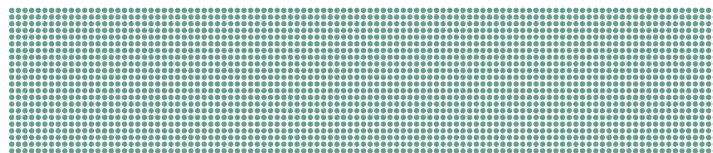
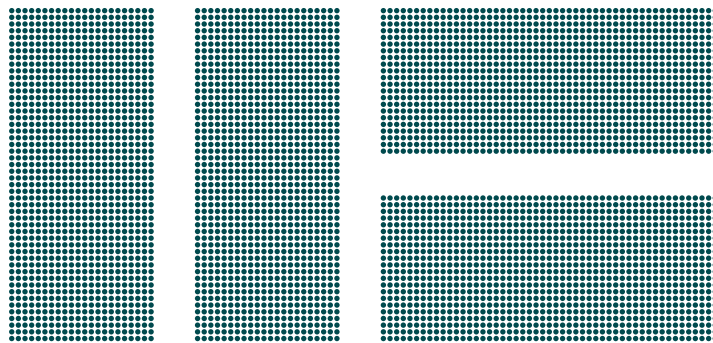
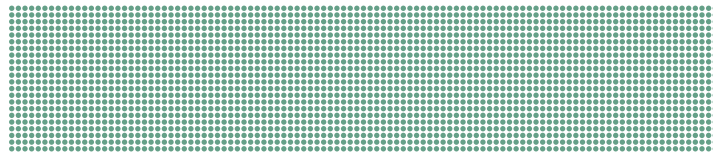




SECURITIES AND
FUTURES COMMISSION
證券及期貨事務監察委員會



Regulation for Quality Markets

Quarterly Report
April - June 2016

This first Quarterly Report of the Securities and Futures Commission for financial year 2016-17 covers the period from 1 April to 30 June 2016.

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Highlights

Regulatory enhancements

- **Listing regulatory structure:** Jointly with Hong Kong Exchanges and Clearing Limited (HKEX), we launched a public consultation on proposed enhancements to The Stock Exchange of Hong Kong Limited's (SEHK) decision-making and governance structure for listing regulation.
- **Fund authorization:** The revamped fund authorization process and the six-month application lapse policy for new mandatory provident fund and pooled retirement fund products were formally adopted with effect from 9 May.
- **Liquidity risk management:** We issued a circular to set out various regulatory principles and good practices for effective liquidity risk management of funds.
- **Open-ended fund companies:** Legislation to introduce a legal and regulatory framework for open-ended fund companies was gazetted.

Listings and takeovers

- **Listing applications:** Under the dual filing regime, we vetted 71 listing applications alongside SEHK during the quarter, up 14.5% year-on-year, a record high since the regime commenced in 2003.
- **Takeovers matters:** The Takeovers and Mergers Panel ruled that the Alibaba Group breached the Takeovers Code special deal requirements. In addition, the Takeovers Executive issued two sanctions for various Code breaches.

Intermediaries

- **Licensees and registrants:** As of 30 June, the total number of licensed corporations, individuals and registered institutions reached a record high of 41,892.
- **Brokers supervision:** In light of market volatility spurred by concerns over the UK leaving the European Union in late June, we closely monitored the financial position of brokers and performed stress tests to ascertain their resilience to market volatility.

Market development

- **New products:** We authorized various new investment products during the quarter, including three crude oil futures exchange-traded funds and four leveraged and inverse products.
- **Pre-trade risk management:** We approved HKEX's proposed rule amendments for introducing a pre-trade risk management system for its derivatives market.

Enforcement

- **Disciplinary actions:** We disciplined five corporations and three licensed representatives, resulting in total fines of \$10.5 million.
- **Market surveillance:** We made 2,205 requests for trading and account records from intermediaries following our surveillance of untoward price and turnover movements.

Global engagement

- **IOSCO Chairmanship:** Our Chief Executive Officer (CEO) Mr Ashley Alder was appointed as Chairman of the Board of the International Organization of Securities Commissions (IOSCO).
- **Mainland affairs:** Our Chairman Mr Carlson Tong and CEO Mr Ashley Alder met with a Vice Premier of the State Council to exchange views on connectivity between the Hong Kong and Mainland capital markets, and the interaction between China and IOSCO.
- **Takeovers conference:** We hosted the fourth Asia Pacific Takeovers Regulators Conference to discuss regulatory updates with representatives from different jurisdictions across the region.

Intermediaries

Licence applications

We received 1,816 licence applications¹ this quarter, similar to the volume in the previous quarter. In the three months to 30 June, the total number of licensees and registrants reached 41,892, a record high since the implementation of the Securities and Futures Ordinance on 1 April 2003.

Monitoring

During the quarter, we continued to conduct risk-based on-site inspections of licensed corporations to review their compliance with relevant regulatory requirements.

In light of market volatility spurred by “Brexit”² concerns in late June, we closely monitored the financial position of brokers in Hong Kong and performed stress tests to ascertain their resilience to market volatility. We also monitored intermediaries with major businesses in the UK to assess the potential impact of “Brexit” on their financial position and operations.

Promoting compliance

During the quarter, we issued four advisory circulars to enhance the industry’s awareness of the latest developments in anti-money laundering (AML) and counter-terrorist financing (CTF).

Licensees and registrants

	As at 30.6.2016	As at 31.3.2016	Change (%)	As at 30.6.2015	YoY change (%)
Licensed corporations	2,255	2,208	2.1	2,093	7.7
Registered institutions	119	119	0	116	2.6
Licensed individuals	39,518	39,207	0.8	38,112	3.7
Total	41,892	41,534	0.9	40,321	3.9

As part of our ongoing effort to promote compliance with AML and CTF requirements, we gave a presentation to more than 300 members of an industry association on 30 May.

Financial resolution regime

The Financial Institutions (Resolution) Ordinance, which establishes a regime in Hong Kong for the orderly resolution of financial institutions, was passed by the Legislative Council (LegCo) on 22 June and gazetted on 30 June. It will commence operation on a date to be appointed by the Secretary for Financial Services and the Treasury after LegCo passes subsidiary legislation.

Survey on OTC derivatives activities

On 17 June, we launched a survey to collect information from intermediaries and their affiliated corporations on over-the-counter (OTC) derivatives activities. The survey aims to facilitate a smooth transition to a regulated OTC derivatives market in Hong Kong³ and to help us better understand firms that are likely to be affected by the new regime.

¹ The figure does not include applications for the provisional licences. See the table on licensing applications on page 4 for details.

² The UK’s 23 June European Union (EU) membership referendum resulted in a vote to leave the EU.

³ Provided for under the Securities and Futures (Amendment) Ordinance 2014.

Intermediaries

Licensing applications

	Quarter ended 30.6.2016	Quarter ended 31.3.2016	Change (%)	Quarter ended 30.6.2015	YoY change (%)
Applications to conduct new regulated activity	4,981	5,009	-0.6	5,050	-1.4
Applications for SFC licences [#]	1,816	1,833	-0.9	1,805	0.6

[#] Figures do not include applications for provisional licences. During the quarter, we received 923 provisional licence applications compared with 964 in the same quarter last year.

Intermediary inspection

	Quarter ended 30.6.2016	Quarter ended 31.3.2016	Change (%)	Quarter ended 30.6.2015	YoY change (%)
Risk-based on-site inspections conducted	71	80	-11.3	69	2.9

Investment products

Revamped fund authorization process

After a six-month pilot period, the revamped fund authorization process and the six-month application lapse policy for new mandatory provident fund and pooled retirement fund products seeking SFC's authorization were formally adopted with effect from 9 May 2016. The two initiatives were launched to make the authorization process more streamlined, efficient and focused on key risks without compromising investor protection.

New investment products

During the quarter, we authorized various new investment products for listing in Hong Kong.

- The first crude oil futures exchange-traded fund (ETF) was listed on 29 April. As of the end of the quarter, three crude oil futures ETFs were authorized.
- The first German UCITS¹ ETFs were cross listed in Hong Kong on 18 May.
- The first batch of four leveraged and inverse products was listed on 13 June.
- The first six ETFs with US dollar, Hong Kong dollar and renminbi trading counters were listed on 29 June.

Authorized collective investment schemes (CIS)^a

	As at 30.6.2016	As at 31.3.2016	Change (%)	As at 30.6.2015	YoY change (%)
Unit trusts and mutual funds	2,173	2,133	1.9	2,063	5.3
Investment-linked assurance schemes	300	301	-0.3	294	2
Pooled retirement funds	34	34	0	35	-2.9
MPF schemes	37	37	0	37	0
MPF pooled investment funds	173	173	0	171	1.2
Others ^b	26	26	0	26	0
Total	2,743	2,704	1.4	2,626	4.5

^a Excluding unlisted structured investment products.

^b Comprising 15 paper gold schemes and 11 real estate investment trusts as of 30 June 2016.

¹ Undertakings for collective investment in transferable securities.

² Renminbi Qualified Foreign Institutional Investor.

³ RQFII/Stock Connect unlisted funds and ETFs are renminbi-denominated funds which primarily invest in Mainland securities markets through either the RQFII quota, Stock Connect or both.

Renminbi products

The total number of SFC-authorized RQFII²/Stock Connect unlisted funds and ETFs³ was 69 and 25, respectively, as of 30 June 2016.

Mainland-Hong Kong Mutual Recognition of Funds

As of the end of June, we authorized a total of 37 Mainland funds (including one umbrella fund) under the Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme, whereas the China Securities Regulatory Commission approved six Hong Kong funds. In June, we revised the frequently-asked questions to clarify the eligibility of Mainland ETF feeder funds under MRF and updated illustrative examples for risk disclosures.

Liquidity risk management

In view of expected changes in monetary policy and recent market conditions, we issued a circular on 4 July which set out various regulatory principles and good practices to assist fund managers of SFC-authorized funds to ensure effective liquidity risk management.

Open-ended fund companies

The relevant legislation to introduce a legal and regulatory framework for open-ended fund companies (OFCs) was gazetted on 10 June. We will continue to assist the Government's preparations for the new regulatory framework including public consultation on the draft subsidiary legislation and the draft OFC Code.

Investment products

CIS with interests in real property

In view of recent market trends, we issued a set of questions and answers in June to alert the real estate industry and raise public awareness about when arrangements involving interests in real property may be a CIS and hence subject to regulation under the Securities and Futures Ordinance (SFO). We also worked with the Investor Education Centre to issue educational materials reminding investors to beware of the risks related to investment in overseas property.

Suitability, platforms and advice

We are currently reviewing the suitability requirement, including how it should be implemented across different business models such as exchange and online

fund distribution platforms and robo-advice, as well as in the more traditional broker channel. Additional guidance to clarify our expectations on the suitability requirement will be provided to the industry as appropriate.

Asset management review

We are conducting a holistic review of how the regulation of the asset management industry, including regulations governing the conduct of asset managers and intermediaries, could be enhanced. The review covers commissions and independent advice, securities lending and repurchase agreements, safe custody of fund assets and liquidity management, among other topics.

Unlisted structured investment products

	Quarter ended 30.6.2016	Quarter ended 31.3.2016	Change (%)	Quarter ended 30.6.2015	YoY change (%)
Unlisted structured investment products ^a	7	11	-36.4	7	0
Authorizations granted under section 105 of the SFO ^b	14	20	-30	15	-6.7

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

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

Listings and takeovers

Listings regulatory structure

On 17 June 2016, we published 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. Under the proposals, the Listing Committee, together with the Listing Department, will continue to decide a large majority of initial listing applications and post-listing matters. Two new SEHK committees, on which the SFC and SEHK are equally represented, will be established to decide listing policy and policy-related listing matters with advice from the Listing Committee.

The proposals aim to:

- achieve closer coordination and cooperation between the SFC and SEHK on policy formulation and to provide the SFC with earlier and more direct input on listing policy and listing regulation;
- streamline the process for important or difficult listing decisions;
- simplify the process for a large majority of initial listing applications; and
- establish clearer accountability for decision-making within SEHK and enhance oversight of the administration of the Listing Rules.

The powers and functions of the SFC and SEHK in relation to listing matters would remain unchanged. The consultation ends on 19 September.



SFC Executive Director of Corporate Finance Mr Brian Ho (left) explains the proposals at an SFC-HKEX press briefing on 17 June

Review of SEHK's work

On 24 June, we published a report on our 2015 annual review of SEHK's performance in its regulation of listing matters. We are of the view that within the scope reviewed during the period, SEHK's operational procedures and decision-making processes, other than certain procedures involving issue of guidance to the market, were appropriate to enable it to discharge its statutory obligations to maintain an orderly, informed and fair market. The report also identified certain areas for SEHK to continue to enhance its performance.

IPO applications

Under the dual filing regime, we received 71 listing applications via SEHK during the quarter, up 51.1% from 47 in the last quarter and 14.5% from 62 in the same period last year. This was a record high since the regime commenced in 2003. No listing applications were returned in the quarter.

Takeovers matters

In April, the Takeovers and Mergers Panel ruled that Alibaba Group Holding Limited breached the Takeovers Code in its 2014 acquisition of CITIC 21CN Company Limited, as certain agreements between Alibaba Group¹ 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 triggered. The Panel waived the obligation in light of difficulties in determining the additional value which should have been added to the general offer price and, if any, that it was most unlikely to be material in the context of the prevailing market price.

In May, we publicly criticised China New Way Investment Limited and related parties for acquiring shares in China City Construction Group Holdings Limited within six months after the close of an offer at above the offer price, in contravention of the Takeovers Code.

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.

¹ Alibaba Group refers to Alibaba Group Holding Limited separately or together with any its subsidiaries.

Listings and takeovers

Trading suspensions

To promote the conduct of takeovers activities in an orderly framework, we published two articles in the March and June 2016 issues of the *Takeovers Bulletin* reminding parties to an offer or transaction to make every effort to avoid unnecessary trading suspensions. The articles also included guidance on good practices to help keep trading suspensions to a minimum during Codes² transactions.

Corporate regulation

Throughout the quarter, we continued to conduct a daily review of corporate announcements under the statutory corporate conduct and inside information disclosure provisions. In 38 cases, we felt it appropriate to issue section 179³ directions to gather additional information. The underlying concerns were varied and included whether any information that may meet the tests for inside information had been disclosed in a timely manner.

Listing applications and takeovers activities

	Quarter ended 30.6.2016	Quarter ended 31.3.2016	Change (%)	Quarter ended 30.6.2015	YoY change (%)
Listing applications filed under the dual filing regime	71	47	51.1	62	14.5
Takeovers and share buy-backs transactions	113	102	10.8	113	0

² The Codes on Takeovers and Mergers and Share Buy-backs.

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.

Market infrastructure and trading

Automated trading services

As of 30 June 2016, the number of automated trading services¹ (ATS) authorizations under Part III of the Securities and Futures Ordinance (SFO) was 39 while 27 corporations, including 16 dark pool operators, were licensed under Part V of the SFO to provide ATS.

HKEX

In March 2016, we approved Hong Kong Exchanges and Clearing Limited's (HKEX) proposed rule amendments for introducing a pre-trade risk management (PTRM) system for its derivatives market. Launched in April, PTRM is intended to complement other risk management tools currently used by exchange participants in managing their pre-trade risks, and is mandatory for all orders submitted to the Hong Kong Futures Exchange.

ATS

	As at 30.6.2016	As at 31.3.2016	Change (%)	As at 30.6.2015	YoY change (%)
ATS authorizations under Part III	39	38	2.6	34	14.7
Corporations providing ATS under Part V	27	24	12.5	28	-3.6

¹ 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.

Enforcement

Market surveillance

Our surveillance of untoward price and turnover movements resulted in 2,205 requests for trading and account records from intermediaries in the quarter. These requests produce vital information that enables us to monitor our markets and detect potential misconduct.

We posted on our website eight announcements to remind investors to exercise caution when trading shares in companies where a small number of shareholders hold a high concentration of shares.

Disciplinary actions

We disciplined five corporations and three licensed representatives:

- State Street Global Advisors Asia Limited was reprimanded and fined \$4 million for its failure to comply with regulatory requirements in the management of the Tracker Fund of Hong Kong. It had inadequate internal procedures for the management of the fund's cash balances and conflicts of interest between its affiliates and the fund, and also made erroneous representations in six of the fund's interim and annual reports.
- SynerWealth Financial Limited was reprimanded and fined \$2.7 million for internal control failures relating to 65 short selling orders and for failing to report deficiencies in its trading system to the SFC in a timely manner.
- Schroder Investment Management (Hong Kong) Limited was reprimanded and fined \$1.8 million for failing to disclose notifiable interests in Hong Kong listed shares held in its client portfolios managed by Schroders plc and certain of its subsidiaries.
- Guotai Junan Securities (Hong Kong) Limited was reprimanded and fined \$1.3 million for non-compliance with client identity requirements. Guotai Junan failed to provide the details of the ultimate clients of certain transactions.
- Solid King Securities Limited was reprimanded and fined \$700,000 for failing to comply with telephone recording requirements.

- Andrew Chow Ho Cheung, a former employee of The Hong Kong and Shanghai Banking Corporation Limited, was banned for life following his conviction for fraud and theft by the District Court¹. Chow forged customers' signatures on bank documents, changed subscription fee rates without clients' agreement and made unauthorized payments and withdrawals in customers' accounts.
- Liu King Yee, a former employee of Wing Lung Bank Limited, was banned for life following her conviction by the High Court for fraud¹. Liu fraudulently represented high return investment products resulting in three customers suffering total losses of over \$25.8 million.
- Yeung Chun Him was banned for 12 months for sending data on 1,540 customers to his personal email, in breach of the SFC's rules and the Personal Data (Privacy) Ordinance.

Market Misconduct Tribunal

In March, we started proceedings in the Market Misconduct Tribunal against Yorkey Optical International (Cayman) Limited and two of its former senior executives for late disclosure of the material deterioration of its financial performance in the second half of 2012.

Court proceedings

- The Court of First Instance (CFI) disqualified three former senior executives of China Best Group Holding Limited from being a director or being involved in the management of any listed or unlisted company in Hong Kong. One executive was disqualified for 10 years, and two others for six years. They breached their duties in handling a proposed acquisition of interests in a coal mine in 2008.
- The District Court acquitted IPFUND Asset Management Limited and Ronald Sin Chung Yin of charges of dealing in securities without a licence. The court found that although IPFUND carried on a business of operating collective investment schemes, the investors were in fact acquiring shares in private shell companies which held the real properties. We are reviewing the court's decision.

¹ These cases were referred to the SFC by the Hong Kong Monetary Authority.

Enforcement

- The Eastern Magistracy convicted and fined Chiu Sing Ho of making false or misleading representations about his criminal record in two licence applications to the SFC.

Redress for investors

In May 2016, court-appointed administrators finished returning \$43.7 million to nearly 1,600 investors who were victims of the insider dealing of Tiger Asia Management LLC and two of its senior officers. The payments represent around 97% of the compensation covered by the court's restoration order made after Tiger Asia and the two senior officers admitted insider dealing and false trading in December 2013.

Enforcement activities

	Quarter ended 30.6.2016	Quarter ended 31.3.2016	Change (%)	Quarter ended 30.6.2015	YoY change (%)
S179 ^a inquiries commenced	4	7	-42.9	6	-33.3
S181 ^b inquiries commenced (number of letters sent)	81 (2,236)	80 (2,247)	-0.5	63 (2,130)	5
S182 ^c directions issued	158	124	27.4	130	21.5
Investigations started	160	125	28	131	22.1
Investigations completed	165	109	51.4	99	66.7
Investigations completed within seven months (%)	75 (45%)	51 (47%)	47.1	55 (56%)	36.4
Individuals/corporations charged in criminal proceedings	0	8	-100	4	-100
Criminal charges laid	0	49	-100	19	-100
Notices of Proposed Disciplinary Action ^d issued	16	5	220	7	128.6
Notices of Decision ^e issued	10	15	-33.3	9	11.1
Individuals/corporations subject to ongoing civil proceedings	100	100	0	93	7.5
Compliance advice letters issued	87	163	-46.6	34	155.9
Cases with search warrants executed	8	8	0	7	14.3

^a 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.

^b 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.

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

^d 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.

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

Restriction Notice

We issued a Restriction Notice to Kingsway Financial Services Group Limited in June prohibiting it from processing, disposing, transferring or dealing with the shares or cash held in a client account that may be connected with suspected insider dealing. Kingsway is not a suspect of the investigation.

Global regulatory engagement

IOSCO

Mr Ashley Alder, our Chief Executive Officer (CEO), was appointed Chairman of the Board of the International Organization of Securities Commissions (IOSCO) in May 2016. Mr Alder and other SFC senior executives attended the May IOSCO Board meeting and Annual Conference to discuss the regulation of asset management, risks associated with clearing houses, implementation and monitoring efforts related to the IOSCO multilateral memorandum of understanding and IOSCO collaboration with the Financial Stability Board (FSB), among other topics.

Mr Alder chairs the IOSCO Task Force on Market Conduct, which is examining regulatory approaches and tools related to the market conduct of traders and other professionals in wholesale markets. The Task Force plans to develop a tool kit to raise broader awareness among firms and individuals about IOSCO members' practices for regulating conduct in wholesale markets and as a reference for other member jurisdictions.

Mr Alder stepped down as Chairman of the IOSCO Asia-Pacific Regional Committee (APRC) in May. During his chairmanship, he led a number of initiatives to strengthen regional regulatory cooperation and established a regular forum with the European Commission and the European Securities and Markets Authority to facilitate discussions on the impact of European Union cross-border regulations on financial markets in Asia.

We participate in all eight IOSCO policy committees. In April, Mr Stephen Po, Senior Director of Intermediaries Supervision, chaired a meeting of the IOSCO Committee on Regulation of Market Intermediaries which discussed the draft report on survey responses related to the Committee's three mandates, namely order routing incentives, retail over-the-counter (OTC) leveraged products and automation of advice tools.

FSB

In May, Mr Alder attended the meeting of the FSB Steering Committee to discuss market liquidity and the impact of financial regulatory reforms, as well as central counterparties, asset management activities and current initiatives to ensure fair and effective wholesale fixed income, currencies and commodities markets.

In June, Mr Keith Lui, Executive Director of Supervision of Markets, attended the FSB Standing Committee on Standards Implementation meeting which discussed corporate governance and the status of the implementation of various global financial reforms in areas such as OTC derivatives markets and shadow banking.

During the quarter, we continued to coordinate with the Government of the Hong Kong Special Administrative Region, the Hong Kong Monetary Authority (HKMA) and the Office of the Commissioner of Insurance to respond to FSB's annual monitoring exercise on shadow banking and its survey on the implementation status of non-priority reforms. We also supported the HKMA in its work on other FSB committees.

Asia Pacific Takeovers Regulators Conference

In May, we hosted the fourth Asia Pacific Takeovers Regulators Conference to discuss recent developments in the region. More than 20 representatives from different jurisdictions across the region attended the conference to exchange views on topics including shareholders' activism, crowd-funding, special deals and waivers from mandatory offers.

Global regulatory engagement

Other international collaboration

In May, we entered into a memorandum of understanding with the Financial Industry Regulatory Authority of the US to formalise and strengthen mutual assistance in the supervision and oversight of regulated entities that operate on a cross-border basis in Hong Kong and the US.

During the quarter, we responded to various requests for technical assistance and training from overseas regulators and other authorities.

Mainland China

In June, our Chairman Mr Carlson Tong and CEO Mr Alder met with a Vice Premier of the State Council to exchange views on connectivity between the Mainland and Hong Kong capital markets as well as the interaction between China and IOSCO.

We also met with the Chairman of the China Securities Regulatory Commission to discuss financial cooperation initiatives. In addition, we held discussions with the Governor of the People's Bank of China on the latest regulatory developments in the global and Hong Kong securities markets.

During the quarter, we also met with senior officials of Mainland financial regulators, market operators and other authorities to discuss various projects including Stock Connect, Mainland-Hong Kong Mutual Recognition of Funds and other cooperation initiatives.

Stakeholder communication

We engage a wide range of stakeholders in a proactive, timely and effective manner to help them understand our work and keep them informed about regulatory updates.

In June, we launched a joint public consultation with Hong Kong Exchanges and Clearing Limited on proposed enhancements to The Stock Exchange of Hong Kong Limited's (SEHK) decision-making and governance structure for listing regulation¹.

During the quarter, our senior executives spoke at 24 local and international conferences to share our regulatory approaches in various areas. Separately, we hosted the fourth Asia Pacific Takeovers Regulators Conference for takeovers regulators² and supported three industry events.



Mr Ashley Alder, CEO, at Hong Kong Securities and Investment Institute's Roundtable Luncheon Series

To enhance mutual understanding, effective communication and regulatory cooperation, we received various delegations from Mainland government agencies, regulatory authorities and research institutions. We met with a delegation which included representatives from the Tokyo Financial Exchange and a Japanese commodities futures trading company to exchange views on the commodities

futures markets. We also received visitors from the Institute of International Finance, the US Commodity Futures Trading Commission and the US Permanent Representative to UNESCO³. We introduced our regulatory work to 20 representatives from the Association of Provident Fund of Thailand and more than 50 students from Mainland and local universities.



Our senior executive addresses The Hong Kong Institute of Chartered Secretaries' 17th Annual Corporate and Regulatory Update

In June, we published our annual review report on SEHK's performance in its regulation of listing matters during 2014¹. The June issue of the *Takeovers Bulletin* included, among others, notes to the industry about the issue of talks announcements, engagement of financial advisers and whitewash waivers. Our *Annual Report 2015-16*, released in June, summarised the SFC's work during the year and detailed regulatory enhancements currently underway.

We issued 11 circulars to inform industry participants of the formal adoption of the revamped fund authorization process as well as matters related to the over-the-counter derivatives regime and anti-money laundering.

¹ See Listings and takeovers on page 7 for details.

² See Global regulatory engagement on page 12 for details.

³ United Nations Educational, Scientific and Cultural Organization.

Stakeholder communication

Publications and other communications

	Quarter ended 30.6.2016	Quarter ended 31.3.2016	Quarter ended 30.6.2015
Press releases	28	32	31
Consultation papers	1	1	0
Consultation conclusions	0	4	3
Industry-related publications	1	4	2
Codes and guidelines	1	1	1
Circulars to industry	11	18	20
Corporate website average daily page views ^a	57,265	52,015	50,018
General enquiries	1,728	1,876	1,731 ^b

^a The average number of web pages browsed per day during the reporting period.

^b An adjustment has been made for the period.

Corporate Developments

The Government of the Hong Kong Special Administrative Region appointed Mr Thomas Atkinson as Executive Director (ED) of Enforcement for a three-year term effective 3 May.

On 19 June, Ms Julia Leung, ED of Investment Products, succeeded Mr James Shipton as ED of Intermediaries. Ms Christina Choi was appointed ED of Investment Products with effect from 1 August¹.

New appointments and re-appointments to the following regulatory committees² took effect from 1 April:

- Academic and Accreditation Advisory Committee
- Disciplinary Chair Committee
- Investor Compensation Fund Committee
- Nominations Committee³
- Products Advisory Committee
- Public Shareholders Group
- Securities Compensation Fund Committee
- SFC Dual Filing Advisory Group
- SFC (HKEC Listing) Committee
- Takeovers and Mergers Panel
- Takeovers Appeal Committee

Full membership lists and details of the responsibilities of each committee are available on the SFC website (www.sfc.hk).

Our income for the quarter was \$287 million, 5% and 54% lower than the previous quarter and the same quarter last year, respectively. In the quarter, average daily turnover in Hong Kong's securities market was \$63 billion, 14% lower than the previous quarter and 62% lower than a year ago. Our expenditure for the quarter was \$416 million, about the same as the previous quarter. We recorded a deficit of \$129 million in the quarter. As at 30 June, our reserves stood at \$7.1 billion, of which \$3 billion was set aside for the possible future acquisition of office premises.

Finances

(\$ million)	Quarter ended 30.6.2016	Quarter ended 31.3.2016	Quarter ended 30.6.2015	YoY change (%)
Income	287	302	619	-53.6
Expenses including depreciation	416	414	370	12.4

During the quarter, we introduced information technology systems to enhance the efficiency of our regulatory work in various areas, including centralising e-filing of documents and correspondence with regulatees, streamlining the litigation support process, and collecting more timely financial data from intermediaries.

As of 30 June, we had 845 staff members, up from 801 a year ago.

¹ Ms Christina Choi, formerly Senior Director of Investment Products, was appointed Acting Head of Investment Products in June.

² Each of these committees is set up under the Securities and Futures Ordinance and specialises in particular regulatory areas.

³ This committee nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee.

Activity Data

Table 1 Breaches noted during on-site inspections

Nature of breaches	Quarter ended 30.6.2016	Quarter ended 31.3.2016	Change (%)	Quarter ended 30.6.2015	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	4	0	N/A	5	-20
Failure to safekeep client securities	7	7	0	10	-30
Failure to maintain proper books and records	10	15	-33.3	7	42.9
Failure to safekeep client money	14	8	75	9	55.6
Unlicensed dealing and other registration issues	6	10	-40	8	-25
Breach of licensing conditions	1	3	-66.7	1	0
Breach of requirements of contract notes/statements of account/receipts	19	10	90	16	18.8
Failure to make filing/notification	0	1	-100	2	-100
Breach of margin requirements	0	0	0	1	-100
Marketing malpractices	0	0	0	0	0
Illegal short selling of securities	0	0	0	0	0
Dealing malpractices	2	0	N/A	0	N/A
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ¹	126	118	6.8	41	207.3
Breach of Corporate Finance Adviser Code of Conduct	11	0	N/A	2	450
Breach of Fund Manager Code of Conduct	22	16	37.5	16	37.5
Breach of regulation of on-line trading	2	1	100	2	0
Non-compliance with anti-money laundering guidelines	55	49	12.2	56	-1.8
Breach of other rules and regulations of the Exchanges ²	7	3	133.3	2	250
Breach of other rules and regulations of the Mandatory Provident Fund Schemes Authority	0	0	0	0	0
Internal control weaknesses ³	117	125	-6.4	96	21.9
Others	17	31	-45.2	15	13.3
Total	420	397	5.8	289	45.3

¹ Commonly related to risk management, record keeping, client agreements, safeguarding of client assets and management responsibilities.

² Comprising The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited.

³ Comprising 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.

Table 2 Authorized unit trusts and mutual funds – by type and number

	Number as at 30.6.2016	Number as at 31.3.2016	Change (%)	Number as at 30.6.2015	YoY change (%)
Bond	407	404	0.7	404	0.7
Equity	1,036	1,031	0.5	1,015	2.1
Diversified	152	140	8.6	108	40.7
Money market	45	46	-2.2	48	-6.3
Fund of funds	106	102	3.9	94	12.8
Index ¹	174	161	8.1	154	13
Guaranteed	3	3	0	3	0
Hedge	2	3	-33.3	3	-33.3
Other specialised ²	13	14	-7.1	14	-7.1
Sub-total	1,938	1,904	1.8	1,843	5.2
Umbrella structures	235	229	2.6	220	6.8
Total	2,173	2,133	1.9	2,063	5.3

¹ Including leveraged and inverse products.

² Including futures and options funds, structured funds and funds that invest in financial derivative instruments.

Table 3 Authorized unit trusts and mutual funds – by type and assets under management

	Total NAV (US\$ million) as at 30.6.2016 ¹	Total NAV (US\$ million) as at 31.3.2016	Change (%)	Total NAV (US\$ million) as at 30.6.2015	YoY change (%)
Bond	433,406	423,758 ²	2.3	459,877	-5.8
Equity	597,550	608,782	-1.8	672,917	-11.2
Diversified	122,120	117,242	4.2	118,219	3.3
Money market	19,898	21,315 ²	-6.6	19,949	-0.3
Fund of funds	15,774	15,651	0.8	16,626	-5.1
Index ³	96,866	87,530	10.7	93,097	4
Guaranteed	68	69	-1.4	79	-13.9
Hedge	49	110	-55.5	131	-62.6
Other specialised ⁴	1,474	1,576	-6.5	2,158	-31.7
Total	1,287,205	1,276,033²	0.9	1,383,052	-6.9

¹ Beginning from 30 June 2016, total net asset value (NAV) is presented in quarterly reports. For comparison purposes, total NAV figures as of 31 March 2016 and 30 June 2015 are also presented.

² 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.

³ Including leveraged and inverse products.

⁴ Including futures and options funds, structured funds and funds that invest in financial derivative instruments.

Activity Data

Table 4 Authorized unit trusts and mutual funds – by origin and number

	Number as at 30.6.2016	Number as at 31.3.2016	Change (%)	Number as at 30.6.2015	YoY change (%)
Hong Kong	684	656	4.3	607	12.7
Luxembourg	1,010	1,004	0.6	1,007	0.3
Ireland	270	277	-2.5	276	-2.2
United Kingdom	69	65	6.2	65	6.2
Mainland China	37	27	37	0	N/A
Other Europe	3	0	N/A	0	N/A
Bermuda	5	5	0	5	0
Cayman Islands	86	90	-4.4	94	-8.5
Others	9	9	0	9	0
Total	2,173	2,133	1.9	2,063	5.3

Table 5 Authorized unit trusts and mutual funds – by origin and assets under management

	Total NAV (US\$ million) as at 30.6.2016 ¹	Total NAV (US\$ million) as at 31.3.2016	Change (%)	Total NAV (US\$ million) as at 30.6.2015	YoY change (%)
Hong Kong	123,349	118,172 ²	4.4	126,658	-2.6
Luxembourg	849,134	860,620	-1.3	954,680	-11.1
Ireland	149,508	150,267	-0.5	162,911	-8.2
United Kingdom	88,756	78,830	12.6	82,058	8.2
Mainland China	14,292	10,880	31.4	0	N/A
Other Europe	60	0	N/A	0	N/A
Bermuda	264	292	-9.6	304	-13.2
Cayman Islands	11,518	15,253	-24.5	18,006	-36
Others	50,323	41,719	20.6	38,436	30.9
Total	1,287,205³	1,276,033²	0.9	1,383,052	-6.9

¹ Beginning from 30 June 2016, total net asset value (NAV) is presented in quarterly reports. For comparison purposes, total NAV figures as of 31 March 2016 and 30 June 2015 are also presented.

² 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.

³ Figure does not add up to total due to rounding.

Activity Data

Table 6 Takeovers activities

	Quarter ended 30.6.2016	Quarter ended 31.3.2016	Change (%)	Quarter ended 30.6.2015	YoY change (%)
Codes on Takeovers and Mergers and Share Buy-backs					
General and partial offers under Code on Takeovers and Mergers	12	15	-20	11	9.1
Privatisations	4	1	300	2	100
Whitewash waiver applications	11	12	-8.3	18	-38.9
Other applications under Code on Takeovers and Mergers ¹	85	74	14.9	82	3.7
Off-market and general offer share buy-backs	1	0	N/A	0	N/A
Other applications under Code on Share Buy-backs ¹	0	0	N/A	0	N/A
Total	113	102	10.8	113	0
Executive Statements					
Sanctions imposed with parties' agreement ²	2	1	100	0	N/A
Takeovers and Mergers Panel					
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	0	0	N/A	0	N/A
Hearings before the Panel (disciplinary and non-disciplinary)	1	0	N/A	0	N/A
Statements issued by the Panel ³	1	0	N/A	1	0

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.

Table 7 Complaints against intermediaries and market activities

	Quarter ended 30.6.2016	Quarter ended 31.3.2016	Change (%)	Quarter ended 30.6.2015	YoY change (%)
Conduct of licensees	99	82	20.7	84	17.9
Conduct of registered institutions	14	11	27.3	11	27.3
Listing-related matters and disclosure of interests	155	137	13.1	200	-22.5
Market misconduct ¹	52	51	2	51	2
Product disclosure	3	2	50	0	N/A
Unlicensed activities	34	19	78.9	35	-2.9
Breach of offers of investments	6	1	500	0	N/A
Other financial activities ²	185	120	54.2	181	2.2
Total	548	423	29.6	562	-2.5

¹ Primarily, alleged market manipulation and insider dealing.

² Comprising boiler rooms, insurance and bullion activities, identity frauds, etc.

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2016 (Expressed in Hong Kong dollars)

	Unaudited Quarter ended 30 June 2016 \$'000	Unaudited Quarter ended 30 June 2015 \$'000
Income		
Levies	238,456	561,126
Fees and charges	34,079	29,252
Investment income	13,918	26,878
Less: custody and advisory expenses	(1,195)	(930)
Investment income net of third party expenses	12,723	25,948
Recoveries from the Investor Compensation Fund	1,390	1,346
Other income	156	624
	286,804	618,296
Expenses		
Staff costs and directors' emoluments	296,983	270,239
Premises		
Rent	51,511	50,513
Rates, management fees and others	12,251	11,385
Other expenses	44,000	26,636
Depreciation	10,684	10,813
	415,429	369,586
(Loss)/surplus and total comprehensive income for the quarter	(128,625)	248,710

The notes on pages 26 to 28 form part of the condensed consolidated financial statements.

Condensed consolidated statement of financial position

At 30 June 2016 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 June 2016 \$'000	Audited At 31 March 2016 \$'000
Non-current assets			
Fixed assets		69,290	73,247
Held-to-maturity debt securities	2	30,007	30,009
		99,297	103,256
Current assets			
Held-to-maturity debt securities	2	461,282	461,781
Financial assets designated at fair value through profit or loss			
Debt securities		770,576	–
Pooled funds		649,588	654,585
Debtors, deposits and prepayments		146,411	122,458
Fixed deposits with banks	3	5,203,033	6,066,032
Cash at bank and in hand	3	19,433	25,649
		7,250,323	7,330,505
Current liabilities			
Fees received in advance		8,349	8,405
Creditors and accrued charges		165,262	121,969
		173,611	130,374
Net current assets			
		7,076,712	7,200,131
Total assets less current liabilities			
		7,176,009	7,303,387
Non-current liabilities			
	4	27,094	25,847
Net assets			
		7,148,915	7,277,540
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition	10	3,000,000	–
Accumulated surplus		4,106,075	7,234,700
		7,148,915	7,277,540

The notes on pages 26 to 28 form part of the condensed consolidated financial statements.

Condensed statement of financial position

At 30 June 2016 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 June 2016 \$'000	Audited At 31 March 2016 \$'000
Non-current assets			
Fixed assets		68,811	72,701
Held-to-maturity debt securities	2	30,007	30,009
		98,818	102,710
Current assets			
Held-to-maturity debt securities	2	461,282	461,781
Financial assets designated at fair value through profit or loss			
Debt securities		770,576	–
Pooled funds		649,588	654,585
Debtors, deposits and prepayments		146,181	134,872
Fixed deposits with banks		5,203,033	6,066,032
Cash at bank and in hand		9,634	5,058
		7,240,294	7,322,328
Current liabilities			
Fees received in advance		8,349	8,405
Creditors and accrued charges		154,754	113,246
		163,103	121,651
Net current assets			
		7,077,191	7,200,677
Total assets less current liabilities			
		7,176,009	7,303,387
Non-current liabilities			
	4	27,094	25,847
Net assets			
		7,148,915	7,277,540
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition	10	3,000,000	–
Accumulated surplus		4,106,075	7,234,700
		7,148,915	7,277,540

The notes on pages 26 to 28 form part of the condensed consolidated financial statements.

Condensed consolidated statement of changes in equity

For the quarter ended 30 June 2016 (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
Total comprehensive income for the quarter	–	–	248,710	248,710
Balance at 30 June 2015	42,840	–	7,447,063	7,489,903
Balance at 1 April 2016	42,840	–	7,234,700	7,277,540
Transfer to reserve for property acquisition	–	–	(3,000,000)	(3,000,000)
Reserve for property acquisition	–	3,000,000	–	3,000,000
Total comprehensive income for the quarter	–	–	(128,625)	(128,625)
Balance at 30 June 2016	42,840	3,000,000	4,106,075	7,148,915

The notes on pages 26 to 28 form part of the condensed consolidated financial statements.

Condensed consolidated statement of cash flows

For the quarter ended 30 June 2016 (Expressed in Hong Kong dollars)

Note	Unaudited Quarter ended 30 June 2016 \$'000	Unaudited Quarter ended 30 June 2015 \$'000
Cash flows from operating activities		
(Loss)/surplus for the quarter	(128,625)	248,710
Adjustments for:		
Depreciation	10,684	10,813
Investment income	(13,918)	(26,878)
Exchange difference	(174)	119
Loss on disposal of fixed assets	7	3
	(132,026)	232,767
Increase in debtors, deposits and prepayments	(22,104)	(85,188)
Increase in creditors and accrued charges	43,293	36,531
Decrease in fees received in advance	(56)	(999)
Increase in non-current liabilities	1,247	986
Net cash (used in)/generated from operating activities	(109,646)	184,097
Cash flows from investing activities		
Increase in fixed deposits other than cash and cash equivalents	(309,385)	(1,379,484)
Interest received	15,861	14,604
Debt securities purchased	(945,156)	–
Debt securities sold	175,898	–
Pooled funds sold	562	627
Held-to-maturity debt securities redeemed at maturity	–	147,761
Fixed assets purchased	(6,734)	(6,823)
Net cash used in investing activities	(1,068,954)	(1,223,315)
Net decrease in cash and cash equivalents	(1,178,600)	(1,039,218)
Cash and cash equivalents at beginning of the quarter	1,522,116	2,104,324
Cash and cash equivalents at end of the quarter	343,516	1,065,106

Analysis of the balance of cash and cash equivalents

	Unaudited At 30 June 2016 \$'000	Unaudited At 30 June 2015 \$'000
Fixed deposits with banks	324,083	1,057,755
Cash at bank and in hand	19,433	7,351
	343,516	1,065,106

The notes on pages 26 to 28 form part of the condensed consolidated financial statements.

Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2016 (Expressed in Hong Kong dollars)

1. Basis of preparation

We have prepared the condensed consolidated interim financial information in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting* adopted by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the SFC since the annual financial statements for the year ended 31 March 2016. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The condensed consolidated interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2016 included in this report does not constitute the SFC's statutory annual financial statements 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 30 June 2016. 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 2016 to the condensed interim financial information.

There were no significant changes in the operations of the SFC for the quarter ended 30 June 2016.

2. Held-to-maturity debt securities

As of 30 June 2016, the total market value of held-to-maturity debt securities amounted to \$492,098,000 (31 March 2016: \$492,756,000), which was above the total carrying cost of \$491,289,000 (31 March 2016: \$491,790,000).

3. Cash and cash equivalents

Reconciliation with the condensed consolidated statement of financial position

	Unaudited At 30 June 2016 \$'000	Audited At 31 March 2016 \$'000
Cash at bank and in hand	19,433	25,649
Fixed deposits with banks	5,203,033	6,066,032
Amounts shown in the condensed consolidated statement of financial position	5,222,466	6,091,681
Less : Amounts with an original maturity of beyond three months	(4,878,950)	(4,569,565)
Cash and cash equivalents in the condensed consolidated statement of cash flows	343,516	1,522,116

Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2016 (Expressed in Hong Kong dollars)

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 statement of profit or loss and other comprehensive income on a straight line basis over the lease period ranging from 2015 to 2017 as an integral part of the lease expense.

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 30 June 2016. 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 foreign exchange risk.

7. Investments in subsidiaries

The SFC formed ICC on 11 September 2002 with an issued share capital of \$0.2. On 20 November 2012, the SFC launched 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 ICC is to facilitate the administration and management of the Investor Compensation Fund (ICF) established under the Securities and Futures Ordinance (SFO).

The objective of IEC is to improve the financial knowledge and capability of the general public and to assist them in making informed financial decisions.

As at 30 June 2016, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (31 March 2016: \$0.2). The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

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

8. Related party transactions

We have related party relationships with the ICF, the Unified Exchange 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 quarter, we received reimbursement from the ICF for all ICC's expenses amounting to \$1,390,000 (2015: \$1,346,000), in accordance with section 242(1) of the SFO. As at 30 June 2016, the amount due to the ICF from ICC was \$563,000 (31 March 2016: \$73,000).

Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2016 (Expressed in Hong Kong dollars)

8. Related party transactions (cont'd)

(b) Remuneration of key management personnel comprised:

	Unaudited Quarter ended 30 June 2016 \$'000	Unaudited Quarter ended 30 June 2015 \$'000
Directors' fees and salaries, allowances and benefits in kind	7,586	8,066
Retirement scheme contributions	654	737
	8,240	8,803

The total remuneration is included in "staff costs and directors' emoluments" on page 21. 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.

9. Commitment to pay rents for offices

At 30 June 2016 the minimum amount we are committed to pay in rent for our offices up to 31 August 2020, being the rent review date as set out in the lease agreement, is as follows :

	Unaudited At 30 June 2016 \$'000	Audited At 31 March 2016 \$'000
Payable next year	216,574	208,294
Payable in one to five years	628,467	87,619
Payable in more than five years	-	-
	845,041	295,913

During the quarter, \$51,511,000 net of lease incentives was recognised as an expense in the condensed consolidated statement of profit or loss and other comprehensive income in respect of operating leases (2015: \$50,513,000).

10. Funding and reserve management

During the quarter, the SFC has earmarked \$3 billion from its accumulated surplus to set up a reserve for the possible future acquisition of office premises.

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 quarter ended 30 June 2016.

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 reporting period ended 30 June 2016 and the financial position of the Fund's affairs as at that date are set out in the financial statements on pages 30 to 35.

Members of the Committee

The members of the Committee during the quarter ended 30 June 2016 and up to the date of this report were:

Mr Keith Lui (Chairman)
Ms Teresa Ko Yuk-yin, JP
Mr Lee Kwok Keung

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 reporting period or at any time during the quarter.

On behalf of the Committee

Keith Lui
Chairman

15 August 2016

Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2016 (Expressed in Hong Kong dollars)

	Note	Unaudited Quarter ended 30 June 2016 \$'000	Unaudited Quarter ended 30 June 2015 \$'000
Income			
Net investment income		23,729	1,327
Exchange difference		258	(88)
		23,987	1,239
Expenses			
Investor Compensation Company Limited expenses	2	1,390	1,346
Compensation expenses	3	289	2,698
Auditor's remuneration		33	31
Bank charges		235	240
Professional fees		974	1,000
		2,921	5,315
Surplus/(loss) and total comprehensive income for the quarter		21,066	(4,076)

The notes on pages 34 to 35 form part of the condensed financial statements.

Condensed statement of financial position

At 30 June 2016 (Expressed in Hong Kong dollars)

Note	Unaudited At 30 June 2016 \$'000	Audited At 31 March 2016 \$'000
Current assets		
Financial assets designated at fair value through profit or loss		
Debt securities	1,910,106	1,866,404
Pooled fund	290,355	282,860
Interest receivable	12,080	13,367
Due from Investor Compensation Company Limited	563	73
Fixed deposits with banks	5,980	7,788
Cash at bank	16,042	43,175
	2,235,126	2,213,667
Current liabilities		
Provision for compensation	3 1,701	1,412
Creditors and accrued charges	1,480	1,376
	3,181	2,788
Net current assets	2,231,945	2,210,879
Net assets	2,231,945	2,210,879
Representing:		
Compensation fund		
Contributions from Unified Exchange Compensation Fund	994,718	994,718
Contributions from Commodity Exchange Compensation Fund	108,923	108,923
Accumulated surplus	1,128,304	1,107,238
	2,231,945	2,210,879

The notes on pages 34 to 35 form part of the condensed financial statements.

Condensed statement of changes in equity

For the quarter ended 30 June 2016 (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 quarter	–	–	(4,076)	(4,076)
Balance at 30 June 2015	994,718	108,923	1,107,104	2,210,745
Balance at 1 April 2016	994,718	108,923	1,107,238	2,210,879
Surplus and total comprehensive income for the quarter	–	–	21,066	21,066
Balance at 30 June 2016	994,718	108,923	1,128,304	2,231,945

The notes on pages 34 to 35 form part of the condensed financial statements.

Condensed statement of cash flows

For the quarter ended 30 June 2016 (Expressed in Hong Kong dollars)

	Unaudited Quarter ended 30 June 2016 \$'000	Unaudited Quarter ended 30 June 2015 \$'000
Cash flows from operating activities		
Surplus/(loss) for the quarter	21,066	(4,076)
Adjustments for:		
Net investment income	(23,729)	(1,327)
Exchange difference	(258)	88
	(2,921)	(5,315)
Increase in amount due from Investor Compensation Company Limited	(490)	(473)
Increase/(decrease) in provision for compensation	289	(17,506)
Increase in creditors and accrued charges	104	93
Net cash used in operating activities	(3,018)	(23,201)
Cash flows from investing activities		
Purchase of debt securities	(119,283)	(213,776)
Sale or maturity of debt securities	80,243	187,076
Sale of equity securities	335	377
Interest received	12,782	11,986
Net cash used in investing activities	(25,923)	(14,337)
Net decrease in cash and cash equivalents	(28,941)	(37,538)
Cash and cash equivalents at beginning of the quarter	50,963	54,045
Cash and cash equivalents at end of the quarter	22,022	16,507

Analysis of the balance of cash and cash equivalents

	Unaudited At 30 June 2016 \$'000	Unaudited At 30 June 2015 \$'000
Fixed deposits with banks	5,980	4,743
Cash at bank	16,042	11,764
	22,022	16,507

The notes on pages 34 to 35 form part of the condensed financial statements.

Notes to the condensed financial statements

For the quarter ended 30 June 2016 (Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund has prepared the condensed interim financial information in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting* adopted by the Hong Kong Institute of Certified Public Accountants.

This condensed interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2016. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The condensed interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2016 included in this report does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

We have applied the same accounting policies adopted in the financial statements for the year ended 31 March 2016 to this condensed interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2016.

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. The Fund is responsible for funding the establishment and operation of ICC. For the quarter ended 30 June 2016, ICC incurred \$1,390,000 for its operation (for the quarter ended 30 June 2015 : \$1,346,000).

3. 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 quarter ended 30 June 2016	289
Balance as at 30 June 2016	1,701

As at 30 June 2016, 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 30 June 2016 was \$1,701,000 (31 March 2016: \$1,412,000). As at 30 June 2016, all provisions were expected to be paid within one year.

4. Material related party transactions

We have related party relationships with the Securities and Futures Commission, ICC and the Unified Exchange Compensation Fund. There were no significant related party transactions other than those disclosed in the condensed interim financial information of the Fund for the quarters ended 30 June 2015 and 2016.

Notes to the condensed financial statements

For the quarter ended 30 June 2016 (Expressed in Hong Kong dollars)

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 \$2,625,000 (31 March 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.

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 quarter ended 30 June 2016.

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 30 June 2016, 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 statements

The financial performance of the Fund for the reporting period ended 30 June 2016 and the financial position of the Fund's affairs as at that date are set out in the financial statements on pages 37 to 42.

Members of the Committee

The members of the Committee during the quarter ended 30 June 2016 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

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 reporting period or at any time during the quarter.

On behalf of the Committee

Keith Lui
Chairman

26 July 2016

Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2016 (Expressed in Hong Kong dollars)

Note	Unaudited Quarter ended 30 June 2016 \$'000	Unaudited Quarter ended 30 June 2015 \$'000
Income		
Interest income	126	150
Expenses		
Recoveries re-distributed	1,152	–
Auditor's remuneration	14	13
Professional fees	9	9
Bank charges	3	–
	1,178	22
(Loss)/surplus and total comprehensive income for the quarter	(1,052)	128

The notes on pages 41 to 42 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of financial position

At 30 June 2016 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 June 2016 \$'000	Audited At 31 March 2016 \$'000
Current assets			
Equity securities received under subrogation		1	1
Interest receivable		47	59
Fixed and call deposits with banks		81,619	82,179
Cash at bank		174	278
		81,841	82,517
Current liabilities			
Creditors and accrued charges		10,332	10,306
Relinquished trading rights payable to SEHK	4	1,000	800
		11,332	11,106
Net current assets			
		70,509	71,411
Net assets			
		70,509	71,411
Representing:			
Compensation fund			
Contributions from SEHK	4	49,200	49,050
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		25,738	26,790
		1,065,227	1,066,129
Contributions to the Investor Compensation Fund		(994,718)	(994,718)
		70,509	71,411

The notes on pages 41 to 42 form part of the condensed financial statements.

Condensed statement of changes in equity

For the quarter ended 30 June 2016 (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 to SEHK	(50)	-	-	-	-	-	(50)
Surplus and total comprehensive income for the quarter	-	-	-	-	128	-	128
Balance at 30 June 2015	48,050	353,787	6,502	630,000	26,470	(994,718)	70,091
Balance at 1 April 2016	49,050	353,787	6,502	630,000	26,790	(994,718)	71,411
Net contributions from SEHK	150	-	-	-	-	-	150
Loss and total comprehensive income for the quarter	-	-	-	-	(1,052)	-	(1,052)
Balance at 30 June 2016	49,200	353,787	6,502	630,000	25,738	(994,718)	70,509

The notes on pages 41 to 42 form part of the condensed financial statements.

Condensed statement of cash flows

For the quarter ended 30 June 2016 (Expressed in Hong Kong dollars)

	Unaudited Quarter ended 30 June 2016 \$'000	Unaudited Quarter ended 30 June 2015 \$'000
Cash flows from operating activities		
(Loss)/surplus for the quarter	(1,052)	128
Adjustments for:		
Interest income	(126)	(150)
	(1,178)	(22)
Increase in creditors and accrued charges	26	22
Increase/(decrease) in relinquished trading rights payable to SEHK	200	(1,250)
Net cash used in operating activities	(952)	(1,250)
Cash flows from investing activities		
Interest received	138	149
Net cash generated from investing activities	138	149
Cash flows from financing activities		
Net contributions from/(to) SEHK	150	(50)
Net cash generated from/(used in) financing activities	150	(50)
Net decrease in cash and cash equivalents	(664)	(1,151)
Cash and cash equivalents at beginning of the quarter	82,457	82,357
Cash and cash equivalents at end of the quarter	81,793	81,206

Analysis of the balance of cash and cash equivalents

	Unaudited At 30 June 2016 \$'000	Unaudited At 30 June 2015 \$'000
Fixed and call deposits with banks	81,619	81,129
Cash at bank	174	77
	81,793	81,206

The notes on pages 41 to 42 form part of the condensed financial statements.

Notes to the condensed financial statements

For the quarter ended 30 June 2016 (Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund has prepared the condensed interim financial information in accordance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting* adopted by the Hong Kong Institute of Certified Public Accountants. As the Fund will eventually cease operation as a result of the Securities and Futures Ordinance which came into effect from 1 April 2003, the Fund has prepared the condensed interim financial information 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.

This condensed interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2016. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

The condensed interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2016 included in this report does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

We have applied the same accounting policies adopted in the financial statements for the year ended 31 March 2016 to this condensed interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2016.

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 Securities and Futures Commission (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 payments from liquidators, the sale proceeds of shares allocated and the remaining shares at market value as of 30 June 2016 after deducting relevant processing fees and charges for collecting and selling the shares received.

The shares allocated to the Fund under its subrogation rights are classified as designated at fair value through profit and loss securities in accordance with the determination in HKAS 39, *Financial Instruments: Recognition and measurement*. According to HKFRS 13, *Fair value measurement*, these 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. Recoveries re-distributed

The Fund received recovery 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 \$1.15 million to some of the claimants of 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.

Notes to the condensed financial statements

For the quarter ended 30 June 2016 (Expressed in Hong Kong dollars)

4. Contributions from SEHK / Relinquished trading rights payable to SEHK

According to Section 104 of the repealed Securities Ordinance, The Stock Exchange of Hong Kong Limited (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 Securities and Futures Commission must refund to SEHK the deposit within six months after the trading right was relinquished.

During the quarter, deposits of \$350,000 in respect of seven new trading rights were received from SEHK and no trading rights were refunded.

At 30 June 2016, there were 20 trading rights in total that have been relinquished but not yet refunded (at 31 March 2016: 16). The net contributions from SEHK at 30 June 2016, excluding the relinquished trading rights payable, amounted to \$49,200,000 (at 31 March 2016: \$49,050,000).

5. Material related party transactions

The Fund has related party relationships with the Investor Compensation Fund and the SFC. There were no significant related party transactions other than those disclosed in the condensed interim financial information of the Fund for the quarters ended 30 June 2015 and 2016.

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

35/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

Telephone (852) 2231 1222
Facsimile (852) 2521 7836
Website www.sfc.hk