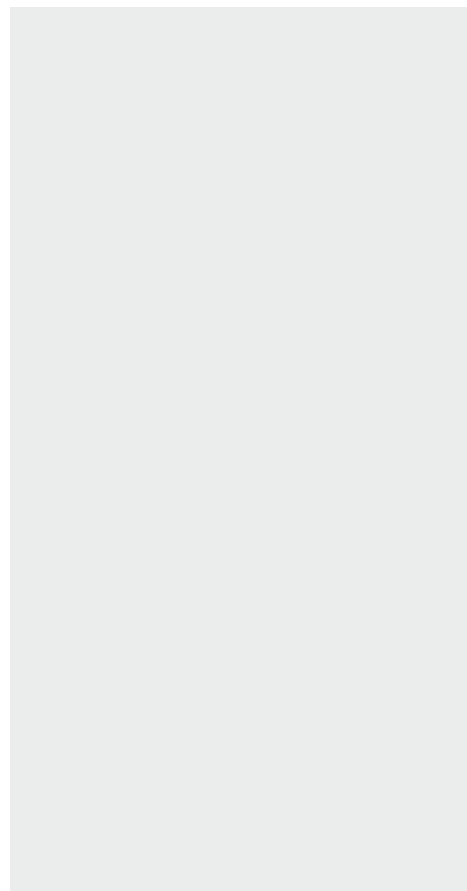
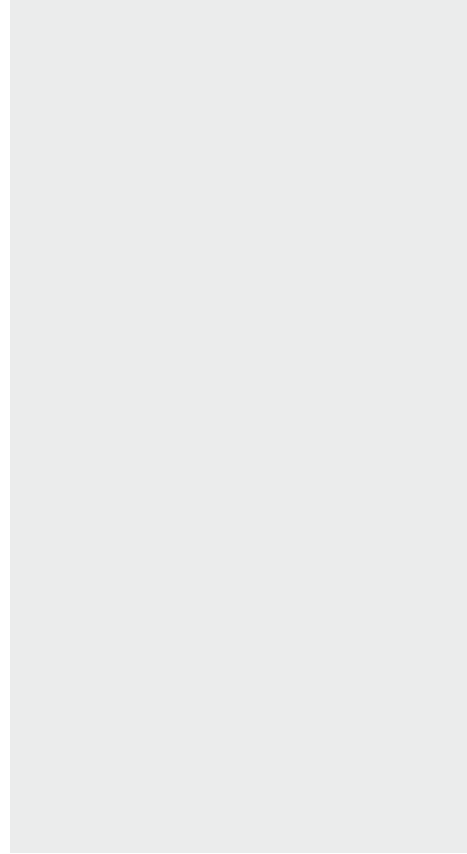




SECURITIES AND  
FUTURES COMMISSION  
證券及期貨事務監察委員會

# Quarterly Report

October - December 2014



This third Quarterly Report of the Securities and Futures Commission for financial year 2014-15 covers the period from 1 October to 31 December 2014.

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Additional information can be found in the relevant sections of the Quarterly Report.

## Regulatory enhancements

- **OTC derivatives:** In November, we concluded a joint consultation with the Hong Kong Monetary Authority on the mandatory reporting and related record-keeping obligations under the new over-the-counter (OTC) derivatives regime.
- **Uncertificated securities market:** The Legislative Council's Bills Committee began a detailed examination of the Securities and Futures and Companies Legislation (Uncertificated Securities Market Amendment) Bill 2014, which would abolish the need for physical share certificates.

## Intermediaries

- **New licensing applications:** We received 1,706 applications this quarter, down 14.7% quarter on quarter and up 7.9% year on year.
- **Supervisory cooperation:** In December, we launched a consultation regarding the SFC's provision of supervisory assistance to overseas regulators.

## Product development

- **Renminbi product offerings:** We authorized 12 unlisted Renminbi Qualified Foreign Institutional Investor (RQFII) funds and one RQFII exchange-traded fund this quarter.

## Listing matters

- **IPO applications:** Under the dual filing regime, we received 32 listing applications via The Stock Exchange of Hong Kong Limited during the quarter.

## Market infrastructure and trading

- **Stock Connect:** As part of preparations for the 17 November launch of the Shanghai-Hong Kong Stock Connect pilot programme, we signed a memorandum of understanding with the China Securities Regulatory Commission on strengthening regulatory and enforcement cooperation.

## Enforcement

- We disciplined nine licensees and our disciplinary actions during the quarter resulted in total fines of over \$1.3 million.
- We obtained interim injunctions to freeze bank accounts which allegedly hold the proceeds of unlicensed or boiler room activities carried out by three companies.

## Licensing applications

We received 1,706 licence applications<sup>1</sup> this quarter, down 14.7% from the previous quarter and up 7.9% year on year. The total number of licensees and registrants edged down by 0.3% to 39,739 in the three months ended 31 December.

## Report on Mystery Shopping Programme

The findings of our second mystery shopping programme, which assessed compliance with the selling practices requirements set out in the Code of Conduct<sup>2</sup> and Internal Control Guidelines<sup>3</sup>, were published in December. About 150 samples concerning the sale of unlisted securities and futures products were conducted on 10 selected licensed corporations, including fund management, investment advisory and brokerage firms. The exercise revealed that certain deficiencies remained a concern, particularly in relation to suitability assessments, know-your-clients procedures and information disclosure. Licensed corporations were reminded to enhance their systems and controls and to exercise appropriate oversight over selling practices employed by sales representatives.

## Survey on the Sale of Non-exchange Traded Investment Products

In December, we published a survey on the sale of non-exchange traded investment products to individual investors by licensed corporations during the 12 months ended 31 March 2014. According to the survey, the top 10 firms, which also acted as major product issuers, accounted

for \$371 billion or 79% of the aggregate transaction amount for these products during the period. The findings also showed an increase in the sale of non-investment grade corporate bonds to individual investors.

## Consultation on supervisory assistance to overseas regulators

We published a consultation paper on the SFC's provision of supervisory assistance to overseas regulators in December<sup>4</sup>. The one-month consultation ended on 16 January 2015.

## Promoting compliance

During the quarter, we promoted compliance with anti-money laundering and counter-terrorist financing requirements<sup>5</sup> by hosting a number of briefings, presentations and joint seminars<sup>6</sup> to industry participants, including management and compliance personnel from licensed corporations and industry associations. In aggregate, more than 900 participants attended these events.

We also briefed seven major broker associations on the SFC's consultation conclusions on the professional investor regime and further consultation on the client agreement requirements as well as a number of compliance focus areas.

In November, we issued two circulars to remind licensed corporations about cybersecurity risks and the security and integrity risks related to internet trading.

<sup>1</sup> The figure does not include provisional licence applications received. During the quarter, we received 916 provisional licence applications compared with 883 in the same quarter last year.

<sup>2</sup> Code of Conduct for Persons Licensed by or Registered with the SFC.

<sup>3</sup> Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the SFC.

<sup>4</sup> For more information, please refer to the Global regulatory engagement section.

<sup>5</sup> The topics included culture, governance, and accountability; money laundering and terrorist financing risk assessment; customer due diligence, and the identification and reporting of suspicious transactions.

<sup>6</sup> In collaboration with the Financial Services and the Treasury Bureau and the Joint Financial Intelligence Unit (JFIU). The seminars featured speakers from the SFC, the JFIU and Big Four consulting firms.

## Intermediaries

### Licensees and registrants

	As at 31.12.2014	As at 31.3.2014	Change (%)	As at 31.12.2013	YoY change (%)
Licensed corporations	2,034	1,970	3.2	1,956	4
Registered institutions	118	120	-1.7	121	-2.5
Licensed individuals	37,587	36,970	1.7	37,029	1.5
<b>Total</b>	<b>39,739</b>	<b>39,060</b>	<b>1.7</b>	<b>39,106</b>	<b>1.6</b>

### Licensing applications

	Quarter ended 31.12.2014	Nine months ended 31.12.2014	Nine months ended 31.12.2013	YoY change (%)
Applications to conduct new regulated activity received	4,565	14,864	14,718	1
Applications for SFC licences received <sup>1</sup>	1,706	5,273	5,009	5.3

<sup>1</sup> The figures do not include provisional licence applications received. During the quarter, we received 916 provisional licence applications compared with 883 in the same quarter last year.

### Intermediary inspection

	Quarter ended 31.12.2014	Nine months ended 31.12.2014	Nine months ended 31.12.2013	YoY change (%)
Risk-based, on-site inspections conducted	74	234	232	0.9

## Renminbi products

The number of Renminbi Qualified Foreign Institutional Investor (RQFII) products continued to grow. We authorized 12 unlisted RQFII funds and one RQFII exchange-traded fund (ETF) this quarter. This brought the total number of SFC-authorized RQFII unlisted funds and ETFs to 65 and 18, respectively, as of 31 December.

## Regulation and monitoring

During the quarter, we processed a significant number of new applications arising from the need to revamp existing SFC-authorized investment-linked assurance schemes (ILAS) to comply with the requirements spelled out in the “Guidance Note on Underwriting Class C Business”, which was issued by the Insurance Authority (IA) on 30 July 2014 and took effect on 1 January 2015. To facilitate the processing of these applications before the effective

date, we introduced streamlined measures for handling qualified applications and liaised closely with the IA and The Hong Kong Federation of Insurers (HKFI).

In addition, we published FAQs to provide guidance to the industry on the following topics:

- whether a Type 6 regulated activity is required when acting as a listing agent of SFC-authorized ETFs;
- HKFI’s new technical requirements for ILAS illustration document templates;
- requirements for the disclosure of ongoing charges figure and past performance information; and
- for MPF products, processing of applications for scheme changes and the revision of documents.

## Authorized collective investment schemes/investment products<sup>1</sup>

	As at 31.12.2014	As at 31.3.2014	Change (%)	As at 31.12.2013	YoY change (%)
Unit trusts and mutual funds <sup>2</sup>	2,009	1,935	3.8	1,908	5.3
Investment-linked assurance schemes	282	264	6.8	264	6.8
Pooled retirement funds	35	35	0	35	0
MPF master trust schemes	37	40	-7.5	40	-7.5
MPF pooled investment funds <sup>2</sup>	186	186	0	185	0.5
Others <sup>3</sup>	26	27	-3.7	27	-3.7
<b>Total</b>	<b>2,575</b>	<b>2,487</b>	<b>3.5</b>	<b>2,459</b>	<b>4.7</b>

<sup>1</sup> Excluding unlisted structured investment products. This table represents a snapshot view as of the end of each reporting period.

<sup>2</sup> Beginning with the financial year ended 31 March 2014, funds authorized as retail unit trusts and pooled investment funds for Mandatory Provident Fund (MPF) purposes (retail APIFs) have been included in the “Unit trusts and mutual funds” category instead of the “MPF pooled investment funds” category to better reflect the total number of retail unit trusts and mutual funds in Hong Kong. For comparison purposes, adjustments have been made to these categories to reflect that 116 retail APIFs as at 31 December 2013 have been reclassified accordingly.

<sup>3</sup> Other schemes comprise 15 paper gold schemes and 11 real estate investment trusts as of 31 December 2014.

## Authorized unlisted structured investment products

	Quarter ended 31.12.2014	Nine months ended 31.12.2014	Nine months ended 31.12.2013	YoY change (%)
Unlisted structured investment products	20	80	92	-13

## Review of IPO applications

Under the dual filing regime, we received 32 listing applications via The Stock Exchange of Hong Kong Limited during the quarter and none were returned<sup>1</sup>.

## Takeovers matters

In November, the Court of First Instance (CFI) dismissed a judicial review of the Takeovers Panel's decision to continue with the disciplinary proceedings brought by the Takeovers Executive<sup>2</sup> in September 2013 against three individuals, whose names are not public by order of the court, over an alleged breach of Rule 26.1<sup>3</sup> of the Takeovers Code. In October 2013 the three individuals applied to the Takeovers Panel to defer our proceedings until the completion of a criminal trial scheduled to be heard in March 2015 in which they are also defendants. However, the Takeovers Panel's Chairperson refused their application in February 2014

following an oral hearing. Subsequently the applicants applied for a judicial review of the Chairperson's decision which was heard in September 2014. The CFI found the Takeovers Panel's Chairperson did not err in law and was satisfied that the Chairperson's decision was not unreasonable. The disciplinary proceedings against the three individuals are continuing.

In December, the Takeovers Executive publicly criticised Wen Yibo, the controlling shareholder of Sound Global Limited, for acquiring shares in the company within six months after the close of an offer at above the offer price. This was in contravention of Rule 31.3<sup>4</sup> of the Takeovers Code. Wen admitted that the breaches were due to his inadvertent oversight and that he was unaware of the prohibition. Wen agreed to the disciplinary action against him by way of public criticism by the Takeovers Executive<sup>5</sup>.

## Listing applications and takeovers activities

	Quarter ended 31.12.2014	Nine months ended 31.12.2014	Nine months ended 31.12.2013	YoY change (%)
Listing applications filed under the dual filing regime	32	126	130	-3.1
Takeovers and share repurchases transactions handled	87	280	216	29.6

<sup>1</sup> Under the new initial public offering sponsor regime which took effect on 1 October 2013, a listing application will be returned if its application proof is not substantially complete.

<sup>2</sup> The Takeovers Executive refers to the Executive Director of the SFC's Corporate Finance Division or any of his delegates.

<sup>3</sup> Rule 26.1 provides that when two or more persons are acting in concert and they collectively acquire 30% or more of voting rights in a company, or if they collectively hold between 30% and 50% and acquire more than 2% from the lowest percentage held in any 12-month period, a mandatory offer obligation is triggered.

<sup>4</sup> As a fundamental provision of the Takeovers Code which aims to protect the investing public, Rule 31.3 prohibits an offeror and its concert parties from making a second offer or acquiring offeree company shares at a price higher than the previous offer in the six-month period after the close of a successful offer.

<sup>5</sup> Made under section 12.3 of the Introduction to the Takeovers Code, in which the Takeovers Executive may deal with a disciplinary matter if the party to be disciplined agrees to the disciplinary action proposed to be taken.

### Shanghai-Hong Kong Stock Connect

To prepare for the launch of Shanghai-Hong Kong Stock Connect on 17 November, we worked closely with the China Securities Regulatory Commission (CSRC), Shanghai Stock Exchange, China Securities Depository and Clearing Corporation Limited and Hong Kong Exchanges and Clearing Limited on various regulatory and operational issues. On 17 October, we signed a memorandum of understanding with the CSRC on strengthening cross-boundary regulatory and enforcement cooperation under Stock Connect. So far, trading, clearing and settlement under Stock Connect have been smooth and no major issues have been noted.

### OTC derivatives market

In November, we published joint consultation conclusions with the Hong Kong Monetary Authority on the proposed Securities and Futures (OTC Derivative Transactions - Reporting and Record Keeping) Rules. We concluded that the mandatory reporting and related record keeping obligations will commence first for authorized institutions, approved money brokers, licensed corporations and certain central counterparties, whereas implementation of these obligations will be deferred for other parties that are based in or operating from Hong Kong. This approach is adopted in response to market feedback suggesting that the reporting obligation be introduced in phases by type of reporting party. The conclusions paper also sought further views on three related matters by 23 December. We expect to submit the final draft of the Reporting Rules to the Legislative Council (LegCo) for negative vetting in the first quarter of 2015.

### Uncertificated securities market

LegCo's Bills Committee met three times during the quarter to consider the Securities and Futures and Companies Legislation (Uncertificated Securities Market Amendment) Bill 2014, which will enable the implementation of a new regime abolishing the need for physical share certificates and thereby allowing investors to legally hold and transfer listed securities in a paperless form. Bills Committee members generally supported the proposed regime and suggested that the initiative be implemented as soon as possible. The Bills Committee began a detailed examination of the Bill in November. We target to conduct a public consultation on subsidiary legislation setting out technical and operational details in 2015.

### London metal mini futures

During the quarter, we approved HKEx's proposal to introduce three London Metal Exchange metal mini futures contracts to further develop the Asian commodities market. These contracts, launched on 1 December, include London Aluminum Mini Futures, London Copper Mini Futures and London Zinc Mini Futures. Each has the same underlying assets as the corresponding metal futures contract currently traded on the London Metal Exchange, but is cash-settled, denominated in renminbi and features a smaller contract size.

### Automated trading services

As of 31 December, the number of automated trading services<sup>1</sup> (ATS) authorizations under Part III of the Securities and Futures Ordinance (SFO) was 32, while 28 corporations, including 16 dark pool operators, were licensed under Part V of the SFO to provide ATS.

<sup>1</sup> As a general principle under the SFC's Guidelines for the Regulation of Automated Trading Services, ATS providers which also perform traditional dealer functions (eg, agency broking, holding of clients' securities or funds) are expected to be licensed under Part V of the SFO, while those solely providing ATS are expected to be authorized under Part III of the SFO.



### Redress for investors

We continued to take action to remediate investors during the quarter.

- We obtained a disqualification order in the High Court against Ho Yik Kin Norman, a former executive director of Tack Fat Group International Limited<sup>1</sup>. Ho was disqualified from being a director or being involved in the management of any corporation for six years for breaching his director's duties in failing to exercise reasonable care and diligence in the management of Tack Fat.

We also sought disqualification orders against three other former directors of Tack Fat, and an order that the former chairman repay the company or other parties \$26 million (being the subscription price of 40 million shares in Tack Fat allotted to his nominees) or account for any profits he made through trading the shares; and pay the loss avoided by him, resulting from his insider dealings in the shares of Tack Fat, to the counterparties with whom he traded.

- We commenced proceedings against the former chairman, Tong Shek Lun, and two former executive directors, Ko Lai King Kinny and Chung Wai Yu Regina, of Sinogreen Energy International Group Limited to seek orders that they be disqualified as company directors and pay compensation to Sinogreen for the loss allegedly caused by their misconduct. They allegedly breached their directors' duties in relation to the disposal of a subsidiary in 2008 resulting in loss to Sinogreen.
- In December 2014, we obtained interim injunctions under section 213<sup>2</sup> of the Securities and Futures Ordinance (SFO) to freeze bank accounts which allegedly hold the proceeds of unlicensed or boiler room<sup>3</sup> activities carried out by Broadspan Securities, Rich Futures (HK) Limited, and Shepherds Hill Partners, Hong Kong. In January 2015, the court granted further orders

to stop all three from carrying on unlicensed activities and to suspend their websites. We also sought final orders against them including permanent injunctions and other orders to provide relief to victims.

### Market Misconduct Tribunal proceedings

#### Tiger Asia Management LLC

In October, the Market Misconduct Tribunal (MMT) determined that Tiger Asia Management LLC and its two senior officers, Hwang Sung Kook Bill and Raymond Park, engaged in market misconduct in Hong Kong. This was the first case directly presented by the SFC to the MMT.

Tiger Asia, Hwang and Park admitted they had contravened Hong Kong's laws prohibiting insider dealing when dealing in the shares of Bank of China Limited and of China Construction Bank Corporation (CCB) in December 2008 and January 2009 and had manipulated the price of CCB shares in January 2009.

The MMT ordered that Tiger Asia and Hwang be banned from trading in Hong Kong for four years without permission of the court and issued cease and desist orders<sup>4</sup> against both of them. It made no order on Park who has suffered an incurable brain injury and is in no position to pose any threat to the integrity of the Hong Kong market.

#### Publication of false and misleading report

We commenced proceedings in the MMT against Andrew Left of Citron Research, a US-based publisher of research reports on listed companies. We alleged that in June 2012, Left published a report on Citron Research's website that contained false and misleading information about Evergrande Real Estate Group Limited. Evergrande's share price fell sharply after the report's release. Shortly before publishing the report, Left short sold 4.1 million Evergrande shares, making a notional profit of over \$2.8 million and a total realised profit of about \$1.7 million.

<sup>1</sup> Now known as Tack Fiori International Group Limited.

<sup>2</sup> Section 213 of the SFO gives the SFC the power to apply to the Court of First Instance for an injunction and other orders when there are contraventions of the SFO.

<sup>3</sup> Boiler rooms usually claim to be licensed for regulated securities or futures business and issue related advertisements when they are not licensed or do not actually operate in that jurisdiction.

<sup>4</sup> Under section 257(1)(c) of the SFO, a cease and desist order is an order that the person shall not again perpetrate any conduct which constitutes such market misconduct.

## Disciplining licensees

We disciplined nine licensed representatives:

- Roger Albert John and Hamish Gordon Cruden, both former directors and responsible officers of Salisbury Securities Limited<sup>5</sup>, were banned from re-entering the industry for life. John was directly responsible for Salisbury's misconduct, while Cruden's failure to participate in the management of Salisbury contributed to the company's breaches and failures.
- Yan Chee Yung was banned from re-entering the industry for life for defrauding his clients and misappropriating client money. He misrepresented to 18 clients of Chong Hing Securities Limited and Chong Hing Bank Limited that he could buy shares on their behalf at a price lower than the market price or promised that he would buy back shares at a guaranteed price. He also induced clients to enter into private investment arrangements with him, misappropriated their money, and falsified transaction records.
- John David Lawrence's licence was revoked and he was fined \$900,000 for selling a fund classified as "execution only" which should not have been promoted

to clients. His sales of the fund involved 31 client accounts and a transaction amount of about \$28 million, and he failed to ensure the suitability of the fund for his clients, many of whom were elderly.

- Four individuals were banned from re-entering the industry or suspended for various periods for failing to record clients' order instructions, operating and conducting personal trading through a secret account, failures in an initial public offering and other misconduct.
- An individual was reprimanded and fined for failing to handle a client's trade orders in an appropriate way.

## Surveillance work

During the quarter, we made 2,461 requests for trading and account records from intermediaries. In addition, we posted four high shareholding concentration announcements on our website to remind investors to exercise caution when trading shares in companies where a high concentration of shares are held by a small number of shareholders.

## Enforcement activities

	Quarter ended 31.12.2014	Nine months ended 31.12.2014	Nine months ended 31.12.2013	YoY change (%)
Trading inquiries issued under S181 <sup>1</sup>	<b>2,461</b>	7,610	3,768	102
Investigations started	<b>149</b>	431	254	69.7
Investigations completed	<b>99</b>	239	238	0.4
Investigations completed within seven months (%)	<b>70 (71%)</b>	174 (73%)	142 (60%)	13
Persons charged in criminal proceedings	<b>5</b>	15	33	-54.5
Criminal charges laid	<b>50</b>	70	214	-67.3
Notices of Proposed Disciplinary Action <sup>2</sup>	<b>10</b>	30	32	-6.3
Decision Notices <sup>3</sup>	<b>7</b>	38	37	2.7
Persons subject to ongoing civil proceedings	<b>91</b>	91	69	31.9
Compliance advice letters issued	<b>65</b>	208	266	-21.8

<sup>1</sup> 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.

<sup>2</sup> 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.

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

<sup>5</sup> In August 2013, the Court of First Instance ordered that Salisbury Securities Limited be wound up following a petition filed by the SFC based on concerns over the whereabouts of nearly \$9 million worth of securities and sale proceeds belonging to clients.

### IOSCO

The SFC is actively involved in the work of the International Organization of Securities Commissions (IOSCO).

Mr Ashley Alder, our Chief Executive officer (CEO), chairs the IOSCO Asia-Pacific Regional Committee (APRC) and leads initiatives to strengthen regional regulatory cooperation. In December, the SFC hosted the IOSCO APRC Mobile Seminar Training Programme, which covered practical approaches to regulating markets and intermediaries. Regulators from 14 overseas jurisdictions attended.

The IOSCO Task Force on Cross Border Regulation, chaired by Mr Alder, published a three-month consultation report in November. The report discussed regulators' experiences and key challenges in implementing cross-border securities regulations. The Task Force's interim progress report was submitted to the G20 for its November Brisbane Summit and published on the G20 Australia 2014 website.

The Working Group on Margining Requirements for Non-centrally Cleared Derivatives, co-chaired by Mrs Alexa Lam, Deputy CEO, Executive Director of Investment Products, International and China, submitted a progress report to the boards of both IOSCO and the Basel Committee on Banking Supervision for approval and further consideration.

Mr Stephen Po, Senior Director of Intermediaries Supervision, chaired a meeting of IOSCO's Committee on the Regulation of Market Intermediaries in Romania in December. Substantial progress was made in finalising the drafting of consultation reports on business continuity and recovery plans as well as on alternatives to the use of credit ratings to assess creditworthiness.

In December, we hosted the IOSCO Assessment Committee meeting where we discussed various thematic assessment programmes including reviews of the regulation of derivatives market intermediaries, periodic disclosures by issuers and collective investment schemes, money market funds and incentive alignment regimes for securitisation. The meeting was attended by over 30 participants representing 24 overseas regulators and other international bodies.

At the APRC webinar, an inaugural IOSCO training initiative held in November, we gave a presentation on the risk-based supervision of market intermediaries including brokers, fund managers and financial planners. More than 250 officials from 28 regulatory authorities attended.

### Financial Stability Board

In December, we attended a meeting in Singapore of the Standing Committee on Standards Implementation (SCSI) under the Financial Stability Board (FSB) to discuss the monitoring of the implementation of various financial reforms, such as initiatives relating to the over-the-counter derivatives market and shadow banking.

During the quarter, we coordinated with the Government of the Hong Kong Special Administrative Region (HKSAR), the Hong Kong Monetary Authority (HKMA) and the Office of the Commissioner of Insurance to finalise Hong Kong's response to the annual survey of the Implementation Monitoring Network (IMN) on the non-priority areas of the FSB financial reforms. The response was published on the FSB's website in November.

We continue to work with the HKMA to participate in the policy work of, and related surveys conducted by, the FSB Work Stream on other shadow banking entities.

### Mainland China

#### CEPA

A new agreement under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was signed between the HKSAR Government and the Ministry of Commerce of the People's Republic of China on 18 December. The agreement would liberalise the trade in services between Hong Kong and Guangdong Province<sup>1</sup> by adopting the approach of pre-establishment national treatment and a negative list.

The SFC participated in extensive discussions with Mainland authorities in formulating the new CEPA measures relating to the securities sector. Breakthroughs in CEPA XI include the relaxation of qualification requirements for Hong Kong shareholders to hold interests in Mainland-Hong Kong joint

<sup>1</sup> In 2011, Premier Li Keqiang announced the objective of basic liberalisation of trade in services between the Mainland and Hong Kong by the end of the National 12th Five-Year Plan (2011-2015) period. Guangdong Province served as a testing ground given its proximity to and close trade relationship with Hong Kong.

venture futures companies as well as other initiatives to facilitate Hong Kong financial institutions' access to the Mainland's capital markets.

## Shanghai-Hong Kong Stock Connect

To prepare for the November launch of Shanghai-Hong Kong Stock, we held discussions with Mainland authorities to resolve issues concerning the programme's implementation<sup>2</sup>.

## Other joint initiatives

In December, we launched a one-month consultation on proposed amendments to the Securities and Futures Ordinance which would enable the SFC to provide overseas regulators with supervisory assistance by means of making enquiries and obtaining records and documents from a licensed corporation or its related corporations. The proposed changes would allow more effective and comprehensive global supervision of regulated corporations which operate in multiple jurisdictions and, in certain cases, enable Hong Kong-regulated entities to access overseas markets.

In October, we hosted the 46th Memorandum of Regulatory Cooperation (MORC) meeting in Hong Kong. This is a platform for representatives from the SFC, the China Securities Regulatory Commission, Hong Kong Exchanges

and Clearing Limited, Shanghai Stock Exchange, Shenzhen Stock Exchange and the China Securities Depository and Clearing Corporation Limited to exchange views on cross-border regulatory cooperation initiatives and to further explore Hong Kong's role in Mainland market liberalisation and financial reforms.

In November, the SFC and the US Financial Industry Regulatory Authority (FINRA) co-hosted the 2014 FINRA Business Conduct Roundtable in Hong Kong. Representatives from 10 overseas regulators, the HKMA and the SFC exchanged views and shared best practices in six areas, including the development of a flexible regulatory approach to the oversight of intermediaries, cybersecurity, behavioural economics, qualifications and training, and intermediaries' business models, corporate culture and ethics.

In December, we hosted the sixth Memorandum of Understanding meeting with the Taiwan Financial Supervisory Commission in Hong Kong to discuss the supervision of secondary public offerings, financial reporting requirements for listed companies suspended from trading, the SFC's amendments to the professional investor regime, and Taiwan's newly established fund-raising platform<sup>3</sup> for small local companies.

<sup>2</sup> See the Market infrastructure and trading section for details.

<sup>3</sup> Go Incubation Board for Startup and Acceleration Firms.

## Stakeholder communication

We maintain close engagement with various stakeholder groups through multiple channels and platforms.

During the quarter, our senior executives spoke at more than 50 local and international conferences to share our regulatory approaches to various topical issues.



CEO Mr Ashley Alder, JP, speaks at the Hong Kong Securities and Investment Institute's Roundtable Luncheon in November

We launched two consultations and two consultation conclusions papers<sup>1</sup> during the quarter:

- joint consultation conclusions, along with a further consultation, on reporting and record-keeping obligations for over-the-counter derivatives transactions with the Hong Kong Monetary Authority in November;
- a consultation on providing supervisory assistance to overseas regulators in December; and
- consultation conclusions on proposals to allow greater flexibility for authorized funds in the dissemination of prices and net asset values in the same month.

We published a variety of industry-related publications in December:

- the findings of our second mystery shopping programme, which aimed to assess licensed corporations' compliance with selling practices requirements<sup>2</sup>;

- the *Survey on the Sale of Non-exchange Traded Investment Products* which provides an overview of the overall market structure and the types and value of investment products sold by licensed corporations<sup>2</sup>; and
- the December issue of *Takeovers Bulletin*, a quarterly newsletter highlighting key regulatory updates related to takeovers, mergers and share buy-backs.

We received various groups of visitors during the quarter. For instance, we shared our experience in the corporate regulation of listed companies and intermediaries supervision with delegates from the Nairobi Securities Exchange in October.

Upon the launch of Shanghai-Hong Kong Stock Connect<sup>3</sup> in November, a new section was added to the SFC website to facilitate public access to the latest updates and other relevant information about the programme.



A dedicated section about Shanghai-Hong Kong Stock Connect was added to the SFC website in November

The SFC's annual and quarterly reports provide in-depth accounts of our work. Our Annual Report 2013-14 received gold prizes in the Hong Kong Management Association's Best Annual Reports Awards and in the Hong Kong Institute of Certified Public Accountants' Best Corporate Governance Disclosure Awards.

<sup>1</sup> For details, refer to the relevant sections.

<sup>2</sup> See the Intermediaries section for details.

<sup>3</sup> See the Market infrastructure and trading section for details.

## Publications and other communications

	Quarter ended 31.12.2014	Nine months ended 31.12.2014	Nine months ended 31.12.2013	YoY change (%)
Press releases issued	32	105	94	11.7
Consultation papers issued	2	6	1	500
Consultation conclusions issued	2	6	1	500
Industry-related publications	3	11	10	10
Codes and guidelines issued	0	5	10	-50
Corporate website average daily page views <sup>1</sup>	42,563	44,422	42,115	5.5
General enquiries	1,250	4,427	3,734	18.6

<sup>1</sup> The average number of web pages browsed per day during the reporting period.

# Corporate Developments

The Financial Secretary of the Hong Kong Special Administrative Region re-appointed Dr Kelvin Wong Tin-yau and Professor Leonard Cheng Kwok-hon as Non-Executive Directors for two-year terms effective from 20 October 2014 and 1 January 2015, respectively.

As of 31 December, we had 784 staff members, up from 743 a year ago.

Our income for the quarter was \$341 million, comparable to that of the previous quarter and 14% higher than the same quarter last year. Average daily turnover in Hong

Kong's securities market during the quarter was \$84 billion, 15% higher than the previous quarter. Our levy income increased 3% to \$303 million from \$293 million last quarter. The securities market performed better, but the increase in our income was partially offset by the 10% reduction in the levy rate which took effect from 1 November. Expenditure for the quarter was \$360 million, 2% higher than the previous quarter. We recorded a deficit of \$19 million this quarter, compared to a deficit of \$6 million last quarter and \$38 million a year ago. As at 31 December, our reserves stood at \$7.2 billion.

## Finances

	Quarter ended 31.12.2014	Nine months ended 31.12.2014	Nine months ended 31.12.2013	YoY change (%)
Income (\$ million)	341	975	868	12
Expenses including depreciation (\$ million)	360	1,052	967	9

# Activity Data

Table 1 Breaches noted during on-site inspections

Nature of breaches	Quarter ended 31.12.2014	Nine months ended 31.12.2014	Nine months ended 31.12.2013 <sup>1</sup>	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	4	15	15	0
Failure to safekeep client securities	7	28	27	3.7
Failure to maintain proper books and records	7	15	7	114.3
Failure to safekeep client money	8	18	18	0
Unlicensed dealing and other registration issues	7	13	5	160
Breach of licensing condition	3	5	0	N/A
Breach of requirements of contract notes/statements of account/receipts	22	56	32	75
Failure to make filing/notification	0	3	2	50
Breach of margin requirements	0	2	4	-50
Marketing malpractices	0	1	1	0
Illegal short selling of securities	0	0	6	-100
Dealing malpractices	0	2	0	N/A
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission	66	159	162	-1.9
Breach of Corporate Finance Adviser Code of Conduct	3	7	25	-72
Breach of Fund Manager Code of Conduct	16	44	17	158.8
Breach of regulation of on-line trading	0	97	43	125.6
Non-compliance with anti-money laundering guidelines	24	78	51	52.9
Breach of other rules and regulations of the Exchanges <sup>2</sup>	2	2	9	-77.8
Internal control weaknesses	69	211	265	-20.4
Others	12	42	102	-58.8
<b>Total</b>	<b>250</b>	<b>798</b>	<b>791</b>	<b>0.9</b>

<sup>1</sup> Adjustments have been made for the period.

<sup>2</sup> Comprising The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited.



Table 2 Authorized unit trusts and mutual funds<sup>1</sup> - by type

	As at 31.12.2014	As at 31.3.2014	Change (%)	As at 31.12.2013	YoY change (%)
Bond	389	355	9.6	348	11.8
Equity	993	976	1.7	965	2.9
Diversified	104	91	14.3	85	22.4
Money market	47	46	2.2	46	2.2
Fund of funds	92	91	1.1	92	0
Index	145	140	3.6	138	5.1
Guaranteed	3	12	-75	12	-75
Hedge	3	3	0	3	0
Other specialised <sup>2</sup>	15	15	0	16	-6.3
<b>Sub-total</b>	<b>1,791</b>	<b>1,729</b>	<b>3.6</b>	<b>1,705</b>	<b>5</b>
Umbrella structures	218	206	5.8	203	7.4
<b>Total</b>	<b>2,009</b>	<b>1,935</b>	<b>3.8</b>	<b>1,908</b>	<b>5.3</b>

<sup>1</sup> Beginning with the financial year ended 31 March 2014, funds authorized as retail unit trusts and pooled investment funds for Mandatory Provident Fund (MPF) purposes (retail APIFs) have been included in the "Unit trusts and mutual funds" category instead of the "MPF pooled investment funds" category to better reflect the total number of retail unit trusts and mutual funds in Hong Kong.

<sup>2</sup> Includes futures and options funds, structured funds and funds that invest in financial derivative instruments.

Table 3 Authorized unit trusts and mutual funds<sup>1</sup> - by origin

	As at 31.12.2014	As at 31.3.2014	Change (%)	As at 31.12.2013	YoY change (%)
Hong Kong	573	469	22.2	459	24.8
Luxembourg	994	969	2.6	961	3.4
Ireland	279	284	-1.8	271	3
Guernsey	0	1	-100	1	-100
United Kingdom	52	52	0	52	0
Other Europe	0	0	0	0	0
Bermuda	5	6	-16.7	6	-16.7
British Virgin Islands	0	0	0	0	0
Cayman Islands	97	146	-33.6	150	-35.3
Others	9	8	12.5	8	12.5
<b>Total</b>	<b>2,009</b>	<b>1,935</b>	<b>3.8</b>	<b>1,908</b>	<b>5.3</b>

<sup>1</sup> Beginning with the financial year ended 31 March 2014, funds authorized as retail unit trusts and pooled investment funds for Mandatory Provident Fund (MPF) purposes (retail APIFs) have been included in the "Unit trusts and mutual funds" category instead of the "MPF pooled investment funds" category to better reflect the total number of retail unit trusts and mutual funds in Hong Kong.

Table 4 Unlisted structured investment products

	Quarter ended 31.12.2014	Nine months ended 31.12.2014	Nine months ended 31.12.2013	YoY change (%)
Unlisted structured investment products <sup>1</sup> authorized	20	80	92	-13
Authorizations granted under section 105 of the SFO <sup>2</sup>	15	69	82	-15.9

<sup>1</sup> Comprising mostly equity-linked investments and equity-linked deposits. The number is on a "one product per key facts statement" basis.

<sup>2</sup> Comprising offering documents and advertisements of unlisted structured investment products offered to the Hong Kong public.

Table 5 Takeovers activities

	Quarter ended 31.12.2014	Nine months ended 31.12.2014	Nine months ended 31.12.2013	YoY change (%)
<b>Codes on Takeovers and Mergers and Share Buy-backs</b>				
General and partial offers under the Code on Takeovers and Mergers	11	39	27	44.4
Privatisations	1	4	2	100
Whitewash waiver applications	9	23	28	-17.9
Other applications under the Code on Takeovers and Mergers	62	205	154	33.1
Off-market and general offer share buy-backs	2	3	2	50
Other applications under the Code on Share Buy-backs	2	6	3	100
<b>Total</b>	<b>87</b>	<b>280</b>	<b>216</b>	<b>29.6</b>
<b>Executives Statements</b>				
Sanctions imposed with parties' agreement <sup>1</sup>	0	0	0	0
<b>Takeovers and Mergers Panel</b>				
Meetings for review of the Codes on Takeovers and Mergers and Share Buy-backs	1	1	0	0
Hearings before the Panel (disciplinary and non-disciplinary)	1	3	0	0
Statements issued by the Panel <sup>2</sup>	0	2	0	0

<sup>1</sup> Pursuant to section 12.3 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

<sup>2</sup> Pursuant to section 16.1 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

## Activity Data

Table 6 Stock market<sup>1</sup>

	As at 31.12.2014	As at 31.3.2014	Change (%)	As at 31.12.2013	YoY change (%)
<b>Number of listed companies on the Stock Exchange</b>	<b>1,752</b>	1,666	5.2	1,643	6.6
Main Board	<b>1,548</b>	1,471	5.2	1,451	6.7
Growth Enterprise Market	<b>204</b>	195	4.6	192	6.3
<b>Market capitalisation (\$ billion)</b>	<b>25,071</b>	23,065	8.7	24,043	4.3
Main Board	<b>24,892</b>	22,892	8.7	23,909	4.1
Growth Enterprise Market	<b>179</b>	173	3.5	134	33.6
<b>Average daily market turnover (\$ million)<sup>2</sup></b>	<b>69,829</b>	60,789	14.9	58,798	18.8
Main Board	<b>69,283</b>	60,171	15.1	58,439	18.6
Growth Enterprise Market	<b>546</b>	618	-11.7	359	52.1

<sup>1</sup> Source: The Stock Exchange of Hong Kong Limited.

<sup>2</sup> Over a nine-month period.

Table 7 Public complaints<sup>1</sup>

	Quarter ended 31.12.2014	Nine months ended 31.12.2014	Nine months ended 31.12.2013	YoY change (%)
Conduct of licensees and registered institutions	<b>56</b>	209	251	-16.7
Listing-related matters and disclosure of interests	<b>120</b>	449	324	38.6
Market misconduct <sup>2</sup>	<b>61</b>	230	216	6.5
Products	<b>0</b>	1	11	-90.9
Other financial activities	<b>184</b>	494	437	13
Miscellaneous	<b>0</b>	0	2	-100
<b>Total</b>	<b>421</b>	1,383	1,241	11.4

<sup>1</sup> This table shows the number of complainants by subject.

<sup>2</sup> Includes market manipulation and insider dealing.

# Securities and Futures Commission

## Condensed consolidated statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2014  
(Expressed in Hong Kong dollars)

	Unaudited Nine months ended 31 December 2014 \$'000	Unaudited Nine months ended 31 December 2013 \$'000	Unaudited Three months ended 31 December 2014 \$'000	Unaudited Three months ended 31 December 2013 \$'000
<b>Income</b>				
Levies	827,556	738,095	302,946	251,461
Fees and charges	80,924	68,267	25,088	26,770
Investment income	56,697	56,901	9,761	20,366
Less: custody and advisory expenses	(1,189)	(1,586)	(570)	(441)
Investment income net of third party expenses	55,508	55,315	9,191	19,925
Recoveries from the Investor Compensation Fund	3,894	3,775	1,283	1,245
Other income	6,612	2,376	2,385	517
	<b>974,494</b>	<b>867,828</b>	<b>340,893</b>	<b>299,918</b>
<b>Expenses</b>				
Staff costs and directors' emoluments	8(b) 751,291	665,196	248,839	226,982
Premises				
Rent	142,083	133,881	50,514	44,770
Rates, management fees and others	27,787	26,863	9,265	8,629
Other expenses	91,033	104,388	37,370	43,504
Depreciation	39,315	36,394	14,250	14,253
	<b>1,051,509</b>	<b>966,722</b>	<b>360,238</b>	<b>338,138</b>
<b>Deficit and total comprehensive loss for the period</b>	<b>(77,015)</b>	<b>(98,894)</b>	<b>(19,345)</b>	<b>(38,220)</b>

The notes on pages 24 to 26 form part of the condensed consolidated financial statements.

## Condensed consolidated statement of financial position

At 31 December 2014

(Expressed in Hong Kong dollars)

	Note	Unaudited At 31 December 2014 \$'000	Audited At 31 March 2014 \$'000
<b>Non-current assets</b>			
Fixed assets		95,056	100,510
Held-to-maturity debt securities	2	732,918	1,119,967
		<b>827,974</b>	1,220,477
<b>Current assets</b>			
Held-to-maturity debt securities	2	815,320	1,792,313
Financial assets designated at fair value through profit or loss			
- Pooled fund		686,547	-
Debtors, deposits and prepayments		155,254	129,499
Fixed and call deposits with banks		4,979,883	4,313,927
Cash at bank and in hand		17,957	6,852
		<b>6,654,961</b>	6,242,591
<b>Current liabilities</b>			
Fees received in advance		7,106	8,543
Creditors and accrued charges		215,258	115,854
		<b>222,364</b>	124,397
<b>Net current assets</b>			
		<b>6,432,597</b>	6,118,194
<b>Total assets less current liabilities</b>			
		<b>7,260,571</b>	7,338,671
<b>Non-current liabilities</b>			
	4	20,610	21,695
<b>Net assets</b>			
		<b>7,239,961</b>	7,316,976
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>			
		42,840	42,840
<b>Accumulated surplus</b>			
		<b>7,197,121</b>	7,274,136
		<b>7,239,961</b>	7,316,976

The notes on pages 24 to 26 form part of the condensed consolidated financial statements.

## Condensed statement of financial position

At 31 December 2014

(Expressed in Hong Kong dollars)

	Note	Unaudited At 31 December 2014 \$'000	Audited At 31 March 2014 \$'000
<b>Non-current assets</b>			
Fixed assets		94,912	100,313
Held-to-maturity debt securities	2	732,918	1,119,967
		<b>827,830</b>	1,220,280
<b>Current assets</b>			
Held-to-maturity debt securities	2	815,320	1,792,313
Financial assets designated at fair value through profit or loss			
- Pooled fund		686,547	-
Debtors, deposits and prepayments		163,454	129,112
Fixed and call deposits with banks		4,979,883	4,313,927
Cash at bank and in hand		6,581	2,695
		<b>6,651,785</b>	6,238,047
<b>Current liabilities</b>			
Fees received in advance		7,106	8,543
Creditors and accrued charges		211,938	111,113
		<b>219,044</b>	119,656
<b>Net current assets</b>			
		<b>6,432,741</b>	6,118,391
<b>Total assets less current liabilities</b>			
		<b>7,260,571</b>	7,338,671
<b>Non-current liabilities</b>			
	4	20,610	21,695
<b>Net assets</b>			
		<b>7,239,961</b>	7,316,976
<b>Funding and reserves</b>			
<b>Initial funding by Government</b>			
		42,840	42,840
<b>Accumulated surplus</b>			
		<b>7,197,121</b>	7,274,136
		<b>7,239,961</b>	7,316,976

The notes on pages 24 to 26 form part of the condensed consolidated financial statements.

## Condensed consolidated statement of changes in equity

For the nine months ended 31 December 2014  
(Expressed in Hong Kong dollars)

	Unaudited Initial funding by Government \$'000	Unaudited Accumulated surplus \$'000	Unaudited Total \$'000
Balance at 1 April 2013	42,840	7,412,789	7,455,629
Total comprehensive loss for the period	-	(98,894)	(98,894)
Balance at 31 December 2013	42,840	7,313,895	7,356,735
Balance at 1 April 2014	42,840	7,274,136	7,316,976
Total comprehensive loss for the period	-	(77,015)	(77,015)
Balance at 31 December 2014	42,840	7,197,121	7,239,961

The notes on pages 24 to 26 form part of the condensed consolidated financial statements.

## Condensed consolidated statement of cash flows

For the nine months ended 31 December 2014  
(Expressed in Hong Kong dollars)

Note	Unaudited Nine months ended 31 December 2014 \$'000	Unaudited Nine months ended 31 December 2013 \$'000
<b>Cash flows from operating activities</b>		
Deficit for the period	(77,015)	(98,894)
Adjustments for :		
Depreciation	39,315	36,394
Investment income	(56,697)	(56,901)
Exchange difference	12,178	5,081
(Gain)/loss on disposal of fixed assets	(1)	6
	(82,220)	(114,314)
(Increase)/decrease in debtors, deposits and prepayments	(27,841)	9,164
Increase in creditors and accrued charges	99,404	68,612
Decrease in fees received in advance	(1,437)	(1,518)
Decrease in non-current liabilities	(1,085)	(766)
<i>Net cash used in operating activities</i>	<i>(13,179)</i>	<i>(38,822)</i>
<b>Cash flows from investing activities</b>		
Increase in fixed deposits other than cash and cash equivalents	(3,263,148)	(49,832)
Interest received	71,227	90,736
Equity securities purchased	(697,956)	-
Held-to-maturity debt securities redeemed	1,350,829	2,172,916
Fixed assets bought	(33,861)	(28,236)
Fixed assets disposed	1	(3)
<i>Net cash (used in)/generated from investing activities</i>	<i>(2,572,908)</i>	<i>2,185,581</i>
Net (decrease)/increase in cash and cash equivalents	(2,586,087)	2,146,759
Cash and cash equivalents at beginning of the nine-month period	4,270,947	1,605,117
<b>Cash and cash equivalents at end of the nine-month period</b>	<b>1,684,860</b>	<b>3,751,876</b>

### Analysis of the balance of cash and cash equivalents

	Unaudited At 31 December 2014 \$'000	Unaudited At 31 December 2013 \$'000
Fixed and call deposits with banks	1,666,903	3,743,105
Cash at bank and in hand	17,957	8,771
	1,684,860	3,751,876



## Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2014  
(Expressed in Hong Kong dollars)

### 1. Basis of preparation

We have prepared the interim financial report in accordance with International Accounting Standard (IAS) 34 *Interim financial reporting* adopted by the International Accounting Standards Board.

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2014 included in this report does not constitute the SFC's statutory accounts for that financial year but is derived from those financial statements.

We consolidated the financial results of the Investor Compensation Company Limited (ICC) and Investor Education Centre (IEC) in the SFC's condensed financial statements made up to 31 December 2014. We eliminated all material intragroup balances and transactions in preparing the condensed consolidated financial statements. We have applied the same accounting policies adopted in the consolidated financial statements for the year ended 31 March 2014 to this interim financial report.

During the period, we invested in equity pooled funds which have been classified as financial assets designated at fair value through profit or loss in accordance with IAS 39 *Financial instruments: recognition and measurement*.

There were no significant changes in the operation of the SFC for the nine months ended 31 December 2014.

### 2. Held-to-maturity debt securities

As of 31 December 2014, the total market value of held-to-maturity debt securities amounted to \$1,557,519,000 (31 March 2014: \$2,934,007,000), which was above the total carrying cost of \$1,548,238,000 (31 March 2014: \$2,912,280,000).

### 3. Cash and cash equivalents

Reconciliation with the condensed consolidated statement of financial position

	Unaudited At 31 December 2014 \$'000	Audited At 31 March 2014 \$'000
Cash at bank and in hand	17,957	6,852
Fixed and call deposits with banks	4,979,883	4,313,927
Amounts shown in the condensed consolidated statement of financial position	4,997,840	4,320,779
Less : Amounts with an original maturity of beyond three months	(3,312,980)	(49,832)
Cash and cash equivalents in the condensed consolidated statement of cash flows	1,684,860	4,270,947

### 4. Non-current liabilities

Non-current liabilities represent deferred lease incentives and provision for premises reinstatement cost. Deferred lease incentives consist of incentives granted by our landlord in connection with the lease of our office premises. We recognise the deferred lease incentives in our condensed consolidated statement of comprehensive income on a straight line basis over the lease period ranging from 2015 to 2017 as an integral part of rental expense.

## Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2014  
(Expressed in Hong Kong dollars)

### 5. Ageing analysis of debtors and creditors

There was no material overdue debtor balance and creditor balance included in “debtors, deposits and prepayments” and “creditors and accrued charges” respectively as at 31 December 2014. Therefore we do not provide an ageing analysis of debtors and creditors.

### 6. Exchange fluctuation

The SFC’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, we do not consider we are exposed to significant exchange rate risk at the end of the reporting period.

### 7. Investment in subsidiaries

The SFC formed FinNet Limited (FinNet) on 6 November 2000 with an issued share capital of \$2 and the 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. All of the three companies are wholly owned subsidiaries of the SFC and are incorporated in Hong Kong.

The objective of FinNet is to operate an electronic network to facilitate payment and delivery transactions and interconnection of all financial institutions and financial entities in Hong Kong. FinNet has not commenced business since incorporation and was deregistered on 25 July 2014.

The objective of the ICC is to facilitate the administration and management of the Investor Compensation Fund established under the Securities and Futures Ordinance (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 December 2014, the investment in subsidiaries, which is stated at cost less any impairment losses, amounted to \$0.2 (at 31 March 2014: \$2.2). The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

The financial statements of the ICC and IEC are included in the condensed consolidated financial statements.

### 8. Related party transactions

We have related party relationships with the Unified Exchange Compensation Fund, the Investor Compensation Fund, the Securities Ordinance (Chapter 333) - Dealers’ Deposits Fund, the Commodities Trading Ordinance (Chapter 250) - Dealers’ Deposits Fund and the Securities Ordinance (Chapter 333) - Securities Margin Financiers’ Security Fund. In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions:

- a) During the period, we received reimbursement from the Investor Compensation Fund for all the ICC’s expenses amounting to \$3,894,000 (2013: \$3,775,000), which is in accordance with section 242(1) of the SFO.

## Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2014  
(Expressed in Hong Kong dollars)

- b) Remuneration for key management personnel comprised:

	<b>Unaudited Nine months ended 31 December 2014 \$'000</b>	Unaudited Nine months ended 31 December 2013 \$'000
Directors' fees and salaries, allowances and benefits in kind	<b>24,440</b>	23,260
Retirement scheme contributions	<b>2,235</b>	2,102
	<b>26,675</b>	25,362

The total remuneration is included in "staff costs and directors' emoluments" on page 19. Discretionary pay is not included above as the decision to pay is subject to the approval process towards the end of the financial year and therefore is not determined until then.

- c) Included in creditors and accrued charges is an amount due to Investor Compensation Fund amounting to \$303,000 (31 March 2014: \$304,000).
- d) Legal services provided by a non-executive director

During the period, a Non-Executive Director (NED) continued to provide legal services in respect of matters commenced prior to his appointment. The NED has resigned with effect from 1 August 2014. During the period, fees payable to him up to the date of his resignation for the legal service provided amounted to \$30,000 (2013: \$445,000) under normal commercial terms and conditions.

### 9. Commitment to pay rents for offices

At 31 December 2014 the minimum amount we are committed to pay in rent for our offices up to 31 August 2017, being the rent review date as set out in the lease agreement, are as follows:

	<b>Unaudited At 31 December 2014 \$'000</b>	Audited At 31 March 2014 \$'000
Payable next year	<b>208,125</b>	185,453
Payable in one to five years	<b>346,087</b>	447,334
Payable in more than five years	-	-
	<b>554,212</b>	632,787

During the period, \$142,083,000 net of lease incentives, was recognised as an expense in the condensed consolidated statement of comprehensive income in respect of operating leases (2013: \$133,881,000).

# Investor Compensation Fund

## Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their quarterly report and the unaudited condensed financial statements for the nine months ended 31 December 2014.

### 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 results

The deficit of the Fund for the reporting period ended 31 December 2014 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 28 to 32.

### Members of the Committee

The members of the Committee during the nine months ended 31 December 2014 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Mrs Alexa Lam, JP	
Mr Chow Ka Ming, Anderson, SC	(resigned with effect from 1 August 2014)
Mr Chan Ping Keung	(appointed on 1 April 2014 and resigned with effect from 29 August 2014)
Ms Teresa Ko Yuk-yin, JP	(appointed on 29 August 2014)
Mr Lee Kwok Keung	(appointed on 29 August 2014)

### Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member had a material interest, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the nine months.

On behalf of the Committee

#### Keith Lui

Chairman

16 February 2015

## Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2014  
(Expressed in Hong Kong dollars)

		<b>Unaudited Nine months ended 31 December 2014 \$'000</b>	Unaudited Nine months ended 31 December 2013 \$'000	Unaudited Three months ended 31 December 2014 \$'000	Unaudited Three months ended 31 December 2013 \$'000
<b>Income</b>					
Net investment income/(loss)		37,760	(9,071)	6,783	8,939
Exchange difference		(346)	(1,563)	(1,943)	(236)
		<b>37,414</b>	<b>(10,634)</b>	<b>4,840</b>	<b>8,703</b>
<b>Expenses</b>					
Investor Compensation Company Limited expenses	2	3,893	3,775	1,282	1,245
Compensation expenses	3	34,998	-	34,800	-
Auditor's remuneration		89	85	30	29
Bank charges		675	636	237	226
Professional fees		2,896	2,769	954	903
		<b>42,551</b>	<b>7,265</b>	<b>37,303</b>	<b>2,403</b>
<b>(Deficit)/surplus and total comprehensive (loss)/ income for the period</b>		<b>(5,137)</b>	<b>(17,899)</b>	<b>(32,463)</b>	<b>6,300</b>

The notes on page 32 form part of the condensed financial statements.

## Condensed statement of financial position

At 31 December 2014

(Expressed in Hong Kong dollars)

	Note	Unaudited At 31 December 2014 \$'000	Audited At 31 March 2014 \$'000
<b>Current assets</b>			
Financial assets designated at fair value through profit or loss			
- Debt securities		1,922,715	1,680,755
- Pooled fund		293,886	284,131
Interest receivable		11,667	13,705
Due from Investor Compensation Company Limited		303	304
Fixed deposits with banks		2,058	180,533
Cash at bank		1,656	43,126
		<b>2,232,285</b>	<b>2,202,554</b>
<b>Current liabilities</b>			
Provision for compensation	3	34,950	150
Creditors and accrued charges		1,426	1,358
		<b>36,376</b>	<b>1,508</b>
<b>Net current assets</b>		<b>2,195,909</b>	<b>2,201,046</b>
<b>Net assets</b>		<b>2,195,909</b>	<b>2,201,046</b>
Representing:			
<b>Compensation fund</b>			
Contributions from Unified Exchange Compensation Fund		994,718	994,718
Contributions from Commodity Exchange Compensation Fund		108,923	108,923
Accumulated surplus		1,092,268	1,097,405
		<b>2,195,909</b>	<b>2,201,046</b>

The notes on page 32 form part of the condensed financial statements.

## Condensed statement of changes in equity

For the nine months ended 31 December 2014

(Expressed in Hong Kong dollars)

	Unaudited Contributions from Unified Exchange Compensation Fund \$'000	Unaudited Contributions from Commodity Exchange Compensation Fund \$'000	Unaudited Accumulated surplus \$'000	Unaudited Total \$'000
Balance at 1 April 2013	994,718	108,923	1,089,469	2,193,110
Total comprehensive loss for the period	-	-	(17,899)	(17,899)
Balance at 31 December 2013	994,718	108,923	1,071,570	2,175,211
Balance at 1 April 2014	994,718	108,923	1,097,405	2,201,046
Total comprehensive loss for the period	-	-	(5,137)	(5,137)
Balance at 31 December 2014	994,718	108,923	1,092,268	2,195,909

The notes on page 32 form part of the condensed financial statements.

## Condensed statement of cash flows

For the nine months ended 31 December 2014  
(Expressed in Hong Kong dollars)

	Unaudited Nine months ended 31 December 2014 \$'000	Unaudited Nine months ended 31 December 2013 \$'000
<b>Cash flows from operating activities</b>		
Deficit for the period	(5,137)	(17,899)
Net investment (income)/loss	(37,760)	9,071
Exchange loss	346	1,563
Decrease/(increase) in amount due from Investor Compensation Company Limited	1	(169)
Increase in provision for compensation	34,800	-
Increase/(decrease) in creditors and accrued charges	68	(295)
Net cash used in operating activities	(7,682)	(7,729)
<b>Cash flows from investing activities</b>		
Purchase of debt securities	(670,456)	(582,781)
Sale or maturity of debt securities	421,192	419,018
Sale of equity securities	1,096	1,340
Interest received	35,905	35,079
Net cash used in investing activities	(212,263)	(127,344)
Net decrease in cash and cash equivalents	(219,945)	(135,073)
Cash and cash equivalents at beginning of the nine-month period	223,659	185,655
<b>Cash and cash equivalents at end of the nine-month period</b>	<b>3,714</b>	<b>50,582</b>

## Analysis of the balance of cash and cash equivalents

	Unaudited At 31 December 2014 \$'000	Unaudited At 31 December 2013 \$'000
Fixed deposits with banks	2,058	7,275
Cash at bank	1,656	43,307
	<b>3,714</b>	<b>50,582</b>



## Notes to the condensed financial statements

For the nine months ended 31 December 2014  
(Expressed in Hong Kong dollars)

### 1. Basis of preparation

The Fund has prepared the interim financial report in accordance with International Accounting Standard 34 *Interim financial reporting* adopted by the International Accounting Standards Board.

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2014 included in this report does not constitute the Fund's statutory accounts for that financial year but is derived from those accounts.

We have applied the same accounting policies adopted in the financial statements for the year ended 31 March 2014 to this interim financial report.

There were no significant changes in the operations of the Fund for the nine months ended 31 December 2014.

### 2. Investor Compensation Company Limited expenses

The SFC formed the Investor Compensation Company Limited (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 Securities and Futures Ordinance (SFO). The Fund is responsible for funding the establishment and operation of ICC. For the nine months ended 31 December 2014, ICC incurred \$3,893,000 for its operations (for the nine months ended 31 December 2013: \$3,775,000).

### 3. Provision for compensation

	\$'000
Balance as at 1 April 2013 and as at 31 March 2014	150
Add: provision made during the nine months ended 31 December 2014	35,148
Less: provision reversed during the nine months ended 31 December 2014	(150)
Less: compensation paid during the nine months ended 31 December 2014	(198)
Balance as at 31 December 2014	34,950

We maintained provision for liabilities arising from claims received resulting from two default cases. The maximum liability of the Fund to each claim for these cases is set at the lower of \$150,000 per claimant or the amount claimed. The provision for potential compensation at 31 December 2014 was \$34,950,000 (31 March 2014: \$150,000). As at 31 December 2014 all provisions were expected to be paid within one year.

### 4. Material related party transactions

The Fund has related party relationships with the SFC, the ICC and the Unified Exchange Compensation Fund. During the nine months, there were no significant related party transactions other than those disclosed in the audited financial statements for the year ended 31 March 2014.

### 5. Contingent liabilities

As at the date of this report, in addition to the provision made, as described in note 3, there are other claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability in respect of these claims is \$1,951,000 (31 March 2014: \$2,208,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

# Unified Exchange Compensation Fund

## Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their quarterly report and the unaudited condensed financial statements for the nine months ended 31 December 2014.

### 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 on 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 December 2014, the Fund has transferred \$994,718,000 to the ICF. After settlement of all claims against the Fund and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund to the ICF.

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

### Financial results

The surplus of the Fund for the reporting period ended 31 December 2014 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 34 to 39.

### Members of the Committee

The members of the Committee during the nine months ended 31 December 2014 and up to the date of this report were:

Mr Keith Lui	(Chairman)
Mrs Alexa Lam, JP	
Mr Chow Ka Ming, Anderson, SC	(resigned with effect from 1 August 2014)
Mr Chan Ping Keung	(appointed on 1 April 2014 and resigned with effect from 29 August 2014)
Ms Mak Po Shuen	(appointed on 1 April 2014)
Ms Teresa Ko Yuk-yin, JP	(appointed on 29 August 2014)
Mr Lee Kwok Keung	(appointed on 29 August 2014)

### Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member had a material interest, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the nine months.

On behalf of the Committee

**Keith Lui**  
Chairman

11 February 2015

## Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2014  
(Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended 31 December 2014 \$'000	Unaudited Nine months ended 31 December 2013 \$'000	Unaudited Three months ended 31 December 2014 \$'000	Unaudited Three months ended 31 December 2013 \$'000
<b>Income</b>					
Interest income		470	330	157	139
Recoveries	2	7,203	-	7,203	-
		7,673	330	7,360	139
<b>Expenses</b>					
Auditor's remuneration		37	34	12	11
Professional fees		17	16	-	-
Sundry expenses		-	-	(1)	-
		54	50	11	11
<b>Surplus and total comprehensive income for the period</b>		<b>7,619</b>	280	7,349	128

The notes on pages 38 to 39 form part of the condensed financial statements.

## Condensed statement of financial position

At 31 December 2014

(Expressed in Hong Kong dollars)

	Note	Unaudited At 31 December 2014 \$'000	Audited At 31 March 2014 \$'000
<b>Current assets</b>			
Equity securities received under subrogation	2	1	1
Interest receivable		76	58
Fixed and call deposits with banks		81,903	74,562
Cash at bank		141	24
		<b>82,121</b>	74,645
<b>Current liabilities</b>			
Relinquished trading rights payable to SEHK	4	1,750	1,450
Creditors and accrued charges		10,308	10,301
		<b>12,058</b>	11,751
<b>Net current assets</b>		<b>70,063</b>	62,894
<b>Net assets</b>		<b>70,063</b>	62,894
Representing:			
<b>Compensation fund</b>			
Contributions from SEHK		48,300	48,750
Excess transaction levy from SEHK		353,787	353,787
Special contribution		3,500	3,500
Additional contribution from SEHK		300,000	300,000
Additional contribution from the SFC		330,000	330,000
Special levy surplus		3,002	3,002
Accumulated surplus		26,192	18,573
		<b>1,064,781</b>	1,057,612
Contributions to Investor Compensation Fund		<b>(994,718)</b>	(994,718)
		<b>70,063</b>	62,894

The notes on pages 38 to 39 form part of the condensed financial statements.

## Condensed statement of changes in equity

For the nine months ended 31 December 2014  
(Expressed in Hong Kong dollars)

	<b>Unaudited Nine months ended 31 December 2014 \$'000</b>	Unaudited Nine months ended 31 December 2013 \$'000
Compensation fund balance as at 1 April	62,894	64,143
Net contributions to SEHK	(450)	(1,500)
Total comprehensive income for the period	7,619	278
Compensation fund balance as at 31 December	<b>70,063</b>	62,921

The notes on pages 38 to 39 form part of the condensed financial statements.

## Condensed statement of cash flows

For the nine months ended 31 December 2014  
(Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended 31 December 2014 \$'000	Unaudited Nine months ended 31 December 2013 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the period		7,619	278
Interest income		(470)	(330)
Increase in relinquished trading rights payable to SEHK		300	1,950
Increase in creditors and accrued charges		7	6
Net cash generated from operating activities		7,456	1,904
<b>Cash flows from investing activities</b>			
Increase in fixed deposits other than cash and cash equivalents		(33,296)	-
Interest received		452	325
Net cash (used in)/generated from investing activities		(32,844)	325
<b>Cash flows from financing activities</b>			
Net contributions to SEHK		(450)	(1,500)
Net cash used in financing activities		(450)	(1,500)
Net (decrease)/increase in cash and cash equivalents		(25,838)	729
Cash and cash equivalents at beginning of the nine-month period		74,586	74,395
<b>Cash and cash equivalents at end of the nine-month period</b>	3	<b>48,748</b>	<b>75,124</b>

## Analysis of the balance of cash and cash equivalents

	Note	Unaudited At 31 December 2014 \$'000	Unaudited At 31 December 2013 \$'000
Fixed and call deposits with banks		48,607	74,993
Cash at bank		141	131
	3	<b>48,748</b>	<b>75,124</b>

## Notes to the condensed financial statements

For the nine months ended 31 December 2014  
(Expressed in Hong Kong dollars)

### 1. Basis of preparation

The Fund has prepared the interim financial report in accordance with International Accounting Standard (IAS) 34 *Interim financial reporting* adopted by the International Accounting Standards Board. As the Fund will eventually cease operation as a result of the SFO which came into effect from 1 April 2003, the Fund has prepared the interim financial report on a break-up basis with assets stated at recoverable amounts. 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.

The interim financial report is unaudited and the financial information relating to the financial year ended 31 March 2014 included in this report does not constitute the Fund's statutory accounts for that financial year but is derived from those accounts.

We applied the same accounting policies adopted in the financial statements for the year ended 31 March 2014 to this interim financial report.

There were no significant changes in the operations of the Fund for the nine months ended 31 December 2014.

### 2. Equity securities received under subrogation

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators had advised the SFC that shares were allocated to the Fund under its subrogation rights, subject to paying a processing fee to the liquidators. The Fund recognised as recoveries the sale proceeds and the remaining shares at market value as of 31 December 2014 after deducting relevant processing fees and charges for collecting and selling the securities received.

The shares allocated to the Fund under its subrogation rights are classified as designated at fair value through profit and loss securities in accordance with the determination in IAS 39, *Financial Instruments: Recognition and Measurement*. According to International Financial Reporting Standards (IFRSs) 7, *Financial Instruments: Disclosures*, one of these subrogated shares shall be classified as level 3 financial instruments as its fair value was determined using a valuation technique in which any significant input is not based on observable market data. The remaining subrogated shares shall be classified as level 1 financial instruments as they all have quoted market price (unadjusted) in an active market for an identical instrument. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in "Recoveries". Dividend income, if any, is also recognised in "Recoveries".

### 3. Cash and cash equivalents

Reconciliation with the condensed statement of financial position

	Unaudited At 31 December 2014 \$'000	Audited At 31 March 2014 \$'000
Cash at bank	141	24
Fixed and call deposits with banks	81,903	74,562
Amounts shown in the condensed statement of financial position	82,044	74,586
Less : Amounts with an original maturity of beyond three months	(33,296)	-
Cash and cash equivalents in the condensed statement of cash flows	48,748	74,586

## Notes to the condensed financial statements

For the nine months ended 31 December 2014  
(Expressed in Hong Kong dollars)

### 4. Contributions from SEHK

During the nine months, deposits of \$350,000 in respect of seven new trading rights were received from SEHK and deposits of \$500,000 in respect of 10 relinquished trading rights were refunded to SEHK. As at 31 December 2014, there were 35 trading rights in total that had been relinquished but not yet refunded.

### 5. Material related party transactions

The Fund has related party relationships with the Investor Compensation Fund and the SFC. During the nine months, there were no significant related party transactions other than those disclosed in the financial statements for the year ended 31 March 2014.

### 6. 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 2) will be re-distributed to claimants. As the timing of re-distribution and amount of these potential excess amounts are uncertain at the date of this report, we disclose this as a contingent liability.



## Securities and Futures Commission

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