up information more efficiently; and
- An internal news centre to collect financial market information from online media and other regulators according to users' preferences.

To meet rising demand, we broadened access to online information resources to facilitate our daily work. During the year, our in-house library expanded its collection of specialised financial and legal research databases and digitalised amendments to the Securities and Futures Ordinance which were previously unavailable online. As of end-March 2017, we subscribed to 60 electronic databases.

¹ The SFC Women's Network aims to enhance professional development and inspire women for leadership roles.

² Created by UN Women, the HeForShe initiative promotes gender equality by providing a systematic approach and targeted platform for men to engage and become change agents.

Corporate Developments



Dragon boat race

Information security

To ensure that information is shared appropriately and effectively on an as-needed basis, we introduced guidelines for sharing case information across the organisation and updated our information security policy accordingly. Our information system security was also enhanced to protect us from unauthorised access and cyber attacks. Separately, we provided an e-learning course to increase staff awareness of information security and the risks of using internet and electronic communications.

Advancing with technology

Following a recent strategic review to ensure our information technology resources remain aligned with our regulatory mission, we took a number of steps to more fully integrate our systems across the entire organisation, streamline our operational processes, support internal collaboration and upgrade our investigatory and supervisory capabilities.

Having a robust information technology strategy helps us quickly introduce new systems when market conditions or practices change, as when we developed technical infrastructure and made system enhancements to monitor trading conducted through the new stock market connections with Shanghai and Shenzhen.

One major challenge we face is the need to share information across the organisation in a secure and

efficient manner. To address this, we provided new electronic platforms and upgraded case management systems which support more efficient information retrieval and promote collaboration. In addition, we revamped our intranet to make it more user-friendly and provide additional utilities, including a news centre and a more powerful search tool.

Another new system helps analyse the growing number of paper and electronic documents generated by the increased volume and complexity of our enforcement and legal actions. As the volume and types of information we handle will no doubt increase, we are focusing more on how to improve the processes for submitting information to us electronically, including through the SFC Online Portal, to ensure timeliness, accuracy, efficiency and ease of use.

Our surveillance system monitors
100 million
market orders each day

Our internal systems handle
30,000
new applications and
investigations each year

+22%
document management
system utilisation

+10%
e-submissions via
the SFC Online Portal

Corporate Developments

Administration

Corporate resources

We regularly review our corporate resources, including space requirements, to ensure that our operational needs are met. During the year, we completed a rent review of our office premises and looked into alternative accommodation scenarios to cater for projected operational requirements. To keep our workplaces well-equipped and occupationally safe, we carried out office repair and maintenance work and upgraded audio-visual equipment.

Secure workplace

Our office access controls safeguard against unauthorised entry to our office premises. Access rights are properly assigned and closely managed. A business resumption plan addressing readily identifiable risks, including technical problems, fires, natural disasters and other emergencies, is also in place.

To assess the suitability of our existing office furniture, we appointed the Hong Kong Physiotherapy Association to conduct an ergonomic assessment of selected workstations in late 2016. The results and recommendations were shared with staff in April 2017.

Communications

We emphasise active communications with external parties through different channels. Our press office's proactive engagement with the media, which includes handling press enquiries and issues management, enhances the transparency of our operations and promotes public understanding of our regulatory actions and policies. Our constantly updated corporate website (www.sfc.hk) provides timely and easily accessible public information.

To help the industry and the public better understand our work as well as specific topical issues, we issued 134 press releases, 13 industry-related publications and 74 industry circulars as well as six consultation papers and consultation conclusions during the year. We also published our *Annual Report 2015-16* and quarterly reports. Additionally, we took part in 85 speaking engagements and responded to 6,532 general enquiries orally or in writing³.

³ See Stakeholder communication on pages 77-80.

⁴ See Corporate Governance on page 25.

Finance

Funding

We are operationally independent of the Government and are funded mainly by transaction levies and fees from market participants. The current levy rate is 0.0027% for securities transactions, which is significantly less than the initial rate of 0.0125% when the transaction levy mechanism was set up in 1989. We have not revised our fees and charges since 1994. Additionally, we have offered waivers for annual licensing fees four times since 2009. The current waiver is in effect for two years beginning 1 April 2016.

As a publicly-funded organisation, we follow a disciplined approach in drawing up our budget. We appoint external investment managers to manage our reserves according to investment guidelines approved by the Financial Secretary. This year, the annual review of our internal controls conducted by an independent external firm covered banking and investment procedures, financial transaction analysis and recruitment processes, and led to subsequent revisions to related policies and procedures⁴.

Income

Total income for the year was \$1,363 million, down 16% from \$1,622 million a year ago. Due to lower securities market turnover, our levy income dropped by 31% to \$1,017 million in the current year. Our income from fees and charges increased by 8%, from \$132 million last year to \$143 million this year, mainly attributable to higher licensing application fees and takeovers and mergers document fees received. We recorded higher net investment income as a result of the better performance of our equity fund investments.

Income breakdown

	2016/17	2015/16	2014/15
Levies	74.6%	90.8%	81.7%
Fees and charges	10.5%	8.1%	10%
Net investment income	14.4%	0.6%	7.6%
Others	0.5%	0.5%	0.7%

Corporate Developments

Expenditure

The costs of our operations were \$1,719 million, \$140 million below our original budget of \$1,859 million. Over the past three years, our staff costs increased 34% while our regulatory work increased in both volume and complexity (see chart on page 97).

Expenditure breakdown

	2016/17	2015/16	2014/15
Staff costs	69.9%	69.3%	68.3%
Premises and related expenses	15.1%	15.6%	15.9%
Other expenses	12.3%	11.9%	12%
Depreciation	2.7%	3.2%	3.8%

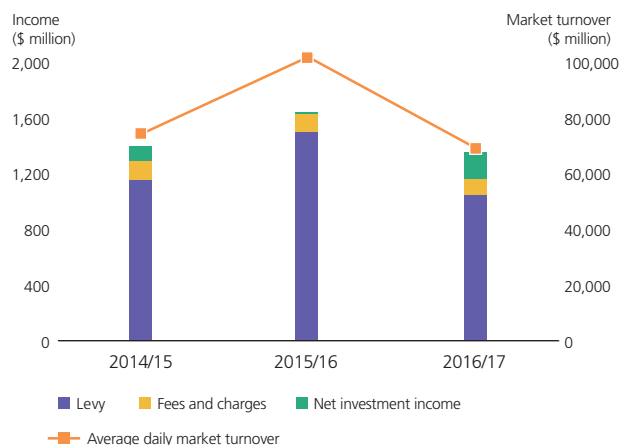
The ratio of average expenses to income for the past three years was 109%. In the same period, the average increase in expenses and income was 9% and 6% respectively.

Owing to the reduction in income, we recorded a deficit of \$356 million for the year, compared to a surplus of \$36 million last year. As of 31 March 2017, our reserves stood at \$6.9 billion, of which \$3 billion was set aside for possible future acquisition of office premises.

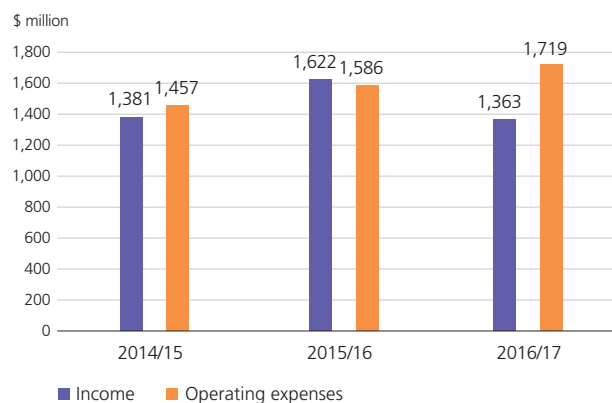
Finances

	2016/17	2015/16	2014/15	2013/14
Income (\$ million)	1,363	1,622	1,381	1,200
Expenses including depreciation (\$ million)	1,719	1,586	1,457	1,339
(Deficit)/Surplus (\$ million)	(356)	36	(76)	(139)

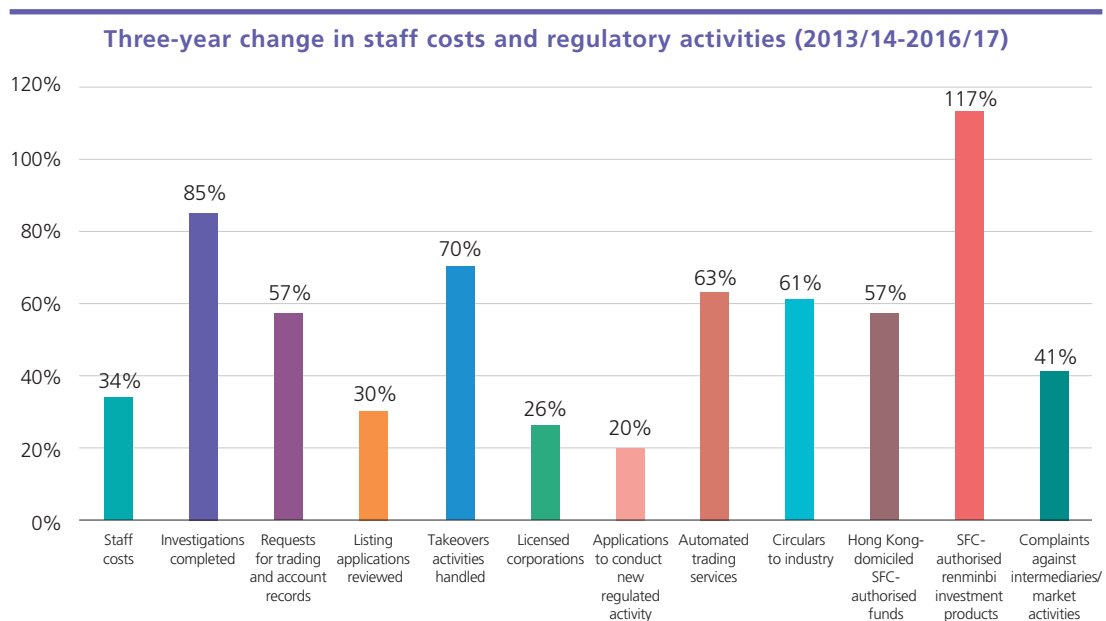
Income vs market turnover (2014/15-2016/17)



Income and operating expenses (2014/15-2016/17)



Corporate Developments



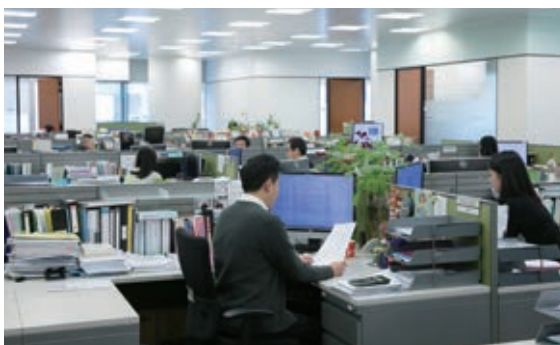
Legal support

Our in-house legal team performs a full range of services to support our work. It prepares and conducts criminal cases and manages civil litigation and Market Misconduct Tribunal (MMT) cases initiated by the SFC, and defends judicial reviews and other cases brought against the SFC. Of the matters it handled during the year, 43 resulted in litigation, including 18 civil cases, nine criminal cases, six judicial reviews and 10 cases in the MMT⁵.

In our day-to-day work, it provides advice and guidance on regulatory matters such as licensing, takeovers, enforcement investigations and compliance with

disclosure requirements, as well as on administrative affairs including employment and procurement contracts. This year, it contributed to a number of key policy initiatives including the Manager-In-Charge regime and the consultation on online distribution and advisory platforms for investment products.

Legislative drafting work is crucial to keep our regulations in sync with market developments. During the year, legal support facilitated the enactment of legislation to enable the introduction of a new open-ended fund company structure in Hong Kong as well as rule changes regarding contracts limits and short positions.



⁵ See Enforcement on pages 63-71.

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)

Opinion

We have audited the consolidated financial statements of Securities and Futures Commission (the SFC) and its subsidiaries (the Group) set out on pages 102 to 125, which comprise the consolidated statement of financial position as at 31 March 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSAAs) issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Securities and Futures Commission

Independent auditor's report to the Securities and Futures Commission (continued)

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

Assessing the valuation and classification of investments

Refer to notes 9, 10 and 20(e) to the consolidated financial statements and the accounting policies on page 109.

The Key Audit Matter	How the matter was addressed in our audit
<p>As at 31 March 2017 the aggregate value of the Group's investment portfolio was HK\$1,688 million, which represented 24% of consolidated assets as at that date.</p> <p>The investment portfolio comprised debt and equity investments with a total value of HK\$1,658 million which were designated as at fair value through profit or loss, of which HK\$942 million and HK\$716 million were classified under the fair value hierarchy as Level 1 and 2 financial instruments respectively, and debt investments with a total value of HK\$30 million which were designated as held-to-maturity investments.</p> <p>The valuation of the Group's debt and equity investments designated as at fair value through profit or loss is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from readily available data for liquid markets.</p> <p>For held-to-maturity investments, management is required to demonstrate their intention and ability to hold such investments to maturity in order to classify these debt investments as held-to-maturity investments.</p> <p>We identified assessing the valuation and classification of investments as a key audit matter because of their significance in the context of the consolidated financial statements and because of the degree of management judgement involved in classifying debt investments as held-to-maturity investments.</p>	<p>Our audit procedures to address the valuation and classification of investments included the following:</p> <ul style="list-style-type: none"> ■ inspecting the internal control reports prepared by the external auditors of the Group's external investment managers who assessed the design, implementation and operating effectiveness of the investment managers' internal controls over investment authorisation, purchases, sales and payments and evaluating the auditors' reputation, professional competence and independence; ■ engaging our internal valuation specialists to assist us in performing independent valuations for all financial instruments designated as at fair value through profit or loss and comparing these valuations with the Group's valuations. For Level 1 financial instruments, our internal valuation specialists compared the fair values applied by the Group with publicly available market data. For Level 2 financial instruments, our independent valuations included developing models, obtaining inputs independently and verifying the inputs; and ■ assessing the ongoing appropriateness of the "held-to-maturity" classification for certain debt investments through inspection of movements in the "held-to-maturity" portfolio and on-going communication with management about the Group's intention to hold the "held-to-maturity" investments to maturity.

Securities and Futures Commission

Independent auditor's report to the Securities and Futures Commission (continued)

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

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Securities and Futures Commission

Independent auditor's report to the Securities and Futures Commission (continued)

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

Auditor's responsibilities for the audit of the consolidated financial statements (cont'd)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Arend Oldenzienl.

KPMG

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

23 May 2017

Securities and Futures Commission

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
Income			
Levies	2(a)	1,017,453	1,472,476
Fees and charges		142,990	132,078
Investment income	5	202,623	13,791
Less: custody and advisory expenses		(5,894)	(3,424)
Investment income net of third party expenses		196,729	10,367
Recoveries from Investor Compensation Fund		5,574	5,398
Other income	6	525	2,006
		1,363,271	1,622,325
Expenses			
Staff costs and directors' emoluments	7	1,201,936	1,098,575
Premises			
Rent		208,744	202,097
Rates, management fees and others		49,888	46,159
Other expenses	8	211,594	188,691
Depreciation	11(a)	46,749	50,456
		1,718,911	1,585,978
(Loss)/surplus and total comprehensive income for the year		(355,640)	36,347

The notes on pages 107 to 125 form part of these financial statements.

Securities and Futures Commission

Consolidated statement of financial position

At 31 March 2017 (Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
Non-current assets			
Fixed assets	11(a)	63,455	73,247
Held-to-maturity debt securities	9	–	30,009
		63,455	103,256
Current assets			
Held-to-maturity debt securities	9	30,003	461,781
Financial assets designated at fair value through profit or loss			
Debt securities	10	716,403	–
Pooled funds	10	941,911	654,585
Debtors, deposits and prepayments	15	158,450	122,458
Fixed deposits with banks	12	5,107,808	6,066,032
Cash at bank and in hand	12	75,462	25,649
		7,030,037	7,330,505
Current liabilities			
Fees received in advance		9,210	8,405
Creditors and accrued charges		128,218	121,969
		137,428	130,374
Net current assets		6,892,609	7,200,131
Total assets less current liabilities		6,956,064	7,303,387
Non-current liabilities	14	34,164	25,847
Net assets		6,921,900	7,277,540
Funding and reserves			
Initial funding by Government	16	42,840	42,840
Reserve for property acquisition	22	3,000,000	–
Accumulated surplus		3,879,060	7,234,700
		6,921,900	7,277,540

Approved and authorised for issue by the SFC on 23 May 2017 and signed on its behalf by

Carlson Tong
Chairman

Ashley Alder
Chief Executive Officer

The notes on pages 107 to 125 form part of these financial statements.

Securities and Futures Commission

Statement of financial position

At 31 March 2017 (Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
Non-current assets			
Fixed assets	11(b)	63,167	72,701
Held-to-maturity debt securities	9	–	30,009
		63,167	102,710
Current assets			
Held-to-maturity debt securities	9	30,003	461,781
Financial assets designated at fair value through profit or loss			
Debt securities	10	716,403	–
Pooled funds	10	941,911	654,585
Debtors, deposits and prepayments	15	158,516	134,872
Fixed deposits with banks		5,107,808	6,066,032
Cash at bank and in hand		71,262	5,058
		7,025,903	7,322,328
Current liabilities			
Fees received in advance		9,210	8,405
Creditors and accrued charges		123,796	113,246
		133,006	121,651
Net current assets		6,892,897	7,200,677
Total assets less current liabilities		6,956,064	7,303,387
Non-current liabilities	14	34,164	25,847
Net assets		6,921,900	7,277,540
Funding and reserves			
Initial funding by Government	16	42,840	42,840
Reserve for property acquisition	22	3,000,000	–
Accumulated surplus		3,879,060	7,234,700
		6,921,900	7,277,540

Approved and authorised for issue by the SFC on 23 May 2017 and signed on its behalf by

Carlson Tong
Chairman

Ashley Alder
Chief Executive Officer

The notes on pages 107 to 125 form part of these financial statements.

Securities and Futures Commission

Consolidated statement of changes in equity

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Reserve for property acquisition \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2015	42,840	–	7,198,353	7,241,193
Surplus and total comprehensive income for the year	–	–	36,347	36,347
Balance at 31 March 2016 and 1 April 2016	42,840	–	7,234,700	7,277,540
Transfer to reserve for property acquisition	–	3,000,000	(3,000,000)	–
Loss and total comprehensive income for the year	–	–	(355,640)	(355,640)
Balance at 31 March 2017	42,840	3,000,000	3,879,060	6,921,900

The notes on pages 107 to 125 form part of these financial statements.

Securities and Futures Commission

Consolidated cash flow statement

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
Cash flows from operating activities			
(Loss)/surplus for the year		(355,640)	36,347
Adjustments for:			
Depreciation		46,749	50,456
Investment income		(202,623)	(13,791)
Exchange difference		(2,069)	(944)
Loss/(gain) on disposal of fixed assets		7	(14)
		(513,576)	72,054
(Increase)/decrease in debtors, deposits and prepayments		(26,861)	25,351
Increase/(decrease) in fees received in advance		805	(372)
Increase/(decrease) in creditors and accrued charges		6,249	(88)
Increase in non-current liabilities		8,317	4,478
<i>Net cash (used in)/generated from operating activities</i>		(525,066)	101,423
Cash flows from investing activities			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		63,022	(1,340,718)
Interest received		68,786	72,733
Debt securities designated at fair value through profit or loss purchased		(1,449,334)	–
Debt securities designated at fair value through profit or loss sold or redeemed		726,299	–
Pooled funds purchased		(155,133)	–
Pooled funds sold		2,448	2,532
Held-to-maturity debt securities redeemed at maturity		460,553	616,372
Fixed assets purchased		(36,964)	(34,830)
Fixed assets sold		–	280
<i>Net cash used in investing activities</i>		(320,323)	(683,631)
Net decrease in cash and cash equivalents		(845,389)	(582,208)
Cash and cash equivalents at beginning of the year		1,522,116	2,104,324
Cash and cash equivalents at end of the year	12	676,727	1,522,116

Analysis of the balance of cash and cash equivalents

	2017 \$'000	2016 \$'000
Fixed deposits with banks	601,265	1,496,467
Cash at bank and in hand	75,462	25,649
	676,727	1,522,116

The notes on pages 107 to 125 form part of these financial statements.

Securities and Futures Commission

Notes to the consolidated financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

1. Status and principal activities

The Securities and Futures Commission (SFC) is governed by Part II of the Hong Kong Securities and Futures Ordinance (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 35/F Cheung Kong Center, 2 Queen's 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 (SEHK) and Hong Kong Futures Exchange Limited (HKFE) on transactions recorded on the Exchanges at rates specified by the Chief Executive in Council.
- (b) fees and charges in relation to its functions and services according to the provision of subsidiary legislation.

The SFC also generates investment income from fixed deposits, debt securities and pooled funds.

3. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. Significant accounting policies adopted by the Group are set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. 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 Group for the current and prior accounting periods reflected in these financial statements.

We have not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 23).

(b) Basis of preparation

We have prepared these financial statements using the historical cost as the measurement basis except that financial assets designated at fair value through profit or loss are stated at their fair value (see note 3(h)). The accounting policies have been applied consistently by the Group entities.

We prepare the financial statements in conformity with HKFRSs which require 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.

Securities and Futures Commission

Notes to the consolidated financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(c) Basis of consolidation

Subsidiaries are entities controlled by the SFC. The SFC controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. When assessing whether the SFC has power, only substantive rights are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

(d) Recognition of income

We recognise income in the statement of profit or loss and other 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 SEHK and HKFE 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) Interest income

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

(iv) Revaluation gain/loss

Gains and losses from changes in fair value of financial assets are recognised in profit or loss as they arise.

(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 profit or loss and other comprehensive income as an integral part of the aggregate net lease payments made.

(f) Employee benefits

We make accruals for salaries and allowances, annual leave and contributions to defined contribution schemes in the year in which the associated services are rendered by employees. Other benefits for services received are accrued when a contractual or constructive obligation arises for the Group.

(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 profit or loss and other 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 profit or loss and other comprehensive income as an expense as incurred.

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 profit or loss and other comprehensive income on the date of retirement or disposal.

Securities and Futures Commission

Notes to the consolidated financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(h) Financial instruments

(i) Initial recognition

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

Investments in debt securities and equity funds are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in debt securities and equity funds that we manage, evaluate and report internally on a fair value basis are designated at fair value through profit or loss upon initial recognition and classified as current assets. Any attributable transaction costs are recognised in the statement of profit or loss and other comprehensive income as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in the statement of profit or loss and other comprehensive income. The net gain or loss recognised in the statement of profit or loss and other comprehensive income does not include any interest earned on these investments as these are recognised in accordance with the policies set out in note 3(d)(iii).

Dated debt securities that we have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 3(o)).

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 held at fair value through profit or loss.

(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 equity funds. The fair value is determined based on the Group's share in the net assets of the equity 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.

(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.

Securities and Futures Commission

Notes to the consolidated financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(i) Related parties

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

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) the entity and the Group 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).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

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 a statutory body with its Board members appointed by the Chief Executive of the Government of the Hong Kong Special Administrative Region under the SFO, any transactions with other government departments and agencies under normal dealings are not necessarily regarded as related party transactions in the context of HKAS 24 *Related party disclosures*.

(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 profit or loss and other 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 profit or loss and other comprehensive income (see note 3(o)).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in 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 material, in which case they are stated at cost.

Securities and Futures Commission

Notes to the consolidated financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(n) Investment in subsidiaries

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

(o) Impairment

We review the carrying amounts of the Group'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, which is the higher of its net selling price and value in use. We recognise in the statement of profit or loss and other 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.

For held-to-maturity investments carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (ie, the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

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 and amortisation, if we had not recognised any impairment loss.

(p) Provisions and contingent liabilities

We recognise a provision in the statement of financial position when the Group has a legal or constructive obligation of uncertain timing or amount as a result of a past event, and it is probable that the Group will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably.

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 HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group 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.

Securities and Futures Commission

Notes to the consolidated financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

5. Investment income

	2017 \$'000	2016 \$'000
Interest income from bank deposits	62,501	60,529
Interest income from financial assets designated at fair value through profit or loss	11,124	–
Interest income from held-to-maturity debt securities	4,293	16,439
Realised gain on disposal of equity securities	483	–
Loss on redemption/disposal of debt securities	(230)	–
Gain/(loss) on revaluation of equity funds	132,484	(58,218)
Loss on revaluation of debt securities	(6,857)	–
Amortisation of premium on held-to-maturity debt securities	(1,175)	(5,186)
Amortisation of discount on held-to-maturity debt securities	–	227
	202,623	13,791

6. Other income

	2017 \$'000	2016 \$'000
Investigation costs awarded	258	1,240
Sale of SFC publications	250	215
Gain on disposal of fixed assets	–	14
Others	17	537
	525	2,006

7. Staff costs and directors' emoluments

	2017 \$'000	2016 \$'000
Salaries and allowances	1,093,961	999,685
Retirement benefits	71,253	62,405
Medical and life insurance	30,718	28,315
Staff functions	1,787	1,594
Recruitment	2,669	5,220
Registration and membership fees	1,548	1,356
	1,201,936	1,098,575

The total number of staff as at 31 March 2017 was 891 (866 for the SFC, 22 for the Investor Education Centre and three for the Investor Compensation Company Limited) (as at 31 March 2016: the total number of staff was 866 comprising 841 for the SFC, 22 for the Investor Education Centre and three for the Investor Compensation Company Limited).

Securities and Futures Commission

Notes to the consolidated financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

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

Directors' emoluments included in the above comprised:

	Directors' fee \$'000	Salaries, allowances and benefits in kind \$'000	Discretionary pay \$'000	Retirement scheme contributions ¹ \$'000	2017 Total \$'000	2016 Total \$'000
Chief Executive Officer						
Ashley Alder, JP	–	6,805	2,246	680	9,731	9,731
Executive Directors						
Thomas Atkinson (appointed 3 May 2016)	–	4,100	1,025	375	5,500	–
Christina Choi (appointed 1 August 2016)	–	2,800	728	280	3,808	–
Brian Ho	–	4,725	1,181	472	6,378	6,265
Julia Leung, SBS	–	4,500	1,418	450	6,368	6,417
Keith Lui	–	4,725	1,181	472	6,378	6,264
James Shipton (retired 19 June 2016 ²)	–	1,153	185	97	1,435	6,001
Mark Steward (retired 25 September 2015 ²)	–	–	–	–	–	3,282
	–	28,808	7,964	2,826	39,598	37,960
Non-executive Chairman						
Carlson Tong, SBS, JP	1,012	–	–	–	1,012	1,012
Non-executive Directors						
Au Siu Cheung, Albert, BBS (appointed 26 May 2015)	253	–	–	–	253	216
Professor Leonard Cheng Kwok-hon, JP (retired 31 December 2016 ²)	190	–	–	–	190	253
Edward Cheng Wai-sun, SBS, JP (appointed 1 January 2017)	63	–	–	–	63	–
Lester Garson Huang, JP (appointed 15 November 2015)	253	–	–	–	253	96
Teresa Ko, JP	253	–	–	–	253	253
Lawrence Lee, JP (retired 14 November 2015 ²)	–	–	–	–	–	157
Mary Ma Xuezheng	253	–	–	–	253	253
Wong Kai Man, BBS, JP (retired 25 May 2015 ²)	–	–	–	–	–	38
Dr Kelvin Wong Tin-yau, JP	253	–	–	–	253	253
Dr William Wong Ming-fung	253	–	–	–	253	253
	2,783	–	–	–	2,783	2,784
Total directors' emoluments	2,783	28,808	7,964	2,826	42,381	40,744

¹ This represents net contribution expenses accrued during the year ended 31 March 2017 in accordance with the accounting policy set out in note 3(f) on page 108. 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 as at 31 March 2017 was \$1,595,000 (as at 31 March 2016: \$1,402,000).

² Retired having completed appointment period.

Securities and Futures Commission

Notes to the consolidated financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

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

The aggregate of the emoluments of the five highest paid individuals in 2016-17, representing the emoluments of the Chief Executive Officer and four Executive Directors, was \$34,355,000 (2015-16: \$34,678,000) with the breakdown as follows:

	2017 \$'000	2016 \$'000
Salaries, allowances and benefits in kind	24,855	25,048
Discretionary pay	7,051	7,126
Retirement scheme contributions	2,449	2,504
	34,355	34,678

Their emoluments are within the following bands:

	2017 No. of individuals	2016 No. of individuals
\$5,500,001 to \$6,000,000	1	0
\$6,000,001 to \$6,500,000	3	4
\$6,500,001 to \$7,000,000	0	0
\$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	0
\$9,500,001 to \$10,000,000	1	1

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). Prior to the inception of the MPF Scheme, all general grade staff were included in the Group's ORSO Scheme. Following the introduction of the MPF Scheme in December 2000, new general grade staff have since been covered under the MPF Scheme while executive staff have been allowed to opt for either the Group's ORSO Scheme or the MPF Scheme.

Securities and Futures Commission

Notes to the consolidated financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

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

Employee benefits (cont'd)

(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 Group 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 (2016: nil).

(ii) Executive staff

For executive staff, we make monthly contributions between 5% to 10% of the fixed pay. We use forfeited contributions in respect of executive staff who leave the Group prior to qualifying for 100% disbursement of the contributions to offset the Group's future contributions. The amount so forfeited during the year was \$2,182,000 (2016: \$2,796,000) and the amount so forfeited available at the end of the reporting period was \$416,000 (2016: \$24,000).

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

	2017 \$'000	2016 \$'000
Learning and development	6,728	6,685
Legal and professional services	82,999	70,403
Information and systems services	49,558	43,861
Auditor's remuneration	762	737
Funding for the Financial Reporting Council	7,706	7,340
Funding for the Hong Kong Securities and Investment Institute and other training initiatives	7,000	8,600
Funding for the International Financial Reporting Standards Foundation	389	388
General office and insurance	8,779	7,921
Investor and other education programme costs to the Investor Education Centre	33,754	25,133
Overseas travelling, regulatory meeting expenses and others	12,322	12,547
Exchange loss	1,590	5,076
Loss on disposal of fixed assets	7	-
	211,594	188,691

Securities and Futures Commission

Notes to the consolidated financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

9. Held-to-maturity debt securities

The Group and the SFC

		2017 \$'000	2016 \$'000
Maturing after one year			
in the second to sixth years	– unlisted	–	30,009
	– listed outside Hong Kong	–	–
		–	30,009
Maturing within one year	– unlisted	30,003	383,865
	– listed outside Hong Kong	–	77,916
		30,003	461,781
		30,003	491,790
Amortised cost at 31 March	– unlisted	30,003	413,874
	– listed outside Hong Kong	–	77,916
		30,003	491,790
Market value at 31 March	– unlisted	30,006	414,943
	– listed outside Hong Kong	–	77,813
		30,006	492,756

The average yield to maturity of the debt securities was 1.6% as at 31 March 2017 (2016: 0.7%).

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

		2017 \$'000	2016 \$'000
(a) Debt securities			
(i) Listing status			
Listed – outside Hong Kong		409,624	–
Listed – in Hong Kong		18,444	–
Unlisted		288,335	–
		716,403	–
(ii) Maturity profile			
Within one year		201,264	–
After one year but within two years		157,288	–
After two years but within five years		347,274	–
After five years		10,577	–
		716,403	–
(iii) The weighted average effective interest rate of debt securities on 31 March 2017 was 1.8%.			
(b) Pooled funds – unlisted		941,911	654,585

The pooled funds comprise mainly listed equity securities.

Securities and Futures Commission

Notes to the consolidated financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

11. 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 2016	118,584	10,007	191,836	113,130	2,411	435,968
Additions	3,728	554	20,075	12,607	–	36,964
Disposals	(11)	(79)	(348)	(3,390)	–	(3,828)
At 31 March 2017	122,301	10,482	211,563	122,347	2,411	469,104
Accumulated depreciation						
At 1 April 2016	89,936	7,653	166,407	96,565	2,160	362,721
Charge for the year	20,355	1,309	13,698	11,136	251	46,749
Written back on disposals	(11)	(78)	(348)	(3,384)	–	(3,821)
At 31 March 2017	110,280	8,884	179,757	104,317	2,411	405,649
Net book value						
At 31 March 2017	12,021	1,598	31,806	18,030	–	63,455
Cost						
At 1 April 2015	118,688	9,830	172,927	99,601	2,411	403,457
Additions	162	247	19,483	14,938	–	34,830
Disposals	(266)	(70)	(574)	(1,409)	–	(2,319)
At 31 March 2016	118,584	10,007	191,836	113,130	2,411	435,968
Accumulated depreciation						
At 1 April 2015	67,656	6,208	151,846	86,898	1,710	314,318
Charge for the year	22,292	1,506	15,135	11,073	450	50,456
Written back on disposals	(12)	(61)	(574)	(1,406)	–	(2,053)
At 31 March 2016	89,936	7,653	166,407	96,565	2,160	362,721
Net book value						
At 31 March 2016	28,648	2,354	25,429	16,565	251	73,247

Securities and Futures Commission

Notes to the consolidated financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

11. 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 2016	118,569	9,938	191,836	111,770	2,411	434,524
Additions	3,728	554	20,075	12,594	–	36,951
Disposals	(11)	(79)	(348)	(3,390)	–	(3,828)
At 31 March 2017	122,286	10,413	211,563	120,974	2,411	467,647
Accumulated depreciation						
At 1 April 2016	89,920	7,592	166,407	95,744	2,160	361,823
Charge for the year	20,355	1,307	13,698	10,867	251	46,478
Written back on disposals	(11)	(78)	(348)	(3,384)	–	(3,821)
At 31 March 2017	110,264	8,821	179,757	103,227	2,411	404,480
Net book value						
At 31 March 2017	12,022	1,592	31,806	17,747	–	63,167
Cost						
At 1 April 2015	118,673	9,766	172,927	98,976	2,411	402,753
Additions	162	242	19,483	14,203	–	34,090
Disposals	(266)	(70)	(574)	(1,409)	–	(2,319)
At 31 March 2016	118,569	9,938	191,836	111,770	2,411	434,524
Accumulated depreciation						
At 1 April 2015	67,640	6,149	151,846	86,388	1,710	313,733
Charge for the year	22,292	1,504	15,135	10,762	450	50,143
Written back on disposals	(12)	(61)	(574)	(1,406)	–	(2,053)
At 31 March 2016	89,920	7,592	166,407	95,744	2,160	361,823
Net book value						
At 31 March 2016	28,649	2,346	25,429	16,026	251	72,701

Securities and Futures Commission

Notes to the consolidated financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

12. Bank deposits and cash at bank

The effective interest rate on bank deposits as at 31 March 2017 ranged from 0.15% to 3.6% (2016: 0.35% to 5%). These balances mature within one year as at both 31 March 2017 and 31 March 2016.

Reconciliation with the consolidated statement of financial position

	2017 \$'000	2016 \$'000
Cash at bank and in hand	75,462	25,649
Fixed deposits with banks	5,107,808	6,066,032
Amounts shown in the consolidated statement of financial position	5,183,270	6,091,681
Less: Amounts with an original maturity of beyond three months	(4,506,543)	(4,569,565)
Cash and cash equivalents in the consolidated cash flow statement	676,727	1,522,116

13. Investments in subsidiaries

The SFC formed Investor Compensation Company Limited (ICC) on 11 September 2002 with an issued share capital of \$0.2. On 20 November 2012, the SFC launched the Investor Education Centre (IEC) as a company limited by guarantee and not having a share capital. Both companies are wholly owned subsidiaries of the SFC and are incorporated in Hong Kong.

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

The objective of the IEC is to improve the financial knowledge and capability of the general public and to assist them in making informed financial decisions.

As at 31 March 2017, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (2016: \$0.2). The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

14. Non-current liabilities

Non-current liabilities represent provision for premises reinstatement cost to restore the premises to its original condition when the lease has expired.

15. Debtors, deposits and prepayments

Debtors, deposits and prepayments include \$141,623,000 receivables classified as loans and receivables in accordance with the determination of HKAS 39, *Financial instruments: Recognition and measurement* (2016: \$111,108,000). 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 2017 and 2016.

16. 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.

Securities and Futures Commission

Notes to the consolidated financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

17. Capital commitments

Capital commitments outstanding as at 31 March 2017 not provided for in the financial statements were as follows:

	2017 \$'000	2016 \$'000
Authorised and contracted for	19,969	21,446
Authorised but not contracted for	27,734	12,309

18. Commitment to pay rents for offices

At 31 March 2017 the minimum amount we are committed to pay in rent for our offices up to 31 August 2020 are as follows:

	The Group and the SFC	
	2017 \$'000	2016 \$'000
Payable next year	205,077	208,294
Payable in one to five years	477,534	87,619
Payable in more than five years	–	–
	682,611	295,913

During the year ended 31 March 2017, \$208,744,000 net of lease incentives, was recognised as an expense in the statement of profit or loss and other comprehensive income in respect of operating leases (2016: \$202,097,000).

Securities and Futures Commission

Notes to the consolidated financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

19. 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 (SDD), Commodities Trading Ordinance (Chapter 250) – Dealers' Deposits Fund (CDD) and Securities Ordinance (Chapter 333) – Securities Margin Financiers' Security Fund (SMF). 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, \$5,574,000 was recovered from the ICF for the ICC's expenses (2016: \$5,398,000). As at 31 March 2017, the amount due to the ICF from the ICC was \$75,000 (as at 31 March 2016: \$73,000).

(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.

20. Financial risk management and fair values

Financial instruments of the Group mainly comprise debt securities and units in equity funds. The underlying investments of the equity funds mainly comprised equity securities.

The main financial risks of the Group arise from its investments in debt securities and units in equity funds. The Group appoints external investment managers to manage the Group's investments 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 external investment managers report thereon to the Group on a regular basis.

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

(a) Credit risk

The Financial Secretary has approved our investment policy which, subject to other control limits, allows the Group to invest in high-quality dated securities, rated A or above. Investment in unit trusts and mutual funds authorised as collective investment schemes under Section 104 of the SFO up to 15% of the total value of funds under management is also permitted. The policy also limits the exposure to each organisation and each country, except for the holdings of US Treasuries. During the year, the Group 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 Group's interest bearing assets mainly comprise fixed interest rate bearing debt securities and bank balances. The Group 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 Group manages re-pricing risk of its fixed rate debt securities by imposing different levels of concentration and maturity limits to the investments. The effective interest rates and maturity profile of the Group's interest bearing assets are disclosed in the respective notes to the financial statements. As at 31 March 2017, it is estimated that a general increase/decrease of 100 basis points, with all other variables held constant, would increase/decrease the Group's interest income and accumulated surplus by approximately \$52,501,000 (2016: \$62,824,000). As at 31 March 2017 the average duration of the Group's investment portfolio was 1.64 years (31 March 2016: 0.66 years). At 31 March 2017, 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 Group's gains on revaluation of mark to market debt securities and the accumulated surplus by approximately \$12,110,000 (2016: nil).

Securities and Futures Commission

Notes to the consolidated financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

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

(b) Interest rate risk (cont'd)

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 2016.

(c) Exchange rate risk

The Group's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars, US dollars and renminbi. Exposure in renminbi should not exceed 5% of the investment portfolio. As the majority of the financial assets are denominated in either US dollars or Hong Kong dollars which are closely pegged, the Group was not exposed to significant foreign exchange risk at the end of the reporting period.

(d) Market risk

The investment activities of the Group 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 securities and equity funds. Such risk will be reflected in the price and the carrying value of the financial assets concerned.

The Group invests in units of equity funds, which mainly comprised listed equity securities, the performance of which is measured against the results of benchmark indices, MSCI AC Asia Free ex Japan and MSCI World (Net Dividends), including their returns and volatilities. Based on the weighted average movement of these benchmark indices (9.8%) in the corresponding period, it is estimated that a general increase/decrease of such benchmark indices of 9.8% (2016:15.4%) would increase/decrease the Group's investment income and the accumulated surplus by approximately \$102,912,000 (2016: \$110,432,000).

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

(e) Fair value measurement

(i) Financial assets measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs ie, unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using only Level 2 inputs ie, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

Securities and Futures Commission

Notes to the consolidated financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

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

(e) Fair value measurement (cont'd)

(i) Financial assets measured at fair value (cont'd)

	2017			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Assets				
Debt securities				
Listed	–	428,068	–	428,068
Unlisted	–	288,335	–	288,335
Pooled funds				
Unlisted	941,911	–	–	941,911
	941,911	716,403	–	1,658,314

	2016			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Assets				
Pooled funds				
Unlisted	654,585	–	–	654,585

The fair value of the investment in the unlisted pooled funds is determined based on the Group's share in the net assets of the pooled funds as determined by the custodian. The majority of the underlying assets of the pooled funds 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.

During the year there were no significant transfers between financial instruments in Level 1 and 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Securities and Futures Commission

Notes to the consolidated financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

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

(e) Fair value measurement (cont'd)

(ii) Fair value of financial assets carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 March 2017 and 2016 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	Carrying amount at 31 March 2017 \$'000	Fair value at 31 March 2017 \$'000	2017		
			Level 1	Level 2	Level 3
			\$'000	\$'000	\$'000
Held-to-maturity debt securities	30,003	30,006	30,006	–	–

	Carrying amount at 31 March 2016 \$'000	Fair value at 31 March 2016 \$'000	2016		
			Level 1	Level 2	Level 3
			\$'000	\$'000	\$'000
Held-to-maturity debt securities	491,790	492,756	492,756	–	–

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 value for unlisted debt investments are based on third-party quotes.

21. Sponsored unconsolidated structured entities

The SFC considers the ICF, UECF, SDD, CDD and SMF as unconsolidated structured entities sponsored by the SFC where no interests are held by the SFC.

Pursuant to Section 236 of the SFO, the SFC has established and maintained the ICF 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 SFC is primarily responsible for the administration and management of the ICF in accordance with Section 238 of the SFO, but has transferred some functions to the ICC under Section 80 of the SFO. According to Section 237(2)(b) of the SFO, the SFC may, with the consent in writing of the Financial Secretary, pay into the ICF from its reserves such amount of money as it considers appropriate. As at 31 March 2017, the ICF's maximum liability in respect of claims received was \$3,034,000 (2016: \$4,031,000) and the net asset value was \$2.3 billion (2016: \$2.2 billion).

Securities and Futures Commission

Notes to the consolidated financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

21. Sponsored unconsolidated structured entities (cont'd)

The SFC is also responsible for the administration and management of the UECF, SDD, CDD and SMF under respective provisions in the repealed Securities Ordinance and Commodities Trading Ordinance. These funds provide compensation to investors who suffer a loss due to the default of an intermediary occurring before 1 April 2003 when the SFO came into effect. As at 31 March 2017, the UECF's maximum liability in respect of claims received was \$10,607,000 (2016: \$10,253,000) and the net asset value was \$72,891,000 (2016: \$71,411,000). There were no outstanding claims against the SDD, CDD and SMF as at 31 March 2017. Claims for any defaults occurring after 31 March 2003 should be made against the ICF.

During the year, the SFC has not provided financial or other support to these unconsolidated structured entities that it was not contractually required to provide (2016: nil). The related party relationships with these entities are disclosed in note 19 of these financial statements.

22. Funding and reserve management

The SFC manages its funding requirements from its income and accumulated surplus. Apart from the initial funding by the Government as disclosed in note 16, 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. There were no externally imposed capital requirements to which the SFC is subject to.

During the year, the SFC has earmarked \$3 billion from its accumulated surplus to set up a reserve for the possible future acquisition of office premises. The SFC's investment holdings and available cash balances will be used to support this reserve.

23. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 March 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 9, <i>Financial instruments</i>	1 January 2018
HKFRS 16, <i>Leases</i>	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements.

HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost and fair value through profit or loss will continue with their respective classification and measurements upon the adoption of HKFRS 9. The new impairment model in HKFRS 9 may result in an earlier recognition of credit losses on the Group's financial assets.

HKFRS 16 primarily affects the Group's accounting as a lessee of leases for properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

However, a more detailed analysis of what the impact of the new standards is required to determine the exact extent of this impact.

Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their annual report together with the audited financial statements for the year ended 31 March 2017.

Establishment of the Investor Compensation Fund

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

Financial statements

The financial performance of the Fund for the financial year ended 31 March 2017 and the financial position of the Fund as at that date are set out in the financial statements on pages 129 to 144.

Members of the Committee

The members of the Committee during the year ended 31 March 2017 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Ms Teresa Ko Yuk-yin, JP	
Mr Lee Kwok Keung	
Mr Thomas Allan Atkinson	(appointed on 28 September 2016)

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.

By order of the Committee

Keith Lui
Chairman

23 May 2017

Investor Compensation Fund

Independent auditor's report to the Securities and Futures Commission

Opinion

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 129 to 144, which comprise the statement of financial position as at 31 March 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2017 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSA) issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Fund in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditor's report thereon

The directors of the Securities and Futures Commission (SFC) are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors of the SFC for the financial statements

The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and for such internal control as the directors of the SFC determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors of the SFC are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the SFC either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Investor Compensation Fund

Independent auditor's report to the Securities and Futures Commission (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the SFC.

- Conclude on the appropriateness of the directors of the SFC's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors of the SFC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

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

23 May 2017

Investor Compensation Fund

Statement of profit or loss and other comprehensive income

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
Income			
Net investment income	5	77,141	12,938
Exchange difference		3,110	662
Recoveries		1	7
		80,252	13,607
Expenses			
Investor Compensation Company Limited expenses	7	5,574	5,398
Compensation expenses	8	182	7,341
Auditor's remuneration		131	124
Bank charges		967	934
Professional fees		3,871	3,752
		10,725	17,549
Surplus/(loss) and total comprehensive income for the year		69,527	(3,942)

The notes on pages 133 to 144 form part of these financial statements.

Investor Compensation Fund

Statement of financial position

At 31 March 2017 (Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
Debt securities	9	1,893,248	1,866,404
Pooled fund	9	330,386	282,860
Interest receivable		13,651	13,367
Due from Investor Compensation Company Limited		75	73
Fixed deposits with banks	10	26,201	7,788
Cash at bank	10	18,770	43,175
		2,282,331	2,213,667
Current liabilities			
Provision for compensation	8	476	1,412
Creditors and accrued charges		1,449	1,376
		1,925	2,788
Net current assets		2,280,406	2,210,879
Net assets		2,280,406	2,210,879
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		1,176,765	1,107,238
		2,280,406	2,210,879

Approved and authorised for issue by the Securities and Futures Commission on 23 May 2017 and signed on its behalf by

Carlson Tong

Chairman of the SFC

Ashley Alder

Chief Executive Officer of the SFC

The notes on pages 133 to 144 form part of these financial statements.

Investor Compensation Fund

Statement of changes in equity

For the year ended 31 March 2017 (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 2015	994,718	108,923	1,111,180	2,214,821
Loss and total comprehensive income for the year	–	–	(3,942)	(3,942)
Balance at 31 March 2016 and 1 April 2016	994,718	108,923	1,107,238	2,210,879
Surplus and total comprehensive income for the year	–	–	69,527	69,527
Balance at 31 March 2017	994,718	108,923	1,176,765	2,280,406

The notes on pages 133 to 144 form part of these financial statements.

Investor Compensation Fund

Cash flow statement

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

	2017 \$'000	2016 \$'000
Cash flows from operating activities		
Surplus/(loss) for the year	69,527	(3,942)
Adjustments for:		
Net investment income	(77,141)	(12,938)
Exchange difference	(3,110)	(662)
	(10,724)	(17,542)
(Increase)/decrease in amount due from Investor Compensation Company Limited	(2)	84
Decrease in provision for compensation	(936)	(42,396)
Increase/(decrease) in creditors and accrued charges	73	(36)
Net cash used in operating activities	(11,589)	(59,890)
Cash flows from investing activities		
Debt securities purchased	(536,658)	(505,239)
Debt securities sold or redeemed	494,332	514,675
Equity securities sold	1,455	1,450
Interest received	46,468	45,922
Net cash generated from investing activities	5,597	56,808
Net decrease in cash and cash equivalents	(5,992)	(3,082)
Cash and cash equivalents at beginning of the year	50,963	54,045
Cash and cash equivalents at end of the year	44,971	50,963

Analysis of the balance of cash and cash equivalents

	2017 \$'000	2016 \$'000
Fixed deposits with banks	26,201	7,788
Cash at bank	18,770	43,175
	44,971	50,963

The notes on pages 133 to 144 form part of these financial statements.

Investor Compensation Fund

Notes to the financial statements

For the year ended 31 March 2017 (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 by 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. The 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 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 and 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 HKFE (see also note 6), and returns earned on the investment of the Fund (see also note 5).

3. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. A summary of the significant accounting policies adopted by the Fund is set out below.

The HKICPA has issued certain new and revised HKFRSs 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).

Investor Compensation Fund

Notes to the financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

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 HKFRSs which require 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 profit or loss and other 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 profit or loss and other comprehensive income.

(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 at fair value through profit or loss.

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 profit or loss and other 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 profit or loss and other comprehensive income.

Investor Compensation Fund

Notes to the financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(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.

(f) Impairment

The carrying amount of the Fund's assets are reviewed at each reporting period to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Fund about one or more of the following loss events which have an impact on the future cash flows of the assets that can be estimated reliably:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;
- disappearance of an active market for financial assets because of financial difficulties; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, the carrying amount of financial assets held at amortised cost is reduced to the estimated recoverable amount by means of a charge to the statement of profit or loss and other comprehensive income.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and demand deposits with banks and other financial institutions.

Investor Compensation Fund

Notes to the financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(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 and 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.

(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) Provisions and contingent liabilities

We recognise a provision in the statement of financial position when the Fund has a legal or constructive obligation of uncertain timing or amount as a result of a past event, and it is probable that the Fund will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably.

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.

Investor Compensation Fund

Notes to the financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(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.
- (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).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Fund.

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 HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Fund. None of these developments have had a material effect on how the Fund's results and financial position for the current or prior periods have been prepared or presented.

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.

Investor Compensation Fund

Notes to the financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

5. Net investment income

	2017 \$'000	2016 \$'000
Interest income from bank deposits	84	58
Interest income on financial assets designated at fair value through profit or loss	41,923	42,269
Realised gain/(loss) on disposal of equity securities	4	(38)
Realised loss on redemption/disposal of debt securities	(1,615)	(2,862)
Gain/(loss) on revaluation of equity securities	48,362	(20,655)
Loss on revaluation of debt securities	(11,617)	(5,834)
Net investment income	77,141	12,938

6. Levy from SEHK and 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 transaction of securities and futures contract with effect from 19 December 2005.

7. ICC expenses

The SFC formed the 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 the ICC. For the year ended 31 March 2017, the ICC incurred costs of \$5,574,000 for its operations (2016: \$5,398,000) which were reimbursed by the Fund.

Investor Compensation Fund

Notes to the financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

8. Provision for compensation

	\$'000
Balance as at 1 April 2015	43,808
Add: compensation expenses during the year ended 31 March 2016	11,142
Less: compensation write-backs during the year ended 31 March 2016	(3,801)
Less: compensation paid during the year ended 31 March 2016	(49,737)
Balance as at 31 March 2016 and 1 April 2016	1,412
Add: compensation expenses during the year ended 31 March 2017	476
Less: compensation write-backs during the year ended 31 March 2017	(294)
Less: compensation paid during the year ended 31 March 2017	(1,118)
Balance as at 31 March 2017	476

As at 31 March 2017, the provision for compensation relates to a number of claims received in respect of two default cases. The maximum liability of the Fund to claims for these cases are set at \$150,000 per claimant. The provision for compensation at 31 March 2017 was \$476,000 (31 March 2016: \$1,412,000). As at 31 March 2017, all provisions were expected to be paid within one year.

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

	2017 \$'000	2016 \$'000
(a) Debt securities		
(i) Listing status		
Listed – outside Hong Kong	977,432	842,327
Listed – in Hong Kong	490,715	487,379
Unlisted	425,101	536,698
	1,893,248	1,866,404
(ii) Maturity profile		
Within one year	856,310	268,269
After one year but within two years	361,785	892,544
After two years but within five years	635,207	663,757
After five years	39,946	41,834
	1,893,248	1,866,404
(iii) The weighted average effective interest rate of debt securities on 31 March 2017 was 2.1% (2016: 1.8%).		
(b) Pooled fund – Unlisted	330,386	282,860

The pooled fund comprises mainly listed equity securities.

Investor Compensation Fund

Notes to the financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

10. Deposits with banks and cash at bank

The effective interest rate on deposits with banks and cash at bank at 31 March 2017 ranged from 0.50% to 1.26% (2016: 0.25% to 0.70%). The balances of deposits at both 31 March 2017 and 31 March 2016 mature within one year.

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 2017, the SFC had \$994,718,000 (2016: \$994,718,000) and \$108,923,000 (2016: \$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. There were no significant related party transactions other than those disclosed in the financial statements of the Fund for the years ended 31 March 2016 and 2017 (refer to notes 7 and 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.

(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 the Hong Kong Government and the Government of the People's Republic of China 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. The maximum exposure to credit risk is the carrying value of the assets in the statement of financial position.

Investor Compensation Fund

Notes to the financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

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

(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.

All financial liabilities are due within one year or payable on demand.

(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 five years within its debt securities portfolio. As at 31 March 2017 the duration was 1.55 years (31 March 2016: 1.74 years).

At 31 March 2017, 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 \$29,659,000 (2016: \$32,475,000). Further, at 31 March 2017, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Fund's interest income and the accumulated surplus by approximately \$5,031,000 (2016: \$1,076,000). Other components of the accumulated surplus would not be affected (2016: 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 2016.

(d) Foreign currency risk

The Fund's investment policy allows the Fund to have US dollars and renminbi foreign exchange exposure. As at 31 March 2017, the Fund has exposure to US dollars, as Hong Kong dollars are pegged with US dollars, 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 14.3% in the benchmark index would increase/decrease the Fund's surplus and the accumulated surplus by approximately \$47,245,000 (2016: a general increase/decrease of 16.8% in the benchmark index would increase/decrease the Fund's surplus and the accumulated surplus by approximately \$42,995,000).

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 2016.

Investor Compensation Fund

Notes to the financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

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

(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 HKFRS 13, *Fair value measurement*, 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 2017 and 2016.

The fair value of the debt securities is the quoted market price or 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.

Investor Compensation Fund

Notes to the financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

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

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

	2017			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Assets				
Debt securities				
Listed	1,229,343	238,804	–	1,468,147
Unlisted	61,693	363,408	–	425,101
Pooled fund				
Unlisted	330,386	–	–	330,386
	1,621,422	602,212	–	2,223,634

	2016			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Assets				
Debt securities				
Listed	1,180,929	148,777	–	1,329,706
Unlisted	359,663	177,035	–	536,698
Pooled fund				
Unlisted	282,860	–	–	282,860
	1,823,452	325,812	–	2,149,264

Since the quoted prices in active markets for certain debt securities were unavailable at the end of the reporting period, debt securities with carrying amount of \$602 million were classified under Level 2 financial instruments, of which \$227 million were classified as Level 1 financial instruments in prior year. Other than that, there were no significant transfers between financial instruments in Level 1 and Level 2.

Investor Compensation Fund

Notes to the financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

14. Contingent liabilities

As at the date of this report, in addition to the provision made as described in note 8, there are 18 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 \$2,558,000 (2016: \$2,619,000). 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 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 March 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Fund.

	Effective for accounting periods beginning on or after
HKFRS 9, <i>Financial instruments</i>	1 January 2018

The Fund is in the process of making an assessment of what the impact of this amendments is expected to be in the period of initial application. So far it has concluded that the adoption of HKFRS 9 may have an impact on the Fund's results and financial position arising from changes in the Fund's classification and measurement of financial instruments.

HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. Based on the preliminary assessment, the Fund expects that its financial assets currently measured at fair value through profit or loss will continue with their respective classification and measurements upon the adoption of HKFRS 9. The new impairment model in HKFRS 9 may result in an earlier recognition of credit losses on the Fund's financial assets. However, a more detailed analysis is required to determine the extent of this impact.

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their annual report together with the audited financial statements for the year ended 31 March 2017.

Establishment of the Unified Exchange Compensation Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (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. Up to 31 March 2017, the Fund transferred \$994,718,000 to the ICF. After settlement of all claims against the Fund and its other liabilities, the Securities and Futures Commission (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 financial performance of the Fund for the financial year ended 31 March 2017 and the financial position of the Fund as at that date are set out in the financial statements on pages 148 to 158.

Members of the Committee

The members of the Committee during the year ended 31 March 2017 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Ms Mak Po Shuen	
Ms Teresa Ko Yuk-yin, JP	
Mr Lee Kwok Keung	
Mr Thomas Allan Atkinson	(appointed on 28 September 2016)

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.

By order of the Committee

Keith Lui

Chairman

15 May 2017

Unified Exchange Compensation Fund

Independent auditor's report to the Securities and Futures Commission

Opinion

We have audited the financial statements of Unified Exchange Compensation Fund (the Fund) established under Section 99 of the repealed Hong Kong Securities Ordinance set out on pages 148 to 158, which comprise the statement of financial position as at 31 March 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2017 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSA) issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Fund in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to the fact that the Fund is in the process of terminating its business and operations and is no longer considered to be a going concern. Details about the basis of preparation of the financial statements are set out in the significant accounting policies note 3(b) to the financial statements. Our opinion is not modified in respect of this matter.

Information other than the financial statements and auditor's report thereon

The directors of the Securities and Futures Commission (SFC) are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors of the SFC for the financial statements

The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and for such internal control as the directors of the SFC determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors of the SFC are responsible for assessing the Fund's ability to continue as a going concern and disclosing matters related to going concern. The directors consider that the Fund is no longer a going concern and have prepared the financial statements on the basis as set out in note 3 thereto.

Unified Exchange Compensation Fund

Independent auditor's report to the Securities and Futures Commission (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the SFC.
- Conclude on the appropriateness of the directors of the SFC's judgement that the Fund is no longer a going concern based on the audit evidence obtained.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors of the SFC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

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

15 May 2017

Unified Exchange Compensation Fund

Statement of profit or loss and other comprehensive income

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
Income			
Interest income		560	518
		560	518
Expenses			
Recoveries re-distributed	5	1,152	–
Auditor's remuneration		55	52
Professional fees		19	18
Bank charge		3	–
Sundry expenses		1	–
		1,230	70
(Loss)/surplus and total comprehensive income for the year		(670)	448

The notes on pages 152 to 158 form part of these financial statements.

Unified Exchange Compensation Fund

Statement of financial position

At 31 March 2017 (Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
Current assets			
Equity securities received under subrogation		1	1
Interest receivable		77	59
Fixed deposits with banks		83,744	82,179
Cash at bank		332	278
		84,154	82,517
Current liabilities			
Creditors and accrued charges	6	10,663	10,306
Relinquished trading rights payable to SEHK	7	600	800
		11,263	11,106
Net current assets		72,891	71,411
Net assets		72,891	71,411
Representing:			
Compensation fund			
Contributions from SEHK	7	51,200	49,050
Excess transaction levy from SEHK	9	353,787	353,787
Special contributions	10	3,500	3,500
Additional contributions from SEHK	11	300,000	300,000
Additional contributions from the SFC	11	330,000	330,000
Special levy surplus	12	3,002	3,002
Accumulated surplus		26,120	26,790
		1,067,609	1,066,129
Contributions to Investor Compensation Fund	13	(994,718)	(994,718)
		72,891	71,411

Approved and authorised for issue by the Securities Compensation Fund Committee on behalf of the Securities and Futures Commission on 15 May 2017 and signed on its behalf by

Keith Lui
Chairman

Lee Kwok Keung
Committee Member

The notes on pages 152 to 158 form part of these financial statements.

Unified Exchange Compensation Fund

Statement of changes in equity

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

	Contributions from SEHK \$'000	Excess transaction levy from SEHK \$'000	Special contributions and special levy surplus \$'000	Additional contributions from SEHK and the SFC \$'000	Accumulated surplus \$'000	Contributions to Investor Compensation Fund \$'000	Total \$'000
Balance at 1 April 2015	48,100	353,787	6,502	630,000	26,342	(994,718)	70,013
Net contributions from SEHK	950	-	-	-	-	-	950
Surplus and total comprehensive income for the year	-	-	-	-	448	-	448
Balance at 31 March 2016	49,050	353,787	6,502	630,000	26,790	(994,718)	71,411
Balance at 1 April 2016	49,050	353,787	6,502	630,000	26,790	(994,718)	71,411
Net contributions from SEHK	2,150	-	-	-	-	-	2,150
Loss and total comprehensive income for the year	-	-	-	-	(670)	-	(670)
Balance at 31 March 2017	51,200	353,787	6,502	630,000	26,120	(994,718)	72,891

The notes on pages 152 to 158 form part of these financial statements.

Unified Exchange Compensation Fund

Cash flow statement

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

	2017 \$'000	2016 \$'000
Cash flows from operating activities		
(Loss)/surplus for the year	(670)	448
Adjustment for:		
Interest income	(560)	(518)
	(1,230)	(70)
Increase in creditors and accrued charges	357	2
Decrease in relinquished trading rights payable to SEHK	(200)	(1,300)
Net cash used in operating activities	(1,073)	(1,368)
Cash flows from investing activities		
Interest received	542	518
Net cash generated from investing activities	542	518
Cash flows from financing activities		
Net contributions from SEHK	2,150	950
Net cash generated from financing activities	2,150	950
Net increase in cash and cash equivalents	1,619	100
Cash and cash equivalents at beginning of the year	82,457	82,357
Cash and cash equivalents at end of the year	84,076	82,457

Analysis of the balance of cash and cash equivalents

	2017 \$'000	2016 \$'000
Fixed deposits with banks	83,744	82,179
Cash at bank	332	278
	84,076	82,457

The notes on pages 152 to 158 form part of these financial statements.

Unified Exchange Compensation Fund

Notes to the financial statements

For the year ended 31 March 2017 (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 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 SEHK (2016: Nil).

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

Other sources of money for the Fund include: recoveries; SEHK replenishments detailed in note 16; special levy surplus detailed in note 12; and excess transaction levy received before the SFO became effective from 1 April 2003 detailed in note 9.

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.

Unified Exchange Compensation Fund

Notes to the financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

3. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. Significant accounting policies adopted by the Fund are set out below.

The HKICPA has issued certain new and revised HKFRSs 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 17).

(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 non-going concern basis. We expect that the operations of the Fund will be maintained until all claims and recoveries from liquidators in relation to the broker defaults that happened on or before 31 March 2003 have been fully settled. 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 and these are estimated to be immaterial.

We prepare the financial statements in conformity with HKFRSs which require 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.

Unified Exchange Compensation Fund

Notes to the financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(d) Impairment

The carrying amount of the Fund's assets are reviewed at each reporting period to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Fund about one or more of the following loss events which have an impact on the future cash flows of the assets that can be estimated reliably:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;
- disappearance of an active market for financial assets because of financial difficulties; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, the carrying amount of financial assets held at amortised cost is reduced to the estimated recoverable amount by means of a charge to the statement of profit or loss and other comprehensive income.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and demand deposits with banks and other financial institutions.

(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) Provisions and contingent liabilities

We recognise a provision in the statement of financial position when the Fund has a legal or constructive obligation of uncertain timing or amount as a result of a past event, and it is probable that the Fund will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably.

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.

Unified Exchange Compensation Fund

Notes to the financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(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.
- (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).

- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Fund.

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 HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Fund. None of these developments have had a material effect on how the Fund's results and financial position for the current or prior periods have been prepared or presented.

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 re-distributed

The Fund received recoveries by virtue of the SFC's subrogation rights in respect of claimants who received compensation payments from the Fund. On 17 May 2016, the Securities Compensation Fund Committee of the SFC decided to return the excess amount and relevant interest amount totalled to \$1,152,000 to some of the claimants of the C.A. Pacific case. The excess amount for each claimant represents the excess of total recovered amount from the liquidators over the compensation amount paid to the claimant.

Unified Exchange Compensation Fund

Notes to the financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

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 HKAS 39, *Financial instruments: Recognition and measurement* 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. Contributions from SEHK/ Relinquished trading rights payable to 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 trading right was relinquished. During the year, deposits of \$2,750,000 in respect of 55 new trading rights were received from SEHK and deposits of \$800,000 in respect of 16 relinquished trading rights were refunded to SEHK. As at 31 March 2017, there were 12 trading rights in total of \$600,000 that have been relinquished but not yet refunded.

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

	2017 \$'000	2016 \$'000
Balance brought forward	49,050	48,100
Add: new trading rights issued	2,750	1,400
Less: relinquished trading rights refunded	(800)	(1,750)
Add: decrease in relinquished trading rights payable to SEHK	200	1,300
Balance carried forward	51,200	49,050

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), will be re-distributed to claimants. As the timing of any future 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 contributions

In October 1993, a member of SEHK made a special contribution to the Fund in recognition of the SFC's concerns about its misconduct in handling its client trading activities.

11. Additional contributions from SEHK and the SFC

Following the relaxation of the compensation rules and compensation limit in 1998, the SFC and SEHK had injected \$330 million and \$300 million respectively to the Fund during the years 1998 to 2001.

Unified Exchange Compensation Fund

Notes to the financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

12. 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.

13. 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 2017 amounted to \$994,718,000 (2016: \$994,718,000).

14. Material related party transactions

The Fund has related party relationships with the ICF and the SFC. There were no significant related party transactions other than those disclosed in the financial statements of the Fund for the years ended 31 March 2016 and 2017.

15. 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 2017, 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 \$837,000 (2016: \$822,000). Other components of accumulated surplus would not be affected (2016: 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 Hong Kong 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. There are no amounts past due or impaired.

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.

Unified Exchange Compensation Fund

Notes to the financial statements

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

16. 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 2017, SEHK 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:

	2017 \$'000	2016 \$'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.

Replenishments 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.

17. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 March 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Fund.

	Effective for accounting periods beginning on or after
HKFRS 9, <i>Financial instruments</i>	1 January 2018

The Fund is in the process of making an assessment of what the impact of this amendment is expected to be in the period of initial application. So far it has concluded that the adoption of HKFRS 9 is unlikely to have a significant impact on the Fund's results of operations and financial position.

Breakdown of SFC activity data

Table 1 Authorised unit trusts and mutual funds – by type

	As at 31.3.2017		As at 31.3.2016	
	Number	Total NAV (US\$ million)	Number	Total NAV (US\$ million)
Bond	430 (21.9%)	465,267 (33.8%)	404 (21.2%)	423,758 ¹ (33.2%)
Equity	1,018 (51.9%)	638,848 (46.4%)	1,031 (54.1%)	608,782 (47.7%)
Diversified	162 (8.3%)	137,454 (10%)	140 (7.3%)	117,242 (9.2%)
Money market	44 (2.2%)	21,014 (1.5%)	46 (2.4%)	21,315 ¹ (1.7%)
Fund of funds	113 (5.8%)	19,865 (1.4%)	102 (5.4%)	15,651 (1.2%)
Index ²	182 (9.3%)	92,069 (6.7%)	161 (8.5%)	87,530 (6.9%)
Guaranteed	3 (0.2%)	127 (0%)	3 (0.2%)	69 (0%)
Hedge	2 (0.1%)	28 (0%)	3 (0.2%)	110 (0%)
Other specialised ³	7 (0.4%)	1,288 (0.1%)	14 (0.7%)	1,576 (0.1%)
Sub-total	1,961 (100%) ⁴	1,375,960 (100%) ⁴	1,904 (100%)	1,276,033 ¹ (100%)
Umbrella structures	242		229	
Total	2,203		2,133	

¹ This figure differs from that disclosed in the *Annual Report 2015-16* due to revised figures reported by fund managers after the report's issuance.

² Including leveraged and inverse products.

³ Including futures and options funds, structured funds and funds that invest in financial derivative instruments.

⁴ The percentage does not add up to total due to rounding.

Table 2 Authorised unit trusts and mutual funds – by origin

	As at 31.3.2017					As at 31.3.2016	
	Umbrella funds	Sub-funds	Single funds	Total	Total NAV (US\$ million)	Total	Total NAV (US\$ million)
Hong Kong	138	527	70	735 (33.4%)	131,605 (9.6%)	656 (30.8%)	118,172 ¹ (9.3%)
Luxembourg	53	956	0	1,009 (45.8%)	910,351 (66.2%)	1,004 (47.1%)	860,620 (67.4%)
Ireland	28	226	2	256 (11.6%)	172,383 (12.5%)	277 (13%)	150,267 (11.8%)
United Kingdom	4	38	22	64 (2.9%)	90,987 (6.6%)	65 (3%)	78,830 (6.2%)
Mainland China	2	2	45	49 (2.2%)	17,056 (1.2%)	27 (1.3%)	10,880 (0.8%)
Bermuda	2	2	1	5 (0.2%)	217 (0%)	5 (0.2%)	292 (0%)
Cayman Islands	14	36	24	74 (3.4%)	11,546 (0.8%)	90 (4.2%)	15,253 (1.2%)
Others	1	2	8	11 (0.5%)	41,815 (3%)	9 (0.4%)	41,719 (3.3%)
Total	242	1,789	172	2,203 (100%)	1,375,960 (100%)²	2,133 (100%)	1,276,033¹ (100%)

¹ This figure differs from that disclosed in the *Annual Report 2015-16* due to revised figures reported by fund managers after the report's issuance.

² The percentage does not add up to total due to rounding.

Breakdown of SFC activity data

Table 3 Takeovers activities

	2016/17	2015/16	2014/15
Codes on Takeovers and Mergers and Share Buy-backs			
General and partial offers under Code on Takeovers and Mergers	73	50	55
Privatisations	13	7	7
Whitewash waiver applications	37	51	31
Other applications under Code on Takeovers and Mergers ¹	365	323	279
Off-market and general offer share buy-backs	4	1	3
Other applications under Code on Share Buy-backs ¹	2	3	9
Total	494	435	384
Executive Statements			
Sanctions imposed with parties' agreement ²	4	1	1
Takeovers and Mergers Panel			
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	0	0	1
Hearings before the Panel (disciplinary and non-disciplinary)	2	2	4
Statements issued by the Panel ³	2	4	2

¹ Including stand-alone applications and those made during the course of a code-related transaction.

² Pursuant to section 12.3 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

³ Pursuant to section 16.1 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

Breakdown of SFC activity data

Table 4 Breaches noted during on-site inspections

	2016/17	2015/16	2014/15
Failure to comply with Securities and Futures (Financial Resources) Rules	13	16	18
Failure to safekeep client securities	58	41	40
Failure to maintain proper books and records	36	34	22
Failure to safekeep client money	62	45	28
Unlicensed dealing and other registration issues	13	33	18
Breach of licensing conditions	8	10	7
Breach of requirements of contract notes/statements of account/receipts	85	69	79
Failure to make filing/notification	8	6	5
Breach of margin requirements	6	5	5
Marketing malpractices	1	0	2
Illegal short selling of securities	1	1	0
Dealing malpractices	11	2	2
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ¹	441	388	236
Breach of Corporate Finance Adviser Code of Conduct	18	9	9
Breach of Fund Manager Code of Conduct	82	56	48
Breach of regulation of on-line trading	8	14	97
Non-compliance with anti-money laundering guidelines	201	223	117
Breach of other rules and regulations of the Exchanges ²	14	12	4
Breach of other rules and regulations of the Mandatory Provident Fund Schemes Authority	0	3	0
Internal control weaknesses ³	598	571	307
Others	91	146	65
Total	1,755	1,684	1,109

¹ Commonly related to risk management, record keeping, client agreements, safeguarding of client assets and management responsibilities.

² Comprised The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited.

³ Comprised deficiencies in management review and supervision, operational controls over the handling of client accounts, segregation of duties, information management, adequacy of audit trail for internal control purposes, among other weaknesses.

Breakdown of SFC activity data

Table 5 Successful prosecutions

Unauthorised activities

Defendants	Date of conviction	Fine (\$)	Investigation costs awarded (\$)
Gold Root Global Investments Limited	27.10.2016	10,000	14,348
CHIANG Ching Fung	20.2.2017	12,000	15,348
Total		22,000	29,696

Provision of false/misleading representation to the SFC

Defendant	Date of conviction	Fine (\$)	Investigation costs awarded (\$)
CHIU Sing Ho	28.4.2016	10,000	8,001

Disclosure of interests

Defendants	Date of conviction	Fine (\$)	Investigation costs awarded (\$)
Springs China Opportunities Master Fund	14.4.2016	24,000	4,680
ZHAO Jun	14.4.2016	24,000	4,680
HO Pui Tin Terence	8.9.2016	36,000	10,257
Total		84,000	19,617

Breakdown of SFC activity data

Table 6 Other public disciplinary actions¹

Company/Name	Date of action	Conduct	Action/SFAT ² decision
Moody's Investors Service Hong Kong Limited	5.4.2016	Various failures relating to the preparation and publication of a special comment report on Mainland companies published on 11 July 2011	SFAT affirmed the SFC's decision to reprimand and fine the company \$11 million
Solid King Securities Limited	3.5.2016	Failed to comply with the telephone recording requirements and put in place effective internal control procedures	Reprimanded and fined \$700,000
YEUNG Chun Him	6.5.2016	Transferred client data for purposes other than for which the data was collected	Banned for 12 months
LAM Chun Yin and YEUNG Chok Cheong	10.8.2016	Failed to take all reasonable steps to avoid conflicts of interest and traded on the basis of non-public information about a pending share acquisition of a client	Lam – banned for 36 months and fined \$111,000 Yeung – banned for 30 months and fined \$51,830
WONG Yick Lok William	3.10.2016	Convicted of forgery	Banned for three years
LO Tsz On Chris	12.10.2016	Convicted of fraud	Suspended for one year
LAI Lawrence	2.11.2016	Various breaches of the Code of Conduct ³	Banned for 10 years
KU Ka Tat Benedict	21.11.2016	Failings related to his sale of a fund to a client	Banned for one year and fined \$150,000
POON Kin Lung	23.12.2016	Effected transactions for two of his clients without proper authorisation, breached his employer's internal control policies and failed to keep proper client records	Banned for two years
CHEUNG Kwan Po Bobo	5.1.2017	Forged client signature	Banned for six months
CHANG Chyi	6.1.2017	Misrepresented short selling restrictions to a customer	Reprimanded and fined \$50,000
CHOI Siu Ki Marcus	9.1.2017	Forged client signatures on insurance application documents	Banned for nine months
North Sea Securities Limited	27.1.2017	Failed to put in place proper controls to monitor and supervise employee dealings	Reprimanded and fined \$700,000
HUANG Qiang	10.3.2017	Failed to monitor risk and compliance issues in a licensed corporation of which he was the responsible officer	Banned for nine months
LEUNG Ming Yin Philip	20.3.2017	Failed to maintain proper client records and effected transactions without proper authorisation	Banned for six months

¹ See Enforcement on pages 63-71 for details of the most significant disciplinary actions.

² The Securities and Futures Appeals Tribunal.

³ The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

Breakdown of SFC activity data

Table 7 Other enforcement actions¹

	2016/17	2015/16	2014/15
S179 ² inquiries commenced	27	24	21
S181 ³ inquiries commenced (number of letters sent)	301 (8,960)	286 (7,997)	293 (9,752)
S182 ⁴ directions issued	407	507	553
Rule 8 directions ⁵ issued	4	2	1
Show cause letters ⁵ issued	3	0	1
Cases with search warrants executed	34	31	53
Compliance advice letters issued	548	453	302
Criminal, Civil and Market Misconduct Tribunal (MMT) proceedings ⁶			
(a) Insider dealing			
Individuals/corporations summonsed (summons laid)	0 (0)	1(3)	0 (0)
Individuals/corporations involved in ongoing civil proceedings	16	13	12
Individuals/corporations involved in ongoing MMT proceedings	0	2	4
(b) Market manipulation			
Individuals/corporations summonsed (summons laid)	0 (0)	0 (0)	0 (0)
Individuals/corporations involved in ongoing civil proceedings	0	0	0
Individuals/corporations involved in ongoing MMT proceedings	3	16	21
(c) Others			
Individuals/corporations summonsed (summons laid)	10 (46)	20 (107)	15 (71)
Individuals/corporations involved in ongoing civil proceedings	110	87	81
Individuals/corporations involved in ongoing MMT proceedings	26	14	16
Disciplinary enquiry			
Notices of Proposed Disciplinary Action ⁷ issued	49	35	36
Notices of Decision ⁸ issued (including S201 ⁹ agreement)	56	42	46
SFAT hearings			
Applications to SFAT	2	4	5
Applications/hearings completed	4	4	4

¹ Including primarily the work of the Enforcement Division.

² Section 179 of the SFO gives the SFC the power to compel the production of records and documents from persons related to a listed company in relation to fraud or other misconduct.

³ 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.

⁴ Section 182 of the SFO gives the SFC the power to investigate SFO offences, market misconduct, fraud, misfeasance and disciplinary misconduct.

⁵ A Rule 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 Limited (SEHK) to suspend trading in the shares of a listed company on grounds that the market is misinformed, disorderly or unfair. A show cause letter is sent by the SFC to inform a listed company that it is minded to exercise its power under the aforesaid Rules to direct SEHK to suspend trading in the shares of the company, in the absence of a satisfactory explanation.

⁶ Following the enactment of the Securities and Futures (Amendment) Ordinance in 2012, the SFC can bring cases directly to the MMT without first referring them to the Financial Secretary.

⁷ 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.

⁸ A notice that sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

⁹ 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.

Breakdown of SFC activity data

Table 8 Statistical information and financial position of the Hong Kong securities industry¹

	As at 31.12.2016	As at 31.12.2015	As at 31.12.2014
Securities dealers and securities margin financiers	1,104	1,002	951
Active cash clients ²	1,289,563	1,259,868	1,157,599
Active margin clients ²	267,132	241,948	181,593
Active clients	1,556,695	1,501,816	1,339,192
Balance sheet	(\$ million)	(\$ million)	(\$ million)
Cash in hand and at bank ³	446,465	429,002	341,124
Amounts receivable from margin clients ⁴	171,633	145,307	111,549
Amounts receivable from clients and other dealers arising from dealing in securities	125,471	139,869	197,043
Proprietary positions	110,756	170,125	219,491
Other assets	224,196	205,673	211,338
Total assets	1,078,521	1,089,976	1,080,545
Amounts payable to clients and other dealers arising from dealing in securities	481,339	466,208	470,507
Total borrowings from financial institutions	86,731	111,265	119,060
Short positions held for own account	33,194	61,198	94,473
Other liabilities	143,941	146,989	144,626
Total shareholders' funds	333,316	304,316	251,879
Total liabilities and shareholders' funds	1,078,521	1,089,976	1,080,545
	12 months to 31.12.2016 (\$ million)	12 months to 31.12.2015 (\$ million)	12 months to 31.12.2014 (\$ million)
Profit and loss			
Total value of transactions ⁵	63,495,134	84,787,467	57,970,022
Net securities commission income	18,739	28,656	21,179
Gross interest income	14,026	12,203	9,421
Other income ⁶	98,344	106,044	94,071
Total operating income	131,109	146,903	124,671
Total overheads and interest expense	116,978	120,499	109,281
Total operating profit	14,131	26,404	15,390
Net profit on proprietary trading	6,893	16,799	11,223
Net profit for the period	21,024	43,203	26,613

¹ Data were extracted from the monthly financial returns submitted under the Securities and Futures (Financial Resources) Rules by 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.

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 under the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.

³ Cash in hand and at bank include trust monies held on behalf of clients which totalled \$248,066 million (31.12.2015: \$225,099 million).

⁴ As at 31.12.2016, the average collateral coverage was 4.0 times (as at 31.12.2015: 4.4 times). It 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

⁵ The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

⁶ Comprised fund management fee income, corporate finance income, inter-company management fee income and others.

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. Their responsibilities and members are listed in this section. For information on the board committees and Executive Committee, see our discussion in Corporate Governance on pages 14-33.

SFC Committees

Advisory Committee

Advises the SFC on policy matters regarding the performance of its functions.

Chairman	
TONG Carlson, SBS, JP	
Members	
ALDER Ashley Ian, JP	LI Brian David Man Bun, JP
Dr AU King-lun, MH	LO Chi Wai (Peter LO)
CHAN Jeffrey Lap-tak	LUI Kei Kwong Keith
CHRISTIANSON Sun Wei	SHIPMAN Mark Graham
DING Chen	TSANG Frederick Sui Cheong
DUHAMEL Vincent	WINTER Richard David
GRAHAM David	YIN Ke
HO Yin Tung Brian	
Number of meetings: 4	Average attendance rate: 80%

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.

There were no circumstances which called for a meeting of the Committee during the year.

Chairman	
LEUNG Fung Yee Julia, SBS (from 19.6.2016)	SHIPTON James Roger Francis (to 18.6.2016)
Members	
Prof CHENG Wui Wing Joseph	Prof LUI Ting Ming Francis
CHOW Yuen Yee	Dr MAK Sui Choi Billy
DAVIS Nigel	PAN San Kong Terry
HAGLAND Trent (to 2.5.2016)	RONALDS Nick (from 22.6.2016)
KEE Nicholas Min Kwan	YUEN Ho Duen Judith
Secretary	
TUNG Ka Shun Sam	
Number of meetings: 0	Average attendance rate: N/A

Committees, panels and tribunal

Committee on Real Estate Investment Trusts

Advises the SFC 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	
LEUNG Fung Yee Julia, SBS (to 31.7.2016)	CHOI Fung Yee Christina (from 1.8.2016)
Members	
CHAN Duen Grace	LIM Chai Geok
Dr CH'EN Kuo Fung Raymond, GBS, CBE, JP	LO Chi Wai (Peter LO)
HO Yin Tung Brian	LUI Yin Tat
KONG YAO FAH Sew Youne (Marie-Anne KONG)	LYNN Sui Yuen Robert
Dr KWOK Chi Piu Bill, JP	MAGUIRE John Martin
KWOK Lam Kwong Larry, BBS, JP	NIGHTINGALE Anthony John Liddell, CMG, SBS, JP
LAU Chun Kong	
Secretary	
TSE Lok Min	
Number of meetings: 1	Average attendance rate: 85.7%

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 Buy-backs or of the Takeovers Appeal Committee on a case-by-case basis.

Members	
CHAN King Sang Edward, SC	SHIEH Wing Tai Paul, SC
JAT Sew Tong, SC, JP	WONG Yuk Lun Horace, SC
LI Gladys Veronica, SC	
Number of meetings: N/A	Average attendance rate: N/A

Committees, panels and tribunal

Investor Compensation Fund Committee

Administers the Investor Compensation Fund and regulates its procedures in accordance with Part XII of the Securities and Futures Ordinance (SFO).

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	
ATKINSON Thomas Allan (from 28.9.2016)	LEE Kwok Keung Roger
KO Teresa Yuk Yin, JP	
Number of meetings: 1	Average attendance rate: 100%

Nominations Committee

Nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee.

During the year, the Committee met once to consider the appointment and reappointment of members to the Takeovers and Mergers Panel and the Takeovers Appeal Committee.

Ex-officio Members	
ALDER Ashley Ian, JP (Chairman)	HO Yin Tung Brian
CLARK Stephen Edward	
Members	
TONG Carlson, SBS, JP	Dr WONG Ming Fung William, SC
Alternate members to CLARK Stephen Edward	
CHAN Yuk Sing Freeman	MAGUIRE John Martin
KO Teresa Yuk Yin, JP	WEBB David Michael
LIU Chee Ming	
Number of meetings: 1	Average attendance rate: 100%

Committees, panels and tribunal

Products Advisory Committee

The SFC may consult the Committee 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.

During the year, the Committee held a sub-group meeting to discuss the Code on Unit Trusts and Mutual Funds review.

Chairman	
LEUNG Fung Yee Julia, SBS (to 31.7.2016)	CHOI Fung Yee Christina (from 1.8.2016)
Members	
BACCI Arthur John (from 30.9.2016)	Dr MALDONADO-CODINA Guillermo Eduardo (Bill MALDONADO)
CHAN Duen Grace	McSHANE Darren Mark (to 24.3.2017)
CHAN Siu Ping Chordio	NORONHA Virginia
Prof CHEUNG Yan Leung Stephen, BBS, JP	NOYES Keith Samuel
CHOY Peng Wah (to 9.1.2017)	PAINTER Shelly Marie (to 28.11.2016)
DING Chen	PAN San Kong Terry (to 6.9.2016)
FUNG Ka Shing Bernard	PANG Wai Sau Queenie
HARRISON Stuart Edward (from 30.9.2016)	SHIPMAN Mark Graham
HUI Mei Ying (Carol HUI)	TSE Wai Ming (Timothy TSE)
Dr HUNG Tin Yau Victor	TZATZAKIS Costa (Con TZATZAKIS)
LAW Shing Mui Alice (from 29.3.2017)	WONG Man Yee (Fanny WONG)
LECKIE Stuart Hamilton, OBE, JP	WONG Pui Ling Pauline
LEE Chi Kee Trevor	YANG Qiumei
LIU Yun Bonn	YONG Lennard Peng Kuang (to 6.9.2016)
LUO Jiabin	
LYU Hong (Sandra LU)	
Secretary	
POON Wing Yee Loreen	
Number of meetings: 1	Average attendance rate: 78.9%

Public Shareholders Group

Advises on issues relating to shareholders' rights and interests.

During the year, the Group met three times and discussed many policy subjects, such as Hong Kong Exchanges and Clearing Limited's (HKEX) proposal on new board, The Stock Exchange of Hong Kong Limited's (SEHK) policies on capital raisings, back-door listing and delistings, corporate conduct of regulators' concerns, use of cornerstone investors in initial public offerings, as well as the joint consultation of the SFC and HKEX on proposed enhancements to SEHK's decision-making and governance structure for listing regulation.

Chairman	
HO Yin Tung Brian	
Members	
BENNETT Pru	PARK Yoo Kyung
CHEN Yang Chung Roy	PHADNIS Dhananjay Shrikrishna
CHIA Chin-Ping	SHAH Asit Sudhir
HO John	Prof SO Wai Man Raymond
LAU Ka Shi, BBS	van Rijn Arnout
LIU Hung Ho Ellis	YE Xiang
MA Sean	
Number of meetings: 3	Average attendance rate: 65.5%

Committees, panels and tribunal

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 SFO, 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 Fund's financial statements and other administrative matters.

Chairman	
LUI Kei Kwong Keith	
Members	
ATKINSON Thomas Allan (from 28.9.2016)	LEE Kwok Keung Roger
KO Teresa Yuk Yin, JP	MAK Po Shuen
Number 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.

There were no circumstances which called for a meeting of the Group during the year.

Convener	
Executive Director, Corporate Finance, SFC	
Members	
CHAN Ching Chu	LUNG Hak Kau
HANNING Matthew Paul (to 31.08.2016)	SOUTAR James Alexander
JOHNSON Nicholas Regan	WECHSLER Joshua
LIU Kennedy Tat Yin	
Number 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 SEHK when actual or potential conflicts of interest arise between HKEX as the holding company of SEHK and the proper performance of SEHK's listing functions. In such cases, the relevant SEHK functions may be undertaken by the SFC.

There were no circumstances which called for a meeting of the Committee during the year.

Chairman	
Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting.	
Members	
ALDER Ashley Ian, JP	PHENIX Paul Anthony
ATKINSON Thomas Allan (from 3.5.2016)	SHIPTON James Roger Francis (to 18.6.2016)
BROWN Melissa	TYE Philip Andrew
CHOI Fung Yee Christina	YEUNG Eirene
LEE Carmelo Ka Sze, JP	YOUNG Andrew John
LEUNG Fung Yee Julia, SBS	YU Ka Po Benita
LUI Kei Kwong Keith	
Number of meetings: 0	Average attendance rate: N/A

Committees, panels and tribunal

SFC (HKEC Listing) Appeals Committee

Exercises powers and functions equivalent to those of SEHK's Listing Appeals Committee when actual or potential conflicts of interest arise between HKEX and the proper performance of listing functions by SEHK. In such cases, the relevant powers and functions may be exercised by the SFC.

There were no circumstances which called for a meeting of the Committee during the year.

Chairman	
Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting.	
Members	
AU Siu Cheung Albert, BBS	MA Xuezheng Mary
Prof CHENG Kwok Hon Leonard, BBS, JP (to 31.12.2016)	TONG Carlson, SBS, JP
CHENG Wai Sun Edward, SBS, JP (from 1.1.2017)	Dr WONG Ming Fung William, SC
HUANG Lester, JP	Dr WONG Tin Yau Kelvin, JP
KO Teresa Yuk Yin, JP	
Number 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.

There were no circumstances which called for a meeting of the Committee during the year.

Chairman	
NORMAN David Michael	
Deputy Chairman	
LIU Yun Bonn	
Members	
DENNY Roger Michael	TSAI Wing-chung Philip
KONG YAO FAH Sew Youne (Marie-Anne KONG)	WANG Elizabeth Lily Chiang
KWOK Tun Ho Chester	YUEN Ka Fai
LIN James C	
Number of meetings: 0	Average attendance rate: N/A

Committees, panels and tribunal

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.

There were no circumstances which called for a meeting of the Committee during the year.

Takeovers and Mergers Panel

Hears disciplinary matters in the first instance and reviews rulings by the Takeovers Executive¹ at the request of any party dissatisfied with such a ruling. Considers novel, important or difficult cases referred to it by the Takeovers Executive. Reviews, upon request by the SFC, the provisions of the Codes on Takeovers and Mergers and Share Buy-backs and the Rules of Procedure for hearings under the Codes and recommends appropriate amendments to the Codes and Rules of Procedure to the SFC.

During the year, the Panel met twice to consider non-disciplinary matters.

Chairman	
CLARK Stephen Edward	
Deputy Chairmen	
CHAN Yuk Sing Freeman	MAGUIRE John Martin
KO Teresa Yuk Yin, JP	WEBB David Michael
LIU Chee Ming	
Members	
BROWN Melissa	LIU Yun Bonn
CHAN Che Chung	NORMAN David Michael
CHARLTON Julia Frances	NORRIS Nicholas Andrew
DENNY Roger Michael	PARK Yoo Kyung
FU Yat Hung David	PERRY Jonathan Garth (to 6.7.2016)
IP Koon Wing Ernest	SABINE Martin Nevil
LAM Sung Lai Edward	SCHWILLE Mark Andrew
LEE Kam Hung Lawrence, JP	SOUTAR James Alexander
LEE Pui Ling Angelina, SBS, JP	VAS CHAU Lai Kun Judy
LIU Che Ning	WINTER Richard David
	YU Ka Po Benita
Number of policy meetings: 0	Average attendance rate: N/A
Number of non-disciplinary hearings: 2	Average attendance rate: N/A²
Number of disciplinary hearings: 0	Average attendance rate: N/A

¹ The Takeovers Executive refers to the Executive Director of the Corporate Finance Division of the SFC or his delegate.

² The Chairman will appoint not less than four panel members to participate in hearings, and the attendance of other members is not required.

Committees, panels and tribunal

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.

There were no circumstances which called for a meeting of the Committee during the year.

Members	
BROWN Melissa	LIU Chee Ming
CHAN Che Chung	LIU Yun Bonn
CHAN Yuk Sing Freeman	MAGUIRE John Martin
CHARLTON Julia Frances	NORMAN David Michael
CLARK Stephen Edward	NORRIS Nicholas Andrew
DENNY Roger Michael	PARK Yoo Kyung
FU Yat Hung David	PERRY Jonathan Garth (to 6.7.2016)
IP Koon Wing Ernest	SABINE Martin Nevil
KO Teresa Yuk Yin, JP	SCHWILLE Mark Andrew
LAM Sung Lai Edward	SOUTAR James Alexander
LEE Kam Hung Lawrence, JP	VAS CHAU Lai Kun Judy
LEE Pui Ling Angelina, SBS, JP	WEBB David Michael
LIU Che Ning	WINTER Richard David
	YU Ka Po Benita
Number 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.

The panel received no new cases during the year and none were carried over from the previous year.

Chairman	
LAM Yuk Kun Lawrence	
Deputy Chairman	
LEE Pui Shan Rosita	
Members	
CHAN Kang Muk Woody	CHEUNG Tai Keung Jack

Committees, panels and tribunal

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 decisions made by the SFC and its staff in the performance of its regulatory functions, including those related to the handling of complaints, licensing applications, inspection of intermediaries, product authorisation, exercise of investigation and disciplinary action, and corporate finance transactions.

Chairman	
Dr CHENG Mo Chi Moses, GBM, GBS, JP	
Members	
CHAN Kam Wing Clement	Dr LAM Kit-Lan Cynthia (to 31.10.2016)
CHAN Lena (from 1.6.2016)	LEE Pui Shan Rosita
CHOW Yuen Yee (to 31.10.2016)	LEE Wai Wang Robert
DING Chen	MAK Chi Ming Alfred (to 31.10.2016)
Prof HO Yan Ki Richard, JP (to 31.10.2016)	Dr MAK Sui Choi Billy (from 1.6.2016)
Dr HU Zhanghong	TSANG Sui Cheong Frederick (from 1.11.2016)
KWOK Tun Ho Chester (from 1.11.2016)	YUEN Shuk-kam Nicole
Ex-officio Members	
CHEUNG Kam-Wai Christina, JP	TONG Carlson, SBS, JP

Securities and Futures Appeals Tribunal

Reviews a range of specified decisions made under the SFO by the SFC, the Monetary Authority or a recognised investor compensation company, and hears and determines any question or issue arising out of or in connection with any review.

Chairmen		
The Hon Mr Justice HARTMANN Michael John, GBS, Non-Permanent Judge of the Court of Final Appeal		
KWOK Hing Wai Kenneth, SBS, SC, JP, former Recorder of the Court of First Instance of the High Court		
TALLENTIRE Garry, former Deputy Judge of the Court of First Instance of the High Court		
Members		
CHAN Jeffrey Lap-tak	KWOK Pui Fong Miranda	MUH Yi-tong Anthony
CHENG Chung-ching Raymond	LAI Hin-wing Henry	NG Joo Yeow Gerry
CHEUNG Wing-han Ivy	LAM Sze-cay Kevin	TSANG Chi-wai Roy
CHIN Vincent	LEE Yiu-wing William	TSANG Kam-yin Wendy
DATWANI Mohan	LIM Wai-tin Cynthia	WONG Anna Wai-kwan
DING Chen	LIN James C	YUNG Wen-yee Wendy
EU Andrew Douglas (to 25.5.2016)	LIU Swee Long Michael	ZEE Helen
HO Chiu-ping Dennis	Prof LOW Chee-keong	
Dr HU Zhanghong	Dr MAK Sui Choi Billy	

Glossary and abbreviations

Alternative liquidity pool (ALP)

An electronic system which allows crossing or matching of orders anonymously outside traditional exchanges without any pre-trade transparency. Also known as dark pool or alternative trading system.

Automated trading services (ATS)

Electronic facilities, outside of those provided by a recognised exchange company or clearing house, through which participants may trade, clear and settle securities, futures contracts and over-the-counter (OTC) derivatives.

Central counterparty

Facilitates trading in derivatives and equities markets by acting as the buyer to every seller and the seller to every buyer, thereby ensuring the performance of open contracts.

China Interbank Bond Market (CIBM)

A Mainland over-the-counter market to trade debt instruments.

China Securities Regulatory Commission (CSRC)

A ministry-level agency directly under the State Council which regulates the Mainland's securities and futures markets.

Cold shoulder order

A sanction that prevents a person from accessing, directly or indirectly, the Hong Kong securities market for a stated period.

Dual filing regime

The requirement that all corporate disclosure and listing application materials be filed with both The Stock Exchange of Hong Kong Limited (SEHK) and the SFC.

European Securities and Markets Authority (ESMA)

An independent authority which safeguards the stability of the financial system in the European Union by assessing risks to investors and markets, providing supervisory convergence and directly supervising credit rating agencies and trade repositories.

Exchange participant (EP)

A company with rights to trade on or through The Stock Exchange of Hong Kong Limited or Hong Kong Futures Exchange Limited.

Exchange-traded fund (ETF)

A passively managed index-tracking investment fund traded on a stock exchange.

Financial Dispute Resolution Scheme

An independent and impartial process administered by the Financial Dispute Resolution Centre whereby financial institutions in Hong Kong are required to resolve monetary disputes with their customers through mediation and arbitration.

Financial Services Agency of Japan

The integrated financial regulator responsible for overseeing the banking, securities and exchange, and insurance sectors in Japan.

Financial Stability Board (FSB)

An international body which promotes global financial stability through recommendations for, and the implementation and monitoring of, policy initiatives and international standards.

Financial technology (Fintech)

The application of information and communications technology to financial services, including digital payments, peer-to-peer financing, cybersecurity and data security, big data and data analytics, and distributed ledger technology.

Group of Twenty

An international forum for the governments and central bank governors from 19 of the world's major economies plus the European Union.

Growth Enterprise Market (GEM)

An alternative stock market operated by The Stock Exchange of Hong Kong Limited to provide fund-raising opportunities for small to mid-sized companies which may not meet the Main Board listing requirements.

Hong Kong Exchanges and Clearing Limited (HKEX)

Operates the securities and derivatives markets and their related clearing houses.

International Organization of Securities Commissions (IOSCO)

An international body of securities regulators worldwide which develops, implements and promotes adherence to internationally recognised standards for securities regulation.

Investment-linked assurance scheme (ILAS)

A life insurance policy with investment elements that provides both insurance protection and investment options, usually through funds.

Glossary and abbreviations

Leveraged and inverse products

Products structured as ETFs for public offering in Hong Kong. Leveraged products aim to deliver a daily return equivalent to a multiple of the underlying index return while inverse products aim to deliver the opposite of the daily return of the underlying index that they track.

Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA)

A free trade agreement concluded by the Mainland and Hong Kong covering trade in goods and services as well as investment facilitation. Provisions include tariff agreements, preferential treatment for service providers, mutual recognition of professional qualifications, and enhanced cooperation in trade and investment facilities.

Mandatory provident fund (MPF)

An employment-based retirement savings scheme that requires regular mandatory contributions by employees and employers in Hong Kong.

Market Misconduct Tribunal (MMT)

An independent full-time body established under the Securities and Futures Ordinance which imposes civil sanctions against those it determines to be guilty of market misconduct.

Open-ended fund companies (OFC)

Collective investment schemes which are structured in corporate form with limited liability and variable share capital.

Over-the-counter (OTC) derivatives

Financial instruments that are usually traded directly between dealers and principals rather than via an exchange and whose values are derived from the values of underlying assets.

Real estate investment trust (REIT)

A collective investment scheme constituted as a trust that invests primarily in real estate with the aim to provide returns to holders derived from rental income.

Regulatory technology (Regtech)

Technologies that assist regulators and firms to enhance processes for the collection, management and reporting of regulatory data, risk identification, risk weighting, surveillance and data analytics.

Rights issue

An offer to existing holders of a listed company's securities which enables them to subscribe to an additional number of securities in proportion to their existing holdings.

Securities and Futures Appeals Tribunal (SFAT)

A body established under the SFO to review specified decisions made by the SFC, the Monetary Authority or a recognised investor compensation company.

Securities and Futures Ordinance (SFO)

Together with subsidiary legislation, the law in Hong Kong relating to financial products and the securities and futures market and industry, as well as to their regulation and to other connected matters including the protection of investors.

Swiss Financial Market Supervisory Authority (FINMA)

The independent financial markets regulator in Switzerland.

Taiwan Financial Supervisory Commission

The authority responsible for the development, supervision, examination and regulation of the financial sector in Taiwan.

The Stock Exchange of Hong Kong Limited (SEHK)

Operates and maintains a stock market in Hong Kong and is the front-line regulator of Stock Exchange participants in relation to trading matters.

Undertakings for collective investment in transferable securities (UCITS)

A harmonised regulatory regime for the operation and sale of investment funds within the European Union.

Unit trust

A collective investment scheme constituted in trust form.

US Commodity Futures Trading Commission (CFTC)

The independent agency that regulates futures and options markets in the US.

US Financial Industry Regulatory Authority (FINRA)

An independent US agency regulating the broker-dealer industry.

US Securities and Exchange Commission (SEC)

The primary regulator of the US securities markets.

Whitewash waiver

A waiver of a party's obligation to make a mandatory offer to other shareholders of a company arising from an issue of new securities of that company.

Contact Information Securities and Futures Commission
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2 Queen's Road Central
Hong Kong
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Facsimile : (852) 2521 7836
Website : www.sfc.hk

Auditor KPMG

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