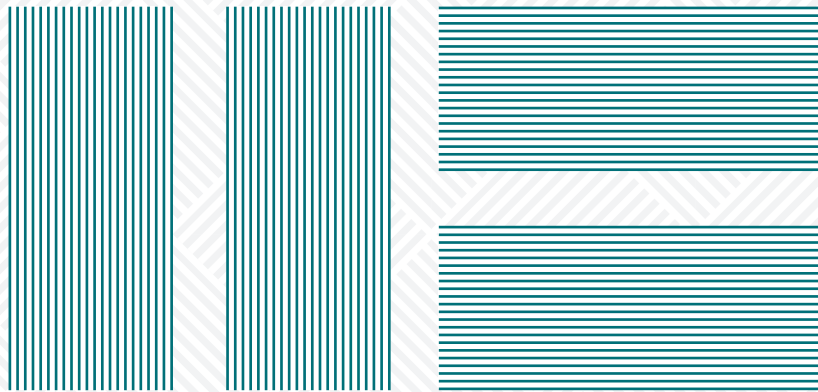




SECURITIES AND
FUTURES COMMISSION

證券及期貨事務監察委員會



Regulation for Quality Markets

Quarterly Report
April - June 2017

This first Quarterly Report of the Securities and Futures Commission for financial year 2017-18 covers the period from 1 April to 30 June 2017.

Contents

2	Highlights
3	Operational Review
3	Intermediaries
6	Investment products
8	Listings and takeovers
10	Market infrastructure
11	Enforcement
14	Global regulatory engagement
16	Stakeholder communication
18	Corporate Developments
19	Activity Data
23	Financial Statements
23	Securities and Futures Commission
31	Investor Compensation Fund
38	Unified Exchange Compensation Fund

Highlights

Regulatory enhancements

- **Online distribution and advisory platforms:** We launched a public consultation on proposed guidelines to the industry on the design and operation of online platforms.
- **Cybersecurity:** We proposed baseline cybersecurity requirements in a consultation which aims to reduce and mitigate hacking risks associated with internet trading.
- **Open-ended fund companies (OFCs):** A public consultation on the proposed Securities and Futures (OFCs) Rules and the Code on OFCs set out detailed legal and regulatory requirements.

Listings

- **Listing regulation:** The first issue of the *SFC Regulatory Bulletin: Listed Corporations* provided guidance on how we perform our listing regulatory functions under the Securities and Futures (Stock Market Listing) Rules and the Securities and Futures Ordinance.
- **Infrastructure project companies:** An April statement set out the factors we take into account when reviewing the proposed listing of infrastructure project companies in Hong Kong, including those from "Belt and Road" countries, covering potential country and related risks.
- **Corporate transaction valuations:** We issued a guidance note on directors' duties and a circular to financial advisers regarding valuations in corporate transactions together with a statement on the liability of valuers for disclosure of false or misleading information.
- **Listing applications:** Under the dual filing regime, we reviewed a record 86 new listing applications during the quarter, up from 51 in the previous quarter and 71 in the same quarter last year.

Intermediaries

- **Licensees and registrants:** As at 30 June 2017, the number of licensees and registrants reached a record high of 43,204, up 3.1% year-on-year, while the number of licensed corporations grew 13% to a new high of 2,549.
- **Competence requirements:** A June circular clarified certain competence requirements for existing licensed persons seeking to be licensed for Type 9 regulated activity (asset management).
- **Senior management accountability:** Under the Manager-In-Charge regime which took effect on 18 April, corporate licence applicants are required to submit management structure information and organisational charts to the SFC.
- **Intermediary inspection:** We conducted 74 risk-based on-site inspections of licensed corporations to review their compliance with regulatory requirements.

Market development

- **Mutual Recognition:** We signed a Memorandum of Understanding with the Autorité des Marchés Financiers on mutual recognition of funds.
- **Bond Connect:** We worked with the Hong Kong Monetary Authority and Hong Kong Exchanges and Clearing Limited to implement Bond Connect, which provides offshore institutional investors with access to the China Interbank Bond Market.

Enforcement

- **Disciplinary actions:** We disciplined three licensed corporations and seven representatives, resulting in total fines of \$11 million.
- **Market surveillance:** We made 2,617 requests for trading and account records from intermediaries following our surveillance of untoward price and turnover movements.

International collaboration

- **IOSCO:** Our Chief Executive Officer, Mr Ashley Alder, chaired the May Board meeting of the International Organization of Securities Commissions (IOSCO) and also led the IOSCO Task Force on Market Conduct, which published its report on the tools and approaches that IOSCO members use to discourage, prevent and sanction misconduct by individuals in wholesale markets.

Intermediaries

Licence applications

In the quarter, we received 1,698 licence applications¹, down 6.5% from the same quarter in 2016, while the number of corporate applications remained the same at 80.

As at 30 June, the number of licensees and registrants totalled 43,204, up 3.1% year-on-year, while the number of licensed corporations grew 13% to 2,549. Both were record highs.

Senior management accountability

Under the Manager-In-Charge (MIC) Regime which took effect on 18 April, corporate licence applicants must submit management structure information and organisational charts to the SFC. Existing licensed corporations were required to submit this information by 17 July.

We issued a circular in mid-June to remind the industry that MICs of overall management oversight and key business line functions of licensed corporations should apply for approval to become responsible officers by 16 October.

To facilitate the submission of MIC information from the more than 2,500 existing licensed corporations, we enhanced the SFC Online Portal and introduced its new features at a series of industry workshops we organised between February and April.

Substantial shareholders and responsible officers

A circular issued at the beginning of June reminded the industry that we may revoke the licences of corporations and individuals if they do not genuinely carry out a business in a regulated activity. This followed our observation that an increasing number of persons with no prior industry experience were seeking to set up or acquire licensed corporations in Hong Kong. Some responsible officers might be hired by these licensed corporations in name only and not have sufficient authority over the firms' management or operations. The circular also clarified that the vetting process for a substantial shareholder application is no less stringent than for a new corporate licence application.

Licensing information

In April, we published a comprehensive Licensing Handbook which consolidates and provides easier access to the licensing information previously contained in the Licensing Information Booklet and in frequently asked questions (FAQs) and circulars. The licensing section of the SFC website was also revamped to improve the user experience.

Competence requirements

On 23 June, we issued a circular to clarify certain competence requirements for existing licensed persons seeking to be licensed for Type 9 regulated activity (asset management) and to provide further guidance on how the SFC assesses the competence of a corporation or a responsible officer to carry on asset management activities.

For example, a responsible officer licensed for Type 1 regulated activity (dealing in securities) may, subject to the SFC's discretion, be licensed to engage in Type 9 regulated activity (asset management) without sitting for the required examination papers if he or she has five or more years of related experience in managing discretionary accounts as a wholly incidental activity and completes additional continuous professional training hours. The responsible officer's firm can then carry on discretionary account management business which is no longer restricted to being incidental to its dealing activities.

The circular was issued in response to enquiries from existing licensed persons who intend to broaden their business scope to include asset management.

Financial Resources Rules

In July, we published consultation conclusions on the proposed regulatory capital regime for licensed corporations engaged in over-the-counter (OTC) derivatives activities and other changes to the Securities and Futures (Financial Resources) Rules (FRR). We will implement the proposals, subject to modifications, and conduct a further consultation on some modified and additional FRR proposals, which are not specific to OTC derivatives activities, to reflect recent market developments.

¹ The figure does not include applications for provisional licences. See the licensing applications table on page 5 for details.

Intermediaries

Cybersecurity

In May, we launched a two-month consultation on our proposals to reduce and mitigate hacking risks associated with internet trading, setting out 20 baseline cybersecurity requirements including for two-factor authentication and notifications to clients. We conducted or co-hosted a series of presentations and seminars on our proposals for about a thousand industry participants.

Financial resolution regime

Together with the Government, the Hong Kong Monetary Authority (HKMA) and the Insurance Authority (IA), in April we jointly released the consultation conclusion on the Protected Arrangements Regulation which imposes appropriate constraints on the resolution authorities (namely, the HKMA, the IA and the SFC) under the Financial Institutions (Resolution) Ordinance².

Monitoring and promoting compliance

During the quarter, we conducted 74 risk-based on-site inspections of licensed corporations to review their compliance with relevant regulatory requirements.

In May, we issued a circular to alert the industry of ransomware threats and a circular to financial advisers in relation to their advisory work on valuations in corporate transactions.

Licenses and registrants

	As at 30.6.2017	As at 31.3.2017	Change (%)	As at 30.6.2016	YoY change (%)
Licensed corporations	2,549	2,484	2.6	2,255	13
Registered institutions	119	121	-1.7	119	0
Licensed individuals	40,536	40,267	0.7	39,518	2.6
Total	43,204	42,872	0.8	41,892	3.1

We held a forum in May on algorithmic trading to clarify some fundamental areas of concern and for the industry to share good practices, insights and challenges. The forum was attended by around 180 participants.

Following the April publication of our *Report on the fact-finding exercise on retail futures brokers*, we issued a circular in June to futures brokers setting out key areas of regulatory concern and expected standards of conduct and internal controls.

As part of our ongoing effort to promote compliance with anti-money laundering and counter-terrorist financing requirements, we issued eight circulars during the quarter. We also made three presentations to industry associations attended by around 400 participants in June.

Restriction notice on IDS Forex

On 12 June, we issued a restriction notice on IDS Forex HK Limited prohibiting the firm from carrying on all activities for which it is licensed following the conviction in Korea of its sole shareholder, Mr Kim Sunghun, for illegal fund-raising and fraud. We are concerned that IDS Forex's capital may be the proceeds of crime.

² Both the Commencement Notice of the Financial Institutions (Resolution) Ordinance and the Protected Arrangements Regulation were gazetted in May. They came into operation on 7 July.

Intermediaries

Licensing applications

	Quarter ended 30.6.2017	Quarter ended 31.3.2017	Change (%)	Quarter ended 30.6.2016	YoY change (%)
Applications to conduct new regulated activity	4,810	5,111	-5.9	4,981	-3.4
Applications for SFC licences [#]	1,698	1,902	-10.7	1,816	-6.5

[#] Figures do not include applications for provisional licences. During the quarter, we received 847 provisional licence applications compared with 923 in the same quarter last year.

Intermediary inspection

	Quarter ended 30.6.2017	Quarter ended 31.3.2017	Change (%)	Quarter ended 30.6.2016	YoY change (%)
Risk-based on-site inspections conducted	74	71	4.2	71	4.2

Investment products

Authorisations

As of 30 June, there were 2,793 SFC-authorized collective investment schemes (CIS) on offer to the public. During the quarter, we authorised 33 CIS, comprising 20 unit trusts and mutual funds, 12 mandatory provident fund (MPF) pooled investment funds and one investment-linked assurance scheme (ILAS). We also authorised 18 unlisted structured investment products for public offering.

Renminbi products

The total number of renminbi-denominated SFC-authorized unlisted funds and of exchange-traded funds (ETFs) investing onshore in the Mainland securities markets¹ was 64 and 26 respectively, as at 30 June.

Online distribution and advisory platforms

In view of the increasing use of online platforms by investors, we launched a three-month public consultation in May on proposed guidelines which aim to provide tailored guidance to the industry on the design and operation of online distribution and advisory platforms. The guidelines also clarify how the suitability requirement would operate in the online environment and contain specific guidance on the provision of automated or robo-advice on an online platform. The consultation closed on 4 August.

Mutual recognition of funds

France

On 10 July, we signed a Memorandum of Understanding with the Autorité des Marchés Financiers, our French counterpart, on mutual recognition of funds (MRF). The agreement allows eligible French and Hong Kong public funds to be distributed in the other market through a streamlined vetting process. It also establishes a framework for information exchange and regulatory cooperation. To provide the industry with further details, we issued a circular, frequently asked questions (FAQs) and an information checklist, and held an industry briefing session attended by over 80 industry participants in July.

Switzerland

On 20 June, the Swiss Financial Market Supervisory Authority (FINMA) authorised the first batch of two Hong Kong funds under the Switzerland-Hong Kong MRF scheme. FINMA further authorised two more Hong Kong funds on 18 July.

Mainland China

Under the Mainland-Hong Kong MRF, as of 30 June, we authorised a total of 49 Mainland funds (including two umbrella funds), and the China Securities Regulatory Commission approved eight Hong Kong funds.

Open-ended fund companies (OFC)

On 28 June, we launched a public consultation on the proposed Securities and Futures (Open-ended Fund Companies) Rules and the Code on Open-ended Fund Companies, setting out the detailed legal and regulatory requirements applicable to the new OFC structure². The OFC structure will enable investment funds to be established in corporate form in Hong Kong, in addition to the current unit trust form. The introduction of this new fund structure is part of our initiative to develop Hong Kong's asset management industry and enhance Hong Kong's position as a preferred fund domicile. The consultation ended on 28 August.

Revamped post-authorisation process

Our 30 June circular to fund management companies sets out the revamped process for handling applications for the approval of post-authorisation changes and authorisation of revised offering documents for SFC-authorized funds. We issued new FAQs and held two briefing sessions for fund industry participants to provide guidance to the industry.

¹ These unlisted funds and ETFs primarily invest in the Mainland securities markets through the Renminbi Qualified Foreign Institutional Investor quota, Stock Connect and the China Interbank Bond Market.

² As laid down in the Securities and Futures (Amendment) Ordinance 2016, gazetted on 10 June 2016.

Investment products

Authorised CIS^a

	As at 30.6.2017	As at 31.3.2017	Change (%)	As at 30.6.2016	YoY change (%)
Unit trusts and mutual funds	2,204	2,203	0	2,173	1.4
Investment-linked assurance schemes	301	300	0.3	300	0.3
Pooled retirement funds	34	34	0	34	0
MPF schemes	35 ^b	35	0	37	-5.4
MPF pooled investment funds	193 ^c	182	6	173	11.6
Others	26 ^d	26	0	26	0
Total	2,793	2,780	0.5	2,743	1.8

^a Excluding unlisted structured investment products.

^b Fifty-six authorised constituent funds under these MPF schemes were related to the default investment strategy (DIS).

^c Of which 20 were DIS-related.

^d Comprising 15 paper gold schemes and 11 real estate investment trusts.

Unlisted structured investment products

	Quarter ended 30.6.2017	Quarter ended 31.3.2017	Change (%)	Quarter ended 30.6.2016	YoY change (%)
Unlisted structured investment products ^a	18	17	5.9	7	157.1
Authorisations granted under section 105 of the SFO ^b	16	22	-27.3	14	14.3

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

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

Listings and takeovers

Listing policy

In July, we published the first issue of the *SFC Regulatory Bulletin: Listed Corporations*, providing guidance on the manner in which we perform some of our functions under the Securities and Futures (Stock Market Listing) Rules (SMLR) and the Securities and Futures Ordinance (SFO) in relation to listed corporations and other listing matters. We are taking steps under the SMLR and more generally under the SFO to intervene in serious cases at an early stage, in response to changing market conditions and risks, to protect the investing public.

We issued a statement in April setting out the factors we take into account when reviewing the proposed listing of infrastructure project companies in Hong Kong, including those from "Belt and Road" countries, covering potential country and related risks. We also issued a guidance note in May on directors' duties regarding valuations in corporate transactions together with a statement on the liability of valuers for disclosure of false or misleading information.

We are working with Hong Kong Exchanges and Clearing Limited (HKEX) on the conclusions to the joint consultation on proposed enhancements to The Stock Exchange of Hong Kong Limited's (SEHK) decision-making and governance structure for listing regulation. The conclusions will be published in due course.

IPO applications

Under the dual filing regime, we reviewed 86 new listing applications during the quarter, up 68.6% from 51 in the previous quarter and 21.1% from 71 in the same quarter last year. This was a new record high since the regime commenced in 2003.

GEM review and New Board proposal

Jointly, the SFC and SEHK conducted a holistic review of listing regulation including the Growth Enterprise Market (GEM). HKEX subsequently issued a consultation paper on a review of the GEM and changes to the GEM and Main Board Listing Rules on 16 June. The GEM review seeks to address structural issues affecting the alternative stock market and enhance the quality of GEM companies. The proposed

changes to the Listing Rules aim to ensure that there is a clear distinction between the Main Board and GEM, and to preserve the Main Board's position as a market for larger companies.

HKEX also issued a concept paper on the same day on a proposed New Board with two segments – New Board PREMIUM and New Board PRO.

Corporate regulation

We conduct a daily review of corporate announcements under the statutory corporate conduct and inside information disclosure provisions. During the quarter, we felt it appropriate to issue section 179¹ directions in 11 cases to gather additional information. The underlying concerns were varied and included whether a corporate action had been conducted in a manner which is oppressive or unfairly prejudicial to shareholders.

We exercised our power under sections 6 and 8 of the SMLR on two occasions. On 19 May, we served a notice under 6(2) of the SMLR to Asia Energy Logistics Group Limited that the SFC objected to the listing of its placing shares. On 6 June, we directed a trading suspension of the shares of Lerado Financial Group Company Limited pursuant to section 8(1) of the SMLR due to concerns that its 26 October 2015 circular in relation to an open offer included materially false, incomplete or misleading information.

Electronic disclosure of interests notices

Since 3 July when the mandatory electronic filing provisions under Part XV of the SFO commenced, disclosure of interests notices must be submitted via HKEX's electronic filing system. We conducted a training session on the new system in June for more than 250 members of The Hong Kong Institute of Chartered Secretaries.

¹ Section 179 of the SFO gives the SFC the power to compel the production of records and documents from persons related to a listed company.

Listings and takeovers

Takeovers Panel decision

The Takeovers Panel, in a written decision published on 10 May, ruled that a whitewash waiver should be made conditional on the outcome of the shareholder vote on a share buy-back offer announced by Television Broadcasts Limited (TVB) in January 2017, but that there would not be a separate vote on a whitewash waiver. The Takeovers Panel also agreed with the Takeovers Executive² that full disclosure should be made of the TVB shareholding and ownership structure

of Young Lion Holdings Limited, which together with its concert parties holds 29.9% of TVB's shares and could hold up to 41.2% of TVB's shares following the buy-back.

In May, TVB applied to the High Court of Hong Kong to commence judicial review of the panel's decision on the whitewash waiver.

Listing applications and takeovers activities

	Quarter ended 30.6.2017	Quarter ended 31.3.2017	Change (%)	Quarter ended 30.6.2016	YoY change (%)
Listing applications filed under the dual filing regime	86	51	68.6	71	21.1
Takeovers and share buy-back transactions	132	138	-4.3	113	16.8

² This refers to the Executive Director of the SFC's Corporate Finance Division or his delegate.

Market infrastructure

Bond Connect

We worked with the Hong Kong Monetary Authority (HKMA) and Hong Kong Exchanges and Clearing Limited (HKEX) to implement Bond Connect, launched on 3 July to provide offshore institutional investors with access to the China Interbank Bond Market via the China Foreign Exchange Trade System & National Interbank Funding Centre (CFETS). On 29 June, the SFC approved the automated trading services (ATS) application of Bond Connect Company Limited, a joint venture company established in Hong Kong between HKEX and CFETS to facilitate the operation of Bond Connect.

Closing Auction Session Phase 2

In June, the SFC approved HKEX's proposed rule amendments to introduce Closing Auction Session (CAS)¹ Phase 2, which covers constituent stocks of the Hang Seng Composite SmallCap Index and allows short selling orders. CAS Phase 2 was launched in July.

Enhanced position limit regime

Following a public consultation which concluded in March, the enhanced position limit regime for futures and options contracts became effective on 1 June after completion of the legislative amendments. The regime expands the scope of excess position limits which can be granted to qualified market participants.

Automated trading services

	As at 30.6.2017	As at 31.3.2017	Change (%)	As at 30.6.2016	YoY change (%)
ATS authorisations under Part III	50	49	2	39	28.2
Corporations providing ATS under Part V	24	24	0	27	-11.1

¹ CAS Phase 1, launched by HKEX to its cash market in July 2016, covered constituent stocks of the Hang Seng Composite LargeCap and MidCap Indices, H shares which have corresponding A shares listed on a Mainland exchange and all exchange-traded funds.

² Delta One Warrants are call warrants with a strike price set at zero or very close to zero. They are intended to enable investors to gain synthetic exposure to the underlying assets, in particular in closed or difficult-to-access markets.

³ Under the SFO, two regimes regulate ATS providers. Typically, those that offer facilities similar to those of a traditional exchange or a clearing house are authorised by Part III under the SFO. Intermediaries that provide dealing services with ATS as an added facility are licensed under Part V of the SFO.

Over-the-counter (OTC) derivatives

In response to requests from market participants, we launched a joint public consultation with HKMA in April on proposed adjustments to the scope of the term "OTC derivative product" under the OTC derivatives regulatory regime. The adjustments exclude Delta One Warrants² from the definition of the term and prescribe additional markets and clearing houses so that products traded and cleared through them will not be regarded as "OTC derivative products".

We approved a product proposal from OTC Clearing Hong Kong Limited (OTC Clear) to clear Hong Kong dollar basis swaps and non-deliverable interest rate swaps in five Asian currencies. The service was launched in May. For mandatory clearing purposes, in June we also designated OTC Clear as a central counterparty for Hong Kong dollar basis swaps.

Automated trading services

As of 30 June, the number of ATS³ authorisations under Part III of the Securities and Futures Ordinance (SFO) was 50, while 24 corporations, including 16 dark pool operators, were licensed under Part V of the SFO to provide ATS.

Enforcement

Market Misconduct Tribunal

- In an inquiry where the Market Misconduct Tribunal (MMT) imposed its heaviest financial sanction to date, the former chairman and chief executive officer of Greencool Technology Holdings Limited, Gu Chujun¹, was ordered to disgorge approximately \$481 million of profit from grossly overstating financial statements in a five-year period. In addition, the MMT made a cold shoulder order² against Gu effective for five years and disqualified Gu and four other former senior executives for three to five years.
- The MMT made a determination that in the publication of a circular on 12 September 2008, CITIC Limited and five of its former executive directors had not disclosed false or misleading information that was likely to maintain, increase, reduce or stabilise the price of CITIC shares and so had not engaged in market misconduct.
- The MMT ruled that Mayer Holdings Limited and nine of its former directors and senior executives failed to disclose inside information as soon as reasonably practicable and fined them a total of \$10.2 million. The MMT also imposed disqualification orders for periods ranging from 12 to 20 months against the senior executives and ordered Mayer to appoint an independent professional adviser to review its procedures for compliance with the corporate disclosure regime. Mayer and eight of the senior executives have filed appeals against the MMT's decision and orders.

Court proceedings

- An appeal by Moody's Investors Service Hong Kong Limited against the Securities and Futures Appeals Tribunal's decision to uphold our disciplinary action in relation to a special comment report³ was dismissed by the Court of Appeal on the basis that the preparation and publication of the report was part of the carrying on of Moody's credit ratings business.

- The Court of Appeal dismissed our appeal, and our application for leave to appeal to the Court of Final Appeal, against the MMT's findings that Yiu Hoi Ying and Marian Wong Nam, two former executives of Asia Telemedia Limited⁴, had not engaged in insider dealing. We instituted parallel proceedings in the Court of First Instance under section 213 of the Securities and Futures Ordinance against the company's former chairman, Lu Ruifeng, for alleged insider dealing in its shares.
- We commenced criminal proceedings in the Eastern Magistrates' Court against Lam Yik Tung, Chan Lit Chun and Anson Mui Ka Leung for alleged insider dealing.
- The Court of First Instance dismissed the appeal of Hong Kong Game Theory Association Limited and Sze Ching Lok, its sole director, against their convictions for carrying on a business in advising on futures contracts without a licence.
- In two separate cases of illegal short selling, former responsible officer of China Rise Securities Asset Management Company Limited Shiu Kin Keung Sammy and retail investors Cheng Chi Fei and Wong Kin were convicted and fined by the Eastern Magistrates' Court.
- The Eastern Magistrates' Court convicted and fined QMIS Securities Limited and Huang Kuang Cheng, its former responsible officer, for making false or misleading representations when submitting licensing information to the SFC.

Disciplinary actions

We disciplined three licensed corporations and seven representatives, resulting in total fines⁵ of \$11 million.

Anti-money laundering

- Guoyuan Securities Brokerage (Hong Kong) Limited was reprimanded and fined \$4.5 million for failing to conduct proper enquiries to mitigate the risks of money laundering and terrorist financing when processing third-party fund transfers for clients.

¹ In June 2014, we commenced proceedings in the Court of First Instance under section 213 of the Securities and Futures Ordinance (SFO) to seek compensation from Gu for losses caused to over 1,300 Greencool minority shareholders.

² A sanction that prevents a person from accessing, directly or indirectly, the Hong Kong securities market for a stated period.

³ In the report, entitled "Red Flags for Emerging-Market Companies: A Focus on China" published on 11 July 2011, Moody's assessed 49 Mainland companies against 20 warning signs it called "red flags".

⁴ Now known as Yunfeng Financial Group Limited.

⁵ Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.

Enforcement

Its former responsible officer, Hui Lam Chiu, was suspended for six months for failing to ensure the firm took all reasonable anti-money laundering measures.

- iSTAR International Futures Co. Limited⁶ was also reprimanded and fined \$3 million for third-party fund transfer deficiencies, while Wu Biwei, its former responsible officer and managing director, was suspended for six months.

Unauthorised share sale

- Tsap Wai Ping was prohibited from re-entering the industry for two years for soliciting the sale of shares in Yinfu Gold Corporation to the public without the SFC's authorisation.

Misappropriation

- Promising Securities Company Limited was reprimanded and fined \$3.5 million for misappropriation of client assets by unlicensed staff.

Theft and Code of Conduct breaches

- In separate cases involving former bank employees, Daniel Chen Chi Lik was banned from re-entering the industry for life following his conviction for theft and Li Bo was banned for eight months for breaching his employer's staff trading policy and the SFC Code of Conduct⁷.
- Fok Chi Kin was prohibited from re-entering the industry for eight months for breaching his former employer's internal policies, the Personal Data (Privacy) Ordinance and the SFC Code of Conduct⁷ by sending proprietary information and client data to his personal email account.

Market surveillance

We made 2,617 requests for trading and account records from intermediaries in the quarter. In addition, we posted seven high shareholding concentration announcements on our website to remind investors to exercise caution when trading shares in companies where a small number of shareholders hold a high concentration of shares.

⁶ Now known as Rifa Futures Limited.

⁷ Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

Enforcement

Enforcement activities

	Quarter ended 30.6.2017	Quarter ended 31.3.2017	Change (%)	Quarter ended 30.6.2016	YoY change (%)
S179 ^a inquiries commenced	9	9	0	4	125
S181 ^b inquiries commenced (number of letters sent)	80 (2,617)	94 (2,472)	5.9	81 (2,236)	17
S182 ^c directions issued	90	95	-5.3	158	-43
Investigations started	89	97	-8.2	160	-44.4
Investigations completed	55	134	-59	165	-66.7
Investigations completed within seven months (%)	18 (33%)	49 (37%)	-63.3	75 (45%)	-76
Individuals/corporations charged in criminal proceedings	7	6	16.7	0	N/A
Criminal charges laid	14	31	-54.8	0	N/A
Notices of Proposed Disciplinary Action ^d issued	7	7	0	16	-56.3
Notices of Decision ^e issued	9	17	-47.1	10	-10
Individuals/corporations subject to ongoing civil proceedings	126	126	0	100	26
Compliance advice letters issued	90	139	-35.3	87	3.4
Cases with search warrants executed	8	10	-20	8	0

^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.

Global Regulatory Engagement

IOSCO

We remain actively involved in international policy making, chairing the Board of the International Organization of Securities Commissions (IOSCO) and participating in all eight of its policy committees.

Since Mr Ashley Alder, our Chief Executive Officer, was appointed Chair of the IOSCO Board, we worked closely with the IOSCO Secretariat to enhance the relevance of IOSCO's work to the Board and the wider membership, clarify the intersection of the policy work of IOSCO and the Financial Stability Board (FSB) and promote interaction between members from emerging and developed economies.

Mr Alder chaired the IOSCO Task Force on Market Conduct, which on 13 June issued its final report on the tools and approaches that IOSCO members use to discourage, identify, prevent and sanction misconduct by individuals in wholesale markets.

During the IOSCO Annual Conference in May, Mr Alder chaired an IOSCO Board meeting which discussed vulnerabilities in asset management, European Union (EU) data privacy regulation, central counterparty risks and the effects of derivatives reforms and cyber resilience. In multilateral meetings, we discussed EU data privacy laws, different share classes, and other issues relevant to the Asia Pacific region, as well as the implementation of the IOSCO Multilateral Memorandum of Understanding.

We will host the second EU-Asia Forum in Hong Kong on 1 December. Regulators from the EU and the Asia-Pacific region will discuss cross-border regulatory issues and further collaboration, and address issues arising out of EU regulations which have an impact on Hong Kong and the region. The inaugural EU-Asia Forum was held in October 2016.

Financial Stability Board

Mr Alder was invited to be a member of the FSB Nominations Committee which will identify candidates for the role of the FSB Secretary General for the FSB Plenary's consideration.

In May, Mr. Keith Lui, Executive Director of Supervision of Markets, attended a meeting of the FSB Standing Committee of Standards Implementation which considered the effects of reforms and discussed its

future thematic peer reviews. Mr. Lui also participated in the FSB Regional Consultative Group for Asia meeting held in June, where vulnerabilities and financial stability issues affecting Asia were discussed.

We coordinated with the Hong Kong Monetary Authority, the Insurance Authority and the Government of the Hong Kong Special Administrative Region (HKSAR) to respond to the FSB's annual monitoring exercise on shadow banking and to prepare for its peer review of Hong Kong.

Mainland China

We work closely with Mainland authorities to support Hong Kong's long-term strategic development amid the opening of Mainland financial markets. We regularly interact with the China Securities Regulatory Commission (CSRC) in high-level discussions on regulatory collaboration covering Stock Connect and other cross-border cooperative schemes.

Under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), two new agreements, the Investment Agreement and the Agreement on Economic and Technical Cooperation, were signed between the HKSAR Government and the Ministry of Commerce on 28 June and will be implemented from 1 January 2018.

We participated in discussions with Mainland authorities to formulate the new CEPA measures relating to the securities sector, including:

- enhancing the mechanism for cross-border renminbi fund flows and closer financial cooperation,
- studying the further expansion of the scope of eligible securities under Stock Connect,
- reviewing and assessing the progress of the Mainland-Hong Kong Mutual Recognition of Funds scheme, and
- supporting the development of offshore risk management business for the Mainland financial markets.

Global Regulatory Engagement

Also during this period, CSRC granted approval for two Hong Kong financial institutions to set up multi-licensed joint venture securities companies in the Mainland, Bond Connect was launched, and the Renminbi Qualified Foreign Institutional Investor investment quota for Hong Kong was increased from RMB270 billion to RMB500 billion.

We organised seminars and training programmes for senior executives from Mainland authorities or organisations to enhance their understanding of our regulatory work. In May, we attended the seventh Working Meeting of Hong Kong-Shanghai Financial Co-operation in Shanghai.

Other regulatory engagement

We maintain close contact with local and overseas regulatory counterparts in order to keep abreast of developments in emerging regulatory and financial technologies (Fintech). During the quarter, we signed

Fintech cooperation agreements with the UK Financial Conduct Authority and the Australian Securities & Investments Commission.

We also held meetings during the quarter with other overseas regulators, institutions and government representatives, including the US Securities and Exchange Commission, Japan Financial Services Authority, Monetary Authority of Singapore and Saudi Capital Market Authority.

As part of our engagement with overseas authorities and institutions, we responded to 40 requests for technical assistance and bilateral regulatory cooperation.

Stakeholder communication

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

We launched three consultations during the quarter. In May, we began a consultation on new guidelines on online distribution and advisory platforms as well as a consultation on proposals to reduce and mitigate hacking risks associated with internet trading. In June, we launched a consultation on the detailed legal and regulatory requirements applicable to the new open-ended fund company (OFC) structure.

In addition, we launched a joint public consultation with the Hong Kong Monetary Authority in April on the prescription of additional markets and clearing houses as well as of Delta One Warrants for the purpose of the over-the-counter derivatives regulatory regime.

During the quarter, our senior executives spoke at 34 local and international conferences to share our regulatory approach in various areas. Separately, we supported two industry events and met with around 20 industry associations.

We also held two briefing sessions for the industry on the proposed subsidiary legislation and regulatory code for the new OFC structure and conducted a media briefing which covered baseline cybersecurity requirements, account opening procedures, inspections of intermediaries and the Manager-In-Charge regime.

To supplement our existing e-subscription system, we added a Really Simple Syndication (RSS) subscription service to our website to facilitate public access to the latest updates from the SFC.

We produced a wide range of publications during the quarter, including:

- a comprehensive *Licensing Handbook*, which consolidates material previously issued in the *Licensing Information Booklet*, frequently asked questions and circulars;



- the May issue of the *Enforcement Reporter*, which highlighted the liabilities of directors and senior executives of listed companies and discussed senior management accountability and valuations in corporate transactions;
- our *Annual Report 2016-17*, released in June, summarised the SFC's work during the year and our strategic priorities;
- the June issue of the *Takeovers Bulletin* discussed the Takeovers Panel's decision related to Television Broadcasts Limited and revisions to the Codes on Takeovers and Mergers and Share Buy-backs; and
- a *Report on the fact-finding exercise on retail futures brokers* which aimed to understand the business profiles and risk management controls and practices of 10 local futures brokers.

We issued 21 circulars to inform industry participants about a wide range of matters, including directors' duties on valuations in corporate transactions, competence requirements for those seeking to be licensed to carry on asset management services and anti-money laundering.

Stakeholder communication

Publications and other communications

	Quarter ended 30.6.2017	Quarter ended 31.3.2017	Quarter ended 30.6.2016
Press releases	45	36	28
Consultation papers	4	1	1
Consultation conclusions	2	1	0
Industry-related publications	4	4	1
Codes and guidelines	4	2	1
Circulars to industry	21	19	11
Corporate website average daily page views ¹	68,825	67,584	57,265
General enquiries	1,722	1,861	1,728

¹ The average number of web pages browsed per day during the reporting period.

Corporate Developments

In April, the Government re-appointed Mr Ashley Alder as the Chief Executive Officer for a three-year term effective 1 October.

Also in the same month, Mr Albert Au Siu-cheung was re-appointed as Non-Executive Director for a term of two years effective 26 May.

Ms Prudence Ann Bennett, Mrs Ann Kung Yeung Yun-chi and Dr Tan Yue-heng were appointed as new members of the Advisory Committee for two years effective 1 June.

Meanwhile, there were new appointments and reappointments to the following committees¹ with effect from 1 April:

- Academic and Accreditation Advisory Committee
- Committee on Real Estate Investment Trusts
- Public Shareholders Group

Finances

	Quarter ended 30.6.2017	Quarter ended 31.3.2017	Quarter ended 30.6.2016	YoY change (%)
Income (\$ million)	426	421	287	+48%
Expenses including depreciation (\$ million)	424	451	416	+2%
Surplus / (loss) (\$ million)	2	(30)	(129)	N/A

We upgraded our information technology infrastructure and strengthened our network security against malware and ransomware threats. Business intelligence reports were deployed to help analyse licensing and investigation cases.

- SFC (HKEC Listing) Committee
- Share Registrars' Disciplinary Committee
- Takeovers and Mergers Panel
- Takeovers Appeal Committee

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

Our income for the quarter was \$426 million, about the same as in the previous quarter and 48% higher than the same quarter last year. Average daily turnover in Hong Kong's securities market was \$78 billion, 24% higher than the \$63 billion recorded in the same quarter last year. Expenditure for the quarter was \$424 million, 6% lower than last quarter and 2% higher year-on-year. At 30 June, our reserves stood at \$6.9 billion, of which \$3 billion was set aside for the possible acquisition of office premises.

As of 30 June, we had 869 staff members, up from 845 a year ago.

¹ Each of these committees is set up under the Securities and Futures Ordinance and specialises in particular regulatory areas.

Activity Data

Table 1 Breaches noted during on-site inspections

Nature of breaches	Quarter ended 30.6.2017	Quarter ended 31.3.2017	Change (%)	Quarter ended 30.6.2016	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	5	4	25	4	25
Failure to safekeep client securities	10	16	-37.5	7	42.9
Failure to maintain proper books and records	8	7	0	10	-30
Failure to safekeep client money	15	15	6.7	14	14.3
Unlicensed dealing and other registration issues	3	1	200	6	-50
Breach of licensing conditions	2	5	-60	1	100
Breach of requirements of contract notes/statements of account/receipts	19	21	-9.5	19	0
Failure to make filing/notification	1	3	-66.7	0	N/A
Breach of margin requirements	2	2	0	0	N/A
Marketing malpractices	0	0	0	0	0
Illegal short selling of securities	0	1	-100	0	0
Dealing malpractices	0	4	-100	2	-100
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ¹	86	81	7.4	126	-31
Breach of Corporate Finance Adviser Code of Conduct	3	2	50	11	-72.7
Breach of Fund Manager Code of Conduct	23	30	-23.3	22	4.5
Breach of regulation of on-line trading	3	1	200	2	50
Non-compliance with anti-money laundering guidelines	37	33	12.1	55	-32.7
Breach of other rules and regulations of the Exchanges ²	4	2	100	7	-42.9
Breach of other rules and regulations of the Mandatory Provident Fund Schemes Authority	0	0	0	0	0
Internal control weaknesses ³	132	137	-4.4	117	12
Others	18	54	-66.7	17	5.9
Total	371	419	-11.5	420	-11.7

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

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

³ Deficiencies in management review and supervision, operational controls over the handling of client accounts, segregation of duties, information management and adequacy of audit trail for internal control purposes, among other weaknesses.

Activity Data

Table 2 Authorised unit trusts and mutual funds – by type

	Number as at 30.6.2017	Number as at 31.3.2017	Change (%)	Number as at 30.6.2016	YoY change (%)
Bond	431	430	0.2	407	5.9
Equity	1,017	1,018	-0.1	1,036	-1.8
Diversified	164	162	1.2	152	7.9
Money market	44	44	0	45	-2.2
Fund of funds	113	113	0	106	6.6
Index ¹	181	182	-0.5	174	4
Guaranteed	4	3	33.3	3	33.3
Hedge	2	2	0	2	0
Other specialised ²	7	7	0	13	-46.2
Sub-total	1,963	1,961	0.1	1,938	1.3
Umbrella structures	241	242	-0.4	235	2.6
Total	2,204	2,203	0	2,173	1.4

¹ Including leveraged and inverse products.

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

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

	Total NAV (US\$ million) as at 30.6.2017	Total NAV (US\$ million) as at 31.3.2017	Change (%)	Total NAV (US\$ million) as at 30.6.2016	YoY change (%)
Bond	511,743	465,267	10	434,170 ¹	17.9
Equity	684,944	638,848	7.2	597,550	14.6
Diversified	148,550	137,454	8.1	122,505 ¹	21.3
Money market	20,802	21,014	-1	19,898	4.5
Fund of funds	21,272	19,865	7.1	15,774	34.9
Index ²	96,531	92,069	4.8	96,866	-0.3
Guaranteed	134	127	5.7	68	97.4
Hedge	27	28	-4	49	-45.2
Other specialised ³	1,170	1,288	-9.2	1,474	-20.6
Total	1,485,173	1,375,960	7.9	1,288,354¹	15.3

¹ These figures differ from those disclosed in the Quarterly Report April - June 2016 due to revised figures reported after that report's issuance.

² Including leveraged and inverse products.

³ Including futures and options funds, structured funds and funds that invest in financial derivative instruments.

Activity Data

Table 4 Authorised unit trusts and mutual funds – by origin

	Number as at 30.6.2017	Number as at 31.3.2017	Change (%)	Number as at 30.6.2016	YoY change (%)
Hong Kong	745	735	1.4	686 ¹	8.6
Luxembourg	1,019	1,009	1	1,010	0.9
Ireland	252	256	-1.6	270	-6.7
United Kingdom	63	64	-1.6	69	-8.7
Mainland China	49	49	0	37	32.4
Other Europe	3	3 ²	0	3	0
Bermuda	5	5	0	5	0
Cayman Islands	60	74	-18.9	84 ¹	-28.6
Others	8	8 ²	0	9	-11.1
Total	2,204	2,203	0	2,173	1.4

¹ These figures differ from those disclosed in the Quarterly Report April - June 2016 due to re-categorisation of funds' places of origin after that report's issuance.

² These figures differ from those disclosed in the Annual Report 2016-17 due to different categorisation of funds' places of origin.

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

	Total NAV (US\$ million) as at 30.6.2017	Total NAV (US\$ million) as at 31.3.2017	Change (%)	Total NAV (US\$ million) as at 30.6.2016	YoY change (%)
Hong Kong	140,451	131,605	6.7	123,429 ¹	13.8
Luxembourg	980,207	910,351	7.7	849,134	15.4
Ireland	193,917	172,383	12.5	149,508	29.7
United Kingdom	98,379	90,987	8.1	88,756	10.8
Mainland China	18,187	17,056	6.6	15,441 ²	17.8
Other Europe	108	94 ³	14.9	60	80
Bermuda	204	217	-5.9	264	-22.7
Cayman Islands	11,184	11,546	-3.1	11,439 ¹	-2.2
Others	42,538	41,721 ³	2	50,323	-15.5
Total	1,485,173	1,375,960	7.9	1,288,354⁴	15.3

¹ These figures differ from those disclosed in the Quarterly Report April - June 2016 due to re-categorisation of funds' places of origin after that report's issuance.

² This figure differs from that disclosed in the Quarterly Report April - June 2016 due to revised figures reported after that report's issuance.

³ These figures differ from those disclosed in the Annual Report 2016-17 due to different categorisation of funds' places of origin.

⁴ See footnotes 1 and 2.

Activity Data

Table 6 Takeovers activities

	Quarter ended 30.6.2017	Quarter ended 31.3.2017	Change (%)	Quarter ended 30.6.2016	YoY change (%)
Codes on Takeovers and Mergers and Share Buy-backs					
General and partial offers under Code on Takeovers and Mergers	21	17	23.5	12	75
Privatisations	4	3	33.3	4	0
Whitewash waiver applications	11	11	0	11	0
Other applications under Code on Takeovers and Mergers ¹	96	105	-8.6	85	12.9
Off-market and general offer share buy-backs	0	2	-100	1	-100
Other applications under Code on Share Buy-backs ¹	0	0	0	0	0
Total	132	138	-4.3	113	16.8
Executive Statements					
Sanctions imposed with parties' agreement ²	0	0	0	2	-100
Takeovers and Mergers Panel					
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	0	0	0	0	0
Hearings before the Panel (disciplinary and non-disciplinary)	1	0	N/A	1	0
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 30.6.2017	Quarter ended 31.3.2017	Change (%)	Quarter ended 30.6.2016	YoY change (%)
Conduct of licensees	74	133	-44.4	99	-25.3
Conduct of registered institutions	6	7	-14.3	14	-57.1
Listed companies and disclosure of interests	204	168	21.4	155	31.6
Market misconduct ¹	53	67	-20.9	52	1.9
Product disclosure	1	1	0	3	-66.7
Unlicensed activities	27	24	12.5	34	-20.6
Breach of offers of investments	17	62	-72.6	6	183.3
Boiler rooms and suspicious websites	86	107	-19.6	92	-6.5
Scams and frauds ²	45	28	60.7	39	15.4
Other financial activities ³	67	17	294.1	54	24.1
Total	580	614	-5.5	548	5.8

¹ Primarily, alleged market manipulation and insider dealing.

² Such as identity fraud and impersonation.

³ For example, bullion trading, banking complaints.

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

	Unaudited quarter ended 30 June 2017 \$'000	Unaudited quarter ended 30 June 2016 \$'000
Income		
Levies	272,269	238,456
Fees and charges	40,854	34,079
Investment income	99,728	13,918
Less: custody and advisory expenses	(1,824)	(1,195)
Investment income net of third party expenses	97,904	12,723
Recoveries from the Investor Compensation Fund	1,450	1,390
Other income	13,139	156
	425,616	286,804
Expenses		
Staff costs and directors' emoluments	317,023	296,983
Premises		
Rent	52,630	51,511
Rates, management fees and others	12,700	12,251
Other expenses	34,391	44,000
Depreciation	6,938	10,684
	423,682	415,429
Surplus/(loss) and total comprehensive income for the quarter	1,934	(128,625)

Highlights

Operational Review

Corporate Developments

Activity Data

Financial Statements

The notes on pages 28 to 30 form part of the condensed consolidated financial statements.

Securities and Futures Commission

Condensed consolidated statement of financial position

At 30 June 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 June 2017 \$'000	Audited at 31 March 2017 \$'000
Non-current assets			
Fixed assets		62,649	63,455
Current assets			
Held-to-maturity debt securities		30,001	30,003
Financial assets designated at fair value through profit or loss			
Debt securities		753,914	716,403
Pooled funds		1,023,656	941,911
Debtors, deposits and prepayments		176,590	158,450
Fixed deposits with banks	2	5,025,129	5,107,808
Cash at bank and in hand	2	38,605	75,462
		7,047,895	7,030,037
Current liabilities			
Fees received in advance		8,524	9,210
Creditors and accrued charges		140,622	128,218
		149,146	137,428
Net current assets		6,898,749	6,892,609
Total assets less current liabilities		6,961,398	6,956,064
Non-current liabilities	3	37,564	34,164
Net assets		6,923,834	6,921,900
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,880,994	3,879,060
		6,923,834	6,921,900

The notes on pages 28 to 30 form part of the condensed consolidated financial statements.

Securities and Futures Commission

Consolidated statement of financial position

At 30 June 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 June 2017 \$'000	Audited at 31 March 2017 \$'000
Non-current assets			
Fixed assets		62,424	63,167
Current assets			
Held-to-maturity debt securities		30,001	30,003
Financial assets designated at fair value through profit or loss			
Debt securities		753,914	716,403
Pooled funds		1,023,656	941,911
Debtors, deposits and prepayments		180,375	158,516
Fixed deposits with banks		5,025,129	5,107,808
Cash at bank and in hand		31,180	71,262
		7,044,255	7,025,903
Current liabilities			
Fees received in advance		8,524	9,210
Creditors and accrued charges		136,757	123,796
		145,281	133,006
Net current assets		6,898,974	6,892,897
Total assets less current liabilities		6,961,398	6,956,064
Non-current liabilities	3	37,564	34,164
Net assets		6,923,834	6,921,900
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,000,000	3,000,000
Accumulated surplus		3,880,994	3,879,060
		6,923,834	6,921,900

The notes on pages 28 to 30 form part of the condensed consolidated financial statements.

Securities and Futures Commission

Condensed consolidated statement of changes in equity

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Reserve for property acquisition \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2016	42,840	–	7,234,700	7,277,540
Transfer to reserve for property acquisition	–	3,000,000	(3,000,000)	–
Loss and total comprehensive income for the quarter	–	–	(128,625)	(128,625)
Balance at 30 June 2016	42,840	3,000,000	4,106,075	7,148,915
Balance at 1 April 2017	42,840	3,000,000	3,879,060	6,921,900
Surplus and total comprehensive income for the quarter	–	–	1,934	1,934
Balance at 30 June 2017	42,840	3,000,000	3,880,994	6,923,834

Highlights

Operational Review

Corporate Developments

Activity Data

Financial Statements

The notes on pages 28 to 30 form part of the condensed consolidated financial statements.

Securities and Futures Commission

Condensed consolidated statement of cash flows

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended 30 June 2017 \$'000	Unaudited quarter ended 30 June 2016 \$'000
Cash flows from operating activities			
Surplus/(loss) and total comprehensive income for the quarter		1,934	(128,625)
Adjustments for:			
Depreciation		6,938	10,684
Investment income		(99,728)	(13,918)
Exchange difference		(7,793)	(174)
Loss on disposal of fixed assets		–	7
		(98,649)	(132,026)
Increase in debtors, deposits and prepayments		(16,990)	(22,104)
Increase in creditors and accrued charges		12,404	43,293
Decrease in fees received in advance		(686)	(56)
Increase in non-current liabilities		3,400	1,247
<i>Net cash used in operating activities</i>		(100,521)	(109,646)
Cash flows from investing activities			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		54,835	(309,385)
Interest received		19,950	15,861
Debt securities designated at fair value through profit or loss purchased		(159,335)	(945,156)
Debt securities designated at fair value through profit or loss sold or redeemed		125,684	175,898
Pooled funds sold		818	562
Fixed assets purchased		(6,132)	(6,734)
<i>Net cash generated from/(used in) investing activities</i>		35,820	(1,068,954)
Net decrease in cash and cash equivalents		(64,701)	(1,178,600)
Cash and cash equivalents at beginning of the quarter		676,727	1,522,116
Cash and cash equivalents at end of the quarter	2	612,026	343,516

Analysis of the balance of cash and cash equivalents

	Unaudited at 30 June 2017 \$'000	Unaudited at 30 June 2016 \$'000
Fixed deposits with banks	573,421	324,083
Cash at bank and in hand	38,605	19,433
	612,026	343,516

The notes on pages 28 to 30 form part of the condensed consolidated financial statements.

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2017 (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 Securities and Futures Commission (SFC) since the annual financial statements for the year ended 31 March 2017. 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 2017 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 2017. 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 2017 to the condensed consolidated interim financial information.

There were no significant changes in the operations of the SFC for the quarter ended 30 June 2017.

2. Cash and cash equivalents

Reconciliation with the condensed consolidated statement of financial position

	Unaudited at 30 June 2017 \$'000	Audited at 31 March 2017 \$'000
Cash at bank and in hand	38,605	75,462
Fixed deposits with banks	5,025,129	5,107,808
Amounts shown in the condensed consolidated statement of financial position	5,063,734	5,183,270
Less : Amounts with an original maturity of beyond three months	(4,451,708)	(4,506,543)
Cash and cash equivalents in the condensed consolidated statement of cash flows	612,026	676,727

3. 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 2017 to 2020 as an integral part of the lease expense.

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

4. 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 2017. Therefore we do not provide an ageing analysis of debtors and creditors.

5. 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.

6. 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 2017, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (31 March 2017: \$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.

7. 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 \$1,450,000 (2016: \$1,390,000), in accordance with section 242(1) of the SFO. As at 30 June 2017, the amount due to the ICF from ICC was \$516,000 (31 March 2017: \$75,000).

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

7. Related party transactions (cont'd)

(b) Remuneration of key management personnel comprised:

	Unaudited quarter ended 30 June 2017 \$'000	Unaudited quarter ended 30 June 2016 \$'000
Directors' fees and salaries, allowances and benefits in kind	8,060	7,586
Retirement scheme contributions	736	654
	8,796	8,240

The total remuneration is included in "staff costs and directors' emoluments" on page 23. 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.

8. Commitment to pay rents for offices

At 30 June 2017 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 agreements, is as follows :

	Unaudited quarter ended 30 June 2017 \$'000	Unaudited quarter ended 30 June 2016 \$'000
Payable next year	202,778	205,077
Payable in one to five years	434,235	477,534
Payable in more than five years	-	-
	637,013	682,611

During the quarter, \$52,630,000 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 (2016: \$51,511,000).

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 quarter ended 30 June 2017.

Establishment of the Investor Compensation Fund

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

Financial statements

The financial performance of the Fund for the reporting period ended 30 June 2017 and the financial position of the Fund's affairs as at that date are set out in the unaudited condensed financial statements on pages 32 to 37.

Members of the Committee

The members of the Committee during the quarter ended 30 June 2017 and up to the date of this report were:

Mr Keith Lui (Chairman)

Ms Teresa Ko Yuk-yin, JP

Mr Lee Kwok Keung

Mr Thomas Allan Atkinson

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 2017

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended 30 June 2017 \$'000	Unaudited quarter ended 30 June 2016 \$'000
Income			
Net investment income		30,226	23,729
Exchange difference		7,503	258
		37,729	23,987
Expenses			
Investor Compensation Company Limited expenses	2	1,450	1,390
Compensation expenses	3	–	289
Auditor's remuneration		34	33
Bank charges		236	235
Professional fees		1,059	974
		2,779	2,921
Surplus and total comprehensive income for the quarter		34,950	21,066

Highlights

Operational Review

Corporate Developments

Activity Data

Financial Statements

The notes on pages 36 and 37 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of financial position

At 30 June 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 June 2017 \$'000	Audited at 31 March 2017 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
Debt securities		1,883,375	1,893,248
Pooled fund		347,718	330,386
Interest receivable		13,946	13,651
Due from Investor Compensation Company Limited		516	75
Fixed deposits with banks		70,298	26,201
Cash at bank		1,405	18,770
		2,317,258	2,282,331
Current liabilities			
Provision for compensation	3	326	476
Creditors and accrued charges		1,576	1,449
		1,902	1,925
Net current assets		2,315,356	2,280,406
Net assets		2,315,356	2,280,406
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		1,211,715	1,176,765
		2,315,356	2,280,406

The notes on pages 36 and 37 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of changes in equity

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

	Contributions from Unified Exchange Compensation Fund \$'000	Contributions from Commodity Exchange Compensation Fund \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 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
Balance at 1 April 2017	994,718	108,923	1,176,765	2,280,406
Surplus and total comprehensive income for the quarter	–	–	34,950	34,950
Balance at 30 June 2017	994,718	108,923	1,211,715	2,315,356

The notes on pages 36 and 37 form part of the condensed financial statements.

Investor Compensation Fund

Condensed statement of cash flows

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

	Unaudited quarter ended 30 June 2017 \$'000	Unaudited quarter ended 30 June 2016 \$'000
Cash flows from operating activities		
Surplus for the quarter	34,950	21,066
Adjustments for:		
Net investment income	(30,226)	(23,729)
Exchange difference	(7,503)	(258)
	(2,779)	(2,921)
Increase in amount due from Investor Compensation Company Limited	(441)	(490)
(Decrease)/ increase in provision for compensation	(150)	289
Increase in creditors and accrued charges	127	104
<i>Net cash used in operating activities</i>	(3,243)	(3,018)
Cash flows from investing activities		
Debt securities purchased	(255,998)	(119,283)
Debt securities sold or redeemed	273,651	80,243
Equity securities sold	399	335
Interest received	11,923	12,782
<i>Net cash generated from/(used in) investing activities</i>	29,975	(25,923)
Net increase/(decrease) in cash and cash equivalents	26,732	(28,941)
Cash and cash equivalents at beginning of the quarter	44,971	50,963
Cash and cash equivalents at end of the quarter	71,703	22,022

Analysis of the balance of cash and cash equivalents

	Unaudited at 30 June 2017 \$'000	Unaudited at 30 June 2016 \$'000
Fixed deposits with banks	70,298	5,980
Cash at bank	1,405	16,042
	71,703	22,022

The notes on pages 36 and 37 form part of the condensed financial statements.

Investor Compensation Fund

Notes to the condensed financial statements

For the quarter ended 30 June 2017 (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.

The 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 2017. 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 2017 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 2017 to this condensed interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2017.

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 the ICC. For the quarter ended 30 June 2017, the ICC incurred \$1,450,000 for its operation (for the quarter ended 30 June 2016: \$1,390,000).

3. Provision for compensation

	\$'000
Balance as at 1 April 2016	1,412
Add: compensation expenses during the year ended 31 March 2017	476
Less: compensation write-backs during the year ended 31 March 2017	(294)
Less: compensation paid during the year ended 31 March 2017	(1,118)
Balance as at 31 March 2017 and 1 April 2017	476
Less: compensation paid during the three months ended 30 June 2017	(150)
Balance as at 30 June 2017	326

As at 30 June 2017, the provision for compensation relates to a number of claims received in respect of two default cases. The maximum liability of the Fund to claims for these cases are set at \$150,000 per claimant. The provision for compensation at 30 June 2017 was \$326,000 (31 March 2017: \$476,000). As at 30 June 2017, all provisions were expected to be paid within one year.

Investor Compensation Fund

Notes to the condensed financial statements

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

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 2016 and 2017.

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 of these claims is \$2,558,000 (31 March 2017: \$2,558,000). 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 2017.

Establishment of the Unified Exchange Compensation Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund). However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect 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 2017, 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 2017 and the financial position of the Fund's affairs as at that date are set out in the unaudited condensed financial statements on pages 39 to 44.

Members of the Committee

The members of the Committee during the quarter ended 30 June 2017 and up to the date of this report were:

Mr Keith Lui (Chairman)
 Ms Mak Po Shuen
 Ms Teresa Ko Yuk-yin, JP
 Mr Lee Kwok Keung
 Mr Thomas Allan Atkinson

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

7 August 2017

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

	Unaudited quarter ended 30 June 2017 \$'000	Unaudited quarter ended 30 June 2016 \$'000
Income		
Interest income	160	126
Expenses		
Recoveries re-distributed	–	1,152
Auditor's remuneration	14	14
Professional fees	10	9
Bank charges	–	3
	24	1,178
Surplus/(loss) and total comprehensive income for the quarter	136	(1,052)

Highlights

Operational Review

Corporate Developments

Activity Data

Financial Statements

The notes on pages 43 and 44 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of financial position

At 30 June 2017 (Expressed in Hong Kong dollars)

	Note	Unaudited at 30 June 2017 \$'000	Audited at 31 March 2017 \$'000
Current assets			
Equity securities received under subrogation		1	1
Interest receivable		66	77
Fixed deposits with banks		84,341	83,744
Accounts receivable		10	–
Cash at bank		550	332
		84,968	84,154
Current liabilities			
Creditors and accrued charges		10,591	10,663
Relinquished trading rights payable to SEHK	3	800	600
		11,391	11,263
Net current assets			
		73,577	72,891
Net assets			
		73,577	72,891
Representing:			
Compensation fund			
Contributions from SEHK	3	51,750	51,200
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		26,256	26,120
		1,068,295	1,067,609
Contributions to the Investor Compensation Fund		(994,718)	(994,718)
		73,577	72,891

The notes on pages 43 and 44 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

	Contributions from SEHK \$'000	Excess transaction levy from SEHK \$'000	Special contributions and special levy surplus \$'000	Additional contributions from SEHK and the SFC \$'000	Accumulated surplus \$'000	Contributions to Investor Compensation Fund \$'000	Total \$'000
Balance at 1 April 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
Balance at 1 April 2017	51,200	353,787	6,502	630,000	26,120	(994,718)	72,891
Net contributions from SEHK	550	-	-	-	-	-	550
Surplus and total comprehensive income for the quarter	-	-	-	-	136	-	136
Balance at 30 June 2017	51,750	353,787	6,502	630,000	26,256	(994,718)	73,577

The notes on pages 43 and 44 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of cash flows

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

	Unaudited quarter ended 30 June 2017 \$'000	Unaudited quarter ended 30 June 2016 \$'000
Cash flows from operating activities		
Surplus/(loss) for the quarter	136	(1,052)
Adjustment for:		
Interest income	(160)	(126)
	(24)	(1,178)
Increase in accounts receivable	(10)	–
(Decrease)/increase in creditors and accrued charges	(72)	26
Increase in relinquished trading rights payable to SEHK	200	200
<i>Net cash generated from/(used in) operating activities</i>	94	(952)
Cash flows from investing activities		
Interest received	171	138
<i>Net cash generated from investing activities</i>	171	138
Cash flows from financing activities		
Net contributions from SEHK	550	150
<i>Net cash generated from financing activities</i>	550	150
Net increase/(decrease) in cash and cash equivalents	815	(664)
Cash and cash equivalents at beginning of the quarter	84,076	82,457
Cash and cash equivalents at end of the quarter	84,891	81,793

Analysis of the balance of cash and cash equivalents

	Unaudited at 30 June 2017 \$'000	Unaudited at 30 June 2016 \$'000
Fixed deposits with banks	84,341	81,619
Cash at bank	550	174
	84,891	81,793

The notes on pages 43 and 44 form part of the condensed financial statements.

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the quarter ended 30 June 2017 (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 2017. 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 2017 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 2017 to this condensed interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2017.

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 2017 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. 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 SFC must refund to SEHK the deposit within six months after the trading right was relinquished.

During the quarter, deposits of \$750,000 in respect of 15 new trading rights were received from SEHK and no trading rights was refunded.

At 30 June 2017, there were 16 trading rights in total of \$800,000 that have been relinquished but not yet refunded (at 31 March 2017: 12). The net contributions from SEHK at 30 June 2017, excluding the relinquished trading rights payable, amounted to \$51,750,000 (at 31 March 2017: \$51,200,000).

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the quarter ended 30 June 2017 (Expressed in Hong Kong dollars)

4. 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 2016 and 2017.

5. 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 any future re-distribution and amount of these potential excess amounts are uncertain at the date of this report, we disclose this as a contingent liability.

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