



The Securities and Futures Commission (SFC) introduced a new corporate identity in October 2018. In recent years, the SFC has adopted a more proactive, front-loaded approach to get ahead of threats, punish wrongdoers and ensure markets are fair and clean.

The new logo — inspired by the black kites familiar in the skies of Hong Kong — reflects the SFC's commitment to unceasing vigilance, robust investor protection and impartial enforcement. These are essential to strengthen Hong Kong's competitiveness as a leading international financial centre.



**Vigilant | Protective | Impartial**

Annual Report 2018-19

Black kite (*Milvus migrans*)

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# Three Decades of Change and Commitment

The SFC was founded as an independent statutory body to regulate the securities and futures industry in 1989. Growing from a small market primarily serving local companies and retail investors, Hong Kong is now a leading international financial centre.

For three decades the SFC has been at the heart of this transformation through the delivery of world-class regulation – since 1997 within the “one country, two systems” framework. And in recent years we have ensured that new, unique and game-changing access channels between the Hong Kong and mainland China markets have been built on solid foundations through intensive, reciprocal cross-boundary cooperation to address emerging risks. More than ever, the SFC is acutely aware of the fact that quality regulation is essential to the development of healthy and sustainable markets in which global investors can have full confidence, doubling down on our core mandate to identify threats and to root out and punish misconduct harming investors.

## Key figures: 1989 to 2019

### Number of listed companies

298 to 2,346

↑ 7x

### Total market capitalisation

\$654 to \$33,815  
billion billion

↑ 51x

### SFC-authorized funds

Net asset value

US\$36 to US\$1,563  
billion billion

↑ 42x

### Hang Seng Index

3,005 to 29,051

↑ 9x

### Hang Seng Index futures

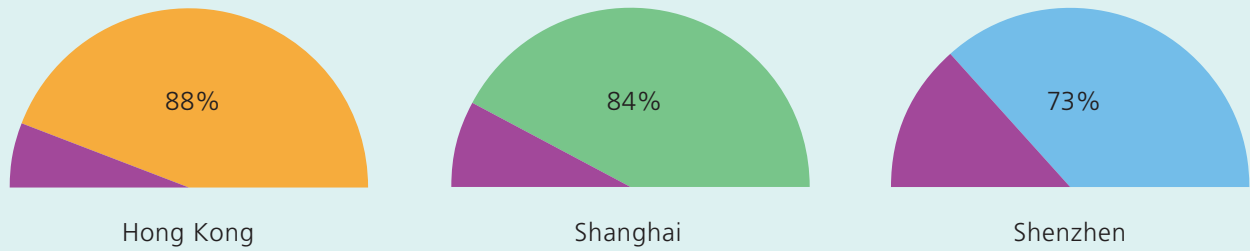
Period-end open interest  
4,803 to 143,478  
contracts contracts

↑ 29x

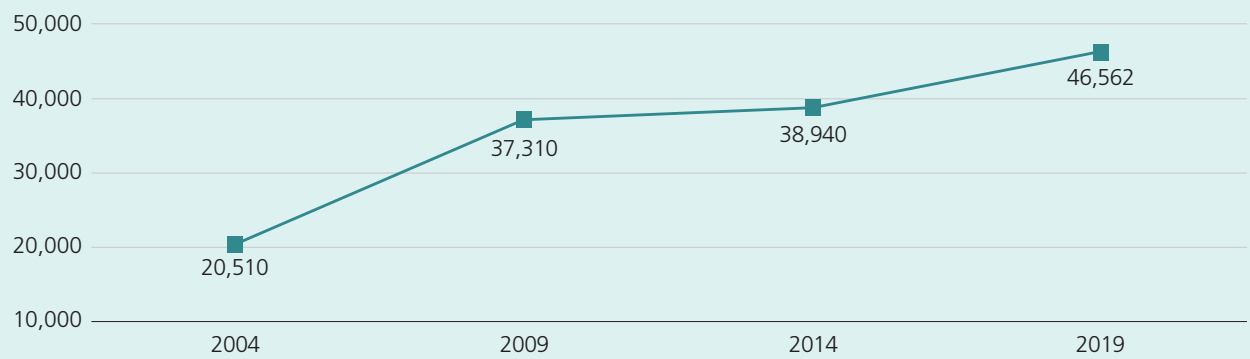
Note: Figures as of the last trading day of March.

## Stock Connect

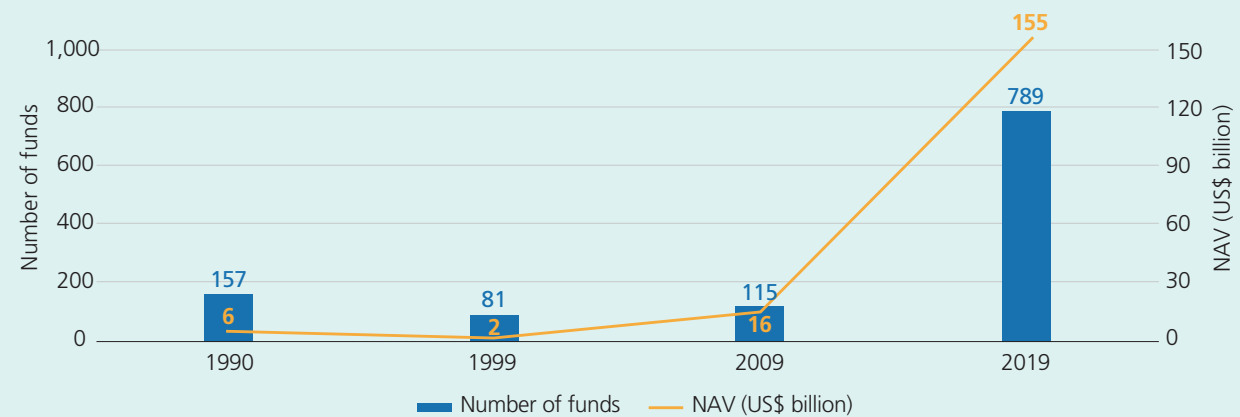
### Eligible stocks' share of total market capitalisation



## Licensed individuals and corporations



## Funds domiciled in Hong Kong



## Message from Chairman and CEO



**Tim Lui**  
Chairman

“We remain steadfast in our commitment to world-class regulation to ensure the competitiveness of Hong Kong as an international financial centre.”

This year, the Securities and Futures Commission (SFC) marks its thirtieth anniversary. Markets are very different today than they were when the SFC was founded. More than ever, it is crucial for us to stay ahead of emerging regulatory challenges, including rapid technological innovation and other structural developments in the financial services industry.

We remain steadfast in our commitment to world-class regulation to ensure the competitiveness of Hong Kong as an international financial centre. Our new corporate identity signifies our determination to be vigilant, bold and impartial.

We would like to thank Mr Carlson Tong, who stepped down as Chairman in October 2018, for his six years of dedicated leadership. We wish him well in his future public service.

### **Institutionalising a new approach to regulation**

In recent years, the SFC has substantially reengineered its organisational structure and pursued a multi-disciplinary approach to better leverage all of its regulatory tools and pool its expertise to deal with threats which can harm investors and damage market integrity. We now place a much stronger emphasis on how we devote our resources to deal with the more serious risks in our markets and, in doing so, have further embedded transparency, fair processes

and accountability in the way we carry out our work. The focus now will be on further institutionalising the changes we have made.

These changes have already had an impact on behaviour, resulting in improved outcomes for investors. Our “front-loaded” regulation of listing applications and listed companies is now well established and we are increasingly active in cracking down on corporate misconduct.

Following our policy review of listing regulation, we have frequently used our investigative powers under the Securities and Futures Ordinance (SFO) and our powers to object to a listing or a corporate transaction, or impose a suspension of trading of securities. We seek to do so as early as possible when we become aware of potentially serious disclosure, conduct or public interest issues in listing applications and with listed companies. We rarely used these powers in this manner in the past, but under the new policy have done so to intervene more than 80 times since 2017.

One result was that the average first-day price change of newly-listed GEM stocks fell dramatically after our direct interventions and coordinated policy actions with the Stock Exchange (see chart on page 58). This front-end approach also complements our traditional back-end enforcement targeting misconduct. For example, we now use restriction notices to freeze accounts at brokers to help avoid the dissipation of assets which may be relevant to an investigation.

**Directly targeting the greatest threats has already made an impact on behaviour and resulted in improved outcomes for investors.**



**Ashley Alder**  
Chief Executive Officer

Moreover, our enforcement work now concentrates on the key risks which can harm Hong Kong's market integrity and reputation as a world-class financial centre. For instance, we very recently disciplined eight IPO sponsor firms and three IPO sponsor principals, imposing record fines as well as suspension of licences to operate in our markets, for failing to carry out due diligence properly on the companies they were bringing to market. Other major disciplinary actions involving deficient selling practices and anti-money laundering breaches will also promote better conduct.

We also now deploy a range of new tools in our licensing and intermediary supervision work to get ahead of potential problems. We have conducted a thorough review of our licensing system, a key element of our gatekeeping function, making changes to improve its efficiency and effectiveness. In our supervision of intermediaries we have been especially focused on providing early guidance to explain what we are doing and why. We use traditional supervisory tools such as notices to restrict the activities of intermediaries, as well as licensing conditions, in new ways in order to contain risks as early as possible.

We recognise that technology has transformed the financial landscape. Data, and how it is used, are now in the forefront of policymaking. Internally, we dedicate more resources to upgrade our information technology systems and adopt new technologies, including advanced data analysis, for supervisory purposes.

## Developing Hong Kong as a leading financial centre

To strengthen Hong Kong's position as a premier international financial centre, we strive to enhance its competitiveness as a capital-raising hub for a more diverse range of quality listings. We also contribute to the development of Hong Kong as a full-service asset and wealth management centre by enhancing the local regulatory framework for funds, asset managers and service providers whilst expanding the potential overseas and mainland China markets for funds domiciled and managed in Hong Kong.

In addition, we see an opportunity for Hong Kong to take on a larger role in the management of financial risks for international investors with exposures to the Mainland markets, and for Mainland investors with exposures in Hong Kong and globally. This can ensure the needs of investors are met amidst the Mainland's emergence as the world's second-largest economy and further integration with global capital markets.

With its unique relationship with the Mainland, Hong Kong clearly stands to benefit from greater cross-border connectivity and two-way capital flows. The reciprocal agreements we have established with our Mainland counterparts already provide unique and strong regulatory underpinnings within the framework of the two systems for the future broadening of international and Mainland cross-border investment channels through Hong Kong.

## Message from Chairman and CEO

Our extensive and reciprocal regulatory cooperation with the China Securities Regulatory Commission (CSRC) on cross-boundary supervision and enforcement has enabled us to manage risks which cross-border activity can pose to both the Hong Kong and Mainland markets. A recent example was our agreement with the CSRC to implement an investor identification regime for northbound trading in Mainland markets under Stock Connect, which will shortly be followed by a similar regime covering southbound trading into Hong Kong's markets.

Cooperation will be even more vital as the scope of mutual market access programmes enlarges and Mainland-based intermediaries and investors become more active in Hong Kong.

We are also seeking to advance Hong Kong's leadership in green finance. The Mainland is contributing significantly to the global effort to develop sustainable finance and Hong Kong is ideally positioned to align with this initiative, bringing China together with other international leaders in this area such as the European Union.

Strengthening Hong Kong's role as a global financial centre is a task we share with local partners including the Government of the Hong Kong Special Administrative Region and our fellow regulators. We will build on the success we have had working closely with the Hong Kong Monetary Authority in the supervision of intermediaries and with the Hong Kong Police and the Independent Commission Against Corruption on enforcement cases.

On the international front, we actively contribute to global policymaking which may have an impact on Hong Kong through the chairmanship of the IOSCO<sup>1</sup> Board and our participation in the G20's Financial Stability Board.

### The path forward

We continue to update and adapt our rules to keep ahead of market developments as well as evolving international standards. The next chapter discusses initiatives to address emerging risks to financial stability and market integrity, facilitate the industry's adoption of new business models and provide investors with more choice and stronger protection.

We maintain robust financial controls and prudent resource allocation. Our upcoming office relocation will result in considerable savings.

Finally, we would like to thank the Board and our staff for their dedication, support and professionalism. We are confident that together, we are well placed to meet the challenges ahead and build on the successes of the past three decades.

**Tim Lui**

Chairman

**Ashley Alder**

Chief Executive Officer

<sup>1</sup> International Organization of Securities Commissions.

# Strategic Priorities

We aim to maintain and promote the fairness, efficiency, competitiveness, transparency and orderliness of the securities and futures markets. As both a conduct regulator and a prudential regulator, our objectives are not limited to safeguarding the interests of investors and minimising fraud and market misconduct. Our role extends to maintaining Hong Kong's financial stability and mitigating systemic risk. To address emerging challenges and foster sustainable market development, we regularly modernise our regulatory framework and pursue close cooperation with our counterparts in Hong Kong, mainland China and overseas.

## Moving forward with targeted regulation

The new front-loaded regulatory approach we introduced in 2017 has allowed us to focus on the greatest risks facing our markets as well as to intervene at an earlier stage to address persistent problems and pre-empt the fallout from emerging threats.

We have implemented more changes in our organisation over the past few years than ever before. Acting as "One SFC", we pool our expertise to ensure our regulatory actions are coordinated, targeted and effective. We adopt the latest technology to help us collect and analyse data to manage evolving risks.

## Intermediaries

The number of corporations and individuals licensed by us continues to rise. To ensure the effectiveness of our gatekeeping function, we modernised our licensing processes to make them more efficient and transparent. We now focus more on key risks and place greater emphasis on the competence of licensed individuals. Almost all of our licensing services are now available online, and in the coming year we will make our online licensing platform more user-friendly and efficient. We will also provide more guidance to the industry to ensure the changes we have made to our licensing regime are implemented smoothly.

We strive to drive and incentivise proper conduct to achieve good regulatory outcomes. Depending on the severity of our concerns, we deploy a range of tools including restriction notices, the imposition of licensing



Mr Tim Lui, Chairman, at a Hong Kong Securities and Investment Institute event

conditions and requests for voluntary undertakings to contain risks. We also conduct independent reviews of specific licensed corporations where necessary.

As part of our evolving risk-based supervisory approach, we conduct ongoing thematic reviews to focus on priority issues identified in our routine inspections. The themes reflect the priorities we set. Currently, these include IPO sponsors' work, book-building activities, securities margin financing, anti-money laundering, brokers' internal controls and supervision of account executives, cybersecurity, selling practices as well as complex and opaque financing arrangements. Our concerns and regulatory expectations as well as best practices noted in these reviews may be published in circulars or final reports to provide guidance to the industry.

Sales practices, in particular suitability, remain one of our top priorities. The products distributed to investors are now increasingly complex and include more structured products and high risk or complex bonds. We will review whether licensed corporations comply with the suitability obligations and new requirements governing the distribution of complex products.

We will work closely with the Hong Kong Government and other regulators to provide support to follow up on the recommended actions of the Financial Action Task Force and Asia/Pacific Group on Money Laundering mutual evaluation<sup>1</sup> report on Hong Kong, including to implement recommendations specific

<sup>1</sup> These evaluations, conducted on an ongoing basis, are peer reviews where members assess one another's systems for preventing illicit use of the financial system.



## Strategic Priorities

to the securities sector. In addition, we will review and update the risk assessment for the Hong Kong securities sector in the next Money Laundering and Terrorist Financing Risk Assessment.

Innovation and technology increasingly drive changes in financial markets, bringing both benefits and challenges. We take a facilitative approach to innovation where it is conducive to market efficiency and customer experience. Where innovation poses risks to investor protection, we act to manage them. We discuss the potential use of financial technology (Fintech) with interested firms through the SFC Fintech Contact Point and other channels. Our overall aim is to make sure our regulations remain effective as new technologies are introduced and any risks to investors or financial stability are properly managed. A few licensed firms are now operating in the SFC Regulatory Sandbox. We are also exploring whether and how we should regulate virtual asset trading platforms to protect investors against the risks of fraud and money laundering.

We will continue to upgrade our current data collection and analytical framework to enhance our capacity to conduct prudential risk assessment and improve the efficiency and effectiveness of our supervision. To improve our oversight of licensed corporations, we have stepped up our use of data analytics to monitor their resilience to market volatility as well as current trends and emerging issues. We run an automated stock alert and stress test system to identify thinly capitalised brokers and a similar system for futures and options brokers.

### Listing matters

In the regulation of listing matters, and following a strategic review, since early 2017 we have exercised our statutory powers under the Securities and Futures (Stock Market Listing) Rules (SMLR)<sup>2</sup> and more generally under the Securities and Futures Ordinance (SFO) to directly intervene in more serious cases at an early stage. This enhances the protection of the investing public and suppresses illegal and improper market practices. It also complements our enforcement work aimed at pursuing wrongdoers, seeking remediation and deterring misconduct.

Tackling misconduct by listed companies remains a top priority. After our “ICE”<sup>3</sup> working group took steps to address price volatility in GEM stocks and GEM placings with a high concentration of shareholders, there was a sharp drop in the average first day price change of GEM listings, from a peak of about 530% in 2016 to around 22% in 2018. We also saw fewer instances of high shareholding concentrations in GEM stocks.

In the longer term, changing corporate behaviour will require further policy adjustments. We work closely with The Stock Exchange of Hong Kong Limited (SEHK) to develop listing policies to tackle new issues as market behaviour changes. Some measures to improve corporate conduct have already been introduced. These include tackling highly dilutive capital raising activities by tightening the listing rules for rights issues, open offers and specific mandate placings.

In the near term, our focus will be to enhance listing policies to discourage backdoor listings and “shell” related activities. We are also looking at arrangements which are commonly used for improper purposes such as warehousing of shares, where actual control is disguised through the use of nominees, and highly-concentrated shareholding structures.

To promote Hong Kong’s position as an international financial centre and a listing venue of choice, we regularly review our IPO policies to ensure they remain globally competitive. A key focus is to explore options to streamline the IPO process, including shortening the IPO settlement timetable. We will continue our dialogue with SEHK on this issue.

### Asset and wealth management

To further develop Hong Kong as one of the world’s leading full-service asset and wealth management centres, we have reformed local regulations to align with international standards, fostered the development of new products and expanded the potential markets for Hong Kong public funds.

In the revised Code on Unit Trusts and Mutual Funds (UT Code) which took effect in January 2019, we

<sup>2</sup> Under the SMLR, we may raise objections to listing applications or direct SEHK to suspend trading in a listed company’s shares.

<sup>3</sup> ICE (Intermediaries, Corporate Finance, Enforcement) is a cross-divisional working group set up to tackle corporate misconduct.

adopted an approach to regulating a fund's derivative investments which provides greater flexibility along with stronger safeguards. These include enhanced risk management and collateral requirements as well as a 50% limit for the net derivative exposure of "plain vanilla" funds. For investors, this means clearer product differentiation as well as improved protection through new distribution requirements.

The revised UT Code will facilitate the introduction of new fund types, such as active ETFs<sup>4</sup>, and allow listed and unlisted share classes to co-exist within a single fund pursuing the same investment strategy. We also introduced a new open-ended fund company regime which will enable both public and private funds with variable capital to be established in corporate form in Hong Kong.

Meanwhile, we are identifying opportunities to enhance the transparency of information about retail funds and improve their comparability. To better monitor regulatory compliance, we launched an enhanced fund data reporting regime and are considering other changes to strengthen our reporting requirements for public funds.

As part of our ongoing efforts to safeguard market integrity, we are considering a new regulated activity regime for the safekeeping and custody of assets by trustees and custodians of SFC-authorized funds to better align with international standards and practices in major overseas jurisdictions. We are also conducting a holistic review of the Code on Pooled Retirement Funds to identify ways to enhance the protection of investors' interests and aim to launch a public consultation on proposals to update our regulatory requirements for these funds.

We remain committed to expanding the potential markets in which Hong Kong investment funds can be distributed, including exploring more Mutual Recognition of Funds (MRF) arrangements with overseas jurisdictions. Applications and approvals have increased for northbound Hong Kong funds under the Mainland-Hong Kong MRF scheme and we are working with the China Securities Regulatory Commission (CSRC) to enhance this regime so that a diversified pool of fund products managed in Hong Kong can be offered to Mainland investors.



Mr Ashley Alder, Chief Executive Officer, and Ms Julia Leung, Deputy Chief Executive Officer and Executive Director of Intermediaries at Hong Kong FinTech Week 2018

## Markets

Another priority is to develop Hong Kong as a leading risk management centre. Because of the role it plays in intermediating cross-boundary capital flows, hosting the largest offshore renminbi centre and as a leading renminbi derivatives market, Hong Kong is uniquely positioned to manage Mainland risks for international investors and intermediaries. It can also play a key role in providing offshore hedging instruments for investors who choose to trade Mainland assets through Hong Kong.

We closely collaborate with the CSRC, Hong Kong Exchanges and Clearing Limited (HKEX) and other authorities to explore enhancements to Stock Connect, including widening the scope of eligible securities.

To ensure Hong Kong has a robust and resilient market infrastructure, we are working with HKEX to assess the regulatory implications of its new strategic plan and enhance its clearing risk management processes to align with international best practices and the expansion of its business. We are engaging with HKEX to review its volatility control mechanism (VCM)<sup>5</sup> in light of evolving international standards<sup>6</sup> and best practices. Together with HKEX, we are also studying the introduction of a market-wide circuit breaker. A public consultation will be conducted by HKEX in due course.

<sup>4</sup> Exchange-traded funds.

<sup>5</sup> The VCM imposes a price limit for trading in major constituent stocks and certain futures contracts for short periods under extreme price movements.

<sup>6</sup> As recommended by the International Organization of Securities Commissions.

## Strategic Priorities

Separately, we are working on an investor identification model which covers all securities traded on or reported to SEHK and aim to consult the market on this proposal in the next few months.

An OTC derivatives regime<sup>7</sup> is being introduced in phases in Hong Kong. We are working on refinements to the scope of regulated activities under the OTC derivatives licensing regime and are conducting a review of the need for “masking” relief, which allows certain counterparty information to be redacted where there are legal or regulatory obstacles to reporting.

Our consultation on proposals to enhance the investor compensation regime by increasing the compensation limit from \$150,000 to \$500,000 per investor per default and covering northbound trading under Mainland-Hong Kong Stock Connect received strong support. We target to publish consultation conclusions in the second half of 2019 and implement the proposals subject to completion of the legislative process.

We issued a joint consultation paper with HKEX and the Federation of Share Registrars Limited in January 2019 proposing a revised operational model for a paperless securities market in Hong Kong. The proposal preserves existing efficiencies in the clearing and settlement process while providing options for investors to hold securities in their own names and in electronic form. We aim to issue a conclusions paper in the second half of 2019 and expect the regime to be implemented in early 2022.

### Enforcement

To protect the interests of the investing public and send strong deterrent messages, we use the full spectrum of sanctions and remedies available to us under the SFO through criminal, administrative, compensatory and disciplinary actions.

We prioritise larger threats and cases which cause serious harm and reputational damage to Hong Kong. Corporate fraud is our top enforcement priority. Our operational divisions collaborate closely to target groups of corporate controllers, managers and financial intermediaries which collude to defraud investors. In some cases, we have conducted large-



scale search operations with the assistance of the Independent Commission Against Corruption and the Hong Kong Police. We meticulously examine the evidence seized to lay the foundations for our enforcement actions. We also aim to achieve earlier remedial outcomes to compensate investors harmed by misconduct.

IPO sponsor failures are another focus as sponsors serve an essential gatekeeping role to ensure the quality of our listed companies. We recently disciplined eight sponsor firms and three sponsor principals and imposed record fines. Our enforcement actions send a strong deterrent message to the market.

Our work also focuses on insider dealing, market manipulation and intermediary misconduct, which includes mis-selling of financial products and failure to comply with anti-money laundering requirements.

### Green finance

Our *Strategic Framework for Green Finance* sets out a comprehensive strategy to contribute to the development of green finance in Hong Kong, which is particularly well positioned to align with the Mainland’s green finance policy and to connect green finance flows between the Mainland and the rest of the world.

<sup>7</sup> In line with the G20 commitments to reform the OTC derivatives market.

As a top priority, we have been working with HKEX to improve listed companies' reporting of environmental information, with an emphasis on climate-related risks and opportunities. The results of a survey of asset managers regarding sustainable investment practices will help us formulate new policies for how environmental and climate-related risks are to be factored into their investment processes and risk assessments.

We are an active participant in international policy-making to pursue sustainable finance, with a specific emphasis on the risks to business arising from the physical effects of climate change and the transition to a less carbon-intensive economy. Most recently, we enhanced our guidance on disclosures by green and environmental, social and governance (ESG) funds in the Hong Kong market. A central database of SFC-authorized green funds will be featured on our website to increase their visibility. We expect that the implications of climate change will very quickly become a mainstream aspect of risk identification and strategic planning for a range of financial and non-financial business and that financial regulations will have an increasing role to play as it becomes clear that the resulting financial risks are of material importance for investors. The SFC intends to be at the forefront of these developments.

### Technology

We are in the process of upgrading our infrastructure and security measures to meet rising technology demands. Digitalisation and process automation are key components of our information technology strategy. In January 2019, we launched WINGS<sup>8</sup>, an integrated online portal, as the first step to digitalise our submission services and other communications with the industry. The new system also enables efficient processing for faster analysis and review.

Another part of our strategy seeks to leverage technology to strengthen our risk monitoring capabilities. Through our Data Analytics Group, we carry out more effective market surveillance and address risks in a more comprehensive manner whilst our Market Intelligence Programme uses the latest technologies to help us identify patterns of interconnected listed and unlisted companies, individuals and intermediaries which point to potential misconduct. In addition, we are upgrading our systems to allow for more information sharing and collaboration internally.

<sup>8</sup> Web-based INTeGrated Service.

### Regulatory cooperation

We foster close relationships with our regulatory counterparts in Hong Kong and elsewhere. Locally, we work closely with the Hong Kong Monetary Authority and HKEX on both policy and operational issues. We also take an active role in global initiatives, including through our involvement in international regulatory bodies as well as information sharing and cooperation arrangements.

Our Chief Executive Officer Mr Ashley Alder chairs the Board of the International Organization of Securities Commissions (IOSCO). Its current priority projects include the regulatory response to crypto-asset trading platforms, market fragmentation in wholesale financial markets, online retail distribution of risky products across borders, data privacy, sustainable finance and the impact of index or passive investing, artificial intelligence and machine learning. Mr Alder is also a member of the Financial Stability Board's (FSB) Plenary and Steering Committee. We actively participate in the majority of IOSCO's and the FSB's committees and working groups.

Greater market connectivity with the Mainland and an increasing volume of two-way fund flows means that strong regulatory cooperation with our Mainland counterparts is vital. We maintain regular high-level communications and frequent working-level interactions with the CSRC to discuss cross-boundary regulatory issues and market development projects. We will continue to work closely with the CSRC and other Mainland authorities to expand the Mainland-Hong Kong mutual market access schemes and implement initiatives in the Greater Bay Area.

# Mission and Mandates

## Mission statement

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

## Mandates

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

- Maintain and promote a fair, efficient, competitive, transparent and orderly securities and futures industry
- Help the public understand the workings of the industry
- Provide protection for the investing public
- Minimise crime and misconduct in the industry
- Reduce systemic risks in the industry
- Assist the Government in maintaining Hong Kong's financial stability

In 2012, the SFO was amended to broaden our statutory investor education objective. Since then, our education function has been delegated to a subsidiary, the Investor and Financial Education Council<sup>1</sup>, which provides financial consumer education and information to help raise financial literacy in Hong Kong.

Another subsidiary, the Investor Compensation Company Limited, was established in 2003 to manage and administer claims against the Investor Compensation Fund. It provides a measure of protection for investors in cases of broker default.

## Regulatory functions

Our work can be divided into the following areas.

### Intermediaries

We set standards and qualifying criteria for corporations and individuals operating in our markets under the SFO. To protect the investing public, we allow only "fit and proper" persons to be licensed.

We supervise licensed intermediaries to ensure financial soundness and compliance with business conduct requirements through off-site monitoring and on-site inspections. Our approach aims to detect risks early and through timely intervention prevent them from spreading. We promote the industry's awareness of emerging issues and encourage proper market conduct by providing appropriate guidance.

We work closely with local and overseas regulatory counterparts and participate in international supervisory fora to enhance cooperation and coordination.

### Products

To develop Hong Kong as a full-service international asset and wealth management centre and preferred fund domicile, we formulate policies and support initiatives for the regulation of the asset and wealth management industry.

We maintain robust regulations for investment products offered to the public in Hong Kong under the SFO. We perform gate-keeping functions in authorising investment products and monitor their compliance with disclosure and other requirements.

We require offering documents of retail investment products to be accurate and to provide adequate information for investors to make informed decisions.

<sup>1</sup> Formerly the Investor Education Centre, this subsidiary was renamed in January 2019.

## Corporates

We oversee listing and takeovers matters in Hong Kong, including vetting of listing applications, disclosure requirements for listed companies, corporate conduct and the listing-related functions of The Stock Exchange of Hong Kong Limited (SEHK).

Empowered by the Securities and Futures (Stock Market Listing) Rules and more generally under the SFO, we intervene in corporate cases at an early stage when we have reasons to believe that, amongst other risks, a proposal may be harmful to investors or the broader public interest. We may raise objections to listing applications as well as transactions proposed by listed companies, or direct SEHK to suspend trading in a listed company's shares.

On a daily basis, we monitor company announcements to identify misconduct or irregularities. We also facilitate the fair treatment of investors in corporate activities such as mergers, takeovers, privatisations and share buy-backs.

## Markets

We formulate policies to facilitate the development of market infrastructure and to build links with Mainland and international markets. We also collect quantitative information about the financial markets as a means to help reduce systemic risks.

We conduct day-to-day supervision and monitoring of exchanges and clearing houses, share registrars and authorised automated trading services providers.

## Enforcement

Through our surveillance, investigative and disciplinary work, we combat misconduct and malpractice in the securities and futures markets. Where appropriate, we take action to remedy the effects of market misconduct by applying to the court for injunctive and remedial orders.

We work with other law enforcement agencies and overseas regulatory bodies on investigations where required.

Our major enforcement actions include criminal prosecution and civil, disciplinary and market misconduct proceedings.

## Regulatory collaboration

To ensure our regulatory framework aligns with global standards, we participate actively in the International Organization of Securities Commissions and other global rule-setting fora. We work closely with local and Mainland authorities to support Hong Kong's long-term strategic development amidst the opening of Mainland financial markets.

## Stakeholders

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



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# Corporate Governance

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

## Governance framework

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

## Board

By supervising and directing our work, the SFC Board plays a key role in ensuring that we carry out our duties effectively. It sets the SFC's overall direction, provides strategic guidance on policy making and oversees the work of the Executive Committee (ExCo).

## Constitution

The Securities and Futures Ordinance (SFO) stipulates the constitution and proceedings of our Board. Members are appointed for a fixed term by the Chief Executive of the Hong Kong Special Administrative Region (HKSAR) or the Financial Secretary under delegated authority, and their appointment terms and conditions are determined by the HKSAR Government. Board members' emoluments for the year are detailed on page 116.

As of 31 March 2019, the Board comprised eight Non-Executive Directors (NEDs), including the Chairman; and six Executive Directors (EDs), including the Chief Executive Officer (CEO).

Our NEDs come from diverse backgrounds, bringing to the Board a wide range of experience and expertise as well as a variety of independent perspectives.

See pages 18-25 for the full list of Board members and their biographies.

### Chairman and CEO

The roles and responsibilities of the non-executive Chairman and the CEO are separate and distinct.

#### Chairman

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

#### CEO

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

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

### Executive Directors and Non-Executive Directors

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

## Key components of our governance framework





## Corporate Governance

### Governance practices

We strive to uphold high standards of corporate governance and put in place clear and proper policies and processes to facilitate the working of an efficient and accountable Board. The following practices have been adopted:

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

In addition to regular Board meetings, we arranged knowledge sharing sessions and provided regular information updates during the year to keep Board members informed of the SFC's work, its impact on the markets and our interaction with stakeholders.

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

The Commission Secretariat is tasked with ensuring good corporate governance. It supports the Board and senior management, assists them in dealing with organisation-wide policies and initiatives and facilitates Board proceedings according to relevant policies and procedures. It also liaises with Board members, organises their meetings and acts as the central contact point with the Government, the Legislative Council (LegCo) and its members, fellow regulators and other public bodies. The Commission Secretary serves as the secretary to the Board, ExCo and Advisory Committee.

### Board appointments

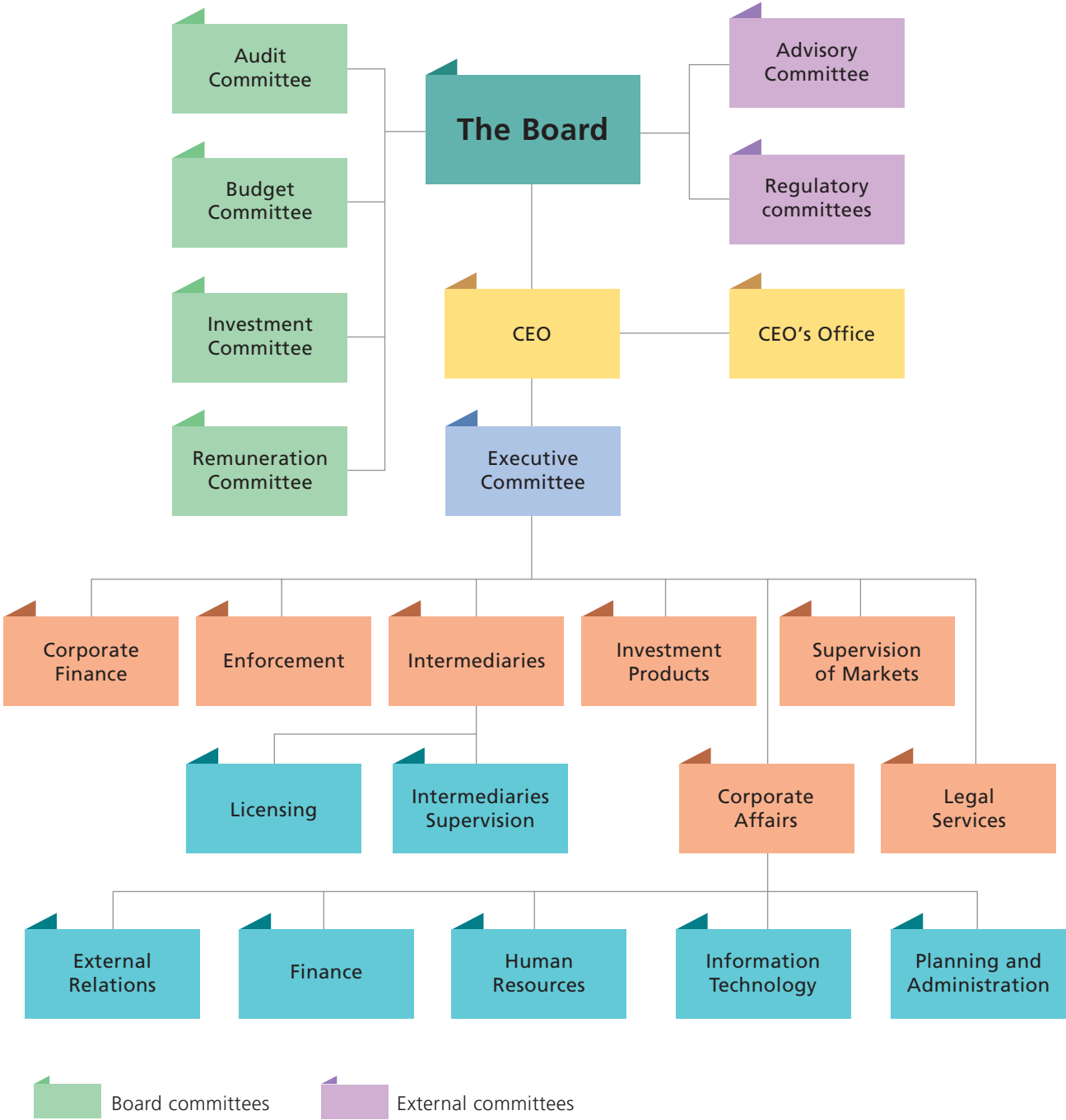
During the year, the Chief Executive of the HKSAR appointed Mr Tim Lui Tim-leung as the Chairman of the SFC for a term of three years from 20 October 2018. Mr Lui succeeded Mr Carlson Tong Ka-shing, who stepped down after a six-year chairmanship.

Four NEDs were appointed for two-year terms: Dr James C Lin (from 1 August 2018), Ms Agnes Chan Sui-kuen (from 20 October 2018), Mr Nicky Lo Kar-chun (from 24 April 2019) and Mr Clement Chan Kam-wing (from 26 May 2019).

In addition, two NEDs were reappointed for two-year terms: Dr William Wong Ming-fung, SC (from 1 August 2018) and Mr Edward Cheng Wai-sun (from 1 January 2019). Mr Brian Ho Yin-tung and Mr Keith Lui Kei-kwong were reappointed as EDs for three years and one year, respectively, effective from 28 August 2018.

Ms Teresa Ko Yuk-yin, Dr Kelvin Wong Tin-yau, Ms Mary Ma Xuezheng and Mr Albert Au Siu-cheung stepped down as NEDs on 31 July 2018, 19 October 2018, 23 April 2019 and 25 May 2019 respectively.

### Organisational structure



Note: CEO's Office includes four units, namely the Commission Secretariat, International Affairs, Mainland Affairs and Press Office.

## Corporate Governance

### Board members

#### Tim LUI Tim-leung SBS, JP

Chairman



From 20 October 2018  
Current appointment to  
19 October 2021

#### Other SFC-related positions

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

#### Current offices and public service

- Chairman, Education Commission
- Member, Financial Leaders Forum, the HKSAR Government
- Member, Banking Advisory Committee, Hong Kong Monetary Authority
- Member, Listing Nominating Committee, Hong Kong Exchanges and Clearing Limited
- Member, Public Service Commission
- Member, University Grants Committee

#### Past offices and public service

- Partner (1989-2013) and Senior Advisor (2013-2018), PricewaterhouseCoopers Hong Kong
- Member, Global Board of PricewaterhouseCoopers International (2009-2013)
- Chairman, Committee on Self-financing Post-secondary Education (2012-2017)
- Chairman, Self-financing Post-secondary Education Fund Steering Committee (2011-2017)
- Chairman, Standing Commission on Directorate Salaries and Conditions of Service (2009-2015)
- Chairman, Employees' Compensation Insurance Levies Management Board (2001-2007)
- Chairman, Joint Committee on Student Finance (1999-2005)
- President, Hong Kong Institute of Certified Public Accountants (1996-1997)

#### Ashley ALDER JP

Chief Executive Officer



From 1 October 2011  
Current appointment to  
30 September 2020

#### Other SFC-related positions

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

#### Public service

- Board of International Organization of Securities Commissions: Chairman (since May 2016); Vice-Chairman (Dec 2015-May 2016)
- Member, Financial Leaders Forum, the HKSAR Government
- Council Member, Treasury Markets Association
- Vice President, The Hong Kong Institute of Bankers

#### Past SFC position

- Executive Director, Corporate Finance (2001-2004)

#### Past offices

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

Note: During the year, Mr Carlson Tong Ka-shing served on the Board as Chairman until 19 October 2018.

**Julia LEUNG  
Fung-yee SBS**

Deputy Chief Executive Officer  
and Executive Director,  
Intermediaries



From 2 March 2015  
Current appointment to  
1 March 2021

**Other SFC-related positions**

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

**Current public service**

- Member, Advisory Committee, City Mental Health Alliance Hong Kong

**Past offices and public service**

- Member, Preparatory Committee, Academy of Finance (2018-2019)
- Julius Fellow, International Economics, Chatham House (2014)
- Under Secretary for Financial Services and the Treasury, the HKSAR Government (2008-2013)
- Executive Director, Hong Kong Monetary Authority (2000-2008)

**Publication**

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

**Thomas ATKINSON**

Executive Director, Enforcement



From 3 May 2016  
Current appointment to  
2 May 2022

**Other SFC-related positions**

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

**Past offices**

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

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

During the year, Ms Teresa Ko Yuk-yin and Dr Kelvin Wong Tin-yau served on the Board as NEDs until 31 July 2018 and 19 October 2018, respectively.

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### Albert AU Siu-cheung BBS

Non-Executive Director



From 26 May 2015  
Current appointment  
to 25 May 2019

#### Other SFC-related positions

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

#### Current offices and public service

- Special Advisor, BDO Limited
- Chairman, Professional Services Advisory Committee, Hong Kong Trade Development Council
- Café de Coral Holdings Limited: Independent Non-Executive Director and Chairman of Audit Committee
- AAC Technologies Holdings Inc.: Independent Non-Executive Director, Chairman of Audit and Risk Committee and Member of Remuneration Committee
- Independent Non-Executive Director, ZhongAn Virtual Finance Limited

#### Past offices and public service

- Founder and Chairman, BDO Limited (1981-2016)
- President, Hong Kong Institute of Certified Public Accountants (2008)
- Independent Non-Executive Director, Hong Kong International Theme Parks Limited (2010-2018)
- Hong Kong Coalition of Professional Services Limited: Vice Chairman (2012-2018); Board Director & Hon. Treasury (2008-2012)
- Corruption Prevention Advisory Committee, Independent Commission Against Corruption: Chairman (2012-2017) and Member (2007-2011)
- Member, Advisory Committee on Corruption, Independent Commission Against Corruption (2012-2017)
- Member, Hong Kong Housing Authority (2011-2017)
- Hong Kong Productivity Council: Council Member and Chairman of Audit Committee (2010-2015)
- Member, Air Transport Licensing Authority (2007-2013)
- Member, General Committee, Federation of Hong Kong Industries (2007-2013)

### Agnes CHAN Sui-kuen

Non-Executive Director



From 20 Oct 2018  
Current appointment to  
19 Oct 2020

#### Other SFC-related positions

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

#### Current offices and public service

- Managing Partner, Hong Kong and Macau, Ernst & Young
- Chairman, Financial and Treasury Services Committee, Hong Kong General Chamber of Commerce
- Member, General Committee, Hong Kong General Chamber of Commerce
- Member, Users' Committee, Hong Kong Inland Revenue Department
- Member, Exchange Fund Advisory Committee, Hong Kong Monetary Authority
- Member, Corporate Advisory Council, Hong Kong Securities and Investment Institute

#### Past public service

- Competition Commission: Member; Chairperson of Finance and Administration Committee (2013-2018)
- Member, Mandatory Provident Fund Schemes Appeal Board (2011-2017)
- Member, Environment and Conservation Fund Committee (2012-2016)
- Member, Telecommunications Users and Consumers Advisory Committee, Office of the Communications Authority (2012-2016)

**Edward CHENG**  
**Wai-sun** GBS, JP  
 Non-Executive Director



From 1 January 2017  
 Current appointment to  
 31 December 2020

**Other SFC-related positions**

- Member: Budget Committee and Remuneration Committee
- Member: SFC (HKEC Listing) Appeals Committee, Takeovers and Mergers Panel and Takeovers Appeal Committee

**Current offices and public service**

- Deputy Chairman and Chief Executive, Wing Tai Properties Limited
- Chairman, Lanson Place Hospitality Management Limited
- Member, the Chief Executive's Council of Advisers on Innovation and Strategic Development
- Independent Non-Executive Director, Standard Chartered Bank (Hong Kong) Limited

**Past SFC-related positions**

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

**Past public service**

- Chairman, University Grants Committee (2011-2015)
- Chairman, Urban Renewal Authority (2004-2007)
- Independent Non-Executive Director, Orient Overseas (International) Limited (2009-2018)
- Member, Commission on Strategic Development (2013-2017)
- Board Member, Airport Authority Hong Kong (2011-2017)
- Council Member, Hong Kong Polytechnic University (2006-2009)
- Member, Advisory Committee on Corruption, Independent Commission Against Corruption (2004-2009)
- Member, Steering Committee on Innovation and Technology (2004-2008)
- Council Member, City University of Hong Kong (2003-2007)
- Council Lay Member, Hong Kong Institute of Certified Public Accountants (2004-2005)
- Member, Executive Committee, Hong Kong Housing Society (2000-2004)
- Member, Operations Review Committee, Independent Commission Against Corruption (1997-2003)
- Council Member, Education University of Hong Kong (formerly known as The Hong Kong Institute of Education) (2000-2002)

## Corporate Governance

### Christina CHOI Fung-ye

Executive Director,  
Investment Products



From 1 August 2016  
Current appointment to  
31 July 2019

#### Other SFC-related positions

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

#### Public service

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

#### Past SFC position

- Senior Director, Investment Products (2012-2016)

#### Past offices

- Partner, Clifford Chance (2001-2004)

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### Brian HO Yin-tung

Executive Director,  
Corporate Finance



From 28 August 2006  
Current appointment to  
27 August 2021

#### Other SFC-related positions

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

#### Public service

- Member, Listing Nominating Committee, Hong Kong Exchanges and Clearing Limited

#### Past SFC position

- Senior Director, Corporate Finance (2000-2006)

**Lester HUANG** SBS, JP

Non-Executive Director



From 15 November 2015  
Current appointment to  
14 November 2019

**Other SFC-related positions**

- Deputy Chairman, Remuneration Committee
- Member, Budget Committee
- Member, SFC (HKEC Listing) Appeals Committee
- Chairman, Investor and Financial Education Council

**Current offices and public service**

- P. C. Woo & Co: Managing Partner and Co-Chairman
- Ex-officio member, Education Commission
- Chairman, Council of the City University of Hong Kong
- Chairman, Standing Committee on Language Education and Research
- Chairman, Social Welfare Advisory Committee
- Fellow, The Hong Kong Institute of Directors

**Past public service**

- President, The Hong Kong Federation of Youth Groups (2014-2018)
- Member, Hospital Authority (2012-2018)
- Chairman, Board of Advisors of Radio Television Hong Kong (2010-2016)
- Non-Executive Director, Urban Renewal Authority Board (2013-2016)
- Director, The Hong Kong Mortgage Corporation Limited (2009-2016)
- President, The Law Society of Hong Kong (2007-2009)
- Member, Exchange Fund Advisory Committee, Hong Kong Monetary Authority (2010-2016)
- Member, Standing Committee on Judicial Salaries and Conditions of Service (2010-2015)

**Dr James C LIN**

Non-Executive Director



From 1 August 2018  
Current appointment to  
31 July 2020

**Other SFC-related positions**

- Member: Audit Committee and Remuneration Committee
- Member: SFC (HKEC Listing) Appeals Committee and Share Registrars' Disciplinary Committee

**Current offices and public service**

- Partner, Davis Polk & Wardwell LLP
- Member, Disciplinary Panel A, Hong Kong Institute of Certified Public Accountants
- Member, Process Review Panel for Regulation of Mandatory Provident Fund Intermediaries
- Harvard Law School: Visiting Lecturer on Law; Member, Dean's Asia Leadership Council

**Past public service**

- Member, Appeal Panel (Housing) (2012-2018)
- Member, Securities and Futures Appeals Tribunal (2011-2017)



## Corporate Governance

### Keith LUI Kei-kwong

Executive Director,  
Supervision of Markets



From 28 August 2006  
Current appointment  
to 27 August 2019

#### Other SFC-related positions

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

#### Public service

- Member, Risk Management Committee, Hong Kong Exchanges and Clearing Limited

#### Past SFC positions

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

### Mary MA Xuezheng

Non-Executive Director



From 15 November 2013  
Current appointment  
to 23 April 2019

#### Other SFC-related positions

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

#### Current offices

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

#### Past offices and public service

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

**Dr William WONG  
Ming-fung sc**  
Non-Executive Director



From 1 August 2014  
Current appointment to  
31 July 2020

**Other SFC-related positions**

- Chairman, Remuneration Committee
- Member, Audit Committee
- Member: Investor Compensation Fund Committee, Nominations Committee, Securities Compensation Fund Committee and SFC (HKEC Listing) Appeals Committee
- Chairman, Investor Compensation Company Limited

**Current offices and public service**

- Senior Counsel, Des Voeux Chambers
- Fellow, Chartered Institute of Arbitrators
- Deputy Chairman, Private Columbaria Appeal Board
- Deputy Chairman, Municipal Services Appeals Board
- Deputy Chairman, The Board of Review (Inland Revenue Ordinance)
- Member, Appeal Tribunal, Hong Kong Federation of Insurers
- Chairman, Hong Kong Bar Association Special Committee on Arbitration
- Vice Chairman, Hong Kong Bar Association Special Committee on Barristers Qualification Examination
- Member, Advisory Committee on Promotion of Arbitration, Department of Justice
- Trustee, Board of Trustees, United College, The Chinese University of Hong Kong
- Director, The Hong Kong Middle Temple Society

**Past public service**

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

Note: The Nominations Committee nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee. See pages 170-178 for information about SFC external committees.

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### Reflections on my time at the SFC

As Mr Carlson Tong prepared to step down as the SFC Chairman at the end of his six-year term in October 2018, he reflected on the immense changes which occurred during his tenure. Hong Kong's markets had become larger and more complex, with the number of listed companies growing nearly 50% and more individuals and corporations holding SFC licences than ever before.



Mr Carlson Tong

Amongst the SFC's achievements during his term, Mr Tong said he was especially proud of the use of section 213 of the Securities and Futures Ordinance to obtain compensation for investors whose losses were caused by misconduct or fraud, as well as our efforts to crack down on misconduct related to listed companies with our new front-loaded regulatory approach.

"Strengthening relationships with stakeholders, particularly the industry, was a major focus," said Mr Tong, who worked hard to promote communication and foster mutual understanding. The launch of Mainland-Hong Kong Stock Connect, a "world first" unique trading link, was also a personal highlight.

Mr Tong added that he was fortunate to serve with a distinguished and supportive Board, strong management team and highly professional staff, all dedicated to working together to advance Hong Kong's position as a leading international financial centre.

After 30 years as a professional accountant, Mr Tong dedicated his life to public service. "After leaving the SFC, I will focus my public duty on the higher education sector as Chairman of the University Grants Committee," he said. For Mr Tong, it is a privilege to serve.

*I am confident that the SFC is well placed under its new Chairman to uphold the high standards which have been key to establishing Hong Kong as a major international financial centre.*

*Carlson Tong*



With our Chairman Mr Tim Lui (left) and ex-Chairman Dr Eddy Fong (right)

## Board meetings

Regular Board meetings are held at least monthly. The Board also meets quarterly to conduct in-depth discussions of policy issues and convenes special meetings as needed. There is an annual off-site meeting which sets out strategic objectives and management priorities.

Last year, 16 Board meetings were held with an average attendance rate of 85%.

## Meeting attendance record

Meetings attended/held	Board	Audit Committee	Budget Committee	Investment Committee	Remuneration Committee	Executive Committee
<b>Chairman</b>						
Carlson Tong Ka-shing <sup>1</sup>	9/9	–	–	1/1	–	–
Tim Lui Tim-leung <sup>2</sup>	7/7	–	–	2/2	2/2	–
<b>Executive Directors</b>						
Ashley Alder	12/16	–	1/1	1/3	–	21/24
Thomas Atkinson	14/16	–	–	–	–	21/24
Christina Choi Fung-yee	13/16	–	–	–	–	16/24
Brian Ho Yin-tung	14/16	–	–	–	–	19/24
Julia Leung Fung-yee	15/16	–	1/1	–	–	23/24
Keith Lui Kei-kwong	15/16	–	–	3/3	–	21/24
<b>Non-Executive Directors</b>						
Albert Au Siu-cheung	14/16	2/2	1/1	3/3	0/2	–
Agnes Chan Sui-kuen <sup>3</sup>	5/7	1/1	–	2/2	2/2	–
Edward Cheng Wai-sun	15/16	–	1/1 <sup>4</sup>	–	1/2	–
Lester Huang	14/16	–	0/1	–	1/2	–
Teresa Ko Yuk-yin <sup>5</sup>	5/5	0/1	–	–	–	–
James C Lin <sup>6</sup>	10/11	1/1	–	–	2/2	–
Mary Ma Xuezheng	8/16	0/2 <sup>7</sup>	1/1	3/3 <sup>7</sup>	0/2	–
Kelvin Wong Tin-yau <sup>8</sup>	8/9	1/1	–	0/1	–	–
William Wong Ming-fung, SC	13/16	2/2	–	–	2/2	–
<b>Senior Director and Chief Counsel</b>						
Andrew Wan Chi-yiu	–	–	–	2/3	–	17/24
Andrew Young	–	–	–	–	–	19/24

<sup>1</sup> Appointment expired on 19 October 2018.

<sup>2</sup> Appointed as Chairman of the Board and Investment Committee and a member of the Remuneration Committee effective 20 October 2018.

<sup>3</sup> Appointed as a member of the Board, Audit Committee, Investment Committee and Remuneration Committee effective 20 October 2018.

<sup>4</sup> Appointed as a member of the Budget Committee effective 1 August 2018.

<sup>5</sup> Appointment expired on 31 July 2018.

<sup>6</sup> Appointed as a member of the Board, Audit Committee and Remuneration Committee effective 1 August 2018.

<sup>7</sup> Appointed as Deputy Chairman of the Audit Committee and Investment Committee effective 20 October 2018.

<sup>8</sup> Appointment expired on 19 October 2018.

## Corporate Governance

### SFC committees

#### Board committees

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

Committee	Membership	Responsibilities	Meetings
Audit Committee	Five NEDs	<ul style="list-style-type: none"> <li>Reviews annual financial statements</li> <li>Recommends the appointment of external auditors</li> <li>Coordinates the scope of the external audit and reviews audit findings</li> <li>Examines management procedures to ensure effective financial and internal controls</li> </ul>	2
Budget Committee	Four NEDs and two EDs <sup>^</sup>	<ul style="list-style-type: none"> <li>Examines and approves the parameters and bases used in the annual budget</li> <li>Conducts the mid-year budget review</li> <li>Reviews the annual budget and makes recommendations to the Board</li> </ul>	1
Investment Committee	Four NEDs, two EDs and a Senior Director <sup>^</sup>	<ul style="list-style-type: none"> <li>Advises on the SFC's fund management policies, strategies and investment guidelines</li> <li>Recommends the appointment of investment managers and advisers and monitors their performance including compliance with the investment guidelines</li> <li>Advises on investment risk management and asset allocation and monitors the performance of investments</li> </ul>	3
Remuneration Committee	Eight NEDs	<ul style="list-style-type: none"> <li>Reviews the structure and level of staff remuneration</li> <li>Reviews trends in remuneration packages and recommends adjustments</li> <li>Considers other matters as required, including recommendations to the Government on EDs' remuneration and re-appointment</li> </ul>	2

<sup>^</sup> In a non-voting capacity.

### External committees

External committees are set up under the SFO and comprise a large number of members outside the SFC who reflect the diverse views of market participants. These committees play an important role in the governance of the SFC.

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

Each regulatory committee specialises in specific areas such as investment products, shareholders’ rights and interests, takeovers and mergers, continuous professional training for licensees and investor compensation. Appointed by the Board, members include NEDs, EDs, industry representatives and other stakeholders. There were 14 regulatory committees as at the end of March 2019.

See pages 170-178 for the responsibilities and membership lists of the external committees.

### Executive Committee

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

ExCo meets regularly to consider policy and operational proposals and expense requests from different divisions of the organisation. During the year, 24 ExCo meetings were held with an average attendance rate of 82%.

### Standards of conduct

To promote and maintain public confidence, a high standard of integrity and conduct is required of our staff. In addition to complying with relevant legal obligations, staff are obligated to adhere to our code of conduct which spells out our standards in detail and

covers confidentiality, conflicts of interest, personal investments and acceptance of gifts and hospitality. Each staff member is given a copy of the code. Failure to comply with the code may result in disciplinary action.

### Accountability and transparency

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

### Delegation of authority

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

### Budgeting

To maintain effective fiscal control and to plan for the coming year and beyond, we follow a disciplined approach in preparing our budget. Under our policy of tightly controlling expenditures, we make prudent assumptions, exercise robust financial control and identify areas where resources could be deployed to meet the SFC’s strategic objectives, priorities and operational needs. During the budget process, divisions’ expense requests for the following year are critically assessed.

The annual budget, after consideration by the Budget Committee and approval by the Board, is submitted to the Financial Secretary for approval and then tabled before LegCo. We also appear before LegCo’s Panel on Financial Affairs to present our budget each year.

### Investment

We aim to achieve long-term financial sustainability and attach great importance to the prudent management of our reserves, which are managed according to investment guidelines approved by the Financial Secretary. We have delegated responsibility for the selection, retention and management of the investments of our Reserve Fund and the Investor Compensation Fund to external investment managers, and we regularly review their performance including

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## Corporate Governance

their compliance with the investment guidelines. The external managers have confirmed that they adopt the Principles of Responsible Ownership<sup>1</sup> in their undertakings to manage these investments.

### Financial control and reporting

To uphold a high standard of integrity and exercise vigorous controls over the use of public funds, we engage an independent external professional firm to conduct an annual review of our financial control policies and procedures to ensure they are practical and robust.

We voluntarily observe applicable requirements stipulated in the Hong Kong Companies Ordinance when preparing our financial reports, and adopt the Hong Kong Financial Reporting Standards for preparing financial statements and disclosing financial information.

In addition, we follow good market practice to ensure that our financial reports are transparent and informative.

Our practices include:

- Selecting relevant accounting policies and applying them consistently
- Appointing an external firm to conduct an interim review and annual audit
- Presenting our interim and annual financial statements to the Audit Committee for consideration
- Seeking the Board's approval of quarterly and annual financial statements and publishing them in our quarterly and annual reports
- Reporting key financial data to the Board and ExCo on a monthly basis
- Providing regular reports to the Government

### Handling complaints and grievances

We extend our principles of accountability and transparency to our complaints handling procedures.

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

### Efficient use of resources

We regularly review our corporate resources and accommodation requirements to ensure that we operate efficiently, identify our needs and strategic priorities and allocate resources accordingly.

To formulate effective regulatory responses in rapidly-evolving and increasingly complex markets, we set up cross-divisional project teams to work on policies or initiatives related to the functions of multiple divisions. This allows more efficient use of our resources across the organisation.

This year, we introduced a new system to manage finance and human resources-related matters within the organisation more efficiently.

### Stakeholder communication

We engage a wide range of stakeholders including the Government, LegCo members, the financial services industry, regulatory counterparts and the general investing public in a proactive, timely and effective manner<sup>2</sup>.

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

We also reach out to stakeholders to explain our work and our policies and we discuss specific regulatory issues at seminars or other events. We attend meetings at LegCo, including meetings of the Panel on Financial Affairs, to present our budget, explain policy initiatives and other issues of public interest.

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

<sup>2</sup> See Stakeholders on pages 77-81.

## New Non-Executive Directors

We welcomed two new NEDs to our Board during the year. Dr James C Lin was appointed in August 2018 and Ms Agnes Chan Sui-kuen joined in October 2018.



### Promoting effective regulation

As a lawyer focusing on initial public offerings and other transactions, Dr Lin brings a unique international perspective with his extensive experience in capital markets in Hong Kong, the US and other countries.

Dr Lin had always been impressed by the SFC's professionalism, but after joining the Board he better understood all the hard work and thinking that went into every decision. He was also pleasantly surprised by how involved NEDs are in shaping the organisation's policies and strategic direction.

One challenge for the SFC is to demonstrate to the public and other stakeholders that it focuses on both protecting investors and allowing efficient capital raising, Dr Lin noted. He hopes to help promote more effective regulations which enhance Hong Kong's status as an international financial centre.

*Every policy, regulation or rule must further the interests of the investing public in the most reasonable and efficient way.*

*Dr James C Lin*

### Upholding integrity

Working closely with regulators and companies for three decades as a professional accountant, Ms Chan has acquired deep knowledge of the SFC's work as well as a solid understanding of the needs of businesses.

Integrity is the most important principle in accounting, Ms Chan said, and her objective as an NED is to uphold the integrity of the Hong Kong market and ensure it remains fair, competitive and orderly. Bridging the gap between regulatory bodies and businesses is also a priority.

In particular, she is keen to share her knowledge about promoting innovation in the commercial world as the SFC engages with the market and stakeholders to keep up with the ever-changing business environment and to understand the impact of new technologies on the financial industry.

*In a dynamic business environment, regulators have to ensure the markets operate fairly and efficiently and promote orderly industry development.*

*Agnes Chan Sui-kuen*



## Corporate Governance

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

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

In November 2018, a staff member from our Enforcement Division received The Ombudsman's Awards 2018 for Officers of Public Organisations<sup>3</sup>.

### Risks

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

#### External risks

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

As markets are becoming more complex and interconnected, we adopt a comprehensive, structured approach to assess risk using new regulatory technologies to collect and analyse large volumes of data and information. A cross-divisional Risk Review Group was set up to identify and monitor, in a holistic manner, potential and emerging risks facing the SFC. The group regularly reports to ExCo, and in turn to the Board.

#### Internal risks and control

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

Our policies and procedures for financial control help us uphold a high standard of integrity and exercise rigorous controls on the use of public funds. In

addition to appointing an external auditor, we engage an independent external firm to conduct an annual review of our financial control procedures and policies to ensure they are practical and robust.

The scope of each review is approved by the Audit Committee and the findings, together with recommendations, are submitted to ExCo for consideration and reported back to the Audit Committee. Enhancements to related policies and procedures are then made where necessary.

During the year, we enhanced our internal audit review by engaging another independent external firm to conduct a robust risk assessment of our internal controls to assess their effectiveness and identify the key risks of all our business processes. These include banking and investment, finance, procurement, human resources and information technology.

To facilitate staff's compliance with the Personal Data (Privacy) Ordinance, we provide staff with a data privacy manual and a quick guide comprising frequently-asked questions and illustrative examples. In September 2018, the Office of the Privacy Commissioner for Personal Data conducted a training session to introduce the ordinance and its application to the SFC's work.

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

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

<sup>3</sup> See Enforcement on pages 65-72.

## Independent checks and balances

Independent bodies provide external checks and balances on our operational work to ensure fairness in our decision making, observance of due process and proper use of our regulatory powers. Apart from scrutiny by the Process Review Panel and the Securities and Futures Appeals Tribunal, we are subject to judicial review by the courts and indirect oversight by the Ombudsman.

Independent body	Relevant functions	SFC-related tasks handled
<p><b>Process Review Panel</b></p> <ul style="list-style-type: none"> <li>An independent panel established by the Chief Executive of the HKSAR in 2000</li> <li>Comprises representatives from various sectors and two ex-officio members, namely the SFC Chairman and a representative from the Department of Justice</li> </ul>	<ul style="list-style-type: none"> <li>Reviews and advises on the adequacy of our internal procedures and operational guidelines, including those for the handling of complaints and licensing applications, inspection of intermediaries, investment product authorisation, corporate finance transactions and the exercise of investigation and disciplinary powers</li> </ul>	<ul style="list-style-type: none"> <li>Reviewed 60 cases and published its annual report in October 2018</li> </ul>
<p><b>Securities and Futures Appeals Tribunal</b></p> <ul style="list-style-type: none"> <li>Chaired by current or former judges appointed by the Chief Executive of the HKSAR and comprising two other members drawn from a panel appointed by the Financial Secretary under delegated authority</li> </ul>	<ul style="list-style-type: none"> <li>Reviews specified decisions made by the SFC</li> <li>Has power to confirm, vary or set aside decisions made by the SFC (and where a decision is set aside, substitute any other decision it considers appropriate) or refer the matter back to the SFC with directions</li> </ul>	<ul style="list-style-type: none"> <li>Received requests to review four new cases</li> <li>Allowed five cases received in 2017-18 and 2018-19 to be withdrawn</li> </ul>
<p><b>The Ombudsman</b></p>	<ul style="list-style-type: none"> <li>Handles public complaints against the SFC and its staff for alleged maladministration</li> </ul>	<ul style="list-style-type: none"> <li>Commenced one preliminary inquiry and one investigation</li> </ul>
<p><b>Courts</b></p>	<ul style="list-style-type: none"> <li>Handle judicial reviews of SFC decisions</li> </ul>	<ul style="list-style-type: none"> <li>Handled seven judicial review cases</li> </ul>

## Performance pledges

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

		Cases meeting the pledge		
		2018/19	2017/18	2016/17
<b>Applications for subordinated loan or modification/waiver of requirements under SFO</b>				
Commence review of application upon receipt	2 business days	100%	100%	100%
<b>Authorisation of investment products</b>				
Take-up of applications upon receipt	5 or 2 business days <sup>1</sup>	100%	100%	100%
Preliminary response to applications after take-up for investment-linked assurance schemes (ILAS) and paper gold schemes	7 business days	100%	100%	100%
Preliminary response to applications after take-up for other products	14 business days	100%	100%	100%
<b>Enquiries</b>				
Preliminary replies	5 business days	100%	100%	100%
<b>Processing of licensing applications<sup>2</sup></b>				
Corporations	15 weeks	100%	100%	100%
Representatives (provisional licences)	7 business days	99% <sup>3</sup>	100%	100%
Representatives (normal licences)	8 weeks	99% <sup>3</sup>	100%	100%
Representatives (responsible officers)	10 weeks	99% <sup>3</sup>	99%	100%
Transfer of accreditation	7 business days	99% <sup>3</sup>	97%	97%
<b>Complaints against intermediaries and market activities</b>				
Preliminary response	2 weeks	99.8% <sup>4</sup>	99.8%	99.7%

<sup>1</sup> The pledge of five business days is applicable to the following products:  
 – Unit trusts and mutual funds (including eligible Mainland funds seeking authorisation under the Mutual Recognition of Funds (MRF) arrangement between the Mainland and Hong Kong with effect from 9 May 2016)  
 – Mandatory provident fund products (including pooled investment funds)  
 – Pooled retirement funds

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

<sup>2</sup> During the year, we processed 17,720 applications that were subject to performance pledges, 15,070 of which were processed within the applicable period. The completion of the vast majority of the remaining 2,650 applications was delayed for reasons beyond our control (eg, unresolved fitness and properness issues, outstanding vetting requests, applicants failing to provide essential information, requests by applicants that we delay finalising their applications). To more accurately reflect our performance, these applications are not included in the percentages stated.

<sup>3</sup> The delay was usually short and resulted from unexpected complications, such as abnormal increases in our workflow and resulting resourcing difficulties.

<sup>4</sup> 11 cases failed to meet the pledge.

During the year, 100% of takeovers and mergers-related applications and transactions met the performance pledges. Details of the response time are listed in the following table.

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

<sup>5</sup> If the subject matter involves complex Code issues, the time limit will be extended to 21 business days and the applicants will be informed of this.

<sup>6</sup> EFMs and EPTs refer to exempt fund managers and exempt principal traders as defined under the Codes.

<sup>7</sup> The parties will be informed of the longer time needed.

<sup>8</sup> Including offer documents, offeree board circulars, whitewash circulars, scheme documents and share buy-back circulars.

## Our People

As we mark our thirtieth anniversary, staff who have been with us since our founding year reflect on how the SFC has changed to keep ahead of the rapid growth and increasing complexity of Hong Kong's financial markets.

### Present at the creation

The SFC was established as a statutory regulator in 1989. Of the staff who joined us that year, 14 were still with us three decades later. Nine of them sat down to talk about what had changed.

In the beginning, our work was largely paper-based and personal computers were not standard office equipment for all staff. Johnny Ho and Anita Lau recalled filing newspaper clippings as part of our market surveillance and manually processing licensees' records at a time when there were fewer than 300 companies listed in Hong Kong.

Technology has come a long way since then. For clerical staff like Christina Chan<sup>1</sup>, the transition from paper to computer systems meant greater productivity. As Wong Yuk Wai related, "our work environment is very different from three decades ago and we have built up these systems over the years".

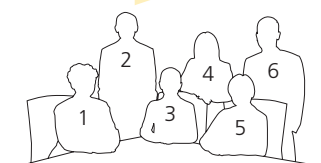
### Adapting to change

Hong Kong's markets are also more sophisticated and globally connected, with the number of listed companies increasing nearly 700% since the SFC's inception. "To stay on top of market developments, the SFC is now much larger, as is our workload," Michelle Mak said.

For instance, the Enforcement Division expanded from around 30 staff to more than 200, organised in specialist teams. The number of investigations also rose significantly. Each case officer now typically handles about 10 cases at a time.

"The issues today are much more complex and the scope of our work has widened," explained Yvonne Mok. "Today we need to think more like forensic accountants to identify regulatory gaps at an early stage."

Staff recalled that the biggest changes occurred after our regulatory powers were expanded with the enactment of the Securities and Futures Ordinance in 2003 and following the recent adoption of a front-loaded regulatory approach to tackle market and corporate misconduct. "To grow professionally, you must adapt to change," Laurence Lee<sup>2</sup> observed.



1. Anita Lau, Officer, Licensing
2. Johnny Ho, Manager, Enforcement
3. Yvonne Mok, Director, Intermediaries Supervision
4. Band Tse, Manager, Planning and Administration
5. Michelle Mak, Officer, Intermediaries Supervision
6. Wong Yuk Wai, Senior Manager, Information Technology

<sup>1</sup> Clerk, Intermediaries Supervision.  
<sup>2</sup> Director, Enforcement.

### Global recognition

Nowadays we receive notes of appreciation from companies and investors acknowledging our enforcement efforts, but “there was a time when some companies did not even bother to reply to our letters as we were new to them,” explained Laurence Lee. “They had little understanding of what a regulator does”.

A series of landmark cases helped the SFC gain more recognition as the years went by. Some set precedents in financial market regulation and helped establish it as a world-class regulator. “The public used to mistake us for other local regulators,” said Ivy Lau. “Now they know we play a unique role in regulating Hong Kong’s securities market”.

Staff noted that we began to collaborate more closely with Mainland regulators after the launch of mutual market access schemes such as Stock Connect and Mutual Recognition of Funds. We have also stepped up our contacts with overseas regulatory counterparts and contributed more to global policymaking, including by chairing the Board of the International Organization of Securities Commissions since 2016.

### People with a purpose

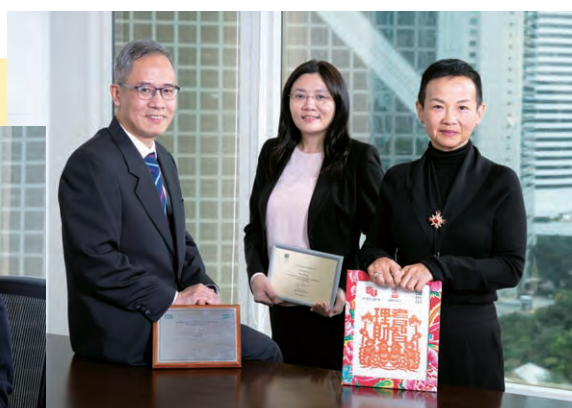
The veterans share a sense of pride in the organisation and the satisfaction that their work makes a difference. “We learn new things and face new challenges every day,” said Laurence Lee. This gives them a strong sense of purpose. For Yvonne Mok, in the private sector she may need to follow narrow commercial interests, but working as a regulator she can act on her own values and do what is right for the common good.



Michelle Mak with Ivy Lau, Manager, Commission Secretariat

The nine staff all agreed that people have been a decisive factor in their 30 years of commitment to the organisation. In the early days, they worked in a close-knit office environment where they all recognised one another. Even though they are now dispersed across different floors of a larger office, staff activities and cross-divisional initiatives still bring them together from time to time.

Throughout the years, one thing that has not changed is the good rapport they have with colleagues. “I enjoy the company of my co-workers and together we work as one SFC,” Band Tse concluded.



# Highlights

## Key figures for 2018-19

**9,074**

requests for trading and account records

**238**

cases initiated for investigation

**101**

individuals and corporations subject to ongoing civil proceedings

**\$940 million**

in fines on licensees

**8,942**

new licence applications

As of 31 March 2019

**46,678**

licensees and registrants including

**2,960**

licensed corporations

**304**

on-site inspections of intermediaries

**394**

listing applications received

**373**

takeovers-related transactions and applications

**90**

industry circulars

**221**

Fintech-related enquiries

**85**

senior executives' speaking engagements

**6,034**

complaints against intermediaries and market activities

As of 31 March 2019

**2,797**

authorised collective investment schemes including

**789**

Hong Kong-domiciled funds

The following tables highlight our work during 2018-19. More details are provided in subsequent chapters.

### Regulatory enhancements

Professional investors	Amended the Professional Investor Rules to standardise how professional investors are prescribed and ensure consistent application of the regulations
Discretionary accounts	Concluded a consultation on requirements for intermediaries providing discretionary account management services to disclose benefits receivable from product issuers and profits earned from trading products with third parties
Securities margin financing	Concluded a consultation on proposed guidelines for securities margin financing activities to enhance brokers' risk management
Complex products	Concluded a consultation on requirements for intermediaries to apply additional protective measures to the sale of complex products in an offline environment
Funds	The Code on Unit Trusts and Mutual Funds was revised following a consultation on amendments to ensure the regulations governing public funds remain robust and aligned with international standards
Takeovers	The Codes on Takeovers and Mergers and Share Buy-backs were amended to enhance investor protection and to ensure a fair and informed market
OTC derivatives	Concluded two consultations on proposals to enhance the over-the-counter (OTC) derivatives regime to mandate the use of Legal Entity Identifiers <sup>1</sup> for the reporting obligation, expand the clearing obligation and address conduct risks posed by dealings with connected persons
Investor compensation	Consulted the public on a proposed increase of the investor compensation limit and coverage for northbound trading under Stock Connect
Anti-money laundering	Revised guidelines on anti-money laundering and counter-terrorist financing, which align them with the latest international standards, came into effect

### Market development

Mainland-Hong Kong Stock Connect	The daily quotas under Stock Connect were expanded fourfold to RMB52 billion for northbound trading and RMB42 billion for southbound trading
	An investor identification regime for northbound trading under Stock Connect was launched
Emerging and innovative companies	Following the SFC's approval, The Stock Exchange of Hong Kong Limited (SEHK) implemented new Listing Rules allowing pre-revenue biotech companies and innovative companies with weighted voting rights (WVR) structures to list in Hong Kong
Paperless securities market	Launched a consultation jointly with Hong Kong Exchanges and Clearing Limited and the Federation of Share Registrars Limited on a proposed operational model for an uncertificated securities market

<sup>1</sup> A unique 20-digit, alpha-numeric code which identifies entities in a financial transaction.



## Highlights

### Market development

Open-ended fund companies	Implemented the open-ended fund companies regime to introduce a new corporate fund structure in addition to the unit trust form
Mutual recognition of funds	Signed mutual recognition of funds (MRF) agreements with the regulators in the UK, Luxembourg and the Netherlands, allowing eligible funds to be distributed in the other market through streamlined vetting processes
Green finance	Published the SFC's <i>Strategic Framework for Green Finance</i> to contribute to the development of Hong Kong as a leading centre for green finance and to connect green finance flows between the Mainland and the rest of the world

### Supervision

Licensing	Updated licensing processes with new forms, a new edition of the Licensing Handbook as well as mandating electronic submission of annual returns and notifications by licensees and registered institutions
Listing applications	Received 394 listing applications including four WVR companies and 13 biotech companies
Takeovers matters	Supervised 373 takeovers-related transactions and applications
Funds	<p>Authorised 136 collective investment schemes for sale to the public in Hong Kong</p> <p>Handled 13 cases of material non-compliance with regulatory requirements by issuers of SFC-authorized products, resulting in compensatory payments totalling \$29 million to affected Hong Kong investors</p>
Inspections	Conducted 304 risk-based on-site inspections, including thematic inspections, of intermediaries and noted 1,236 incidents of breaches of the SFC's rules
Internal control of brokers	Issued a report and a self-assessment checklist on our expected standards of brokers' internal controls for protecting client assets and supervising account executives
Stress tests	Launched a system to conduct stress tests to identify thinly capitalised brokers amid increased extreme price movements and trading suspensions of small-cap stocks
Virtual assets	<p>Published regulatory standards for virtual asset portfolio managers and fund distributors, as well as a conceptual framework for the potential regulation of virtual asset trading platforms</p> <p>Issued a statement clarifying the legal and regulatory requirements applicable to parties engaging in security token offerings</p>
Industry guidance	<p>Organised the SFC Compliance Forum 2018 to exchange views with the industry on current regulatory issues, including best execution, client facilitation, alternative liquidity pools (ALPs), sponsors and Fintech</p> <p>Issued 90 circulars to the industry covering a wide range of topics including receipt of client orders through instant messaging, online client onboarding, use of nominee and warehousing arrangements, ALPs and distribution of virtual asset funds</p>

## Enforcement

Surveillance	Made 9,074 requests for trading and account records from intermediaries as a result of our surveillance of untoward price and turnover movements
Investigations and prosecutions	Commenced 238 investigations and laid 42 criminal charges against four individuals and one corporation and secured convictions against four persons and one corporation
Notable disciplinary actions	Disciplined seven firms and three individuals and imposed fines totalling \$867.7 million for failures as sponsors of initial public offerings
	Reprimanded three firms for deficient selling practices and imposed fines totalling \$24.6 million
	Disciplined three individuals and one corporation for mis-handling client money, of which two were banned from re-entering the industry for life

## Regulatory cooperation

International	The SFC became one of the first signatories to the IOSCO <sup>2</sup> Enhanced Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information for cross-border enforcement cooperation
	Entered into a memorandum of understanding (MoU) with the German Federal Financial Supervisory Authority to facilitate cooperation and exchange of information
Mainland	Held the fourth high-level meeting with the China Securities Regulatory Commission (CSRC) to discuss market development initiatives and ways to enhance cross-boundary regulatory cooperation, as well as two regular meetings on enforcement cooperation
	Entered into MoUs with the China Banking and Insurance Regulatory Commission and the CSRC to enhance supervisory cooperation and the exchange of information about cross-boundary regulated financial institutions
Fintech	Participated in the Global Financial Innovation Network for regulators to collaborate on Fintech-related issues and became a member of its Coordination Group which sets its overall direction and strategy
	Signed a Fintech cooperation agreement with the Abu Dhabi Global Market Financial Services Regulatory Authority

<sup>2</sup> International Organization of Securities Commissions.

# Operational Review

We maintain stability, competitiveness and orderliness in the financial markets through our principal areas of work: intermediaries, products, corporates, markets and enforcement.

## Intermediaries

We set standards and qualifying criteria for corporations and individuals licensed to operate in our markets under the Securities and Futures Ordinance (SFO). As part of our ongoing supervision, we conduct on-site inspections and off-site monitoring of licensed corporations<sup>1</sup>, and explain our regulatory focus and concerns to the industry. We closely monitor market and technological developments and adapt our approach accordingly.

### Licensing

As of 31 March 2019, the number of licensed corporations totalled 2,960, up 10% from last year. The number of licensees and registrants increased 5% to 46,678 in the same period. We received 8,942 new licence applications during the year, an increase of 8% from a year earlier. These were both record highs since the implementation of the regulatory regime under the SFO on 1 April 2003.

## Revamped licensing process

To enhance efficiency and transparency and to keep ahead of the evolving financial market landscape, we revamped our licensing process and introduced new measures to sharpen our focus on key risks and achieve better regulatory outcomes. In May 2018, we restructured the Licensing Department to improve operational efficiency. In addition, we redesigned our licensing forms to introduce an enhanced risk-based approach. In September 2018, we held three consultation sessions to discuss the revamped licensing process with industry participants, including fund managers, brokers, investment banks and compliance consultants.

Starting 26 November 2018, approval letters to individual licence applicants are only sent electronically, copying their accredited licensed corporations. Also on the same date, the delegation of the SFC Online Portal function was adjusted to allow directors of licensed corporations or registered institutions and persons authorised by their boards to submit corporate notifications and annual returns. Previously, only responsible officers and executive officers were allowed to submit these documents.

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

In February 2019, new forms and a new edition of the SFC's Licensing Handbook were released. After a two-month transitional period, both the use of the new forms and the electronic submission of annual returns and notifications via the SFC Online Portal were made compulsory from 11 April 2019. (See sidebar on the licensing reform on page 44.)

## Annual licence fees

From 1 April 2019, we resumed the collection of annual licence fees after a seven-year period when these fees were waived. A fee concession of 50% was provided for two years. Annual fees will be fully reinstated from 1 April 2021. We issued a circular in March 2019 to set out the annual fee collection arrangements for the industry.

## Prudential risks

### Securities margin financing

In April 2019, we concluded a public consultation on proposed guidelines which set out the expected risk management standards for securities margin financing (SMF) activities. The guidelines include qualitative requirements and quantitative benchmarks for margin lending policies and key risk controls. The consultation was launched in August 2018 and followed a 2017 review of SMF activities which indicated dramatic

growth in total margin loans over the last decade, with significant deterioration in the quality of loans and widespread imprudent lending practices among brokers. A report summarising the review findings was also published in August 2018.

### OTC derivatives

We launched a two-month consultation in June 2018 on proposals to impose margin requirements for non-centrally cleared over-the-counter (OTC) derivatives. The proposals specify the categories of licensed corporations, counterparties and instruments subject to the requirements for margin exchange, as well as the assets eligible as margin. We plan to publish consultation conclusions later this year.

In December 2018, we released consultation conclusions on proposals to enhance the OTC derivatives regime and address conduct risks posed by dealings with group affiliates and other connected persons. New risk mitigation requirements for non-centrally cleared OTC derivative transactions will take effect on 1 September 2019. Client clearing requirements for OTC derivative transactions will become effective when the new Types 11 and 12 regulated activities come into effect. The effective date for the conduct requirements to address risks posed by group affiliates and other connected persons is 14 June 2019.

## Licensees

	Corporations <sup>^</sup>		Representatives		Responsible Officers		Total <sup>^</sup>		
	As at 31.3.2019	As at 31.3.2018	As at 31.3.2019	As at 31.3.2018	As at 31.3.2019	As at 31.3.2018	As at 31.3.2019	As at 31.3.2018	Change
Stock exchange participants	581	563	12,397	12,096	2,155	2,043	15,133	14,702	2.9%
Futures exchange participants	114	115	849	884	199	188	1,162	1,187	-2.1%
Stock exchange and futures exchange participants	81	74	5,002	4,831	576	536	5,659	5,441	4%
Non-stock/non-futures exchange participants	2,184	1,950	16,655	15,784	5,769	5,174	24,608	22,908	7.4%
<b>Total</b>	<b>2,960</b>	<b>2,702</b>	<b>34,903</b>	<b>33,595</b>	<b>8,699</b>	<b>7,941</b>	<b>46,562</b>	<b>44,238</b>	<b>5.3%</b>

<sup>^</sup> These figures exclude 116 registered institutions as at 31 March 2019 and 120 as at 31 March 2018.

## Intermediaries

### Financial resources rules

In October 2018, we issued consultation conclusions on proposed amendments to the Securities and Futures (Financial Resources) Rules to update the computation basis for the financial resources requirements and ensure the rules are compatible with the latest market developments. The new requirements were enacted on 12 December 2018. Amendments related to a new accounting standard took effect on 1 January 2019 and the remaining amendments came into effect on 1 April 2019.

### Conduct risks

#### Professional investors

In May 2018, we issued consultation conclusions on proposals to standardise the rules for prescribing professional investors and ensure consistent application of our regulations. The amended rules came into effect on 13 July 2018. We also explained the professional investor regime on the website of the Investor and Financial Education Council<sup>2</sup>.

### Strategic licensing review

Our licensing processes are a key element of our gatekeeping function. By collecting more relevant information from applicants upfront, this can help us make decisions faster and identify issues earlier.

During the year, we completed a thorough review to make our licensing functions more transparent, speed up our workflow and improve communication with the industry. To this end, we introduced a three-pronged strategic reform to modernise our licensing processes.

First, we reorganised our licensing functions and re-engineered the operational flow to make it more efficient. After the restructuring, we observed general improvement in overall efficiency in processing individual licensing applications.

Next, we refined our assessment approach by focusing on five key risks of a corporate licence applicant, namely its business, controller, management, financial strength and internal control.

To demonstrate its financial strength, the applicant must provide a projection of its operating expenses in the first six months after having been licensed.

We also published self-assessment questionnaires for corporate applicants to match SFC-regulated activities with their business profiles as well as to evaluate the soundness of their risk management and internal control measures. These allow us to identify potential regulatory issues at an early stage.

Thirdly, we improved our interaction with licensees and applicants by introducing a series of redesigned licensing forms, along with user-friendly instructions and navigation guides, to collect the information we need to assess an applicant's fitness and properness upfront. To enhance the efficiency and transparency of the application process, we revised some questions set out in the licensing forms and streamlined the information requirements.

We also released a new edition of the Licensing Handbook and updated the licensing section on the SFC website to provide additional guidance on these enhancements as well as recent policy updates.



Licensing workshops



<sup>2</sup> Formerly known as the Investor Education Centre.

## Alternative liquidity pools

In April 2018, we issued a circular and thematic report to highlight the key areas of concern and good practices noted during a thematic review of alternative liquidity pools (ALPs) which identified a number of deficiencies including in ensuring that ALP users are qualified investors. The report also provides an overview of the ALP landscape in Hong Kong.

## Sale of complex products

We issued consultation conclusions in October 2018 on requirements for intermediaries to apply additional protective measures to the sale of complex products in an offline environment. Intermediaries have to ensure the suitability of complex products and provide product information and warning statements to clients when the complex products are sold on an unsolicited basis. Accordingly, identical protective measures will apply to both the online and offline sale of complex products with effect from 6 July 2019. This ensures better investor protection, provides a level playing field for industry participants and avoids potential regulatory gaps.

## Disclosure

In May 2018, we concluded a public consultation on proposed disclosure requirements applicable to discretionary accounts to address potential conflicts of interest where product issuers provide incentives

to discretionary account managers. We also published frequently asked questions on the requirements, which became effective in November 2018.

## “Nominees” and “warehousing” arrangements

In light of the increasingly prevalent use of “nominees” and “warehousing” arrangements which may play a part in market and corporate misconduct, we issued a circular in October 2018 reminding intermediaries to be vigilant in identifying potential red flags which may suggest the use of these arrangements for illegitimate purposes, make follow-up enquiries with clients and report suspicious transactions promptly to us and other authorities where necessary.

## Financial technology

### Online client onboarding

We issued a circular in July 2018 to provide guidance to intermediaries on using electronic signatures to onboard individual clients online. The alternative procedures specified in the circular provide safeguards to contain the risks while enabling intermediaries to onboard clients more efficiently and better serve customers without compromising their regulatory responsibilities.

## Breaches noted during on-site inspections

	2018/19	2017/18	2016/17
Internal control weaknesses <sup>a</sup>	443	535	598
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission <sup>b</sup>	275	320	441
Non-compliance with anti-money laundering guidelines	201	175	201
Failure to safekeep client money	28	59	62
Failure to safekeep client securities	32	38	58
Others	257	349	395
<b>Total</b>	<b>1,236</b>	<b>1,476</b>	<b>1,755</b>

<sup>a</sup> Comprised 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.

<sup>b</sup> Commonly related to risk management, record keeping, client agreements, safeguarding of client assets and management responsibilities.

Note: See Table 4 in Breakdown of SFC activity data on page 166 for more details.

## Intermediaries

### Client orders via instant messaging

We issued a circular in May 2018 to provide guidance on the controls and procedures intermediaries are expected to implement when they receive clients' orders through instant messaging services. They are encouraged to take adequate measures, such as keeping proper records of messages relating to client orders, ensuring all records are accessible for monitoring and audit purposes, validating client identities and maintaining adequate safeguards to prevent unauthorised access and security attacks.



Ms Julia Leung (right), Deputy Chief Executive Officer and Executive Director, Intermediaries, at Freshfields Bruckhaus Deringer's Asia In-House Counsel Forum 2018

### Virtual assets

In June 2018, we issued a circular to remind intermediaries to inform us of any plans to provide trading and asset management services involving virtual assets or robo-advisory services. Intermediaries were also advised to discuss their plans with the SFC before they engage in these services.

We published regulatory standards for managers of funds which invest in virtual assets in November 2018. The sale of these unauthorised funds was limited to professional investors. We also developed a conceptual framework for exploring whether we should regulate virtual asset trading platforms in consideration of serious investor protection issues. If implemented, this regulatory approach could provide a path for compliance for those platform operators capable and willing to adhere to a high level of standards and practices, and set them apart from others which do not seek a licence. (See sidebar on page 47.)

In March 2019, we issued a statement clarifying the legal and regulatory requirements applicable to parties engaging in security token offerings. We also reminded investors to be wary of the risks associated with virtual assets, including tokens which are the subject of security token offerings.

### Anti-money laundering

In July 2018, we launched a public consultation on proposed amendments to the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations) as well as the Prevention of Money Laundering and Terrorist Financing Guideline Issued for Associated Entities to align them with the latest international standards and provide additional guidance in light of industry developments. The amended guidelines came into effect on 1 November 2018.

We issued a circular in April 2018 to draw licensed corporations' attention to the findings of the Government's *Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report* and provide guidance on measures that they should take to mitigate any money laundering and terrorist financing risks identified in the report. We conducted three seminars for around 700 industry participants in June 2018 on the implications of the report's findings for licensed corporations.

In August 2018, we issued a circular highlighting deficiencies in anti-money laundering and counter-financing of terrorism (AML/CFT) measures and controls identified during our inspections. The circular provided guidance with practical examples for complying with the legal and regulatory requirements and enhancing AML/CFT policies, procedures and controls.

A mutual evaluation was carried out by the Financial Action Task Force and Asia/Pacific Group on Money Laundering in 2018<sup>3</sup>. Following completion of its on-site review of Hong Kong last year, we will continue to update our AML guidance notes to align with the latest international standards.

<sup>3</sup> See Regulatory engagement on pages 73-76.

## Fintech developments

In this fast-moving technological landscape, we take a facilitative approach to innovation when Fintech can be used to provide better customer experience, increase financial inclusion or make markets more efficient and reliable. One example is the growth of online platforms which provide more choices and offer better service and convenience to investors. In this regard, we issued the Guidelines on Online Distribution and Advisory Platforms which came into effect in April 2019.

We also engage with firms, industry organisations, startups and other stakeholders through the SFC Fintech Contact Point, which handled over 200 enquiries during the year.

Where a Fintech activity poses serious risks to investor protection, we take a more cautious stance. Virtual asset activities are associated with risks arising from illiquidity, volatility, opaque pricing, hacking, money laundering and fraud. A prudent approach is therefore required. We announced a conceptual framework for the potential regulation of virtual asset trading platforms in November 2018 and are currently considering our regulatory approach towards virtual assets.

On a day-to-day basis, we closely monitor licensed corporations' risk management practices to determine whether they need to be strengthened in response to technological developments or to address cybersecurity risks, data privacy breaches or other concerns. We mandate two-factor authentication and other baseline requirements for internet brokers and conduct inspections on a sample basis to assess compliance.

We are now considering how to enhance data collection and analysis using supervisory technology. As a trial, we analysed licensed corporations' algorithmic trading and dark pool operations to assess their compliance with business conduct standards. We identified non-compliance and are consulting the industry on standards to prescribe trading data to be submitted to us.

We update our regulation to cover business models created by new technologies and avoid potential regulatory gaps. We provided tailored guidance on the design and operation of online platforms, including the provision of automated or robo-advice, as well as on opening accounts for individual clients who are not physically present and accepting client orders via instant messaging applications.

## Supervisory approach

We adopt a front-loaded and risk-based approach by focusing on the greatest threats and the most significant or systemic risks. We employ a variety of tools to supervise licensed corporations with a focus on their financial risks and how they conduct business.

### On-site reviews

On-site reviews, which include prudential visits and routine, special and thematic inspections, are a key supervisory tool for understanding a firm's business operations, risk management and internal controls and gauging its compliance with legal and regulatory requirements. This includes assessing whether it acts with due skill, care and diligence and adopts proper business conduct, procedures and practices. During the year, we conducted 304 risk-based on-site inspections, including thematic inspections on a wide range of issues identified.

In recent years, we have increased the use of thematic inspections as a tool to assess the scale and nature of particular cross-sector risks. These inspections may be triggered by the identification of trends, emerging risks and compliance lapses that require prompt regulatory responses. We highlight to the industry key areas of concern noted during a thematic inspection as well as provide guidance on the standards of conduct and internal controls expected of licensed corporations. As in other inspections, where major breaches or non-compliance are identified, we may conduct enquiries or an enforcement investigation into the case and take disciplinary action.

This year, thematic inspections included AML/CFT, cybersecurity, intermediary misconduct in listed markets and selling practices. Other topics, including brokers' internal controls and supervision of account executives as well as risks relating to remote booking models, were also covered during the year.



## Intermediaries

In December 2018, we issued a comprehensive self-assessment checklist along with a thematic review of brokers' internal controls to help them assess their control policies and procedures and improve their supervision of account executives.

### Off-site monitoring

We conduct off-site monitoring through regular interaction with licensed corporations to understand their business models and their plans to identify and assess risks. We evaluate their financial soundness mainly through analysis of their regular financial returns. We also utilise intelligence from a variety of sources and follow up on complaints and self-reported breaches. In addition, we examine applications by licensed corporations for subordinated loans and rule modifications or waivers. This helps us form a holistic view of their business profiles.

### Data analytics

We are enhancing our analysis of data for regulatory purposes and our capability to monitor current trends, emerging issues and risks using new technologies.

### Stress-testing brokers

We launched an automated system in July 2018 to conduct stress tests to identify thinly capitalised brokers following increased extreme price movements and trading suspensions of small-cap stocks held by licensed corporations as securities collateral. We also introduced a stress test system for futures and options brokers in December 2018.

### Business and Risk Management Questionnaire

A revamped Business and Risk Management Questionnaire (BRMQ) launched in January 2019 collects information about the business operations of firms and their specific measures to ensure sound risk management and proper internal controls. This will enable us to supervise licensed corporations and associated firms more effectively. For financial years ending on or after 31 March 2019, firms are required to complete and electronically submit the revamped BRMQ within four months after the end of each financial year.

## Statistical information and financial position of the Hong Kong securities industry

	As at 31.12.2018	As at 31.12.2017	As at 31.12.2016
Securities dealers and securities margin financiers	1,312	1,222	1,104
Active clients	1,874,289	1,657,931	1,556,695
Total assets (\$ million)	1,226,532	1,337,404	1,078,521

(\$ million)	12 months to 31.12.2018	12 months to 31.12.2017	12 months to 31.12.2016
Total value of transactions <sup>a</sup>	89,678,389	73,901,390	63,495,134
Total operating profit	23,548	23,539	14,131

<sup>a</sup> Data extracted from the monthly financial returns submitted under the Securities and Futures (Financial Resources) Rules by corporations licensed for dealing in securities or securities margin financing. Figures reported by an overseas incorporated licensed corporation which carries out its principal business activities outside Hong Kong and operates in Hong Kong as a branch office were excluded.

Note: Also see Table 8 in Breakdown of SFC activity data on page 169 for more details.

## Industry guidance

We have broadened how we communicate with and give guidance to the industry. Published circulars are still the principal means through which we set out our regulatory expectations. In addition, in survey results, thematic reports and industry newsletters, we provide anonymised examples to illustrate best practices and our regulatory concerns. We also hold more frequent workshops when we are introducing a significant new regulatory measure.

## Compliance Bulletin

We publish a newsletter, the *SFC Compliance Bulletin: Intermediaries*, to provide guidance on the SFC's regulatory and supervisory priorities. Through illustrative case studies, the May 2018 issue highlighted our regulatory focus and areas of concerns when considering licensing applications and provided an update on the implementation of the Manager-In-Charge regime. The November issue focused on the SFC's Fintech initiatives and the use of technology in our supervisory work.

## Compliance Forum 2018

The SFC Compliance Forum 2018 was held in June. Over 500 industry participants attended the half-day event to exchange views on the SFC's recent guidance on best execution, client facilitation, sponsors and ALPs as well as the use of innovative technology to deliver financial services and the associated risks. (See Stakeholders on pages 77-81.)

## Net asset value of compensation funds

	As at 31.3.2019 (\$ million)	Change	As at 31.3.2018 (\$ million)	Change	As at 31.3.2017 (\$ million)
Unified Exchange Compensation Fund <sup>a</sup>	79.3	4.6%	75.8	4%	72.9
Investor Compensation Fund <sup>b</sup>	2,391.5	1.3%	2,361.2	3.5%	2,280.4
<b>Total</b>	<b>2,470.8</b>	<b>1.4%</b>	<b>2,437</b>	<b>3.5%</b>	<b>2,353.3</b>

<sup>a</sup> See pages 150-163 for the financial statements of the Unified Exchange Compensation Fund (UECF). The Investor Compensation Fund (ICF) was established by the SFO on 1 April 2003 to replace the UECF. After settlement of all claims against the UECF and its other liabilities, any remaining balance will be transferred to the ICF.

<sup>b</sup> See pages 131-149 for the financial statements of the ICF.

## Investor compensation

The enhancements to the investor compensation regime<sup>4</sup> we proposed in an April 2018 consultation received strong support. Key proposals include increasing the compensation limit from \$150,000 to \$500,000 per investor per default and covering northbound trading under Mainland-Hong Kong Stock Connect. We are working towards issuing the consultation conclusions in the second half of 2019.

The Investor Compensation Company Limited, a wholly-owned SFC subsidiary, received five claims against the Investor Compensation Fund and processed 10 claims during the year.

## Investor compensation claims

	2018/19	2017/18	2016/17
Received	5	1	10
Processed	10	6	19
– Compensation payments made	0	3	14
– Rejected	7	3	4
– Withdrawn	2	0	1
– Reconsidered	1	0	0

<sup>4</sup> Claims against the Investor Compensation Fund may be made for exchange-traded products in the event of broker default.

# Products

We formulate policy initiatives to strengthen Hong Kong's position as a full-service international asset and wealth management centre and a preferred fund domicile. On a day-to-day basis, we authorise and regulate investment products offered to the public in Hong Kong, including monitoring their ongoing compliance with our regulatory requirements.

## Facilitating market development

### Authorisations

As of 31 March 2019, a total of 2,797 SFC-authorized collective investment schemes (CIS) were on offer to the public. During the year, we authorised 136 CIS, comprising 134 unit trusts and mutual funds, one investment-linked assurance scheme (ILAS) and one mandatory provident fund (MPF) pooled investment fund.

We authorised 130 unlisted structured investment products for public offering during the year.

### ETFs and leveraged and inverse products

As of 31 March 2019, the number of SFC-authorized exchange-traded funds (ETF) listed on The Stock Exchange of Hong Kong Limited was 137, including 22 leveraged and inverse (L&I) products.

To offer more investment choices for investors in Hong Kong, we relaxed the leverage cap for inverse products to a factor of two-times negative (-2x).

In addition, we introduced active ETFs in the revised Code on Unit Trusts and Mutual Funds (UT Code). Unlike a passive ETF, an active ETF does not track an index, but seeks to achieve a stated investment objective by investing in a portfolio of stocks, bonds and other assets. The revised UT Code also allows listed and unlisted share classes to co-exist in a single fund pursuing the same investment strategy, expanding the funds' distribution channels<sup>1</sup>.

## Authorised CIS

	As at 31.3.2019	As at 31.3.2018	As at 31.3.2017
Unit trusts and mutual funds	2,216	2,215	2,203
ILAS	300	299	300
Pooled retirement funds	34	34	34
MPF schemes	31	31	35
MPF pooled investment funds	191	194	182
Others	25 <sup>a</sup>	26	26
<b>Total</b>	<b>2,797</b>	<b>2,799</b>	<b>2,780</b>

<sup>a</sup> Comprising 14 paper gold schemes and 11 real estate investment trusts (REIT).

## Unlisted structured investment products

	2018/19	2017/18	2016/17
Unlisted structured investment products <sup>a</sup>	130	114	100
Authorisations granted under the Securities and Futures Ordinance <sup>b</sup>	102	84	84

<sup>a</sup> 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.

<sup>b</sup> Under section 105, offering documents and advertisements of unlisted structured investment products offered to the Hong Kong public.

<sup>1</sup> For example, an unlisted index fund distributed via the secondary market and a passive ETF for distribution in the primary market.



Ms Christina Choi, Executive Director, Investment Products, speaks at an industry conference on asset management

## Renminbi products

As of 31 March 2019, there were 64 SFC-authorized unlisted funds<sup>2</sup> and 34 ETFs<sup>3</sup> primarily investing in the onshore Mainland securities market<sup>4</sup> or offshore renminbi bonds, fixed income instruments or other securities. The number of UCITS<sup>5</sup> funds offering renminbi share classes increased rapidly after we issued guidance to clarify relevant requirements. This also fostered the development of related products and the introduction of additional renminbi investment options in the Hong Kong market.

## SFC-authorized renminbi investment products

	As at 31.3.2019
<b>Unlisted products</b>	
Unlisted funds primarily investing in the onshore Mainland securities markets or offshore renminbi bonds, fixed income instruments or other securities	64
Paper gold schemes with renminbi features	1
Recognised Mainland funds under Mainland-Hong Kong Mutual Recognition of Funds arrangement	50
Unlisted structured investment products with renminbi features <sup>a</sup>	123
Unlisted funds (non-renminbi denominated) with renminbi share classes	195
<b>Listed products</b>	
ETFs primarily investing in the onshore Mainland securities markets or offshore renminbi bonds, fixed income instruments or other securities	34
Renminbi gold ETFs <sup>b</sup>	1
Renminbi REITs	1
ETFs (non-renminbi denominated) with renminbi trading counters	20

<sup>a</sup> The number is on a "one product per key facts statement" basis.

<sup>b</sup> Only includes gold ETF denominated in renminbi.

<sup>2</sup> Excluding recognised Mainland funds under Mainland-Hong Kong Mutual Recognition of Funds.

<sup>3</sup> Refers to unlisted funds or ETFs which are renminbi denominated.

<sup>4</sup> Refers to onshore Mainland investment through the Renminbi Qualified Foreign Institutional Investor quota, Stock Connect, Bond Connect and the China Interbank Bond Market.

<sup>5</sup> Undertakings for collective investment in transferable securities.

## Products

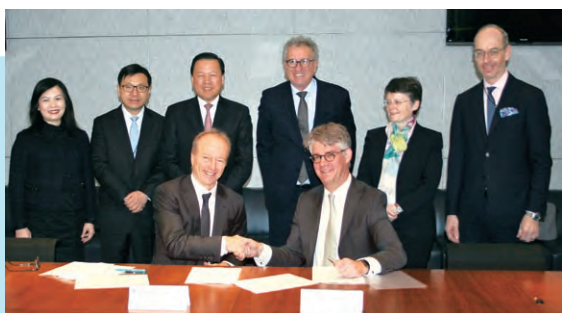
### Mutual market access

To broaden the investor base for Hong Kong funds, promote Hong Kong as a competitive asset and wealth management centre and fund domicile and encourage the development of local investment expertise, we are proactive in promoting cross-border offerings of qualified Hong Kong public funds to overseas markets through mutual recognition arrangements.

Following the implementation of the mutual recognition of funds (MRF) arrangements with the Mainland and other markets<sup>6</sup>, we expanded our MRF network to include the UK in October 2018, Luxembourg in January 2019 and the Netherlands in May 2019.

After discussions with overseas regulators, we secured eligibility for SFC-authorized funds structured in the form of open-ended fund companies (OFC) under the MRF agreements with Switzerland, France, the UK and Luxembourg. We are exploring MRF arrangements with other overseas jurisdictions.

The Mainland-Hong Kong MRF regime maintained momentum with an increase in both applications and approvals of Hong Kong MRF funds. During the year, a total of eight funds were approved under the MRF, bringing the total to 69. As of 31 March 2019, the aggregate net subscription for both Mainland and Hong Kong MRF funds was about RMB10 billion.



Signing of MRF agreement with the Luxembourg Commission de Surveillance du Secteur Financier

### Open-ended fund companies

The new OFC regime, which enables funds with variable capital to be established in corporate form in Hong Kong, came into effect on 30 July 2018. We worked closely with the Government to complete the legislative process for the subsidiary legislation. We also issued the new OFC code in July 2018 following a public consultation. By providing a corporate fund structure in addition to a unit trust form, the OFC regime broadens the choice of investment vehicles and facilitates the distribution of Hong Kong funds in overseas markets.

### Revamped post-authorisation process

We implemented a revamped process to streamline the vetting of scheme changes and related revised documents subject to the SFC's approval in February 2018. Since then, there has been an overall improvement in the quality of applications and shorter processing times with more timely responses from applicants.

### Asset and wealth management activities

We released the *Asset and Wealth Management Activities Survey 2017* (previously known as the *Fund Management Activities Survey*) in July 2018. To provide a more comprehensive overview of Hong Kong's asset and wealth management industry, the scope of this annual survey was extended to private banking and private wealth management clients' accounts. According to the survey findings, the asset and wealth management business in Hong Kong amounted to \$24,270 billion as at 31 December 2017<sup>7</sup>. Of this, \$17,511 billion was attributable to asset management and fund advisory business, which recorded a year-on-year increase of 23%.

### Regulatory enhancements

#### UT Code review

Amendments to the UT Code took effect on 1 January 2019, with a 12-month transition period. A public consultation, concluded in December 2018, proposed amendments based on a holistic review of the UT Code which involved extensive engagement with stakeholders. Changes included strengthening the requirements for key operators and introducing new fund types (see sidebar on page 53).

<sup>6</sup> Include Australia, Malaysia (for Islamic funds), Taiwan (for ETFs), Switzerland and France.

<sup>7</sup> Due to the extended scope of the survey, comparative figures are not available.

## Updates to fund regulation

As part of a holistic review to update the regulatory regime for public funds, changes were made to the UT Code in three major areas.

### Derivative investments

To help investors better differentiate between products, the revised UT Code sets out a clear overall 50% limit for derivative investments by plain vanilla public funds. Funds with derivative investments over this limit are regarded as derivative funds which are subject to enhanced distribution requirements. This measure was refined after consulting a focus group comprising fund managers and industry experts.

To improve transparency, SFC-authorized funds have been listed as derivative funds or non-derivative funds on the SFC website starting from 1 January 2019.

### Trustees and custodians

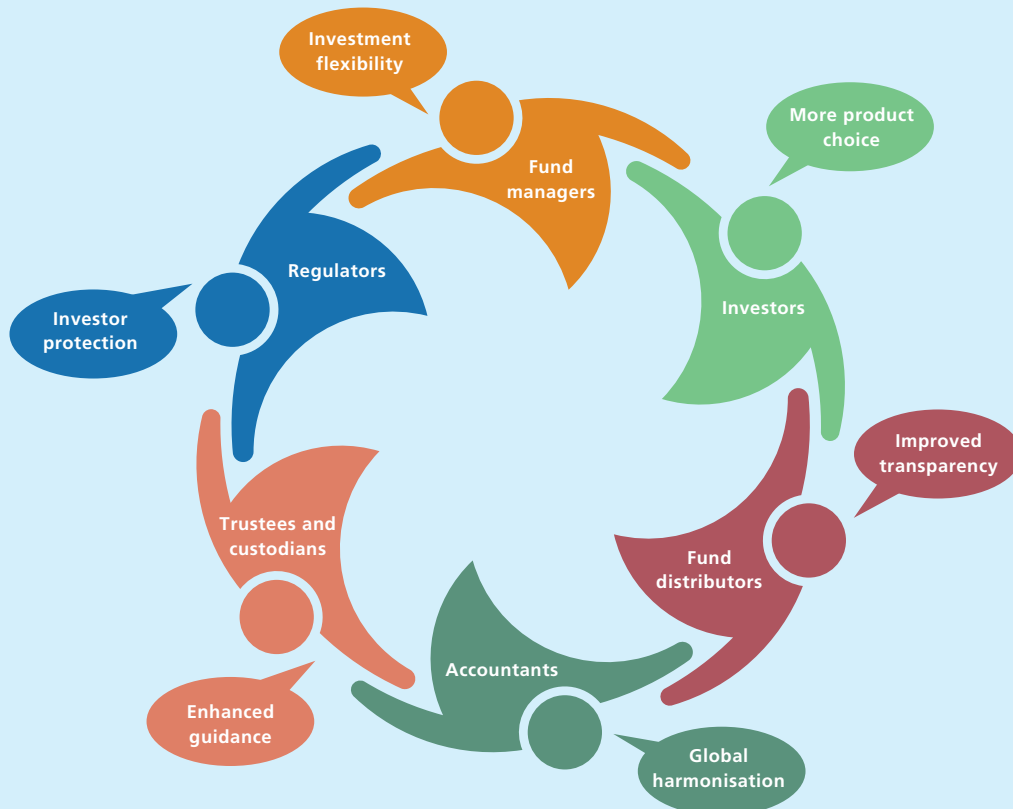
We tightened the obligations and internal controls requirements for trustees and custodians of public funds, which have important obligations to safeguard fund assets and perform independent oversight. We will also explore measures to ensure a robust regulatory regime for the safekeeping and custody of assets by trustees and custodians of public funds.

### New product types

The revised UT Code introduces new fund types, such as active ETFs (see page 50), to encourage product development and offer investors wider investment choices.

To facilitate implementation of the revised UT Code, we published new guidance and frequently asked questions on our website and held two briefings for more than 250 industry participants.

## Benefits for stakeholders



## Products

### Asset and wealth management

Revised fund management conduct requirements, which took effect in November 2018, enhance asset management regulation in key areas including securities lending and repurchase agreements, custody of fund assets, liquidity risk management and disclosure of leverage by fund managers.

Enhancements to provide more point-of-sale transparency to better address conflicts of interest when investment products are sold came into effect in August 2018. Important changes include requirements governing the use of the term “independent” by intermediaries and enhanced disclosures of trailer fees, commissions and other monetary benefits. Additional protective measures for the sale of complex products will become effective in July 2019, including the requirement to ensure the suitability of complex products sold on an unsolicited basis, whether distributed through online or offline platforms.

### Surveillance and monitoring

We updated the fund data reporting requirements for Hong Kong-domiciled SFC-authorized funds in June 2018 to strengthen our ability to identify potential problem areas and monitor funds’ risk exposures. The requirements cover periodic reporting of key data including the fund’s subscription and redemption flows, liquidity profile, asset allocation and securities financing and borrowing transactions.



Industry briefing

In addition, we monitor the liquidity of funds through reports from asset managers on any unusual or untoward activities, including significant redemptions, suspensions of dealing and liquidity problems, and review abnormal fluctuations of the daily unit prices of Hong Kong-domiciled public funds as compared with their respective peer groups. We regularly monitor ETFs and L&I products through data related to pricing, exposure to counterparties and, for L&I products, daily rebalancing activities.

We also conduct ongoing surveillance of the marketing materials of SFC-authorized funds and fund managers’ websites to monitor their compliance with regulatory requirements. We perform routine surveillance of advertisements and handle complaints about property-related or other suspected arrangements which may be CIS. We looked into 19 suspicious CIS cases during the year.

We handled 13 cases of material non-compliance with regulatory requirements by issuers of SFC-authorized products, which resulted in compensatory payments totalling \$29 million to affected Hong Kong investors.

# Corporates

We oversee listing and takeovers matters in Hong Kong, including takeovers and merger activities, vetting of listing applications, disclosure requirements, corporate conduct and the listing-related functions of The Stock Exchange of Hong Kong Limited (SEHK). We review listing and takeovers policies from time to time to keep pace with market changes and facilitate the development of Hong Kong's securities market.

## Listing policy

### Emerging and innovative companies

Following our approval, SEHK implemented new Listing Rules on 30 April 2018 allowing pre-revenue biotech companies and innovative companies with weighted voting rights (WVR) structures to list in Hong Kong. During the year, we received listing applications from four WVR companies and 13 biotech companies. As at 31 March 2019, two WVR companies and seven biotech companies were listed in Hong Kong.

After the SFC and SEHK signed an addendum to the Memorandum of Understanding Governing Listing Matters in March 2018, a new Listing Policy Panel<sup>1</sup> was established as an advisory, consultative and steering body to discuss listing policy with broader regulatory or market implications. In September, the panel held its inaugural meeting and discussed a proposal to permit corporate WVR beneficiaries.

### Review of SEHK's work

In a December report, we reviewed SEHK's performance in its regulation of listing matters during 2016 and 2017. Our review focused on the Listing Department's operational activities, processes and procedures, particularly SEHK's vetting of initial public offering (IPO) applications and suitability for listing, the regulation of reverse takeover transactions, the handling of disclaimer audit opinions and policy on listing enforcement. The report identified specific areas for SEHK to enhance its performance.

## Review structure for Listing Committee decisions

Following discussions with us, SEHK issued conclusions to its consultation on the review structure for Listing Committee decisions in January 2019. To promote transparency and accountability in decision-making, significant Listing Committee decisions will be subject to one level of review. A new independent committee, the Listing Review Committee, will be established to replace the existing Listing (Review) Committee and Listing (Disciplinary Review) Committee, while the Listing Appeals Committee will be discontinued. All decisions on non-disciplinary matters made by the new Listing Review Committee will be published. The changes are expected to take effect in mid-2019.

## Review of listing regulation

Together with SEHK, we regularly review the effectiveness of listing regulation to maintain market quality and address problematic listed company behaviour. Following a public consultation, SEHK introduced new rules governing capital raisings by listed companies as well as a new delisting framework. It also consulted the public on proposals relating to backdoor listings and continuing listing criteria and a proposal to introduce a suspension requirement for companies with disclaimer or adverse audit opinions on their financial statements.



Mr Brian Ho, Executive Director of Corporate Finance, at the 12th Annual Conference of the Hong Kong Investment Funds Association

<sup>1</sup> The Listing Policy Panel consists of 12 members comprising senior representatives of the SFC, the Listing Committee, Hong Kong Exchanges and Clearing Limited and the Takeovers and Mergers Panel.



## IPO applications

We vet listing applications and raise enquiries to determine whether an application gives rise to any concerns under the Securities and Futures (Stock Market Listing) Rules (SMLR). We may object to a listing of securities based on one or more of the grounds set out in section 6(2)<sup>2</sup> of the SMLR.

We received 394 listing applications via SEHK during the year, up 28% from 309 last year, including four listing applications from WVR companies and 13 listing applications from biotech companies under the new listing regime for innovative companies. We shared our comments or concerns with SEHK where appropriate.

In line with our front-loaded regulatory approach, we directly sought information or expressed our



Our senior executives at a seminar hosted by the Hong Kong Securities and Investment Institute

## New listing applications

	2018/19	2017/18	2016/17
Listing applications received <sup>a</sup>	394	309	245
Listing applications lapsed/withdrawn/rejected during the year	166	88	79
Listing applications returned <sup>b</sup>	0	3	5
New listings <sup>c</sup>	193	203	148

<sup>a</sup> Including applications for transfer from GEM to the Main Board (2018/19: 16; 2017/18: 22; 2016/17: 18).

<sup>b</sup> Listing applications were returned by SEHK because the application proofs or related documents were not substantially complete. The listing applicants can only submit a new listing application with a new application proof not less than eight weeks after the return.

<sup>c</sup> Including successful transfers from GEM to the Main Board (2018/19: 11; 2017/18: 17; 2016/17: 6).

<sup>2</sup> Under section 6(2) of the SMLR, the SFC may object to a listing if it appears to the SFC that: (a) the listing application does not comply with SEHK's requirements or an applicable provision of law, or does not contain sufficient information to enable an investor to make an informed decision; (b) the application is false or misleading; (c) the applicant has failed to furnish information as may be reasonably required by the SFC under section 6(1) of the SMLR; or (d) it would not be in the interest of the investing public or in the public interest for the securities to be listed.

<sup>3</sup> A "letter of mindedness" sets out our substantial concerns along with detailed reasons.

<sup>4</sup> 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.

concerns in 17 listing applications where we became aware of potentially serious disclosure or public interest issues. In two of these applications, the applicants satisfactorily addressed our concerns and were subsequently listed. As at 31 March 2019, six applications had not proceeded to listing, leaving our concerns unaddressed, and in nine applications, the applicants had yet to satisfactorily address our concerns.

During the year, we issued a "letter of mindedness to object"<sup>3</sup> directly in two listing applications. One listing applicant postponed its share offer and was subsequently listed after addressing our concerns.

## Corporate conduct

To better identify potential misconduct and irregularities in disclosures, we conduct daily reviews of corporate announcements under statutory corporate conduct and inside information disclosure provisions. During the year, we issued section 179<sup>4</sup> directions to gather additional information in 73 cases and wrote to listed companies to detail our concerns about 37 transactions. These concerns included, for example, whether a corporate action or transaction is being conducted in a manner which is oppressive or unfairly prejudicial to shareholders.

## SFC Regulatory Bulletin

During the year, we published the second and third issues of the *SFC Regulatory Bulletin: Listed Corporations* which used case studies to illustrate how we intervened at an early stage where we had serious concerns about IPO applications or corporate transactions.

## Takeovers matters

In Hong Kong, takeovers, mergers, privatisations and share buy-backs affecting public companies are regulated by the Codes on Takeovers and Mergers and Share Buy-backs. These codes aim to afford equal treatment of shareholders and ensure a fair and informed market as well as to mandate disclosure of timely and adequate information to enable shareholders to make informed decisions.



Following a three-month consultation on proposed amendments to the Codes on Takeovers and Mergers and Share Buy-backs, we released consultation conclusions in July and the amended codes took effect

on 13 July. Amendments included empowering the Takeovers and Mergers Panel to require compensation be paid to shareholders who have suffered as a result of a breach of these codes and increasing the threshold for independent shareholder approval for a whitewash waiver to 75%.

With effect from April 2018, a new Note was added to section 4.2 to the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs to align them with the new listing regime for companies from emerging and innovative sectors.

Investigations and enquiries remained an important focus of our regulatory functions. We sanctioned two parties during the year.

In June, we publicly censured and imposed a 24-month cold shoulder order against Chan Shing. He triggered a mandatory general offer obligation when he acquired shares of Burwill Holdings Limited on the market in April 2014, but he did not make an offer.

Liang Guosheng was publicly censured and given a 24-month cold shoulder order in July. Liang triggered a mandatory general offer obligation when he acquired shares of Silver Base Group Holdings Limited on the market in July 2017, but no offer was made.

## Takeovers activities

	2018/19	2017/18	2016/17
General and partial offers under Code on Takeovers and Mergers	55	59	73
Privatisations	6	11	13
Whitewash waiver applications	21	41	37
Other applications under Code on Takeovers and Mergers <sup>^</sup>	275	289	365
Off-market and general offer share buy-backs	9	1	4
Other applications under Code on Share Buy-backs <sup>^</sup>	7	0	2
<b>Total</b>	<b>373</b>	<b>401</b>	<b>494</b>

<sup>^</sup> Including stand-alone applications and those made during the course of a Code-related transaction. Note: Also see Table 3 in Breakdown of SFC activity data on page 165 for more details.

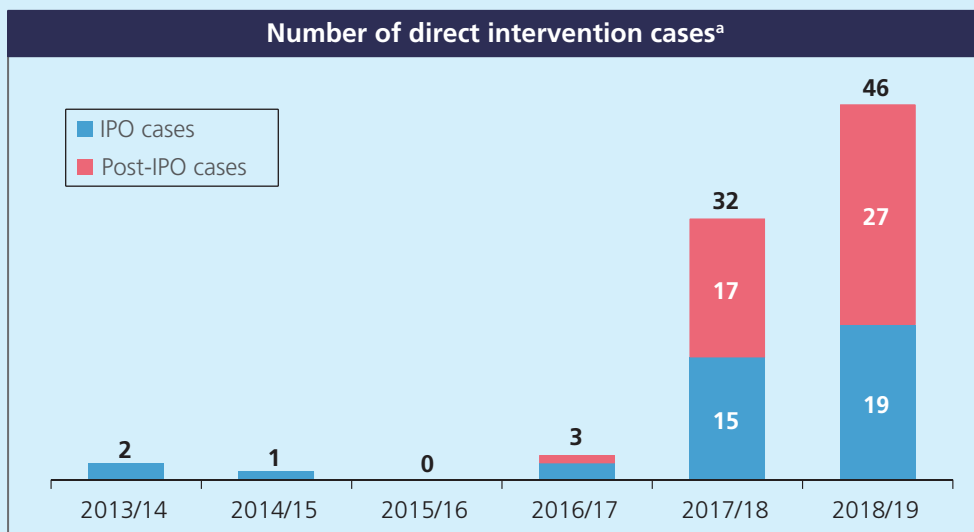
### Two years into our front-loaded approach

Our front-loaded regulatory approach emphasises earlier and more targeted intervention to tackle market irregularities and protect the investing public. We closely monitor conduct and directly intervene in the listing market where necessary. We also cooperate with SEHK in joint policy actions. This approach complements our traditional enforcement actions which have been the SFC’s primary response towards misconduct.

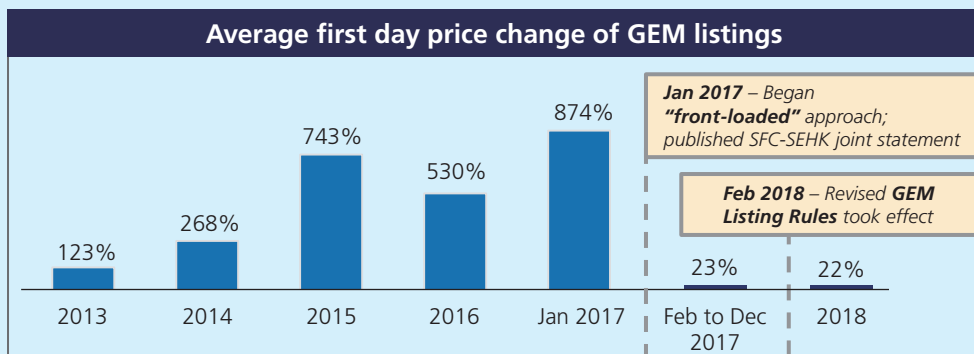
After we adopted this front-loaded approach in early 2017, the number of cases where our direct intervention involved the actual or potential use of our SMLR powers increased significantly.

We target the most serious forms of misconduct. In particular, we are concerned about harmful speculative activities, indications of which may be an exponential increase in market capitalisation over an unusually short period of time, shares trading at an inexplicably high valuation, “shell” related activities or networks of companies with complex patterns of cross-holdings.

Our direct interventions and coordinated policy actions with SEHK made it more difficult for listed companies to be used as vehicles for improper market activities. For example, we were concerned about the share price volatility of newly-listed GEM stocks. On the first day of trading, their share prices increased an average of five times in 2016 and eight times in the first month of 2017.



<sup>a</sup> Does not include action listed in Table 7 on page 168.



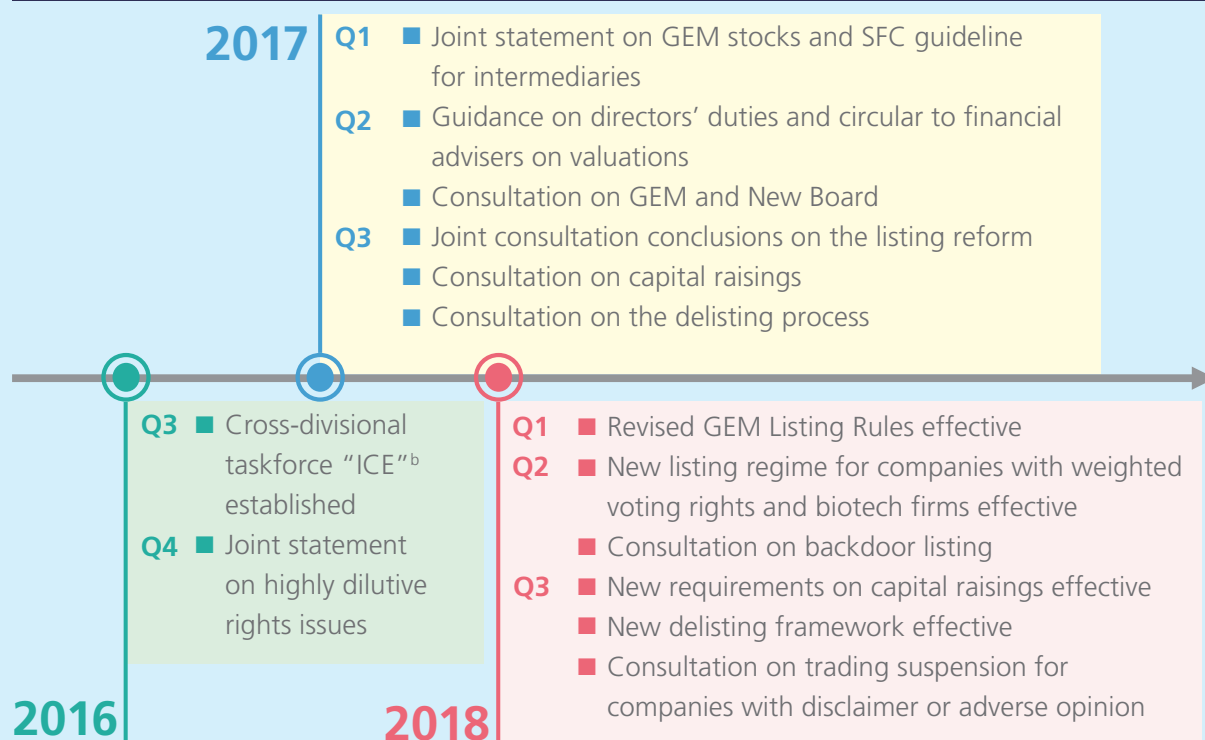
Note: Based on calendar year.

To tackle this, in January 2017 we issued guidance materials with SEHK and explained the requirements for having an adequate spread of shareholders and a fair and orderly market for new listings. We also took regulatory action, conducting investigations and exercising our SMLR powers. As a result, we observed a significant decrease in the volatility of newly-listed GEM stocks.

interests of minority shareholders. After discussions with us, SEHK introduced a series of measures to address this. Coupled with the SFC’s front-loaded approach, the result was a substantial drop in the number of these transactions. In addition, there were fewer deeply-discounted share placements, an area where the SFC often directly intervened.

In recent years, we have seen highly dilutive rights issues and open offers structured or conducted in a manner which appeared to be against the

### Key milestones



<sup>b</sup> The Intermediaries, Corporate Finance and Enforcement divisions.

## Green finance

Hong Kong is uniquely situated to contribute to global developments in green finance and the creation of a green financial ecosystem. Building an environmentally-friendly, low-carbon and climate change-resilient economy will be essential for a sustainable future.

During the year, we collaborated with regulators, the industry and other stakeholders to promote our initiatives to help develop Hong Kong as a leading green finance centre. In September 2018, we published our *Strategic Framework for Green Finance*, setting out a five-pronged strategy which goes beyond Hong Kong's current focus on green bonds and is aligned with global market and regulatory developments.

We launched a dedicated section on our website in May 2019 to provide information, including circulars, statistics and resources, related to this strategy as well as other green finance initiatives in Hong Kong.

### Corporate disclosure

To allocate capital efficiently, investors must have the best information about the potential financial risks which climate change poses to businesses. As our top priority, we have been working with Hong Kong Exchanges and Clearing Limited (HKEX) to improve listed companies' reporting of environmental information, with an emphasis on climate-related risks and opportunities.

The SFC signed up as a supporter of the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), which help companies identify and report the potential financial impact of climate-related risks and opportunities on their businesses. HKEX recently updated its guidance on environmental, social and governance (ESG) reporting, taking into account the TCFD recommendations.



Chief Executive Officer Mr Ashley Alder at the European Commission's High-Level Conference on Sustainable Finance

*Photo: European Commission*

### ESG investing

Green asset managers have to do more than simply claim that they take ESG into account. To help us consider ways for asset managers to make clear to investors how environmental and climate-related risks are factored into their investment processes and risk assessments, we conducted a survey of the ESG investment practices of asset managers and asset owners. The results will be considered along with global developments when we formulate new policies.

### Green-related investments

We have seen a notable increase in the number of applications we receive for funds with a green or sustainability focus. To foster the development of these fund products in Hong Kong, we issued a circular to provide guidance which will make disclosures by SFC-authorised green funds more transparent and comparable. We will also feature a central database of these funds on the SFC's website to increase their visibility.

In addition, we work closely with HKEX to develop and promote the listing and trading of green financial products including bonds, indices and derivatives. HKEX is also developing a green finance regime which will enable environmentally-aligned companies to obtain sustainable financing at a lower cost.

## International cooperation

We actively participate in international initiatives with the aim of building a global, coordinated approach to green finance and promoting Hong Kong as a global green finance hub. Hong Kong is well placed to complement mainland China's comprehensive framework for green finance and to connect green finance flows between the Mainland and the rest of the world. Our strategic framework accords with the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area.

We are part of the Network for Greening the Financial System, which aims to strengthen global efforts to enhance the financial system's role in managing risks and mobilising capital for green and low-carbon investments in line with the goals of the Paris Agreement. Within the United Nations Framework Convention on Climate Change, the Paris Agreement, which came into force in 2016, calls for making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

The SFC also takes part in the International Organization of Securities Commissions' Sustainable Finance Network and the Advisory Group of the United Nations Sustainable Stock Exchanges Initiative. Our Chief Executive Officer Mr Ashley Alder participated in the European Commission's High-Level Conference on Sustainable Finance in March 2019.

In May 2019, we hosted a high-level regulatory meeting in Hong Kong for senior officials from the Mainland, Hong Kong and the European Union to discuss the harmonisation of green finance efforts and standards.



<sup>1</sup> See Corporate Social Responsibility on pages 84-91.



Ms Julia Leung, Deputy Chief Executive Officer and Executive Director of Intermediaries, addresses the Hong Kong Chinese Enterprises Association

## Financial education

Raising investor awareness of green finance and related investment matters is another part of our agenda and we work with the Investor and Financial Education Council (IFEC) to achieve this. IFEC launched a dedicated web page on The Chin Family website to introduce green finance to the general public.

## Greening the SFC

To support green investments, our Investment Committee enquires in detail how and to what extent the external managers of our financial reserves incorporate ESG principles into their investment and risk analysis processes. Inside the organisation, we step up our green practices and promote awareness of the importance of environmental protection<sup>1</sup>.

# Markets

To ensure orderly markets, we supervise and monitor exchanges and clearing houses in Hong Kong. We also work to improve market infrastructure and strengthen Hong Kong's role as the premier risk management centre for Mainland risk and a booking hub for Asian derivatives.

## Supervision of HKEX

### On-site inspection

As part of our regular on-site inspections of the non-listing-related operations of Hong Kong Exchanges and Clearing Limited (HKEX), we completed an inspection of its cash market clearing operations in 2018 and recommended improvements. We began an inspection of its futures exchange trading and clearing operations in 2019.

### Recognised clearing houses

We worked with HKEX to implement risk management initiatives to improve the resilience of its clearing houses in Hong Kong and their compliance with international standards. We approved proposals to enhance the admission criteria for clearing participants, the process for managing clearing participants' defaults and recovery plans for dealing with extreme market situations.

Following our approval, HKEX introduced measures to strengthen the clearing guarantee funds, including risk-based contributions from the clearing houses.

### New products

We approved five derivative products proposed by HKEX to meet the trading and hedging needs of market participants.

## New derivative products approved

	Trading commencement date
MSCI Asia ex Japan Index Futures	11 June 2018
Hang Seng Index (Gross Total Return Index) Futures Hang Seng Index (Net Total Return Index) Futures Hang Seng China Enterprises Index (Gross Total Return Index) Futures Hang Seng China Enterprises Index (Net Total Return Index) Futures	5 November 2018

## Mutual market access

### Stock Connect

In April 2018, the SFC and the China Securities Regulatory Commission (CSRC) jointly announced a fourfold increase in the daily quotas for Mainland-Hong Kong Stock Connect to RMB52 billion for each of the northbound links and RMB42 billion for each of the southbound links. The new quotas took effect on 1 May 2018.

Stock Connect covered 1,321 Mainland stocks (580 companies listed in Shanghai and 741 companies listed in Shenzhen) and 479 Hong Kong stocks as of end-March 2019, representing 88% of market capitalisation in Hong Kong, 84% in Shanghai and 73% in Shenzhen.

As of end-March 2019, southbound trading reached a cumulative net inflow of RMB700.5 billion and international investors bought in RMB767.1 billion worth of A-shares through northbound trading.

During the year, Stock Connect accounted for a steady share of Hong Kong's market turnover. On average, daily southbound trading was around 6% of total trading, similar to the proportion in 2017. Northbound trading increased to 3% of the Mainland's total market turnover, compared to 1% in 2017.

We worked with the CSRC to implement an investor identification regime for northbound trading under Stock Connect on 26 September 2018. This facilitates market surveillance of northbound trades by the Mainland exchanges and regulators. We target to introduce a similar model for southbound trading in mid-2019.

## Bond Connect

After a consultation with the SFC, Bond Connect Company Limited<sup>1</sup> introduced the Primary Market Information Platform in February 2019. As the first English-language portal disseminating information about the Mainland primary bond market, the platform provides timely and reliable information to global investors about new bond issues.

Bond Connect experienced strong growth during the year. Total funds flowing into the Mainland interbank bond market through Bond Connect reached RMB222 billion in 2018, up from RMB132 billion in 2017. Average daily trading increased to RMB3.6 billion in 2018 from RMB2.2 billion in 2017.

## OTC derivatives

In line with the G20’s commitment to reform the over-the-counter (OTC) derivatives market, an OTC derivatives regime is being implemented in phases in Hong Kong. In June 2018, we concluded a joint consultation with the Hong Kong Monetary Authority on mandating the use of Legal Entity Identifiers<sup>2</sup> for

the reporting obligation and expanding the clearing obligation. We also adopted the proposed process to determine for which products it may be appropriate to introduce a platform trading obligation.

We use the data reported to the Hong Kong Trade Repository to monitor OTC equity derivatives of securities listed in Hong Kong. This allows us to assess more effectively the systemic risks to the Hong Kong securities market arising from both the on-exchange and off-exchange derivatives markets. As of end-March 2019, the estimated notional value of the OTC equity derivatives of securities listed in Hong Kong was comparable to that of exchange-traded counterparts. This was in line with major overseas markets.

## Uncertificated securities market

In January 2019, we launched a consultation jointly with HKEX and the Federation of Share Registrars Limited proposing a revised operational model for implementing an uncertificated, or paperless, securities market in Hong Kong (see sidebar below).

### Going paperless

The SFC is working to introduce a paperless securities market in Hong Kong.

In January 2019, we issued a consultation paper jointly with HKEX and the Federation of Share Registrars Limited to seek the public’s views on a proposed operational model which would enable investors to hold and transfer securities in their own names without share certificates or other paper documents.

Investors would enjoy a direct relationship with the listed company and better legal protection. Listed companies would have more transparency when it comes to the genuine owners of their shares.

<sup>a</sup> Securities held through the HKEX system will be registered in the name of HKSCC Nominees Limited.

The existing nominee structure within the clearing and settlement infrastructure would be preserved<sup>a</sup>, which means that investors who want to hold a beneficial interest in securities through brokers and banks may continue to do so.

The digitisation of securities holdings and removal of paper and manual processes will help make post-trade settlement and servicing more efficient. This makes our markets more dynamic and globally competitive.

After the enactment of legislation, implementation is expected to be conducted in phases from 2022.

<sup>1</sup> Bond Connect Company Limited is an authorised automated trading services provider facilitating the operation of Bond Connect.

<sup>2</sup> A unique 20-digit, alpha-numeric code which identifies entities in a financial transaction.



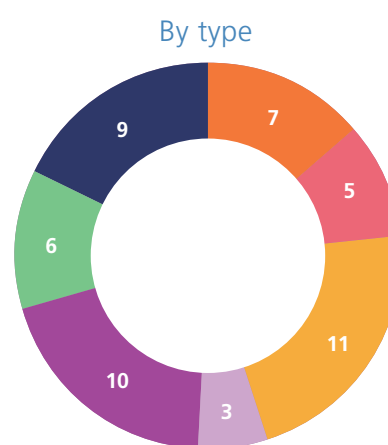
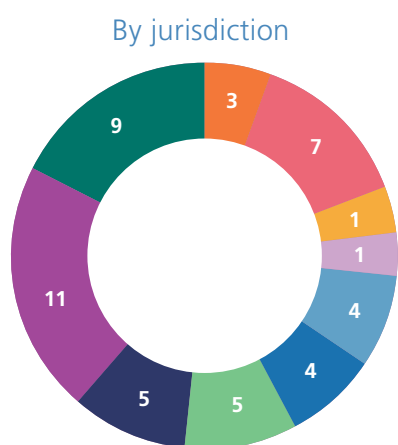
## Markets

### Automated trading services

Under the Securities and Futures Ordinance (SFO), two regimes regulate automated trading services (ATS) providers. Typically, those that offer facilities similar to those of a traditional exchange or a clearing house are authorised under Part III of the SFO. Intermediaries which provide traditional dealer functions along with ATS as an added facility (eg, operating a dark pool or a pre-IPO trading platform) are expected to be licensed under Part V of the SFO.

Over the past year, we approved eight applications from overseas regulated exchanges and bond trading platforms. Trades conducted on authorised trading venues were mainly in benchmark index futures and options, commodity futures, bonds, equities and exchange-traded funds offered by overseas exchanges. The average daily trading volume of futures contracts originating from Hong Kong was about 348,000 contracts for the 12 months ended 31 March 2019.

### ATS providers under Part III



Note: One ATS provider is both a financial futures exchange and a central counterparty.

### ATS providers

	As at 31.3.2019	As at 31.3.2018	As at 31.3.2017
Under Part III	50	57	49
Under Part V	24	24	24

### Short position reporting

	As at 31.3.2019	As at 31.3.2018	As at 31.3.2017
Market value of short positions as a percentage of market capitalisation of reported securities	1.5%	1.5%	1.4%

# Enforcement

We take firm and prompt action to combat crime and misconduct in the securities and futures markets, focusing on high-impact cases which pose the greatest risks to the investing public. Through proactive enforcement, we send strong deterrent messages whilst ensuring fairness and integrity.

## Our tools under the SFO

We use the full spectrum of sanctions and remedies available to us under the Securities and Futures Ordinance (SFO), including through criminal, administrative, compensatory and disciplinary actions.

We have broad powers to hold directors and individuals responsible for misconduct committed by the companies they manage. We can discipline licensed intermediaries through reprimands, fines<sup>1</sup> and suspensions or revocations of licences, and apply to the court for injunctive and remedial orders against wrongdoers in favour of victims.

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

## Our work in figures



<sup>^</sup> These requests were made to intermediaries as a result of our surveillance of untoward price movements and turnover.

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

During the year, we commenced 238 investigations and laid 42 criminal charges against four individuals and one corporation and secured convictions against four persons and one corporation.

We obtained disqualification and restorative orders against one person and seven corporations. Civil actions seeking financial redress and other remedial orders against 101 persons and corporations in 23 cases are pending before the court.

Disciplinary action was taken against 14 persons and 21 corporations. In addition, we commenced three cases before the MMT against three corporations and nine persons for suspected market misconduct or late disclosure of inside information.

We also issued 234 compliance advice letters to address areas of regulatory concern and raise standards of conduct and compliance in the industry.

## Market surveillance

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

## Enforcement

Through an organisation-wide Market Intelligence Programme, we use the latest technologies to identify conduct risks in our markets, including potential misconduct by interconnected parties. Data collected from our operations and public sources is analysed to isolate patterns and connections between individuals, companies and transactions which may indicate conduct risks.

Our surveillance of untoward price and turnover movements resulted in 9,074 requests for trading and account records from intermediaries. We also received 192 notifications from intermediaries<sup>2</sup> regarding suspicious equity and derivative trading.

We posted 10 announcements on our website reminding the investing public to exercise caution when trading in shares of listed companies where a small number of shareholders hold a high concentration of shares.

### IPO sponsor failures

Initial public offering (IPO) sponsor misconduct is a top enforcement priority. Our enforcement actions help improve the standards of sponsors' due diligence and ensure they perform their gatekeeping role properly and diligently. During the year, we disciplined seven sponsor firms and three sponsor principals and imposed fines totalling \$867.7 million.

- We reprimanded and fined UBS AG and UBS Securities Hong Kong Limited a total of \$375 million for failing to discharge their obligations as a joint sponsor of China Forestry Holdings Company Limited<sup>3</sup>, Tianhe Chemicals Group Limited<sup>4</sup> and another listing application<sup>5</sup>. We also partially suspended UBS Securities' licence to advise on corporate finance for one year, during which it cannot act as a Hong Kong IPO sponsor.
- We also suspended the licence of Cen Tian<sup>6</sup> for two years for failing to discharge his supervisory duties as a sponsor principal in China Forestry's listing application.

- We reprimanded and fined Standard Chartered Securities (Hong Kong) Limited \$59.7 million for failing to discharge its obligations as a joint sponsor of China Forestry's listing application. It failed to conduct reasonable due diligence of core aspects of China Forestry's business, including its forestry assets.
- We banned Joseph Hsu Kar Hing, a former Standard Chartered responsible officer, from re-entering the industry for three years for failing to discharge his duties as a sponsor principal and a responsible officer.
- We reprimanded and fined Morgan Stanley Asia Limited \$224 million and Merrill Lynch Far East Limited \$128 million for failing to discharge their obligations as joint sponsors of Tianhe's listing application. They failed to follow the guidelines for due diligence interviews, allowed Tianhe to control the due diligence process and failed to take appropriate steps to address red flags.
- We reprimanded and fined Citigroup Global Markets Asia Limited \$57 million for failing to conduct adequate and reasonable due diligence on Real Gold Mining Limited's customers and properly supervise its listing application.
- We reprimanded and fined CCB International Capital Limited \$24 million for failing to discharge its duties as the sole sponsor in the listing application of Fujian Dongya Aquatic Products Co., Ltd. CCB failed to conduct reasonable due diligence and keep a proper audit trail of its work.
- We suspended the licence of Wu Yinong, a former responsible officer of China Merchants Securities (HK) Co., Limited, for 18 months for failing to discharge his duties as a sponsor principal in a listing application.

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

<sup>3</sup> Trading in China Forestry shares was suspended in January 2011. The company was wound up and the listing of its shares was cancelled in February 2017.

<sup>4</sup> Tianhe was listed on the Main Board in June 2014 and trading in its shares was suspended in March 2015. The SFC directed SEHK to suspend all dealings in the shares of Tianhe in May 2017.

<sup>5</sup> Details will not be disclosed until the SFC's disciplinary proceedings against other parties involved in this listing application are concluded.

<sup>6</sup> A former sponsor principal and executive of UBS AG and a licensed representative of UBS Securities Hong Kong.

## Safeguarding evidence

Our Evidence Management System team, part of our Enforcement Division, is entrusted with the management and safekeeping of materials related to about one thousand active SFC cases.

To collect evidence in our investigations against market misconduct, we searched more than 300 corporate and residential premises in about 50 operations over the last two years. About 5,000 items of evidence, including a large number of mobile phones, computers and other digital electronic devices, were seized.

Inside our exhibit rooms, rows of shelves are lined with thousands of items sealed in plastic, from paper documents to computer consoles. Many will be used as evidence in court.

Items are transferred between the exhibit rooms and the SFC's headquarters. When a case is closed, exhibits are returned to their owners or moved to a warehouse for storage. Inventory controls ensure that everything is accounted for.

"We made sure that nothing was lost when moving office five times over the past eight years," related Edmund Lee, Senior Administrator. During this time, the exhibit rooms expanded from 500 square feet to more than 3,000 square feet as a result of our increased caseload.

With advances in technology, the SFC has moved away from paper-based systems to keep in step with new trends in digital evidence management. "One of our greatest satisfactions was getting the

evidence management system up and running from scratch," Teresa Ho, Officer, said. Every exhibit is digitally scanned and labelled with a barcode for easy access and tracking.

The team also oversees four forensic labs to reproduce digital evidence from computers, mobile phones and other devices seized by SFC investigators. "The digitalisation of exhibits certainly helps," added Johnny Ho, Manager. "But it still takes great attention to detail and meticulousness to do our job right."

"The team is vested with the responsibility of preserving the chain of evidence, so even if search operations finish late, the team would stay well into the night to handle the new items seized and ensure they are under safe custody," said Irene Tse, Senior Administrator. "This reflects the team's professional commitment which is the SFC's core value."



From left: Teresa Ho, Edmund Lee, Johnny Ho, Irene Tse

## Enforcement



Mr Thomas Atkinson, Executive Director, Enforcement, speaks at 2018 Refinitiv Pan Asian Regulatory Summit

### Corporate fraud and misbehaviour Director misconduct

We commenced MMT proceedings against Li Kwok Cheong and Li Han Chun, respectively former chairman and chief executive officer of China Forestry, for suspected disclosure of false or misleading information in the company's IPO prospectus and subsequent financial reports, inducing transactions in the company's shares. We also commenced MMT proceedings against Li Han Chun and his investment vehicle Top Wisdom Overseas Holdings Limited for suspected insider dealing in the company's shares.

We commenced civil proceedings under section 214 of the SFO to seek disqualification orders against the following senior executives of listed companies:

- Duncan Chiu and Derek Chiu, two former directors, and Michael Lui Hung Kwong, former senior officer, of Far East Holdings International Limited. This followed an investigation into Far East's transfers of \$61 million from the company's bank accounts to the personal bank accounts of the then chairman Deacon Chiu Te Ken<sup>7</sup> purportedly for the subscription of IPO shares on behalf of Far East. The SFC alleged, among other things, that Duncan and Derek Chiu, together with Lui, conducted the company's business or affairs in a manner involving defalcation, misfeasance or other misconduct.

<sup>7</sup> The late father of Duncan and Derek Chiu.

<sup>8</sup> Yeung Chi Hung and Chow Lai Fung.

<sup>9</sup> Stephen Tang Siu Kun, She Yu Yuan, Luo Yao Wen, Cheng Wing Hong, Sun Yan, Chen Dar Cin, Yan Kam Tong, Yang Rude and Dong Yin Mao.

<sup>10</sup> Formerly known as Biostime International Holdings Ltd.

<sup>11</sup> Formerly known as Mission Capital Holdings Limited.

<sup>12</sup> Philip Suen Yick Lun (former chief executive officer and company secretary), Paul Suen Cho Hung (former chairman), Lau King Hang (former executive director) and three former independent non-executive directors, Huang Zhencheng, Weng Yixiang and Wong Kwok Tai.

- Joseph Lau Chi Yuen, the former chairman and executive director of Luxey International (Holdings) Limited, and Chung Man Wai, the company's former chief executive officer and executive director, for allegedly conducting the company's business or affairs in a manner involving fraud, misfeasance or other misconduct. The SFC alleged that Lau might have obtained a profit in a very substantial acquisition by Luxey.

The Eastern Magistrates' Court convicted and fined DBA Telecommunication (Asia) Holdings Limited and its former director Chan Wai Chuen for making a false or misleading statement in its results announcement published in 2013.

### Failure to disclose inside information

We commenced proceedings in the MMT against the following companies and persons for allegedly failing to disclose inside information as soon as reasonably practicable:

- Fujikon Industrial Holdings Limited and two of its directors<sup>8</sup>.
- Magic Holdings International Limited and its nine directors<sup>9</sup>.
- Health and Happiness (H&H) International Holdings Limited<sup>10</sup> and Luo Fei, its chairman, chief executive officer and executive director.
- CMBC Capital Holdings Limited<sup>11</sup> and its six former directors and senior executives<sup>12</sup>.



Evidence Management System team

## Insider dealing and market manipulation

- The Court of Final Appeal (CFA) allowed the SFC's appeal against the MMT's findings that two former executives of Asia Telemidia Limited<sup>13</sup>, Charles Yiu Hoi Ying and Marian Wong Nam, had not engaged in insider dealing. The CFA set aside the orders made by the Court of Appeal (CA) and the MMT and remitted the matter back to the MMT to deal with sanctions.
- The CFA dismissed the appeal of Eric Lee Kwok Wa, a solicitor, and his sisters, Patsy Lee Siu Ying and Stella Lee Siu Fan against the judgment of the CA, thereby affirming the original determination that they had engaged in fraudulent or deceptive conduct in transactions involving the shares of Taiwan-listed Hsinchu International Bank Company Limited.
- The CA allowed our appeal against the decision of the MMT that Cheng Chak Ngok, former executive director, chief financial officer and company secretary of ENN Energy Holdings Limited, had not engaged in insider dealing in the shares of China Gas Holdings Limited in 2011, and ordered that the issue of dealing be remitted to the MMT for a re-trial.
- The Eastern Magistrates' Court convicted Au-Yeung Siu Pang, a former group finance manager of China CBM Group Company Limited, for two insider dealing offences. Au-Yeung was sentenced to four months of imprisonment and a fine of \$120,000.
- The MMT found that Samantha Keung Wai Fun, former CEO of China AU Group Holdings Limited<sup>14</sup>, and her acquaintances Wu Hsiu Jung and Chen Kuo Chen engaged in false trading in the shares of China AU. The MMT imposed cold shoulder orders and cease and desist orders against Keung, Wu and Chen. Keung was also subject to a disqualification order.

## Intermediary misconduct

During the year, we disciplined 21 corporations, four responsible officers and 10 licensed representatives, resulting in total fines of \$940 million<sup>15</sup>. Key disciplinary actions included:

### Deficient selling practices

- We reprimanded and fined BOCI Securities Limited \$10 million over its internal system and control failures. It failed to comply with regulatory requirements concerning client profiling, product due diligence and suitability assessment in its sale and distribution of investment products.
- We reprimanded and fined HSBC Broking Securities (Asia) Limited \$9.6 million for systemic deficiencies in selling bonds listed under Chapter 37 of the Main Board Listing Rules. HSBC failed to conduct proper and adequate product due diligence and have an effective system in place to assess its clients' risk profiles to ensure the suitability of the recommendations or solicitations it made to them.
- We reprimanded and fined Noah Holdings (Hong Kong) Limited \$5 million for internal system and control failures in its sale and distribution of investment products.

### Anti-money laundering related breaches

- We reprimanded and fined Guosen Securities (HK) Brokerage \$15.2 million for failing to comply with anti-money laundering and counter-terrorist financing regulatory requirements when handling third party fund deposits and related internal control deficiencies.



<sup>13</sup> Now known as Yunfeng Financial Group Limited.

<sup>14</sup> Now known as SkyNet Group Limited.

<sup>15</sup> Includes \$867.7 million in fines for sponsor failures. See page 66.

## Enforcement

### Other disciplinary actions

#### Reprimanded and fined for internal control failures

Company	Breaches	Fine	Date
Hang Seng Investment Management Limited	Deficient internal controls and procedures for the cash management of SFC-authorized funds	\$3 million	31.5.2018
CN Capital Management Limited	Failure to maintain satisfactory internal controls for employee account dealing	\$1 million	24.4.2018
Instinet Pacific Limited	Deficient internal controls for its electronic and algorithmic trading systems and alternative liquidity pool	\$17.3 million	13.4.2018

#### Disciplined for mis-handling client money

Company/Name	Breaches	Action	Date
Kong Kar Bong	Misappropriated client money and forged an account statement	Banned from re-entering the industry for 10 years	11.12.2018
Lok Wai Fong	Unauthorised transfer of client money and failure to act on client instructions	Banned from re-entering the industry for life	8.10.2018
HPI Forex Limited	Failure to maintain client money in a segregated client account in Hong Kong and use of client money to conduct proprietary transactions overseas	Reprimanded and fined \$2 million	22.8.2018
Cham Nga Yin	Misappropriated client money	Banned from re-entering the industry for life	9.8.2018

#### Reprimanded and fined for other regulatory breaches

Company	Breaches	Fine	Date
FWD Life Insurance Company (Bermuda) Limited	Failure to comply with the key personnel requirements under the SFC Code on MPF Products and the Fund Manager Code of Conduct	\$2.4 million	8.1.2019
Ardon Maroon Fund Management (Hong Kong) Limited	Cross-trade failures in managing the Ardon Maroon Asia Master Fund	\$800,000	27.12.2018
SFM HK Management Limited	Failures in the short selling of Great Wall Motor Company Limited shares on behalf of a fund it managed	\$1.5 million	6.12.2018
Huatai Financial Holdings (Hong Kong) Limited	Failures in its short selling of Great Wall Motor Company Limited shares	\$800,000	17.9.2018
Citigroup Global Markets Asia Limited	Failures in the operation of its alternative liquidity pool	\$4 million	10.7.2018

Note: See Table 6 in Breakdown of SFC activity data on page 167 for details of the less significant disciplinary actions.

## Other notable cases

- The CFA dismissed the appeal by Moody’s Investors Service Hong Kong Limited of our disciplinary action concerning a special comment report published by Moody’s in 2011.
- The CA dismissed the appeal by Andrew Left of Citron Research against the determination of the MMT on points of law under the SFO. This came after the rejection of a separate application for leave to appeal by Left against the determination of the MMT on questions of fact following the MMT’s findings of misconduct in his publication of a research report on Evergrande Real Estate Group Limited in 2012.
- The CFI ordered three unlicensed entities<sup>16</sup> to compensate 14 investors the sum of about \$600,000. These entities solicited investors to

open trading accounts and invest in securities and futures products. However, no trades were executed and investors were not able to recover their money.

- Hui Kwok Piu was convicted and fined \$231,000 for illegal short selling in the shares of Coslight Technology International Group Limited.
- We suspended the trading in the shares of China Ding Yi Feng Holdings Ltd and issued restriction notices to nine brokers<sup>17</sup> prohibiting them from disposing of or dealing with assets held in client accounts related to suspected market manipulation in its shares. We are not investigating these brokers, which have cooperated with our ongoing investigation, and the restriction notices do not affect their operations or their other clients.

## Putting the pieces together

The Case Intake Team plays a key role in ensuring we address serious threats to Hong Kong’s financial markets. Set up in 2016 as part of a strategic review of the Enforcement Division, the team helps us focus on enforcement priorities and increase efficiency.

“When a case is referred to the team, we look at the facts and circumstances and weigh its importance according to our regulatory priorities, whether there is enough information and whether the problem is part of a larger issue,” explained Anna Woo, Associate Director, Enforcement, who heads the team. If the senior management considers an investigation is warranted, it allocates the case to one of our specialised enforcement teams.

The team also reviews public complaints and Anna represents the Enforcement Division in our Complaints Control Committee<sup>a</sup>. For her work in this role she received The Ombudsman’s Awards 2018 for Officers of Public Organisations.

<sup>a</sup> See Stakeholders on pages 77-81.

Cooperation and communication among team members and other colleagues have been key to her team’s achievements, Anna added. “We strive to handle cases consistently and transparently and uphold the ‘One SFC’ approach.”



Anna Woo (centre), Celeste Chong (left) and Avon Leung of the Case Intake Team

*You have to look at each case with an open mind – it is like putting a puzzle together.*

Anna Woo

<sup>16</sup> Cardell Limited or Cardell Company Limited, Waldmann Asset Management and Doyle Hutton Associates.

<sup>17</sup> The nine brokers are Futu Securities International (Hong Kong) Limited, GF Securities (Hong Kong) Brokerage Limited, Guotai Junan Securities (Hong Kong) Limited, Haitong International Securities Company Limited, Orient Securities (Hong Kong) Limited, SBI China Capital Financial Services Limited, Shenwan Hongyuan Securities (H.K.) Limited, Sun Hung Kai Investment Services Limited and Yunfeng Securities Limited.



## Enforcement

### Updated fining guidelines

We updated our Disciplinary Fining Guidelines in August 2018 to codify the fining principles confirmed by the Securities and Futures Appeals Tribunal in our disciplinary proceedings against HSBC Private Bank (Suisse) SA.

Under these principles, multiple culpable acts or omissions constituting misconduct may attract multiple penalties even if they are of the same generic nature. We may use the number of persons affected by the misconduct as the multiplier in assessing the appropriate penalty. The approach will depend on the facts of each case and we will look at the totality of the penalties to ensure they are not disproportionate to the gravity of the conduct in question.

### Reporting misconduct

In October 2018, we conducted a campaign to raise public awareness about listed company fraud and market misconduct, as well as the importance of reporting misconduct to the SFC. We updated our "Have you seen these people?" webpage to encourage the public to help us locate individuals sought in enforcement-related inquiries or investigation.

### Enforcement activities

	2018/19	2017/18	2016/17
S179 <sup>a</sup> inquiries commenced	26	24	27
S181 <sup>b</sup> inquiries commenced (number of letters sent)	294 (9,074)	261 (8,461)	301 (8,960)
S182 <sup>c</sup> directions issued	231	274	407
Investigations started	238	280	414
Investigations completed	243	254	591
Individuals/corporations charged in criminal proceedings	5	14	10
Criminal charges laid <sup>d</sup>	42	54	46
Notices of Proposed Disciplinary Action <sup>e</sup> issued	22	29	49
Notices of Decisions <sup>f</sup> issued	34	32	56
Individuals/corporations subject to ongoing civil proceedings	101	97	126
Compliance advice letters issued	234	277	548
Cases with search warrants executed	30	22	34

<sup>a</sup> 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.

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

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

<sup>d</sup> The SFC brought a total of 42 criminal charges against four individuals and one corporation.

<sup>e</sup> A notice issued by the SFC to regulated persons that it proposes to exercise its disciplinary powers, on grounds that they appear to be guilty of misconduct or not fit and proper.

<sup>f</sup> A notice that sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

Note: Also see Table 7 in Breakdown of SFC activity data on page 168 for more details.

# Regulatory engagement

We actively participate in international policymaking through our involvement in global standard setting bodies. We collaborate with Mainland authorities on regulatory and market development initiatives and maintain close contact with our local regulatory counterparts.

## International IOSCO

We play an active role in the International Organization of Securities Commissions (IOSCO), which develops, implements and promotes adherence to internationally-recognised standards for securities regulation. We work closely with the IOSCO Secretariat to develop policy initiatives, facilitate collaboration between IOSCO and the G20's Financial Stability Board (FSB) and promote interaction between members from emerging and developed economies.

Since his re-appointment as Chairman of the IOSCO Board in May 2018, our Chief Executive Officer Mr Ashley Alder pushed forward IOSCO's response to the European Union (EU) data privacy regulation and initiatives related to sustainable finance, cyber resilience, structural vulnerabilities in asset management, market fragmentation and financial technologies (Fintech), including risks associated with crypto-assets.

In May 2018, the SFC became one of the first signatories to the IOSCO Enhanced Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (EMMoU) for cross-border enforcement cooperation. The EMMoU provides signatories with additional tools to combat financial misconduct in the global financial markets.

With other members of IOSCO, the FSB, the Committee on Payments and Market Infrastructures (CPMI) and the Basel Committee on Banking Supervision, we participated in the Derivatives Assessment Team study of the impact of the G20 financial regulatory reforms on the incentives to centrally clear over-the-counter (OTC) derivatives.

Mr Alder co-chairs the CPMI-IOSCO Steering Group which coordinates the regulatory policy work addressing risks in derivatives markets following the



IOSCO Board meeting in Madrid, Spain

*Photo: IOSCO General Secretariat*

global financial crisis, including the supervision of central counterparties and the monitoring of the implementation of the Principles for Financial Market Infrastructures (FMI)<sup>1</sup>. The SFC hosted the October 2018 CPMI-IOSCO Steering Group meeting.

Mr Alder participated in the second EU-Asia Pacific Forum in October 2018. Securities regulators representing the EU and the IOSCO Asia-Pacific Regional Committee discussed the implementation of EU regulations which have an impact on Hong Kong and the region, crypto-assets, sustainable finance and other capital market developments.

We participate in all eight IOSCO policy committees as well as the Committee on Emerging Risks, Assessment Committee, Fintech Network, Sustainable Finance Network and key task forces and working groups.

- As a member of IOSCO's Committee on Investment Management, we chaired the Committee's workstream studying the major risks associated with exchange-traded funds (ETFs) and contributed to a consultation paper on measuring leverage in investment funds.
- We participated in the Committee on Derivatives which published an Update to Survey on the Principles for the Regulation and Supervision of Commodity Derivatives Markets in October 2018 and a report on commodity storage and delivery infrastructures in February 2019.

<sup>1</sup> International standards for financial market infrastructures issued by IOSCO and the CPMI to strengthen financial stability.

## Regulatory engagement

### FSB

As Chairman of the IOSCO Board, Mr Alder is a member of the FSB's Plenary and its Steering Committee, which focus on monitoring the progress of the G20 reforms and financial vulnerabilities in the global financial system. Mr Alder also participates in the FSB Standing Committee on Supervisory and Regulatory Cooperation.

We are a member of the FSB Standing Committee on Standards Implementation and contribute to its Implementation Monitoring Network, which considers the effects of the G20 reforms and conducts thematic monitoring and peer reviews.

We are also a member of the FSB Regional Consultative Group for Asia, to which we contribute views on regulatory policies, and the FSB Cross-Border Crisis Management Group, which monitors the implementation of resolution regimes for FMIs such as central counterparties.

We worked with the Hong Kong Monetary Authority (HKMA), the Insurance Authority (IA) and the Financial Services and the Treasury Bureau (FSTB) on the FSB's annual exercise to monitor the implementation of the G20 reforms.

We participated in the FSB's OTC Derivatives Working Group which published the *OTC Derivatives Market Reforms – 13th Progress Report on Implementation* in November 2018.

### Financial Action Task Force

We contributed to the *Risk-based Approach Guidance for the Securities Sector* published by the Financial Action Task Force (FATF) in October 2018.

Last year, we worked closely with the FSTB, fellow financial regulators and law enforcement agencies to complete a comprehensive self-assessment of the effectiveness of Hong Kong's anti-money laundering and counter-financing of terrorism regime and its compliance with the FATF recommendations as part of the FATF's mutual evaluation<sup>2</sup> of Hong Kong. An on-site review was carried out by the FATF assessment team in November 2018.

<sup>2</sup> See footnote 1 on page 7.



SFC Chairman Mr Tim Lui (left) meets CSRC Chairman Mr Yi Huiman in Beijing

### Other engagement

During the year, we maintained regular dialogue with overseas regulators to share intelligence and updates on the supervision of global financial institutions. In March 2018, we co-hosted the third Asia-Pacific Regional Supervisory College with the Australian Securities and Investments Commission in Australia. We hosted a supervisory college in Hong Kong jointly with the US Federal Reserve Bank in October 2018 and also took part in other supervisory colleges held in Japan, Switzerland and the UK.

We participated in the Global Financial Innovation Network and became a member of its Coordination Group which sets its overall direction and strategy. The network, which is led by the UK Financial Conduct Authority and consists of financial regulators and related organisations, aims to create a global regulatory sandbox for firms to conduct cross-border testing of Fintech.

### Mainland China

To advance Hong Kong's unique position as the international financial centre connecting Mainland and international capital flows, we take an active part in Mainland-Hong Kong cooperation programmes and hold regular high-level discussions with the China Securities Regulatory Commission (CSRC) on supervision, enforcement and market development initiatives. We also organise high-level meetings with other Mainland authorities to exchange regulatory information and strengthen cooperation.

## Regulatory engagement



High-level meeting with the CSRC in December 2018

In March 2019, our Chairman Mr Tim Lui met with the CSRC Chairman Mr Yi Huiman to discuss cooperation between the Hong Kong and Mainland capital markets.

In December 2018, the fourth half-yearly SFC-CSRC high-level meeting was held to discuss major initiatives, including supervisory and enforcement cooperation, investor identification for southbound trading under Stock Connect, ETF Connect, enhancements to Mainland-Hong Kong Mutual Recognition of Funds and full circulation of H shares. We also held two regular high-level enforcement meetings to exchange views on cross-border enforcement cooperation, market surveillance workflows and the progress of high-priority investigations.

We support the Government of the Hong Kong Special Administrative Region (HKSAR) in strengthening cooperative relationships with Mainland authorities to develop Hong Kong's financial services sector and access to Mainland markets. We actively participated in the research and policy formulation for the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area announced in February 2019. We will work closely with Mainland authorities to implement the initiatives set out in the plan, including further enhancements to the Mainland-Hong Kong mutual market access schemes.

We met with the State Administration of Foreign Exchange and received delegates from the People's Bank of China to discuss the development of offshore renminbi business in Hong Kong and other cooperation initiatives. We also engaged with Mainland exchanges and clearing houses to discuss their operations in Hong Kong and the opening-up of the Mainland futures market.

To strengthen cooperation with our fellow regulators and facilitate knowledge sharing, we co-organised a joint enforcement training programme with the CSRC on digital forensics in Shenzhen in November 2018. Over 120 enforcement officers from both organisations participated. Experts from the Economic Crime Investigation Department of the Ministry of Public Security, the Hong Kong Police and the Independent Commission Against Corruption (ICAC) also provided their insights on current trends.

Our in-house legal team maintains regular contact with the CSRC and conducts joint seminars to share experience on legal topics. The third annual seminar took place in Shenzhen in March 2019.



SFC-CSRC joint enforcement training in Shenzhen

30 Years

Message from Chairman and CEO

Strategic Priorities

Mission and Mandates

Corporate Governance

Our People

Highlights

Operational Review

Corporate Social Responsibility

Corporate Developments

Financial Statements

Supplementary Information

## Regulatory engagement

### Local

We maintain close contact with the HKSAR Government and local counterparts to keep abreast of emerging issues and regulatory developments. We attended a meeting with the HKMA, IA and China Banking and Insurance Regulatory Commission (CBIRC) in January 2019 where we agreed to strengthen cooperation in monitoring the cross-boundary and cross-sectoral activities of regulated financial institutions.

During the year, we held workshops and training sessions with the ICAC to share best practices in investigation techniques, digital forensics and market surveillance as well as handling corporate fraud, market misconduct and disciplinary cases. The ICAC provided their training facilities for our staff to conduct mock searches and court proceedings. We partnered with the ICAC and the Police to conduct multiple large-scale search operations. We also hosted investigation workshops for officers from the ICAC, the Police and the HKMA.

### Bilateral agreements

In June 2018, we signed an MoU with the German Federal Financial Supervisory Authority providing for consultation, cooperation and exchange of information in the supervision of cross-border regulated financial



Mock court hearing at ICAC training facilities

institutions in Hong Kong and Germany. We also entered into a cooperation agreement with the Abu Dhabi Global Market Financial Services Regulatory Authority to establish a framework for cooperation on Fintech.

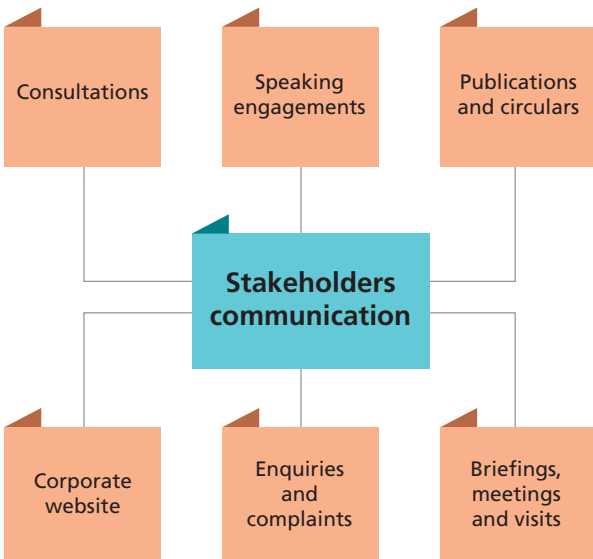
We entered into an MoU for supervisory cooperation with the CBIRC in June 2018 and with the CSRC in November 2018. The MoUs facilitate cooperation and exchanges of information in the supervision of regulated financial institutions in the Mainland and Hong Kong.

### Requests for regulatory cooperation

	2018/19		2017/18		2016/17	
	Received	Made	Received	Made	Received	Made
Enforcement-related requests for assistance	113	99	136	104	155	112
Licensing-related requests for assistance	121	597	112	1,178	125	1,101

# Stakeholders

To promote transparency, we strive to help stakeholders understand our work and provide them with up-to-date regulatory information through timely, concerted outreach. We engage with a wide range of stakeholders using multiple channels.



## Industry

In June, we organised the SFC Compliance Forum 2018 (see sidebar on page 79), a half-day event to exchange views with the industry on current regulatory concerns. More than 500 participants from the financial industry attended.

## Publications and other communications

	2018/19	2017/18	2016/17
Press releases	128	138	134
Consultation papers	5	11	4
Consultation conclusions	11	8	2
Industry-related publications	15	15	13
Codes and guidelines <sup>a</sup>	14	10	4
Circulars to industry	90	83	74
Corporate website average daily page views <sup>b</sup>	64,947	67,664	59,952
General enquiries	6,709	7,494	6,532

<sup>a</sup> Includes updates to previous versions.

<sup>b</sup> The average number of webpages browsed per day during the reporting period.

We maintain an open and productive dialogue with industry associations, professional bodies and other market participants. To keep industry participants informed about regulatory developments, we regularly organise meetings and briefings and from time to time contribute articles to industry association newsletters.

This year, we organised five workshops on our enhanced licensing process and three seminars on anti-money laundering for more than 2,000 participants. Our industry briefing on the Guidelines on Online Distribution and Advisory Platforms was attended by about 200 participants from industry associations and regulatory counterparts. Together with the Hong Kong Chinese Enterprises Association, we organised a workshop to brief Mainland-based firms on the latest regulatory requirements for intermediaries and listed companies in September 2018.

During the year, our senior executives took part in 85 speaking engagements on various topics within our remit. We supported 10 seminars or events organised by industry bodies.

The SFC was one of the regulatory partners supporting the Hong Kong FinTech Week 2018 Main Conference on 31 October and 1 November. Our senior executives discussed regulatory issues related to financial technology (Fintech) development and we displayed information about the SFC's Fintech initiatives at a booth on-site.

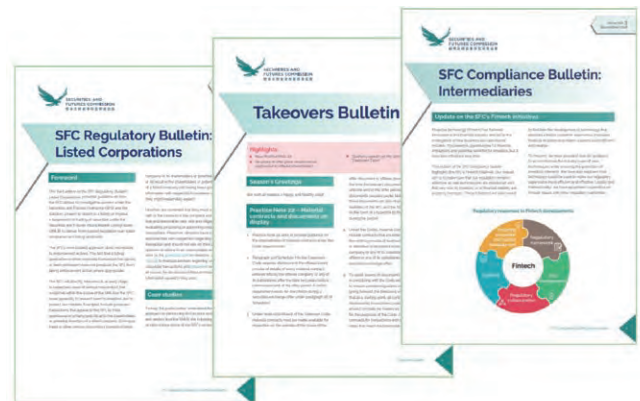
## Stakeholders

When we propose rules under the Securities and Futures Ordinance, we carry out a public consultation even if it is not a statutory requirement to do so. Before implementation, we consult the public on proposed non-statutory codes and guidelines, as well as amendments to them. We issue consultation papers comprising detailed proposals and as part of the consultation process hold both formal and informal discussions to hear stakeholders' views.

After completing our analysis, we issue a consultation conclusions paper summarising the main comments received and setting out our conclusions. We published five consultation papers and 11 consultation conclusions in the year.

Our publications aim to update the industry on our regulatory work, topical issues and other developments. This year, we published 15 thematic publications, including periodic newsletters, market reviews and surveys.

Circulars and frequently-asked questions are posted on the SFC website to help the industry better understand our regulatory requirements. This year, we issued 90 circulars on a wide range of matters, including virtual assets, securities margin financing, online client onboarding, valuation of fund assets, our review of licensed firms' internal controls and updates on anti-money laundering and counter-terrorist financing.



## Government

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

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



Mr Ashley Alder, Chief Executive Officer, at Hong Kong FinTech Week 2018



Information booth

## Regulatory counterparts

We play an active role in international regulatory cooperation through our participation in both the International Organization of Securities Commissions and the Financial Stability Board<sup>1</sup>.

To enhance regulatory cooperation, we maintain close contact with local, Mainland and overseas regulatory counterparts. During the year, we signed six memoranda of understanding (MoU) with other regulatory authorities and held more than 30 MoU meetings. In addition, we received visitors and delegates from Mainland and overseas authorities.

### SFC Compliance Forum 2018

On 21 June, we hosted the SFC Compliance Forum 2018 to exchange views with the industry on current regulatory issues. Our senior executives, along with representatives from our regulatory counterparts, the financial industry and academia, discussed a range of topics at the half-day event attended by more than 500 participants.

Ms Julia Leung, our Deputy Chief Executive Officer and Executive Director of Intermediaries, delivered opening remarks, cautioning that while the use of technology and big data may bring opportunities and enhance efficiency, the financial industry should not overlook the associated risks. The SFC also explores ways to use technology in its regulatory work to identify and assess risks, she added.

The plenary panel, moderated by Ms Leung, discussed the industry's use of innovative technologies such as artificial intelligence, machine learning, blockchain, cloud services and big data, as well as the related risks and how they intersect with the SFC's regulatory framework.



Ms Julia Leung, Deputy Chief Executive Officer and Executive Director of Intermediaries

One breakout session discussed best execution, client facilitation and alternative liquidity pools in light of the SFC's risk-based thematic reviews, and another focused on our thematic inspection of the work of initial public offering sponsors and the specific challenges they face.



<sup>1</sup> See Regulatory engagement on pages 73-76.

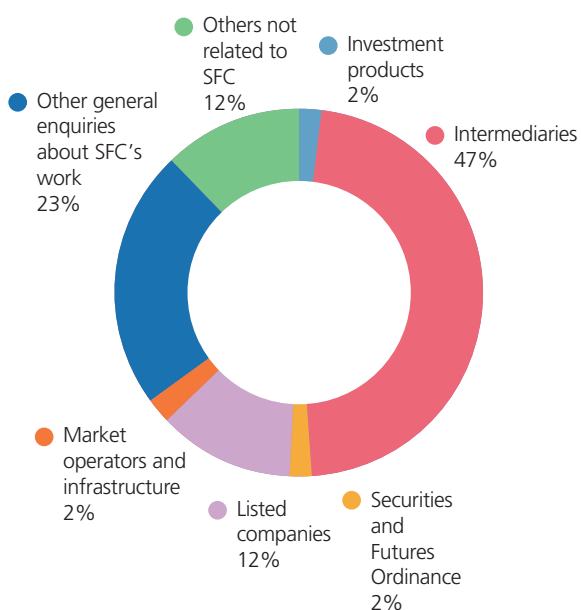


## Stakeholders

### The public

We address public concerns and enquiries regarding the securities and futures markets. During the year, we received a total of 6,709 general enquiries by phone or in writing.

### General enquiries



We handled 6,034 complaints during the year. Complaints against intermediaries and market activities are first reviewed by our Complaints Control Committee, comprising senior executives from across the organisation, and are allocated to responsible divisions for assessment where appropriate.



SFC Chairman Mr Tim Lui (second from the left) at HKEX's ceremony to mark the Lunar New Year's first trading day

A total of 1,596 cases<sup>2</sup> were allocated for further review and 624 were referred to HKEX<sup>3</sup> or other financial regulators and law enforcement agencies.

To increase public understanding of Hong Kong's financial regulatory framework and our role in it, we received visitors from local and overseas institutions and our senior executives delivered key messages in media interviews. We issued 128 press releases to inform the public of the latest regulatory actions and other SFC news.

We published our *Annual Report 2017-18* and three quarterly reports to help stakeholders understand our work. Our reporting efforts were recognised with a Gold Award in the Hong Kong Management Association's Best Annual Reports Awards 2018, and a Gold Award, public sector category, in the Hong Kong Institute of Certified Public Accountants' 2018 Best Corporate Governance Awards.

The public can easily obtain up-to-date information about our work and regulations on our corporate website. This year, we redesigned our homepage and made several sections more easily accessible via mobile and tablet devices as well as by the visually impaired.

<sup>2</sup> One case may comprise multiple complaints.  
<sup>3</sup> Hong Kong Exchanges and Clearing Limited.

## Complaints against intermediaries and market activities

	2018/19	2017/18	2016/17
Conduct of licensees	453	357	411
Conduct of registered institutions	16	22	39
Listing-related matters and disclosure of interests	3,485	779	739
Market misconduct <sup>a</sup>	364	322	221
Product disclosure	8	12	8
Unlicensed activities	164	141	116
Breach of offers of investments	30	48	141
Boiler rooms and suspicious websites	378	319	330
Scams and frauds <sup>b</sup>	285	186	132
Other financial activities not regulated by SFC <sup>c</sup>	851	503	185
<b>Total</b>	<b>6,034</b>	<b>2,689</b>	<b>2,322</b>

<sup>a</sup> Primarily, alleged market manipulation and insider dealing.

<sup>b</sup> Such as identity fraud and impersonation.

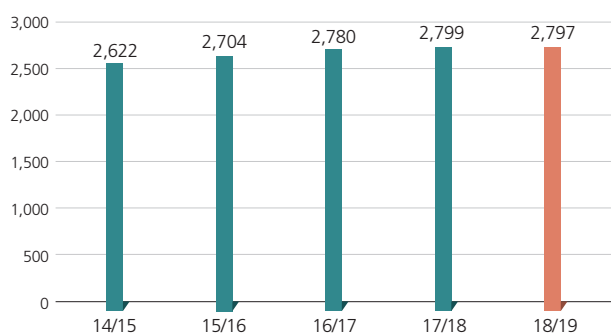
<sup>c</sup> For example, bullion trading, banking complaints.



## SFC activity data

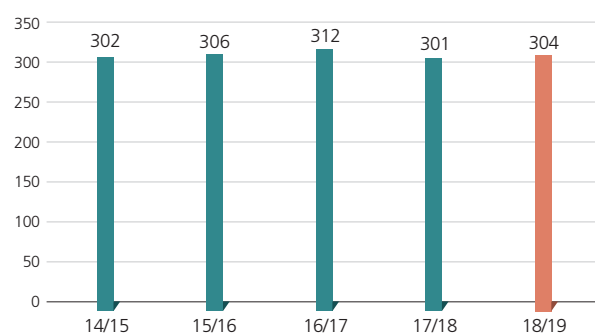
These charts are intended to show at a glance some top-line data on our activities. See Breakdown of SFC activity data on pages 164-169 for more details.

### Authorised collective investment schemes

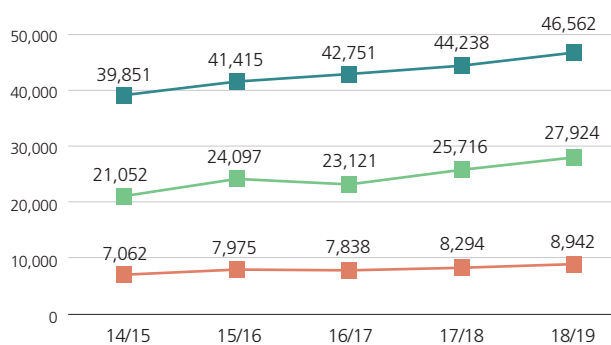


Note: Figures represent a snapshot view as at each financial year-end.

### On-site inspections of intermediaries

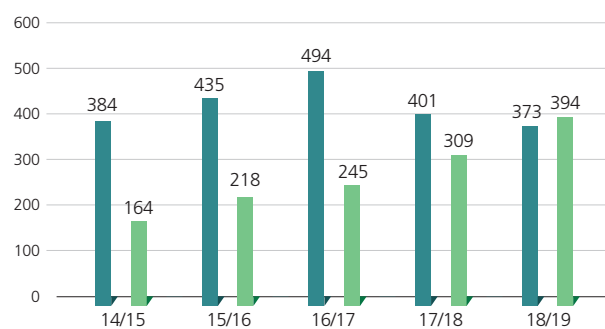


### Licensing



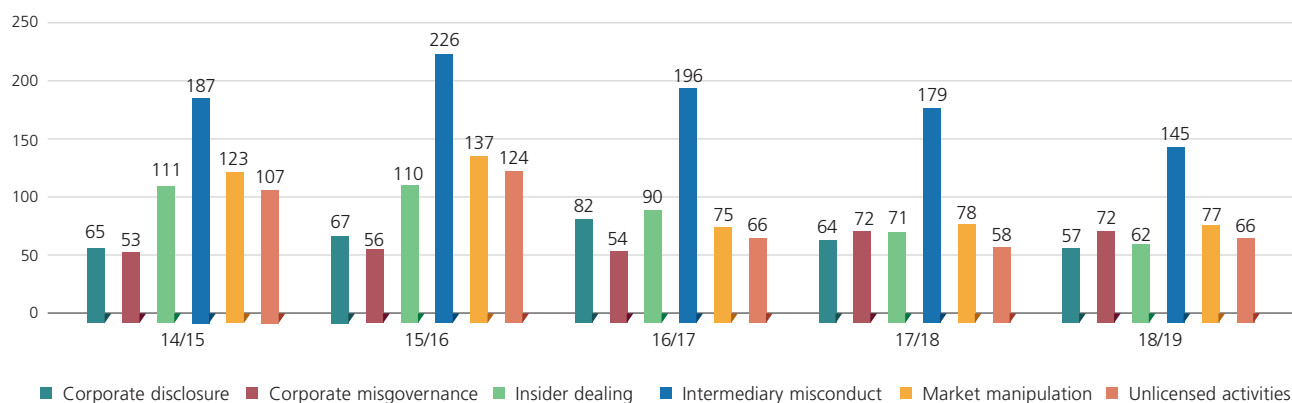
- Total number of SFC licensees as at each financial year-end
- Applications to conduct new regulated activity
- Applications for SFC licences

### Takeovers and listing applications

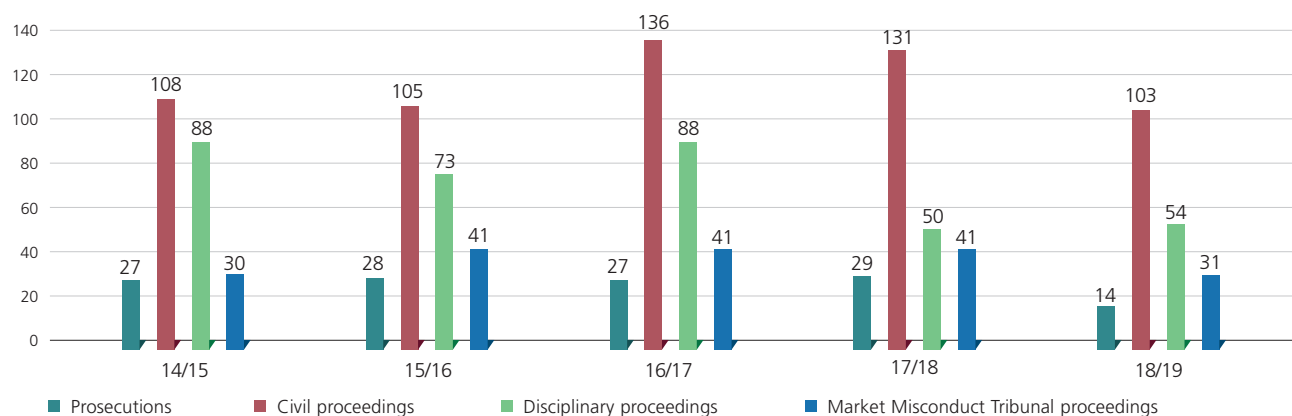


- Takeovers and share buy-backs transactions handled
- Listing applications received

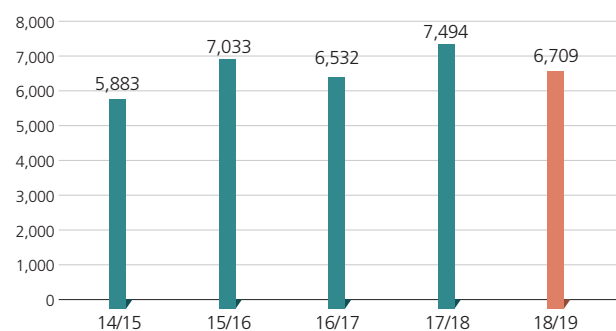
### Investigations



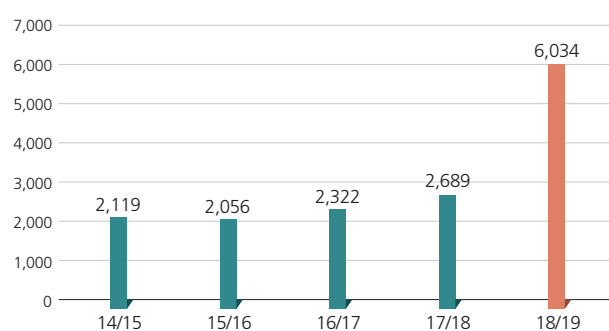
### Persons/corporations subject to enforcement action



### General enquiries



### Complaints against intermediaries and market activities



# Corporate Social Responsibility

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

## Governance

We are a socially responsible organisation striving to incorporate corporate social responsibility (CSR) principles into our daily operational decisions and practices.

The CSR Committee coordinates all our CSR efforts. It reports directly to the SFC's Executive Committee and is chaired by the Chief Financial Officer and Senior Director of Corporate Affairs. It includes members from different units across the organisation.

The Committee is responsible for:

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

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



Blood donation day



Cooking class and English practice with underprivileged children

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

Our CSR efforts were recognised by the Hong Kong Council of Social Service which named us a “Caring Organisation” for the thirteenth consecutive year.

### Marketplace support

As a regulator, we consider the impact of our work on Hong Kong’s financial markets. We adopt measures to enhance industry-wide operational efficiency, minimise resource consumption and reduce paperwork for both the SFC and industry participants. We also encourage the industry to adopt environmentally responsible behaviour.

### Supporting green finance

In September 2018, we announced our strategic framework to help develop Hong Kong as a leading centre for green finance and connect green finance flows between the Mainland and the rest of the world<sup>1</sup>. Our strategy is in line with global market and regulatory developments in sustainable finance. We collaborate with stakeholders as well as local and international regulators to promote green finance initiatives and investor awareness of them.

### Enhancing industry-wide operational efficiency

In January 2019, we launched a new online portal, WINGS<sup>2</sup>, as a common one-stop platform for making electronic submissions to the SFC. All functions and submission services available on the existing SFC Online Portal and other SFC systems will be migrated to WINGS in phases.

### CSR working groups and themes

	Focus	2018/19	2019/20
<b>Commission Volunteers Group</b> 	Community	Extend, expand	Sharing and caring
<b>Green Working Group</b> 	Environment	Green in SFC, counts on you and me	Live green, save green
<b>Wellness Group</b> 	People	Being healthy, being well	Fitter, healthier, happier

<sup>1</sup> See Green finance on pages 60-61.

<sup>2</sup> Web-based INteGrated Service.

## Corporate Social Responsibility

The mandatory online submission of annual returns and notifications via the SFC Online Portal was extended to cover licensed corporations and registered institutions in April 2019.

Starting from November 2018, we no longer deliver printed letters of approval to individual licence applicants. These letters are only sent to applicants by email, with a copy to the office email address of the principal licensed corporations with which they are affiliated. This improves efficiency and is also environmentally friendly, saving an average of 50,000 pieces of paper each year.

To reduce the industry's compliance burden and paper consumption, we ceased to issue printed licences<sup>3</sup> to licensed individuals in 2015. Details of licensed individuals are now only available on our online Public Register of Licensed Persons and Registered Institutions. In addition, an online system is available to streamline the submission and posting of Rule 22<sup>4</sup> dealing disclosures under the Code on Takeovers and Mergers.

We will use email as the main channel for written communications with market practitioners on takeovers issues to increase efficiency and promote environmentally friendly practices.

### Promoting professional competence and financial literacy

Our continuous professional training (CPT) requirements<sup>5</sup> help to enhance the competence of licensees. This year, our executives delivered 29 hours of CPT-eligible training.

We provide funding to the Financial Reporting Council which aims to uphold the quality of listed companies' financial reporting and to the International Financial Reporting Standards (IFRS) Foundation<sup>6</sup> to support their work. We also fund the Investor and Financial Education Council<sup>7</sup> which is dedicated to improving financial literacy in Hong Kong.

<sup>3</sup> We continue to issue printed licences for licensed corporations and certificates of registration for registered institutions, and these must be exhibited prominently at their places of business.

<sup>4</sup> Rule 22 of the Code on Takeovers and Mergers requires parties to an offer and their respective associates to disclose dealings in relevant securities of the offeree company and the offeror (in the case of a securities exchange offer) conducted for themselves or on behalf of discretionary clients during an offer period.

<sup>5</sup> Under the SFC's Guidelines on Continuous Professional Training, licensees are required to complete a minimum of five CPT hours per calendar year for each type of regulated activity.

<sup>6</sup> The IFRS Foundation is a not-for-profit organisation established to develop, promote and facilitate the adoption of the IFRS.

<sup>7</sup> Formerly known as the Investor Education Centre.



Chairman Mr Tim Lui takes part in the Child Development Matching Fund's Carol Singing Festival

## Community

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

This year, 120 staff spent a total of 465 hours volunteering. The communities they engaged with included minorities, the single elderly and the underprivileged.

Our staff also support community services through donations and participating in fundraising events. This year, we raised a total of \$150,787 through Pedal Power 8 (see sidebar on page 87), the Standard Chartered Hong Kong Marathon, our Christmas charity sale and four Community Chest events: Love Teeth Day, Dress Casual Day, Skip Lunch Day and Green Day.

For our in-house Christmas charity sale, we engaged two social enterprises, the Fu Hong Society and the Hong Kong Society for Rehabilitation, to sell groceries and items made by their members. Our staff members

also donated home-made cookies for sale at the event, which raised a total of \$7,254 to support the operations of the two social enterprises.

Also during Christmas, our Chairman Mr Tim Lui joined a children’s choir and other guests to “sing for our next generation” at the Child Development Matching Fund’s ninth annual Carol Singing Festival. Since 2010, the event has raised over \$30 million to support more than 5,000 underprivileged youths.

Donating used items to charities enables us to help people in need and reduce wastage. This year, we donated used computers, monitors, servers and printers to Caritas Hong Kong’s computer refurbishment project which recycles them and reduces landfill.

### Contributions

	2018/19	2017/18	2016/17
Number of staff participating in volunteering activities	120	134	110
Total volunteering hours	465	458	471
Funds raised for community causes	\$150,787	\$104,509	\$70,648
Corporate sponsorships for community causes <sup>^</sup>	\$17,000	\$13,000	\$9,000

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

### Cycling for a cause

In April 2018, SFC staff and family members took part in Pedal Power 8, a charity cycling event, to raise money for local secondary school students to participate in Outward Bound leadership courses.

Paul Yeung, the SFC’s Senior Director and Commission Secretary, came first on the 30-km elite route from Tai Mei Tuk to the Science Park. This was a surprise to Paul, as though a dedicated trail runner, he did not even own a bike, and Pedal Power was his maiden cycling event. Paul’s wife and seven-year-old daughter also participated, completing the 18-km route.



With Ms Teresa Ko, Pedal Power Chairlady



In the race

This charitable event was especially meaningful for Paul because he did an Outward Bound course as a teenager. “Outward Bound promotes teamwork and leadership qualities and provides valuable training on mental and physical resilience,” Paul explained. “What I learnt from it in that week has transformed me and remains useful to me till today.”

Since 2011, Pedal Power has raised over \$8.6 million and benefited more than 2,600 students.



## Corporate Social Responsibility

### Volunteering events

Month	Activity	Purpose	Outcome
May 2018	Cooking class and English practice with underprivileged children on Mother's Day	To interact and practise English with underprivileged children	Communicating in English, seven volunteers helped children bake cupcakes on Mother's Day
May 2018	Beach clean-up at Starfish Bay	To raise awareness about environmental protection	29 volunteers helped to clean Starfish Bay and collected more than 10 kg of refuse
Sep 2018	Talk on swimming and resilience by Splash Foundation <sup>^</sup>	To understand the foundation's volunteer work	32 staff members learnt about building resilience in their lives and work
Dec 2018	Elderly home visit	To connect with the elderly community	26 volunteers visited and delivered rice bags and noodles to the elderly
Dec 2018	Christmas charity sale	To raise funds for charity	A total of \$7,254 was raised for the Fu Hong Society and the Hong Kong Society for Rehabilitation
Mar 2019	Decorating cookies with kindergarteners at iBakery	To raise awareness that less privileged children have limited extracurricular activities	23 volunteers made cookies with kindergarteners
Mar 2019	The Hong Kong Council of the Church of Christ in China Flag Day	To raise funds for support services and other social assistance for underprivileged families	23 colleagues and their family members joined the event
Mar 2019	Kindness walk with ImpactHK	To understand the plight of the homeless	15 colleagues and their family members took part in the walk and distributed food and daily necessities to the homeless

<sup>^</sup> Splash Foundation is the only non-profit swim school in Hong Kong.

## Environment

We strive to manage and reduce our impact on the environment and raise green awareness amongst staff and stakeholders. Staff are encouraged to reduce, reuse, repair and recycle through our internal protocol, *A guide to working "Green" at the SFC*.

To reduce paper consumption, we use electronic processes for internal matters including training course enrollments, conference room bookings, expense claims, overseas travel records, pay slips, leave applications and appraisals. Meeting materials are shared on tablet computers and paperless diaries are available.

We also adopt a number of other green practices in our workplace to use resources more efficiently:

- adjusting indoor lighting after office hours using auto timers;
- reducing electricity usage at our data centres;
- providing recycling bins for newspapers;
- sorting cans and bottles for recycling;
- replacing paper holiday greeting cards with e-cards; and
- recycling used red packets in support of Greeners Action's campaign.



Low-carbon diet workshop

As part of our efforts to reduce waste, we no longer provide plastic stirrers and paper cups in our pantries starting from February 2019. Since early 2019, most desktop computers in our offices are automatically turned off every weekend to reduce our carbon footprint.

Since 2015, about 400 staff and their family members have participated in activities we organised to raise environmental awareness. In the past year, we arranged a beach clean-up at Starfish Bay to deepen colleagues' understanding of the impact of plastic pollution in oceans. A dolphin research tour allowed colleagues to learn about threats to Hong Kong's endangered pink dolphins and ways to preserve marine life. We also organised workshops on natural tie-dyeing and low-carbon diets to promote an eco-friendly lifestyle.

We support the World Wide Fund for Nature's global warming prevention and environmental conservation causes.

- No Shark Fins Policy: We have in place an organisation-wide policy pledging not to serve sharks' fins at any SFC event.
- Earth Hour 2019: We took part in this annual energy conservation event for the ninth year. We encouraged staff to switch off lights for one hour and made a pledge as a corporate supporter.



Natural tie-dyeing workshop

## Corporate Social Responsibility

### Consumption and recycling

	2018/19	2017/18	2016/17
<b>Consumption</b>			
Paper (pieces/head)	9,977	9,563	10,857
Electricity (kWh)	4,095,518	4,018,442	4,770,712
<b>Recycling</b>			
Paper (kg)	31,251	37,815	30,852
Toner and printer ink cartridges	1,151	1,106	1,130

### Workplace

The wellbeing of our staff is important. During the year, we organised activities to promote health awareness and encourage healthier lifestyles:

- A health talk to introduce self-administrated acupuncture and how Chinese medicine can help relieve stress;
- Free on-site influenza vaccinations and health screenings with individual consultations;
- Juice day, providing cold-pressed juice to staff to encourage a healthier diet;
- An exercise class to demonstrate techniques for body stretches while seated in the office; and
- A low-carbon diet workshop for colleagues to learn to make healthy food with local ingredients and how this benefits our environment.



Beach clean-up



Decorating cookies with kindergarteners at iBakery

We organised activities to boost staff's mental wellness. They included art therapy workshops to develop self-awareness and explore emotions through creative processes, and yoga workshops to relieve stress.

As a founding member of the City Mental Health Alliance Hong Kong (CMHA HK), we are dedicated to promoting and raising awareness of mental health both in the workplace and the wider community. Our Deputy Chief Executive Officer and Executive Director of Intermediaries, Ms Julia Leung, is a member of CMHA HK's Advisory Committee.

In the past year, we hosted a CMHA HK strategy meeting and attended others. We also hosted a roundtable discussion with CMHA HK and Mind Hong Kong<sup>8</sup> where guests included government officials and university academics.

We also organised Mental Health Month for our staff to raise awareness and promote open discussions about mental health. Together with CMHA HK, we hosted talks by qualified psychologists on common mental health issues in the workplace, including stress, depression and anxiety. We also conducted a workplace survey as part of a research project organised by CMHA HK and the University of Hong Kong. To support World Mental Health Day in October 2018, we encouraged staff to take part in activities held by Mind Hong Kong.

<sup>8</sup> Mind Hong Kong is a charitable initiative which is committed to improving the awareness and understanding of mental health in Hong Kong.

## CSR activity calendar

### April – June 2018

- Community Chest Green Day
- Beach clean-up**
- Pedal Power 8
- Cooking class and English practice with underprivileged children on Mother's Day
- Mental health talk 1: Coping with changes – positive thinking
- Mental health talk 2: Common mental health issues in the workplace
- Yoga workshops



### July – September 2018

- Community Chest Green Day
- Natural tie-dyeing workshop
- Low-carbon diet workshop**
- Workplace mental health survey
- World Mental Health Day
- Talk on swimming and resilience by Splash Foundation
- Health screening
- Health talk: Acupuncture
- Healthy juice day
- Art therapy workshops



### October – December 2018

- Community Chest Dress Casual Day
- Community Chest Love Teeth Day
- Christmas charity sale**
- Elderly home visit
- Dolphin research tour



### January – March 2019

- Red packet recycling
- Standard Chartered Hong Kong Marathon**
- Blood donation day
- Decorating cookies with kindergarteners at iBakery
- Hong Kong Council of the Church of Christ in China Flag Day
- Kindness Walk with ImpactHK
- Community Chest Skip Lunch Day
- Earth Hour 2019
- Massage day
- Stretching exercise class



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# Corporate Developments

We foster the development of a high-performing, efficient and engaged workforce while ensuring appropriate use of our resources. Upgrades to our systems and technology infrastructure help make our regulatory initiatives and market data analysis more targeted and effective.

## New corporate identity

We announced a new corporate identity in October 2018 to update our image as the SFC approaches its thirtieth anniversary. The new image was designed to reflect the SFC's current regulatory approach (see sidebar on page 93).

## Communications

We regularly communicate with the industry and the public through multiple channels, including senior executives' speaking engagements, public consultations, industry briefings, circulars, publications, annual and quarterly reports and press releases. Our constantly updated corporate website ([www.sfc.hk](http://www.sfc.hk)) serves as an easily accessible communication channel for the industry and the general public. During the year, we made enhancements to facilitate access to information on the website<sup>1</sup>.

Our press office formulates and executes media strategies to enhance public understanding of our work. It proactively leads organisation-wide efforts to engage the media and explain our policies, initiatives and regulatory actions.



Chairman Mr Tim Lui takes questions from the media

<sup>1</sup> See Stakeholders on pages 77-81.

## People

We are committed to making the SFC an employer of choice. For the thirteenth consecutive year, the SFC was named a “Caring Organisation”<sup>2</sup>. The Employees Retraining Board (ERB) recognised our efforts to promote staff learning and development with an award as an “ERB Manpower Developer” for the sixth consecutive year.

We strive to provide career development opportunities for our staff. This year, we enhanced our internal policies to better align with the SFC’s current regulatory approach by adopting more merit-based principles for performance evaluation, career development and reward management. We organised briefings to inform staff about the career development resources available to them.

## Professional development

Our Chief Executive Officer (CEO) communicates important organisational matters and regulatory developments and addresses staff questions at regular CEO sharing sessions. A cross-divisional exchange programme helps staff broaden their work exposure through short-term internal secondments. We also arrange internal Commission Connection sessions to share new policy initiatives with our staff.

Executives are offered annual secondment opportunities to the Financial Services and Treasury Bureau, the Financial Services Development Council and the China Securities Regulatory Commission (CSRC). We also arrange visits to regulatory counterparts in Shenzhen and Shanghai as well as joint workshops with them. This year, 22 staff were seconded to the CSRC and we had two CSRC secondees onboard.

During the year, our employees spent an average of 31 hours on structured learning courses, which included workshops, seminars and training programmes.

We invited other local and overseas regulators and industry professionals to share with us their views on a wide range of topics including financial products, trading strategies and the latest developments in overseas markets. We also launched a series of training sessions on unconscious biases and anti-discrimination.

## A new look

The SFC introduced a new corporate identity in October 2018. Inspired by black kites, the birds familiar in Hong Kong skies, our new image reflects our determination to identify threats, punish wrongdoers and ensure our markets are fair and clean.

A short video was produced to unveil our new identity at the annual SFC reception for key stakeholders and alumni. The video was also featured on the SFC website.



<sup>2</sup> See Corporate Social Responsibility on pages 84-91.

## Corporate Developments

Our in-house library provides additional resources to support staff's professional development. During the year, the library enriched its collection of databases in the areas of financial technology, green finance, risks and market intelligence.

The Graduate Trainee Programme is an essential component of our people development strategy. In its tenth year, we recruited six graduate trainees. Additionally, we placed 43 summer and winter interns in various divisions.

To acknowledge and reward outstanding performance and encourage our staff to strive for continuous development, we recognised one individual and 11 teams in our annual Employee Awards for 2018.



Expressive art therapy

## Training and e-learning

	2018/19	2017/18	2016/17
Percentage of employees who participated in internal training <sup>^</sup>	99%	89%	95%
Average hours of internal training per employee <sup>^</sup>	30.6	31	31
Number of employees who undertook e-learning	195	185	198

<sup>^</sup> Including lectures, workshops and seminars.

## Employee statistics

	As at 31.3.2019		As at 31.3.2018		As at 31.3.2017	
	Actual	Budget	Actual	Budget	Actual	Budget
Professional	727	779	701	759	677	729
Support	183	186	186	185	190	188
<b>Total</b>	<b>910</b>	<b>965</b>	<b>887</b>	<b>944</b>	<b>867</b>	<b>917</b>

	As at 31.3.2019	As at 31.3.2018	As at 31.3.2017
Male	303	289	283
Female	607	598	584
Average years of service	8.3	8	7.7
Female staff at Senior Manager grade or above	60%	61%	59%



Basketball fun day

### Engaged workforce

As a preferred employer, we promote good employment practices and a sense of belonging. Participating in inter-organisational staff activities such as dragon boat races and football and basketball tournaments with fellow regulators helps foster team spirit.

To promote work-life balance, we encourage and support employee volunteering and provide family-friendly work arrangements and staff activities. This year, we organised a basketball fun day for our staff and their family members. Expressive art therapy and yoga workshops were held to raise staff awareness of mental and physical wellness.



Children mental health seminar organised by the SFC Women's Network

Members of the SFC Women's Network joined representatives of financial institutions in meetings to discuss best practices to advance the professional development of women and inspire them for leadership roles. In February 2019, Ms Julia Leung, our Deputy CEO and Executive Director, Intermediaries, spoke at the International Capital Market Association Women's Network inaugural event in Hong Kong. Our Women's Network also organised educational talks for staff on mental health and parenting in the internet age.

### Quality workplace

To cater for our projected operational needs, we made plans to relocate our offices after conducting an in-depth assessment of accommodation options during the year. The move will significantly reduce our rental expenses.

We renovated some office spaces to provide an open layout to increase capacity and allow more efficient use of space. We also upgraded the telephone system to keep the workplace well-equipped. Our office access controls safeguard against unauthorised entry to our premises. Access rights are properly assigned and closely managed.

A business resumption plan is in place to address readily identifiable risks, including technical problems, fires, natural disasters and other emergencies.



## Corporate Developments

### Technology

Our information technology (IT) strategy focuses on digitalisation, information sharing and risk detection capabilities. During the year, we launched a new integrated online portal, WINGS<sup>3</sup>, and aim to migrate all of our submission services, including licensing forms, financial returns and other regulatory filings, to this platform in phases by 2021. We automated a number of business processes to support this initiative.

To facilitate information sharing within the organisation, two case management systems for monitoring misconduct, takeover and listing-related activities were revamped and transferred to an existing workflow platform where four others were already operating.

We upgraded our capabilities for monitoring brokers' excess liquid capital, market stress and over-the-counter derivatives to bolster our supervision work. In addition, we migrated our finance and human resources processes to a paperless, cloud-based solution for more streamlined collaboration.

This year, we strengthened our IT governance structure to align with the SFC's overall strategy and allow technological innovations to be adopted securely. Tactical teams are assigned to evaluate new technologies, identify potential uses and assess our need for them.



Families enjoy group games at basketball fun day



Dragon boat race

### Legal support

Our legal services division handles criminal cases and manages civil litigation and Market Misconduct Tribunal cases initiated by the SFC. It also defends judicial reviews and other cases brought against the SFC.

This year, we issued an internal guidance note on public statements about pending legal proceedings involving the SFC.

The division supports our day-to-day work by providing advice and guidance on legislative drafting and regulatory matters such as licensing issues, supervision of risky brokers, front-loaded regulation of listing matters, takeovers activities, investor compensation and enforcement investigations, as well as on administrative affairs including employment, data privacy and procurement contracts.

<sup>3</sup> Web-based INteGrated Service.

## Finance Funding

We are operationally independent of the Government and are funded mainly by transaction levies and fees from market participants. The current levy rate is 0.0027% for securities transactions, which is significantly less than the initial rate of 0.0125% when the transaction levy mechanism was set up in 1989. We have not revised our fees and charges since 1994. Additionally, we have offered waivers for annual licensing fees five times since 2009. We resumed the collection of annual licensing fees using a phased approach by providing a discount of 50% for 2019-20 and 2020-21.

As a publicly-funded organisation, we follow a disciplined approach in drawing up our budget. We appoint external investment managers to manage

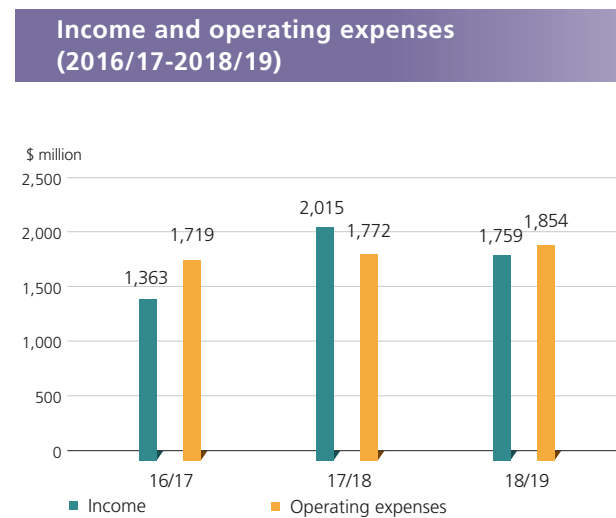
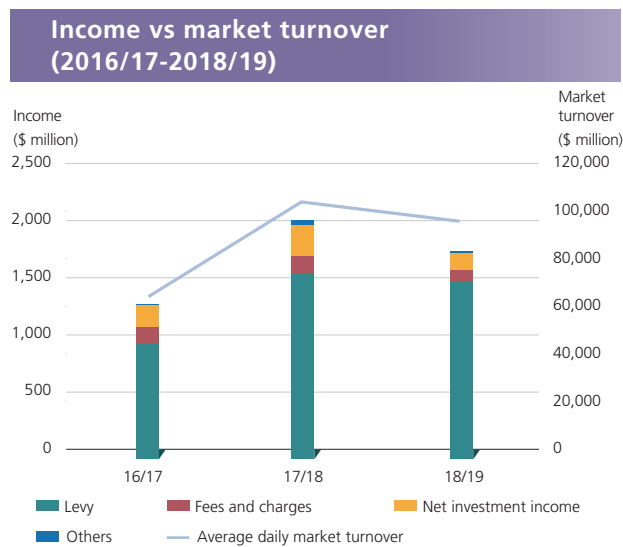
our reserves according to investment guidelines approved by the Financial Secretary. During the year, we enhanced our internal audit review by engaging another independent external firm to conduct a robust risk assessment of our internal controls to assess their effectiveness and identify the key risks of all our business processes. These include banking and investment, finance, procurement, human resources and information technology<sup>4</sup>.

## Income

Total income for the year was \$1,759 million, down 13% from \$2,015 million last year. Due to lower securities market turnover, our levy income decreased by 4% to \$1,484 million in the current year. Our income from fees and charges decreased by 17%, from \$154 million last year to \$127 million this year. Our net investment income dropped as a result of the performance of our equity fund investments.

## Income breakdown

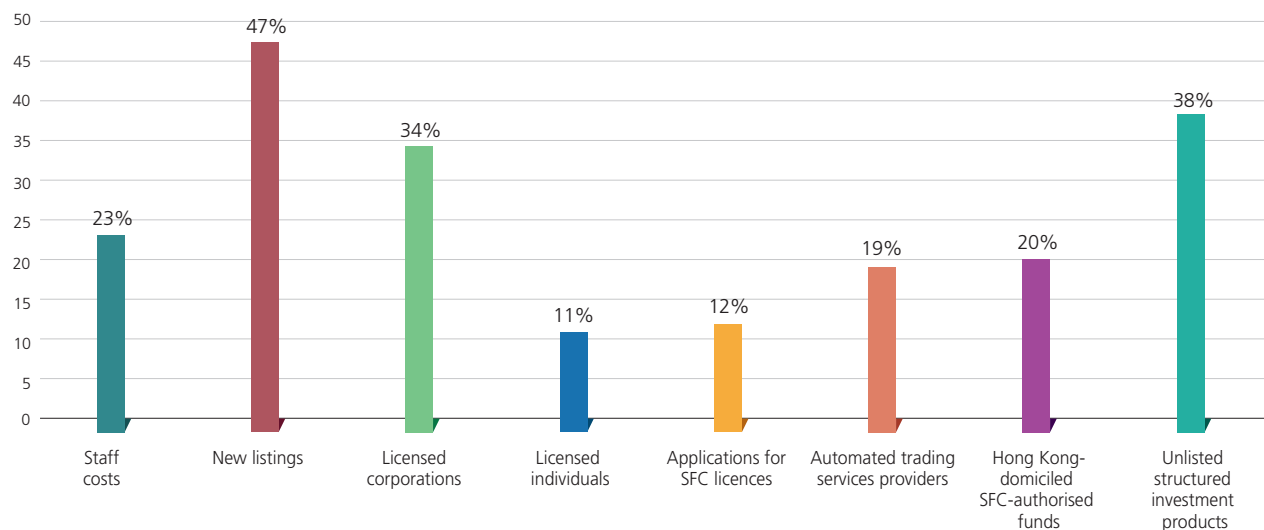
	2018/19	2017/18	2016/17
Levies	84.3%	76.9%	74.6%
Fees and charges	7.2%	7.6%	10.5%
Net investment income	7.4%	13.5%	14.4%
Others	1.1%	2%	0.5%



<sup>4</sup> See Corporate Governance on pages 14-35.

## Corporate Developments

### Three-year change in staff costs and market statistics (2015/16-2018/19)



### Expenditure

The costs of our operations were \$1,854 million, \$144 million below our original budget of \$1,998 million.

Over the past three years, our staff costs increased 23% while our regulatory work increased in both volume and complexity (see chart above). The ratio of average expenses to income for the past three years

was 104%. In the same period, the average increase in expenses and income was 5% and 6% respectively.

Owing to the decrease in income, we recorded a deficit of \$95 million for the year, compared to a surplus of \$243 million last year. As of 31 March 2019, our reserves stood at \$7.1 billion, of which \$3 billion was set aside for possible future acquisition of office premises.

### Expenditure breakdown

	2018/19	2017/18	2016/17
Staff costs	73.1%	72.4%	69.9%
Premises and related expenses	13.3%	14.2%	15.1%
Other expenses	11.7%	11.7%	12.3%
Depreciation	1.9%	1.7%	2.7%

### Finances

(\$ million)	2018/19	2017/18	2016/17
Income	1,759	2,015	1,363
Expenses including depreciation	1,854	1,772	1,719
(Deficit)/Surplus	(95)	243	(356)

# Securities and Futures Commission

## Independent auditor's report To the Securities and Futures Commission

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

### Opinion

#### *What we have audited*

The consolidated financial statements of Securities and Futures Commission (the SFC) and its subsidiaries (the Group) set out on pages 103 to 130, which comprise:

- the consolidated statement of financial position as at 31 March 2019;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### *Our opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

#### **Basis for opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSA) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

#### *Independence*

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code.

#### **Key Audit Matters**

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

The key audit matter identified in our audit is valuation of investments classified as fair value through profit or loss.

#### *Valuation of investments classified as fair value through profit or loss*

As at 31 March 2019 the Group's investment portfolio comprised debt securities and pooled funds (mainly equity instruments) with a total value of HK\$1,721 million which were classified as at fair value through profit or loss, under the Level 1 and 2 fair value hierarchy, which represented 24% of consolidated total assets.

The Group's debt and equity instruments classified as at fair value through profit or loss are valued based on publicly available market data, or valuation models.

We identified valuation of investments classified as fair value through profit or loss as a key audit matter because of the size of these items in the financial statements and the impact of changes in valuation on the profit and loss.

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

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

### Key Audit Matters (continued)

#### *How our audit addressed the Key Audit Matter*

The audit procedures we performed to address valuation of investments classified as fair value through profit or loss as a key audit matter included:

- Assessing all the internal control reports prepared by independent service auditors of the Group's external investment managers which assessed the design and operating effectiveness of relevant internal controls operated by the investment managers;
- Assessing the independent service auditor's professional competence and independence; and
- Performing independent valuations: For level 1 financial instruments, on a sample basis, we compared the fair values applied by the Group with publicly available market data. Particularly for the pooled funds, we have performed a look-through analysis to understand the underlying investments, in order to assess the appropriateness of the valuation for a sample of these investments. For Level 2 financial instruments, with the involvement of our internal valuation specialists, we carried out independent valuations, on a sample basis, by developing models, identifying and obtaining relevant inputs from publicly available market data and comparing the results against fair values recorded by the Group.

Based on the procedures we performed, we found that the valuation of investments classified as fair value through profit or loss is supported by available evidence.

Refer to notes 3(h), 10 and 21(e)(i) to the consolidated financial statements respectively for the Group's accounting policies of this matter, a detailed breakdown of these investments and the relevant fair value hierarchy disclosures.

### Other information

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

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

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

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

### Responsibilities of the directors and those charged with governance for the consolidated financial statements

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

## Independent auditor’s report (continued) To the Securities and Futures Commission

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

### Responsibilities of the directors and those charged with governance for the consolidated financial statements (continued)

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

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

### Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 16(3) of the Securities and Futures Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

### Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Peter Po-ting Li.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 28 May 2019

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
<b>Income</b>			
Levies	2(a)	1,483,846	1,549,460
Fees and charges		127,343	153,985
Investment income net of third party expenses			
Investment income	5	138,565	278,884
Less: custody and advisory expenses		(7,717)	(7,735)
Recoveries from the Investor Compensation Fund		5,859	5,729
Exchange (loss)/gain		(190)	33,410
Other income	6	11,600	1,183
		1,759,306	2,014,916
<b>Expenses</b>			
Staff costs and directors' emoluments	7	1,354,504	1,282,393
Premises			
Rent		200,710	204,381
Rates, management fees and others		46,700	47,413
Other expenses	8	216,136	207,687
Depreciation	11(a)	35,798	30,178
		1,853,848	1,772,052
<b>(Loss)/surplus and total comprehensive income for the year</b>		<b>(94,542)</b>	242,864

The notes on pages 108 to 130 form part of these financial statements.



## Consolidated Statement of Financial Position

As at 31 March 2019 (Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
<b>Non-current assets</b>			
Fixed assets	11(a)	94,835	71,923
Financial assets at amortised costs – debt securities	9	981,502	–
Held-to-maturity debt securities	9	–	1,546,613
		<b>1,076,337</b>	1,618,536
<b>Current assets</b>			
Financial assets at amortised costs – debt securities	9	563,877	–
Held-to-maturity debt securities	9	–	35,503
Financial assets at fair value through profit or loss			
Debt securities	10	795,946	772,300
Pooled funds	10	925,476	934,768
Debtors, deposits and prepayments	16	227,018	219,778
Fixed deposits with banks	12	3,653,456	3,713,477
Cash at bank and in hand	12	71,908	33,353
		<b>6,237,681</b>	5,709,179
<b>Current liabilities</b>			
Fees received in advance		8,850	8,810
Creditors and accrued charges	14	189,855	113,317
		<b>198,705</b>	122,127
<b>Net current assets</b>		<b>6,038,976</b>	5,587,052
<b>Total assets less current liabilities</b>		<b>7,115,313</b>	7,205,588
<b>Non-current liabilities</b>	15	45,091	40,824
<b>Net assets</b>		<b>7,070,222</b>	7,164,764
<b>Funding and reserves</b>			
Initial funding by Government	17	42,840	42,840
Reserve for property acquisition	23	3,000,000	3,000,000
Accumulated surplus		4,027,382	4,121,924
		<b>7,070,222</b>	7,164,764

Approved and authorised for issue by the SFC on 28 May 2019 and signed on its behalf by

**Tim Lui**  
Chairman

**Ashley Alder**  
Chief Executive Officer

The notes on pages 108 to 130 form part of these financial statements.

## Statement of Financial Position

As at 31 March 2019 (Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
<b>Non-current assets</b>			
Fixed assets	11(b)	94,738	71,859
Financial assets at amortised costs – debt securities	9	981,502	–
Held-to-maturity debt securities	9	–	1,546,613
		<b>1,076,240</b>	1,618,472
<b>Current assets</b>			
Financial assets at amortised costs – debt securities	9	563,877	–
Held-to-maturity debt securities	9	–	35,503
Financial assets at fair value through profit or loss			
Debt securities	10	795,946	772,300
Pooled funds	10	925,476	934,768
Debtors, deposits and prepayments	16	233,187	221,338
Fixed deposits with banks		3,653,456	3,713,477
Cash at bank and in hand		49,747	21,171
		<b>6,221,689</b>	5,698,557
<b>Current liabilities</b>			
Fees received in advance		8,850	8,810
Creditors and accrued charges	14	173,766	102,631
		<b>182,616</b>	111,441
<b>Net current assets</b>		<b>6,039,073</b>	5,587,116
<b>Total assets less current liabilities</b>		<b>7,115,313</b>	7,205,588
<b>Non-current liabilities</b>	15	45,091	40,824
<b>Net assets</b>		<b>7,070,222</b>	7,164,764
<b>Funding and reserves</b>			
Initial funding by Government	17	42,840	42,840
Reserve for property acquisition	23	3,000,000	3,000,000
Accumulated surplus		4,027,382	4,121,924
		<b>7,070,222</b>	7,164,764

Approved and authorised for issue by the SFC on 28 May 2019 and signed on its behalf by

**Tim Lui**  
Chairman

**Ashley Alder**  
Chief Executive Officer

The notes on pages 108 to 130 form part of these financial statements.

## Consolidated Statement of Changes in Equity

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Reserve for property acquisition \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2017	42,840	3,000,000	3,879,060	6,921,900
Surplus and total comprehensive income for the year	–	–	242,864	242,864
Balance at 31 March 2018 and 1 April 2018	<b>42,840</b>	<b>3,000,000</b>	<b>4,121,924</b>	<b>7,164,764</b>
Loss and total comprehensive income for the year	–	–	(94,542)	(94,542)
Balance at 31 March 2019	<b>42,840</b>	<b>3,000,000</b>	<b>4,027,382</b>	<b>7,070,222</b>

The notes on pages 108 to 130 form part of these financial statements.

## Consolidated Statement of Cash Flows

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
<b>Cash flows from operating activities</b>			
(Loss)/surplus for the year		(94,542)	242,864
Adjustments for:			
Depreciation		35,798	30,178
Investment income		(138,565)	(278,884)
Exchange difference		218	(23,336)
Loss on disposal of fixed assets		-	719
		(197,091)	(28,459)
Decrease/(increase) in debtors, deposits and prepayments		8,003	(54,406)
Increase/(decrease) in fees received in advance		40	(400)
Increase/(decrease) in creditors and accrued charges		76,538	(14,901)
Increase in non-current liabilities		4,267	6,660
<i>Net cash used in operating activities</i>		(108,243)	(91,506)
<b>Cash flows from investing activities</b>			
Decrease in fixed deposits other than cash and cash equivalents		19,061	1,051,818
Interest received		121,268	84,235
Debt securities at fair value through profit or loss purchased		(381,883)	(636,065)
Debt securities at fair value through profit or loss sold or redeemed		366,534	578,027
Pooled funds sold		4,201	216,100
Debt securities at amortised cost purchased		-	(1,577,866)
Debt securities at amortised cost redeemed at maturity		35,324	30,000
Fixed assets purchased		(58,710)	(39,365)
<i>Net cash generated from/(used in) investing activities</i>		105,795	(293,116)
<b>Net decrease in cash and cash equivalents</b>		(2,448)	(384,622)
<b>Cash and cash equivalents at the beginning of the year</b>		292,105	676,727
<b>Cash and cash equivalents at the end of the year</b>	12	289,657	292,105

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

	2019 \$'000	2018 \$'000
Fixed deposits with banks	217,749	258,752
Cash at bank and in hand	71,908	33,353
	289,657	292,105

The notes on pages 108 to 130 form part of these financial statements.

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 1. Status and principal activities

The Securities and Futures Commission (SFC) is governed by Part II of the Hong Kong Securities and Futures Ordinance (SFO). Under the SFO, the SFC has a duty to ensure an efficient, fair and transparent market and to promote public confidence and investor awareness in Hong Kong's securities, futures and related financial markets. In performing its duty, the SFC is required to act in the interest of the public and ensure that improper and illegal market activities are properly investigated. The registered office and principal place of business of the SFC is 35/F Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

### 2. Income

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

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

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

### 3. Significant accounting policies

#### (a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3(q) provides information on

any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

We have not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 24).

#### (b) Basis of preparation

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

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

Critical accounting estimates and judgements are those items that will have a significant effect on the Group's reported results and financial position.

The classification of debt securities requires significant judgement. In making this judgement, we evaluate business model and the contractual cash flows characteristics of these securities. The measurement of fair value for financial instruments is determined by using either publicly available market data or valuation models. We use our judgement to select the appropriate method for fair value measurement (see note 3(h)).

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

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (c) Basis of consolidation

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

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

#### (d) Recognition of income

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

##### (i) Levies

We record levies from SEHK and HKFE as income on an accrual basis.

##### (ii) Fees and charges

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

##### (iii) Interest income

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

##### (iv) Revaluation gain/loss

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

#### (e) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as a lessee are classified as operating leases. We treat the rent payable under operating leases as an expense in equal instalments over the accounting periods covered by the lease term. We recognise lease incentives received in the statement of profit or loss and other comprehensive income as an integral part of the aggregate net lease payments made.

#### (f) Employee benefits

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

#### (g) Fixed assets and depreciation

We state fixed assets at historical cost less accumulated depreciation and any impairment losses (see note 3(o)). Historical cost includes expenditure that is directly attributable to the acquisition of the items. We charge depreciation to the statement of profit or loss and other comprehensive income using the straight-line method over the estimated useful lives as follows:

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

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

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

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

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

We review the assets' residual values and useful lives and adjust, if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

#### (h) Financial assets

##### (i) Classification

From 1 April 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss; and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual term of the cash flows.

For assets measured at fair value, gains and losses will be recorded in profit or loss.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

##### (ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on settlement-date, the date on which the assets are delivered to the Group. From this date, we record in our books any gains and losses arising from changes in fair value of the financial assets held at fair value through profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

##### (iii) Measurement

At initial recognition, we measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

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

##### Amortised cost:

Investments in debt securities that are held for the collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in investment income using the effective interest rate method. Any gain or loss arising from derecognition is recognised directly in the statement of profit or loss and other comprehensive income. Impairment losses are presented as a separate line item in the statement of profit or loss and other comprehensive income.

##### FVPL:

Changes on fair value of investments in debt securities and equity funds that are subsequently measured at FVPL are recognised in the statement of profit or loss and other comprehensive income and presented net within other gains/(losses) in the period in which they arise.

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (h) Financial assets (cont'd)

##### (iii) Measurement (cont'd)

###### FVPL (cont'd):

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

##### (iv) Impairment

From 1 April 2018, we assess on a forward looking basis the expected credit losses associated with our financial instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

##### (v) Accounting policies applied until 31 March 2018

We have applied HKFRS 9 retrospectively, but have elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the previous accounting policy.

###### *Classification*

Until 31 March 2018, we classify our financial assets into the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables, and
- held-to-maturity investments.

The classification determined on the purpose for which the investments were acquired. We determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

###### *Subsequent measurement*

The measurement at initial recognition did not change on the adoption of HKFRS 9. Subsequent to the initial recognition, loans and receivables and held-to-maturity investments were carried at amortised cost using the effective interest method. Financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised in the statement of profit or loss and other comprehensive income.

###### *Impairment*

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset was impaired. A financial asset was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset that could be reliably estimated.

For loans and receivables and held-to-maturity investments carried at amortised cost, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in the statement of profit or loss and other comprehensive income. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Group could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in the statement of profit or loss and other comprehensive income.



## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (i) Related parties

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

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

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

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity. As the SFC is a statutory body with its Board members appointed by the Chief Executive of the Government of the Hong Kong Special Administrative Region under the SFO, transactions with other government departments and agencies under normal dealings are not necessarily regarded as related party transactions in the context of HKAS 24 Related party disclosures.

#### (j) Translation of foreign currencies

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

#### (k) Debtors and other receivables

We state debtors and other receivables initially at their fair value and thereafter at amortised cost less impairment losses. We hold the receivables with the objective of collecting the contractual cash flows and therefore measure them subsequently at amortised cost using the effective interest method. See Note 3(h) (iv) for further information about the Group's accounting for impairment.

#### (l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, fixed deposits with banks and other financial institutions with original maturities of three months or less that are readily convertible to known amounts of cash.

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (m) Creditor and accrued charges

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

#### (n) Investment in subsidiaries

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

#### (o) Impairment of non-financial assets

We review the carrying amounts of the Group's assets at the end of each reporting period to determine whether there is any objective evidence of impairment. If any such evidence exists, we estimate the asset's recoverable amount, which is the higher of its net selling price and value in use. We recognise in the statement of profit or loss and other comprehensive income the difference between the asset's carrying amount and the recoverable amount as an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount.

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

#### (p) Provisions and contingent liabilities

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

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

#### (q) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Except as described below, these developments have had no material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

#### HKFRS 9, *Financial Instruments*

HKFRS 9 replaces the provisions of HKAS 39, *Financial Instruments: Recognition and Measurement* that relate to the recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

The adoption of HKFRS 9 resulted in changes in accounting policies and potential adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

Debt securities that would have previously been classified as held-to-maturity are now classified as financial assets at amortised cost. We intended to hold the debt securities to maturity to collect contractual cash flows which consist solely of payments of principal and interest on the principal amount outstanding. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (q) Changes in accounting policies (cont'd)

##### HKFRS 9, *Financial Instruments* (cont'd)

Debt securities carried at amortised cost are subject to HKFRS 9's new expected credit loss model. All debt securities are considered to have a low credit risk as they are rated A or above. The loss allowance as a result of applying the expected credit loss model was immaterial.

As part of the transition to HKFRS 9, financial assets that we managed on a fair value basis had previously been designated at fair value through profit or loss under HKAS 39 continue to be classified as fair value through profit or loss. Other financial assets that were previously measured at amortised cost (eg, fixed deposits with banks) will continue with their classification and measurement. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

##### HKFRS 15, *Revenue from Contracts with Customers*

HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The Group has assessed the impact of this new standard and there was no significant effect on the consolidated financial statements.

### 4. Taxation

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

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 5. Investment income

	2019 \$'000	2018 \$'000
Interest income from bank deposits	80,445	62,439
Interest income from financial assets at fair value through profit or loss	18,438	14,930
Interest income from debt securities at amortised cost/held-to-maturity	37,628	13,788
Realised gain/(loss) on disposal of pooled funds	38	(6,966)
Loss on redemption/disposal of debt securities	(166)	(512)
(Loss)/gain on revaluation of pooled funds	(4,844)	206,167
Gain/(loss) on revaluation of debt securities	8,770	(9,894)
Amortisation of premium on debt securities at amortised cost/held-to-maturity	(3,046)	(1,366)
Amortisation of discount on debt securities at amortised cost/held-to-maturity	1,302	298
	138,565	278,884

### 6. Other income

	2019 \$'000	2018 \$'000
Investigation costs awarded	11,272	379
Sale of SFC publications	277	129
Others	51	675
	11,600	1,183

### 7. Staff costs and directors' emoluments

	2019 \$'000	2018 \$'000
Salaries and allowances	1,223,668	1,166,333
Retirement benefits	84,736	76,620
Medical and life insurance	38,487	32,757
Staff functions	2,216	1,724
Recruitment	3,912	3,318
Registration and membership fees	1,485	1,641
	1,354,504	1,282,393

The total number of staff as at 31 March 2019 was 935 (910 for the SFC, 22 for the Investor and Financial Education Council and 3 for the Investor Compensation Company Limited) (as at 31 March 2018: the total number of staff was 912 comprising 887 for the SFC, 22 for the Investor and Financial Education Council and 3 for the Investor Compensation Company Limited).

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

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

Directors' emoluments included in the above comprised:

	Directors' fee \$'000	Salaries, allowances and benefits in kind \$'000	Discretionary pay \$'000	Retirement scheme contributions <sup>1</sup> \$'000	2019 Total \$'000	2018 Total \$'000
<b>Chief Executive Officer</b>						
Ashley Alder, JP	–	7,146	2,382	715	10,243	9,975
<b>Executive Directors</b>						
Thomas Atkinson	–	4,500	945	450	5,895	6,120
Christina Choi	–	4,200	1,134	420	5,754	5,712
Brian Ho	–	4,866	1,216	486	6,568	6,378
Julia Leung, SBS <sup>2</sup>	–	5,150	1,670	515	7,335	6,289
Keith Lui	–	4,866	1,216	486	6,568	6,378
	–	30,728	8,563	3,072	42,363	40,852
<b>Non-executive Chairman</b>						
Carlson Tong, SBS, JP (retired 19 October 2018 <sup>3</sup> )	558	–	–	–	558	1,012
Tim Lui Tim-leung, SBS, JP (appointed 20 October 2018)	564	–	–	–	564	–
<b>Non-executive Directors</b>						
Albert Au Siu-cheung, BBS (retired 25 May 2019 <sup>4</sup> )	280	–	–	–	280	253
Edward Cheng Wai Sun, GBS, JP	280	–	–	–	280	253
Lester Garson Huang, SBS, JP	280	–	–	–	280	253
Teresa Ko, JP (retired 31 July 2018 <sup>3</sup> )	84	–	–	–	84	253
Mary Ma Xuezheng (retired 23 April 2019 <sup>5</sup> )	280	–	–	–	280	253
Dr Kelvin Wong Tin-yau, JP (retired 19 October 2018 <sup>3</sup> )	140	–	–	–	140	253
Dr William Wong Ming-fung, SC	280	–	–	–	280	253
Dr James Lin C. (appointed 1 August 2018)	196	–	–	–	196	–
Agnes Chan Sui-kuen (appointed 20 October 2018)	141	–	–	–	141	–
	3,083	–	–	–	3,083	2,783
<b>Total directors' emoluments</b>	<b>3,083</b>	<b>30,728</b>	<b>8,563</b>	<b>3,072</b>	<b>45,446</b>	<b>43,635</b>

<sup>1</sup> This represents net contribution expenses accrued during the year ended 31 March 2019 in accordance with the accounting policy set out in note 3(f) on page 109. The future payment of contributions is subject to completion of a vesting period, which is based on total years of service with the SFC. The amount vested as at 31 March 2019 was \$2,099,000 (as at 31 March 2018: \$1,920,000).

<sup>2</sup> Ms Julia Leung's 2018/19 discretionary pay covered the period from 2 March 2018, when her re-appointment took effect, to 31 March 2019.

<sup>3</sup> Retired having completed appointment period of six years.

<sup>4</sup> Retired having completed appointment period of four years.

<sup>5</sup> Retired having completed appointment period of five and a half years.

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

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

The aggregate of the emoluments of the five highest paid individuals in 2018/19, representing the emoluments of the Chief Executive Officer and four Executive Directors, was \$36,609,000 (2017/18: \$35,140,000) with the breakdown as follows:

	2019 \$'000	2018 \$'000
Salaries and allowances	26,527	25,478
Discretionary pay	7,429	7,116
Retirement scheme contributions	2,653	2,546
	36,609	35,140

Their emoluments are within the following bands:

	2019 No. of individuals	2018 No. of individuals
\$5,500,001 to \$6,000,000	1	0
\$6,000,001 to \$6,500,000	0	4
\$6,500,001 to \$7,000,000	2	0
\$7,000,001 to \$7,500,000	1	0
\$7,500,001 to \$8,000,000	0	0
\$8,000,001 to \$8,500,000	0	0
\$8,500,001 to \$9,000,000	0	0
\$9,000,001 to \$9,500,000	0	0
\$9,500,001 to \$10,000,000	0	1
\$10,000,001 to \$10,500,000	1	0

### Employee benefits

We provide retirement benefits to our staff through a defined contribution scheme under the Occupational Retirement Schemes Ordinance (ORSO Scheme) and a Mandatory Provident Fund Scheme (MPF Scheme). Prior to the inception of the MPF Scheme, all general grade staff were included in the Group's ORSO Scheme. Following the introduction of the MPF Scheme in December 2000, new general grade staff have since been covered under the MPF Scheme while executive staff have been allowed to opt for either the Group's ORSO Scheme or the MPF Scheme.

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

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

#### Employee benefits (cont'd)

#### (a) ORSO Scheme

##### (i) General grade staff

For general grade staff, we make monthly contributions which are a percentage of the fixed pay, subject to a vesting scale with the benefit fully vested upon completion of 10 years' service. We reinvest forfeited contributions for general grade staff who leave the Group prior to qualifying for 100% disbursement of the contributions into the total pool of contributions that will be shared by the existing members in the scheme at the end of the scheme year. The amount so reinvested during the year was nil (2018: nil).

##### (ii) Executive staff

For executive staff, we make monthly contributions which are a percentage of the fixed pay. We use forfeited contributions in respect of executive staff who leave the Group prior to qualifying for 100% disbursement of the contributions to offset the Group's future contributions. The amount so forfeited during the year was \$3,372,000 (2018: \$5,020,000) and the amount so forfeited available at the end of the reporting period was \$684,000 (2018: \$2,793,000).

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

#### (b) MPF Scheme

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

### 8. Other expenses

	2019 \$'000	2018 \$'000
Learning and development	7,700	7,877
Legal and professional services	72,047	80,760
Information and systems services	64,854	56,578
Auditor's remuneration	894	790
Funding for the Financial Reporting Council	8,496	8,092
Funding for the International Financial Reporting Standards Foundation	393	392
General office and insurance	10,302	8,837
Investor and other education programme costs to the Investor and Financial Education Council	38,721	32,294
Overseas travelling, regulatory meeting expenses and others	12,729	11,348
Loss on disposal of fixed assets	-	719
	<b>216,136</b>	<b>207,687</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 9. Financial assets at amortised cost – debt securities/Held-to-maturity debt securities

#### The Group and the SFC

		2019 \$'000	2018 \$'000
Maturing after one year in the second to sixth years	– unlisted	78,696	78,844
	– listed in Hong Kong	157,269	344,171
	– listed outside Hong Kong	745,537	1,123,598
		<b>981,502</b>	1,546,613
Maturing within one year	– unlisted	–	35,503
	– listed in Hong Kong	261,173	–
	– listed outside Hong Kong	302,704	–
		<b>563,877</b>	35,503
		<b>1,545,379</b>	1,582,116
Amortised cost at 31 March	– unlisted	78,696	114,347
	– listed in Hong Kong	418,442	344,171
	– listed outside Hong Kong	1,048,241	1,123,598
		<b>1,545,379</b>	1,582,116
Market value at 31 March	– unlisted	77,975	112,219
	– listed in Hong Kong	416,182	340,161
	– listed outside Hong Kong	1,042,376	1,107,059
		<b>1,536,533</b>	1,559,439

The average yield to maturity of the debt securities was 2.8% p.a. as at 31 March 2019 (2018: 3.0% p.a.).



## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 10. Financial assets at fair value through profit or loss

	2019 \$'000	2018 \$'000
(a) Debt securities		
(i) Listing status		
Listed – outside Hong Kong	597,932	354,464
Listed – in Hong Kong	49,053	30,285
Unlisted	148,961	387,551
	<b>795,946</b>	772,300
(ii) Maturity profile		
Within one year	259,207	99,335
After one year but within two years	184,416	310,433
After two years but within five years	352,323	344,569
After five years	–	17,963
	<b>795,946</b>	772,300
(iii) The weighted average effective interest rate of debt securities on 31 March 2019 was 2.4% p.a. (2018: 2.3% p.a.).		
(b) Pooled funds – unlisted	<b>925,476</b>	934,768
The pooled funds comprise mainly listed equity securities.		

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 11. Fixed assets

#### (a) The Group

	Furniture, fixtures and leasehold improvements \$'000	Office equipment \$'000	Computer application systems \$'000	Personal computer and software \$'000	Motor vehicles \$'000	Total \$'000
Cost						
At 1 April 2018	126,190	10,760	235,112	125,974	2,735	500,771
Additions	1,941	350	35,160	21,259	-	58,710
Disposal	(161)	(112)	-	(2,517)	-	(2,790)
At 31 March 2019	127,970	10,998	270,272	144,716	2,735	556,691
Accumulated depreciation						
At 1 April 2018	113,198	9,291	192,427	111,453	2,479	428,848
Charge for the year	5,683	552	16,767	12,715	81	35,798
Written back on disposals	(161)	(112)	-	(2,517)	-	(2,790)
At 31 March 2019	118,720	9,731	209,194	121,651	2,560	461,856
Net book value						
At 31 March 2019	9,250	1,267	61,078	23,065	175	94,835
Cost						
At 1 April 2017	122,301	10,482	211,563	122,347	2,411	469,104
Additions	6,576	490	24,439	7,536	324	39,365
Disposal	(2,687)	(212)	(890)	(3,909)	-	(7,698)
At 31 March 2018	126,190	10,760	235,112	125,974	2,735	500,771
Accumulated depreciation						
At 1 April 2017	110,280	8,884	179,757	104,317	2,411	405,649
Charge for the year	4,907	598	13,560	11,045	68	30,178
Written back on disposals	(1,989)	(191)	(890)	(3,909)	-	(6,979)
At 31 March 2018	113,198	9,291	192,427	111,453	2,479	428,848
Net book value						
At 31 March 2018	12,992	1,469	42,685	14,521	256	71,923

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

## 11. Fixed assets (cont'd)

## (b) The SFC

	Furniture, fixtures and leasehold improvements \$'000	Office equipment \$'000	Computer application systems \$'000	Personal computer and software \$'000	Motor vehicles \$'000	Total \$'000
Cost						
At 1 April 2018	126,174	10,691	235,112	124,729	2,735	499,441
Additions	1,940	349	35,160	21,175	–	58,624
Disposal	(161)	(109)	–	(2,517)	–	(2,787)
At 31 March 2019	127,953	10,931	270,272	143,387	2,735	555,278
Accumulated depreciation						
At 1 April 2018	113,182	9,222	192,427	110,272	2,479	427,582
Charge for the year	5,683	551	16,767	12,663	81	35,745
Written back on disposals	(161)	(109)	–	(2,517)	–	(2,787)
At 31 March 2019	118,704	9,664	209,194	120,418	2,560	460,540
Net book value						
At 31 March 2019	9,249	1,267	61,078	22,969	175	94,738
Cost						
At 1 April 2017	122,286	10,413	211,563	120,974	2,411	467,647
Additions	6,575	490	24,439	7,505	324	39,333
Disposal	(2,687)	(212)	(890)	(3,750)	–	(7,539)
At 31 March 2018	126,174	10,691	235,112	124,729	2,735	499,441
Accumulated depreciation						
At 1 April 2017	110,264	8,821	179,757	103,227	2,411	404,480
Charge for the year	4,907	592	13,560	10,795	68	29,922
Written back on disposals	(1,989)	(191)	(890)	(3,750)	–	(6,820)
At 31 March 2018	113,182	9,222	192,427	110,272	2,479	427,582
Net book value						
At 31 March 2018	12,992	1,469	42,685	14,457	256	71,859

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 12. Bank deposits and cash at bank

The effective interest rate on bank deposits as at 31 March 2019 ranged from 1.2% p.a. to 3.2% p.a. (2018: 0.5% p.a. to 2.25% p.a.). These balances matured within one year as at both 31 March 2019 and 31 March 2018.

Reconciliation with the consolidated statement of financial position:

	2019 \$'000	2018 \$'000
Cash at bank and in hand	71,908	33,353
Fixed deposits with banks	3,653,456	3,713,477
Amounts shown in the consolidated statement of financial position	3,725,364	3,746,830
Less: Amounts with an original maturity beyond three months	(3,435,707)	(3,454,725)
Cash and cash equivalents in the consolidated statement of cash flows	289,657	292,105

### 13. Investments in subsidiaries

The SFC formed Investor Compensation Company Limited (ICC) on 11 September 2002 with an issued share capital of \$0.2. On 20 November 2012, the SFC launched the Investor and Financial Education Council (IFEC) (formerly known as the Investor Education Centre) as a company limited by guarantee and not having a share capital. Both companies are wholly owned subsidiaries of the SFC and are incorporated in Hong Kong.

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

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

As at 31 March 2019, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (2018: \$0.2). The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

### 14. Creditors and accrued charges

Creditors and accrued charges mainly include accruals and payables to creditors relating to operating expenses. Payables are usually due within one year. Due to the short-term nature of the balance, the carrying amount is considered to be the same as their fair value.

We do not provide an ageing analysis of creditors as there was no material overdue creditor balance as at 31 March 2019 and 2018.

### 15. Non-current liabilities

Non-current liabilities represent a provision for premises reinstatement cost to restore the premises to its original condition when the lease expires.

### 16. Debtors, deposits and prepayments

Debtors, deposits and prepayments include \$194,404,000 in receivables (2018: \$201,619,000) which are usually due within 30 days. Due to the short-term nature of the balance, the carrying amount is considered to be the same as their fair value.

We do not provide an ageing analysis of debtors as there was no material overdue debtor balance as at 31 March 2019 and 2018.

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 17. Initial funding by Government

The Government provided funds to pay for the SFC's initial non-recurrent and capital expenditure. These funds are not repayable to the Government.

### 18. Capital commitment

Capital commitments for fixed assets contracted for at the end of the year but not yet incurred amounted to \$30,044,000 (2018: \$37,286,000).

### 19. Operating lease commitment

At 31 March 2019, the minimum amount of rent committed to pay for our offices up to 16 December 2021 are as follows:

	The Group and the SFC	
	2019 \$'000	2018 \$'000
Payable in next year	201,162	200,457
Payable in one to five years	84,647	284,069
	<b>285,809</b>	484,526

During the year ended 31 March 2019, \$200,710,000 net of lease incentives was recognised as an expense in the statement of profit or loss and other comprehensive income in respect of operating leases (2018: \$204,381,000).

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 20. Related party transactions

We have related party relationships with the Unified Exchange Compensation Fund (UECF), the Investor Compensation Fund (ICF), Securities Ordinance (Chapter 333) – Dealers' Deposits Fund (SDD), Commodities Trading Ordinance (Chapter 250) – Dealers' Deposits Fund (CDD) and Securities Ordinance (Chapter 333) – Securities Margin Financiers' Security Fund (SMF). In addition to the related parties relationship disclosed in note 22 in these statements, we have the following significant related party transactions and balances.

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

During the year, \$5,859,000 was recovered from the ICF for the ICC's expenses (2018: \$5,729,000). As at 31 March 2019, the amount due to the ICF from the ICC was \$54,000 (as at 31 March 2018: \$203,000).

#### (b) Remuneration of key management personnel

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

### 21. Financial risk management and fair values

Financial instruments of the Group mainly comprise debt securities and units in equity funds. The underlying investments of the equity funds mainly comprised equity securities.

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

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

#### (a) Credit risk

The Financial Secretary has approved our investment policy which, subject to other control limits, allows the Group to invest in dated securities rated A or above and bank deposits with licensed banks rated P-1 or A-1 by Moody's or S&P respectively. Investment in unit trusts and mutual funds authorised as collective investment schemes under Section 104 of the SFO up to 15% of the total value of funds under management is permitted. The policy also limits the exposure to 10% for each organisation and 20% for each country, except for the holdings of US Treasuries. During the year, the Group complied with the above investment policy in order to manage its credit risk, and as a result, was not exposed to significant credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance.

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

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

#### (b) Interest rate risk

The Group's interest bearing assets mainly comprise fixed interest rate bearing debt securities and bank balances. The Group is subject to the risk that future cash flows from re-investments will fluctuate because of changes in market interest rates (re-pricing risk). The Group manages re-pricing risk of its fixed rate debt securities by imposing different levels of concentration and maturity limits to the investments. The effective interest rates and maturity profile of the Group's interest bearing assets are disclosed in the respective notes to the financial statements. As at 31 March 2019, it is estimated that a general increase/decrease of 100 basis points, with all other variables held constant, would increase/decrease the Group's interest income and accumulated surplus by approximately \$39,921,000 (2018: \$37,610,000). As at 31 March 2019, the average duration of the Group's investment portfolio was 1.32 years (31 March 2018: 1.84 years). At 31 March 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's gains on revaluation of mark to market debt securities and the accumulated surplus by approximately \$14,430,000 (2018: \$14,543,000).

The sensitivity analysis above is estimated as an annualised impact on interest income assuming the change in interest rates had occurred at the end of the reporting period. The analysis is performed on the same basis for 2018.

#### (c) Exchange rate risk

The Group's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars, US dollars and renminbi. Exposure to renminbi should not exceed 5% of the investment portfolio. As the majority of the financial assets are denominated either in US dollars or Hong Kong dollars which are closely pegged, the Group was not exposed to significant foreign exchange risk at the end of the reporting period.

#### (d) Market risk

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

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

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

#### (d) Market risk (cont'd)

The Group's investment guidelines allow the Group to invest in non-fixed income investment instruments up to 15% of the total value of funds under management. During the year, the Group complied with the above investment policy in order to manage its market risk, and as a result, was not exposed to significant market risk. The Group invests in units of equity funds, which mainly comprised listed equity securities, the performance of which is measured against the results of benchmark indices, MSCI AC Asia Free ex Japan and MSCI World (Net Dividends), including their returns and volatilities. Based on the weighted average movement of these benchmark indices (15.2%) in the corresponding period, it is estimated that a general increase/decrease of such benchmark indices of 15.2% (2018: 12.4%) would increase/decrease the Group's investment income and the accumulated surplus by approximately \$145,149,000 (2018: \$122,813,000).

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

#### (e) Fair value measurement

##### (i) Financial assets measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, ie, unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using only Level 2 inputs, ie, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.



## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

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

#### (e) Fair value measurement (cont'd)

##### (i) Financial assets measured at fair value (cont'd)

	2019			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Debt securities				
– Listed	3,933	643,051	–	646,984
– Unlisted	–	148,962	–	148,962
Pooled funds				
– Unlisted	925,476	–	–	925,476
	929,409	792,013	–	1,721,422

	2018			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Debt securities				
– Listed	–	384,749	–	384,749
– Unlisted	–	387,551	–	387,551
Pooled funds				
– Unlisted	934,768	–	–	934,768
	934,768	772,300	–	1,707,068

The fair value of the investment in the unlisted pooled funds is determined based on the Group's share in the net assets of the pooled funds as determined by the custodian which is publicly available in the market. The majority of the underlying assets of the pooled funds are listed securities.

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

During the year, there were no significant transfers between financial instruments in Level 1 and 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

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

#### (e) Fair value measurement (cont'd)

##### (ii) Fair value of financial assets carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 March 2019 and 2018 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	Carrying amount at 31 March 2019 \$'000	Fair value at 31 March 2019 \$'000	2019		
			Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Financial assets at amortised costs – debt securities	1,545,379	1,536,533	1,536,533	–	–

	Carrying amount at 31 March 2018 \$'000	Fair value at 31 March 2018 \$'000	2018		
			Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Held-to-maturity debt securities	1,582,116	1,559,439	1,559,439	–	–

The following summarises the major methods and assumptions used in estimating the fair values of these financial instruments.

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

### 22. Sponsored unconsolidated structured entities

The SFC considers the ICF, UECF, SDD, CDD and SMF as unconsolidated structured entities sponsored by the SFC where no interests are held by the SFC.

Pursuant to Section 236 of the SFO, the SFC has established and maintained the ICF to compensate investors who suffer a loss due to the default of an intermediary in relation to the trading of products on Hong Kong Exchanges and Clearing Limited. The SFC is primarily responsible for the administration and management of the ICF in accordance with Section 238 of the SFO, but has transferred some functions to the ICC under Section 80 of the SFO. According to Section 237(2)(b) of the SFO, the SFC may, with the consent in writing of the Financial Secretary, pay into the ICF from its reserves such amount of money as it considers appropriate. As at 31 March 2019, the ICF's maximum liability in respect of claims received was \$2,121,000 (2018: \$2,375,000) and the net asset value was \$2.4 billion (2018: \$2.4 billion).

## Notes to the Consolidated Financial Statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 22. Sponsored unconsolidated structured entities (cont'd)

The SFC is also responsible for the administration and management of the UECF, SDD, CDD and SMF under respective provisions in the repealed Securities Ordinance and Commodities Trading Ordinance. These funds provide compensation to investors who suffer a loss due to the default of an intermediary occurring before 1 April 2003 when the SFO came into effect. As at 31 March 2019, the UECF's maximum liability in respect of claims received was \$10,245,000 (2018: \$10,245,000) and the net asset value was \$79,332,000 (2018: \$75,804,000). There were no outstanding claims against the SDD, CDD and SMF as at 31 March 2019. Claims for any defaults occurring after 31 March 2003 should be made against the ICF.

During the year, the SFC did not provide financial or other support to these unconsolidated structured entities that it was not contractually required to provide (2018: nil). The related party relationships with these entities are disclosed in note 20 of these financial statements.

### 23. Funding and reserve management

The SFC manages its funding requirements from its income and accumulated surplus. Apart from the initial funding by the Government as disclosed in note 17, the SFC is eligible to receive an appropriation from the Government in each financial year. Since the financial year ended 31 March 1994, the SFC has requested the Government not to make an appropriation to it. There were no externally imposed capital requirements to which the SFC is subject to.

The SFC has earmarked \$3 billion from its accumulated surplus to set up a reserve for the possible future acquisition of office premises. The SFC's investment holdings and available cash balances will be used to support this reserve.

### 24. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 March 2019 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, <i>Leases</i>	1 April 2019

#### *Nature of change*

HKFRS 16 primarily affects the Group's accounting as a lessee of leases for properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss and other comprehensive income over the period of the lease.

#### *Impact*

As at the reporting date, the Group has non-cancellable operating lease commitments of \$285,809,000 (see note 19). Of these commitments, approximately \$6,141,000 relate to low value leases which will be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments, the Group expects to recognise right-of-use assets of approximately \$279,899,000 and lease liabilities of \$274,162,000 on 1 April 2019. Overall net assets will be approximately \$5,737,000 higher.

The Group expects that surplus will decrease by approximately \$4,414,000 for 2019 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows will decrease by approximately \$197,412,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

#### *Date of adoption by the Group*

The Group will apply the standard from its mandatory adoption date of 1 April 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

### 25. Non-adjusting events occurring after the reporting period

Subsequent to the reporting period, SFC has entered into a new operating lease for the office premise for eight years commencing on 1 February 2020. Minimum payment throughout the lease term is \$1,036,692,000.

# Investor Compensation Fund

## Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their annual report together with the audited financial statements for the year ended 31 March 2019.

### Establishment of the Investor Compensation Fund

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

### Financial statements

The financial performance of the Fund for the financial year ended 31 March 2019 and the financial position of the Fund as at that date are set out in the financial statements on pages 134 to 149.

### Members of the Committee

The members of the Committee during the year ended 31 March 2019 and up to the date of this report were:

Mr Keith Lui (Chairman)  
Mr Thomas Allan Atkinson  
Ms Teresa Ko Yuk-yin, JP (retired on 31 July 2018)  
Dr William Wong Ming Fung, SC (appointed on 1 August 2018)  
Mr Lee Kwok Keung (retired on 31 December 2018)  
Mr Tai Chi Kin Calvin (appointed on 1 January 2019)

### Interests in contracts

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

### Auditor

PricewaterhouseCoopers (PwC) retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PwC as auditor of the Fund is to be proposed at the forthcoming Committee meeting.

By order of the Committee

**Keith Lui**  
Chairman

27 May 2019

# Independent Auditor's Report To the Securities and Futures Commission

## Opinion

### *What we have audited*

The financial statements of Investor Compensation Fund (the Fund) established under Part XII of the Securities and Futures Ordinance set out on pages 134 to 149, which comprise:

- the statement of financial position as at 31 March 2019;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

### *Our opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2019, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

### **Basis for opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSA) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

## *Independence*

We are independent of the Fund in accordance with the HKICPA's Code of Ethics for Professional Accountants (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code.

## **Other information**

The directors of the Securities and Futures Commission (SFC) are responsible for the other information. The other information comprises all of the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

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

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

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

## **Responsibilities of directors of the SFC for the financial statements**

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

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

## Independent Auditor's Report (continued) To the Securities and Futures Commission

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- Conclude on the appropriateness of the directors of the SFC's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 27 May 2019

## Investor Compensation Fund

### Statement of profit or loss and other comprehensive income

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
<b>Income</b>			
Net investment income	5	38,557	73,603
Exchange difference		(490)	16,504
Recoveries		50	1,620
Compensation payment given up		150	–
		38,267	91,727
<b>Expenses</b>			
Investor Compensation Company Limited expenses	7	5,859	5,729
Auditor's remuneration		172	166
Bank charges		409	968
Professional fees		1,472	4,120
		7,912	10,983
<b>Surplus and total comprehensive income for the year</b>		<b>30,355</b>	<b>80,744</b>

The notes on pages 138 to 149 form part of these financial statements.

## Statement of financial position

As at 31 March 2019 (Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
<b>Current assets</b>			
Financial assets at fair value through profit or loss			
– Debt securities	8	–	1,939,279
– Pooled fund	8	–	350,084
Interest receivable		25,425	17,015
Due from Investor Compensation Company Limited		54	203
Fixed deposits with banks	9	2,365,483	52,586
Cash at bank	9	845	3,347
		2,391,807	2,362,514
<b>Current liabilities</b>			
Creditors and accrued charges		302	1,364
		302	1,364
<b>Net current assets</b>		2,391,505	2,361,150
<b>Net assets</b>		2,391,505	2,361,150
Representing:			
<b>Compensation fund</b>		2,391,505	2,361,150

Approved and authorised for issue by the Securities and Futures Commission on 27 May 2019 and signed on its behalf by

**Tim Lui**  
Chairman of the SFC

**Ashley Alder**  
Chief Executive Officer of the SFC

The notes on pages 138 to 149 form part of these financial statements.



## Investor Compensation Fund

### Statement of changes in equity

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	Contributions from Unified Exchange Compensation Fund (note 10) \$'000	Contributions from Commodity Exchange Compensation Fund (note 10) \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2017	994,718	108,923	1,176,765	2,280,406
Surplus and total comprehensive income for the year	–	–	80,744	80,744
Balance at 31 March 2018 and 1 April 2018	<b>994,718</b>	<b>108,923</b>	<b>1,257,509</b>	<b>2,361,150</b>
Surplus and total comprehensive income for the year	–	–	<b>30,355</b>	<b>30,355</b>
Balance at 31 March 2019	<b>994,718</b>	<b>108,923</b>	<b>1,287,864</b>	<b>2,391,505</b>

The notes on pages 138 to 149 form part of these financial statements.

## Statement of cash flows

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
<b>Cash flows from operating activities</b>			
Surplus and total comprehensive income for the year		30,355	80,744
Adjustments for:			
Net investment income		(38,557)	(73,603)
Exchange difference		490	(16,504)
		(7,712)	(9,363)
Decrease/(increase) in amount due from Investor Compensation Company Limited		149	(128)
Decrease in provision for compensation		-	(476)
Decrease in creditors and accrued charges		(1,062)	(85)
Net cash used in operating activities		(8,625)	(10,052)
<b>Cash flows from investing activities</b>			
Increase in fixed deposits other than cash and cash equivalents		(2,333,384)	-
Debt securities purchased		(165,306)	(1,100,731)
Debt securities sold or redeemed		2,092,869	1,037,862
Pooled fund sold		338,934	36,789
Interest received		52,523	47,094
Net cash (used in)/generated from investing activities		(14,364)	21,014
Net (decrease)/increase in cash and cash equivalents		(22,989)	10,962
Cash and cash equivalents at beginning of the year		55,933	44,971
<b>Cash and cash equivalents at end of the year</b>	9	32,944	55,933

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

	2019 \$'000	2018 \$'000
Fixed deposits with banks	32,099	52,586
Cash at bank	845	3,347
	32,944	55,933

The notes on pages 138 to 149 form part of these financial statements.

## Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 1. Purpose, limitation and principal activity

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

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

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

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

### 2. Money constituting the Fund

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

Other sources of money for the Fund include the levies chargeable on securities traded on SEHK and futures contracts traded on HKFE (see also note 6), and returns earned on the investment of the Fund (see also note 5).

### 3. Significant accounting policies

#### (a) Statement of compliance

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

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

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 14).

## Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (b) Basis of preparation

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

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

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

#### (c) Recognition of income

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

#### (d) Translation of foreign currencies

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

#### (e) Financial assets

##### (i) Classification

From 1 April 2018, the Fund classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss, and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded in profit or loss.

The Fund reclassifies debt investments when and only when its business model for managing those assets changes.

##### (ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on settlement-date, the date on which the assets are delivered to the Fund. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Fund has transferred substantially all the risks and rewards of ownership.

## Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (e) Financial assets (cont'd)

##### (iii) Measurement

At initial recognition, the Fund measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

##### *Debt instruments*

Subsequent measurement of debt instruments depends on the Fund's business model for managing the asset and the cash flow characteristics of the asset. The Fund classifies its debt instruments as financial assets measured at amortised cost.

Amortised cost: Assets that are held for the collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising from derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

FVPL: A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

##### (iv) Impairment

From 1 April 2018, the Fund assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

##### (v) Accounting policies applied until 31 March 2018

We have applied HKFRS 9 retrospectively, but have elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the previous accounting policy.

##### *Classification*

Until 31 March 2018, we classify our financial assets into the following categories:

- financial assets at fair value through profit or loss, and
- loans and receivables

The classification determined on the purpose for which the investments were acquired. We determined the classification of its investments at initial recognition.

##### *Subsequent measurement*

The measurement at initial recognition did not change on the adoption of HKFRS 9. Subsequent to the initial recognition, loans and receivables were carried at amortised cost using the effective interest method. Financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised in the statement of profit or loss and other comprehensive income.

##### *Impairment*

The Fund assessed at the end of each reporting period whether there was objective evidence that a financial asset was impaired. A financial asset was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset that could be reliably estimated.

## Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (e) Financial assets (cont'd)

##### (v) Accounting policies applied until 31 March 2018 (cont'd)

For loans and receivables carried at amortised cost, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in the statement of profit or loss and other comprehensive income. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Fund could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in the statement of profit or loss and other comprehensive income.

#### (f) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and fixed deposits with banks with original maturities of three months or less that are readily convertible to known amounts of cash.

#### (g) Other receivables

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

#### (h) Provisions for compensation

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

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

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

#### (i) Creditors and accrued charges

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

## Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (j) Provisions and contingent liabilities

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

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

#### (k) Related parties

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

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

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

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

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

## Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (I) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Fund. Except as described below, these developments have had no material effect on how the Fund's results and financial position for the current or prior periods have been prepared or presented.

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

#### HKFRS 9, *Financial Instruments*

HKFRS 9 replaces the provisions of HKAS 39, Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

The adoption of HKFRS 9 resulted in changes in accounting policies and potential adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures need not be restated.

As part of the transition to HKFRS 9, financial assets that we managed on a fair value basis had previously been designated at fair value through profit or loss under HKAS 39, continue to be classified as fair value through profit or loss. Other financial assets that were previously measured at amortised cost (eg, fixed deposits with banks) will continue with their classification and measurement.

There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

### 4. Taxation

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



## Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 5. Net investment income

	2019 \$'000	2018 \$'000
Interest income from bank deposits	34,947	828
Interest income on financial assets at fair value through profit or loss	22,629	44,455
Realised (loss)/gain on disposal of pooled fund	(10,350)	989
Realised (loss)/gain on redemption/disposal of debt securities	(8,669)	2,422
Gain on revaluation of pooled fund	–	52,138
Loss on revaluation of debt securities	–	(27,229)
Net investment income	38,557	73,603

### 6. Levy from SEHK and HKFE

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

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

### 7. ICC expenses

The SFC formed the ICC in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the SFO. The Fund is responsible for funding the establishment and operation of the ICC. For the year ended 31 March 2019, the ICC incurred costs of \$5,859,000 for its operations (2018: \$5,729,000) which were reimbursed by the Fund.

## Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 8. Financial assets at fair value through profit or loss

	2019 \$'000	2018 \$'000
(a) Debt securities		
(i) Listing status		
Listed – outside Hong Kong	-	1,103,850
Listed – in Hong Kong	-	443,133
Unlisted	-	392,296
	-	1,939,279
(ii) Maturity profile		
Within one year	-	404,749
After one year but within two years	-	454,873
After two years but within five years	-	1,001,791
After five years	-	77,866
	-	1,939,279
(iii) The weighted average effective interest rate of debt securities on 31 March 2018 was 2.9%.		
The debt securities were fully matured or disposed of during the year ended 31 March 2019.		
(b) Pooled fund – Unlisted	-	350,084
The pooled fund, comprising mainly listed equity securities, was fully disposed of during the year ended 31 March 2019.		

## Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 9. Fixed deposits with banks and cash at bank

The effective interest rate on bank deposits at 31 March 2019 ranged from 1.40% to 3.44% (2018: 0.80% to 1.53%). The balances of deposits at both 31 March 2019 and 31 March 2018 mature within one year.

#### Reconciliation with the statement of financial position

	2019 \$'000	2018 \$'000
Cash at bank	845	3,347
Fixed deposits with banks	2,365,483	52,586
Amounts shown in the statement of financial position	2,366,328	55,933
Less: Amounts with an original maturity of beyond three months	(2,333,384)	–
Cash and cash equivalents in the statement of cash flows	32,944	55,933

### 10. Contributions from UECF and CECF

Under Sections 74(2) and 75(2) of Schedule 10 of the SFO, the SFC may pay into the Fund such sum of money from the UECF and the CECF as it considers appropriate after 1 April 2003. Up to 31 March 2019, the SFC had \$994,718,000 (2018: \$994,718,000) and \$108,923,000 (2018: \$108,923,000) paid into the Fund from the UECF and the CECF respectively.

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

### 11. Material related party transactions

We have related party relationships with the SFC, ICC and the UECF. There were no significant related party transactions other than those disclosed in the financial statements of the Fund for the years ended 31 March 2018 and 2019 (refer to notes 7 and 10).

### 12. Financial risk management and fair values

The financial assets of the Fund mainly comprised fixed deposits with banks (2018: fixed deposits with banks, debt securities and units in a pooled fund). The underlying investments of the pooled fund mainly comprised equity securities.

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

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

## Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

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

#### (a) Credit risk

The Fund's Investment Policy and Administrative Guidelines (the Policy) only allows the Fund to invest in pooled funds, fixed rate dated securities rated A or above or in bank deposits with licensed banks rated P-1 or A-1 by Moody's or S&P respectively. Investment in unit trusts and mutual funds authorised as collective investment schemes under Section 104 of the SFO up to 15% of the total value of funds under management is permitted. The Policy also limits the Fund's exposure to 10% for each organisation and 20% for each country, except for holdings of US Treasuries, any issuances by the Hong Kong Government and the Government of the People's Republic of China. During the year, the Fund complied with the above Policy. The maximum exposure to credit risk is the carrying value of the assets in the statement of financial position.

#### (b) Liquidity risk

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

All financial liabilities are due within one year or payable on demand.

#### (c) Interest rate risk

The Fund's interest bearing assets comprised fixed deposits with banks (2018: debt securities and fixed deposits with banks). The Fund's bank deposits are exposed to short-term bank deposit interest re-pricing risk.

As at 31 March 2019, the Fund did not have any investment in debt securities.

At 31 March 2018, the Fund was subject to the risk that future cash flows of a debt security would fluctuate because of changes in market interest rates. In order to manage the re-pricing risk, the Fund adopted a policy of maintaining duration at no more than five years within its debt securities portfolio. As at 31 March 2018, the duration was 2.26 years and it was estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Fund's gains on revaluation of debt securities and the accumulated surplus by approximately \$44,803,000.

At 31 March 2019, it was estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Fund's interest income and the accumulated surplus by approximately \$23,655,000 (2018: \$2,990,000).

The sensitivity analysis above indicates the instantaneous change in the Fund's accumulated surplus that would arise, assuming that the change in interest rates had occurred at the end of the reporting periods and had been applied to re-measure those financial instruments held by the Fund which expose the Fund to fair value interest rate risk at the end of the reporting period. The analysis was performed on the same basis for the year ended 31 March 2018.

## Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

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

#### (d) Foreign currency risk

The Fund's investment policy allows the Fund to have US dollars and renminbi foreign exchange exposures. As at 31 March 2019, the Fund had exposure to US dollars only. As Hong Kong dollars are pegged with US dollars, the Fund was not exposed to significant foreign exchange risk at the end of the reporting period.

#### (e) Market risk

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

As at 31 March 2019, the Fund did not have any investment in debt and equity securities.

As at 31 March 2018, the Fund invested in units of a pooled fund, which mainly comprised listed equity securities, the performance of which was measured against the benchmark index MSCI AC Pacific ex Japan. It was estimated that a general increase/decrease of 14.5% in the benchmark index would increase/decrease the Fund's surplus and the accumulated surplus by approximately \$50,062,000.

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

#### (f) Fair values of financial instruments

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 13, Fair value measurement, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

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

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2019 and 2018.

The fair value of the debt securities as at 31 March 2018 was the quoted market price or based on quotes from bond market-makers.

The fair value of the investment in the unlisted pooled fund as at 31 March 2018 was determined based on the Fund's share in the net assets of the pooled fund as determined by the custodian. The majority of the underlying assets of the pooled fund were listed securities.

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

## Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

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

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

	2019			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Debt securities and pooled fund	–	–	–	–

	2018			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Debt securities				
– Listed	1,271,926	275,057	–	1,546,983
– Unlisted	11,169	381,127	–	392,296
Pooled fund				
– Unlisted	350,084	–	–	350,084
	1,633,179	656,184	–	2,289,363

### 13. Provision for compensation and contingent liabilities

The Fund assessed and concluded that there was no provision for compensation as at 31 March 2019 and 2018.

As at the date of this report, there are 15 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 \$2,121,000 (2018: \$2,375,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

### 14. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 March 2019 and which have not been adopted in these financial statements.

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

# Unified Exchange Compensation Fund

## Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their annual report together with the audited financial statements for the year ended 31 March 2019.

### Establishment of the Unified Exchange Compensation Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund). However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Up to 31 March 2019, the Fund transferred \$994,718,000 to the ICF. After the settlement of all claims against the Fund and its other liabilities, the Securities and Futures Commission (SFC) will eventually transfer the remaining balance of the Fund to the ICF.

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

### Financial statements

The financial performance of the Fund for the financial year ended 31 March 2019 and the financial position of the Fund as at that date are set out in the financial statements on pages 153 to 163.

### Members of the Committee

The members of the Committee during the year ended 31 March 2019 and up to the date of this report were:

Mr Keith Lui (Chairman)  
Mr Thomas Allan Atkinson  
Ms Teresa Ko Yuk-yin, JP (retired on 31 July 2018)  
Dr William Wong Ming Fung, SC (appointed on 1 August 2018)  
Mr Lee Kwok Keung (retired on 31 December 2018)  
Mr Tai Chi Kin Calvin (appointed on 1 January 2019)  
Ms Mak Po Shuen

### Interests in contracts

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

### Auditor

PricewaterhouseCoopers (PwC) retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PwC as auditor of the Fund is to be proposed at the forthcoming Committee meeting.

By order of the Committee

**Keith Lui**  
Chairman

14 May 2019

## Independent Auditor’s Report To the Securities and Futures Commission

### Opinion

#### *What we have audited*

The financial statements of Unified Exchange Compensation Fund (the Fund) established under Section 99 of the repealed Hong Kong Securities Ordinance set out on pages 153 to 163, which comprise:

- the statement of financial position as at 31 March 2019;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

#### *Our opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2019, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

#### **Basis for opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing (HKSA) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report.

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

#### *Independence*

We are independent of the Fund in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code.

#### **Emphasis of matter**

We draw attention to the fact that the Fund is in the process of terminating its business and operations and is no longer considered to be a going concern. Details about the basis of preparation of the financial statements are set out in the significant accounting policies note 3(b) to the financial statements. Our opinion is not modified in respect of this matter.

#### **Other information**

The directors of the Securities and Futures Commission (SFC) are responsible for the other information. The other information comprises all of the information included in the annual report, but does not include the financial statements and our auditor’s report thereon.

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

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

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

#### **Responsibilities of directors of the SFC for the financial statements**

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



### Independent Auditor's Report (continued) To the Securities and Futures Commission

In preparing the financial statements, the directors of the SFC are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The directors of the SFC consider that the Fund is no longer operating on a going concern basis and have prepared the financial statements on the basis as set out in note 3 thereto.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the SFC.
- Conclude on the appropriateness of the directors of the SFC's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 14 May 2019

## Statement of profit or loss and other comprehensive income

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
<b>Income</b>			
Interest income		1,534	691
Recoveries	4	1,074	–
		2,608	691
<b>Expenses</b>			
Auditor's remuneration		79	77
Bank charges		1	1
		80	78
<b>Surplus and total comprehensive income for the year</b>		2,528	613

The notes on pages 157 to 163 form part of these financial statements.

## Unified Exchange Compensation Fund

### Statement of financial position

As at 31 March 2019 (Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
<b>Current assets</b>			
Equity securities received under subrogation		1	1
Interest receivable		187	98
Accounts receivable		9	9
Fixed deposits with banks	6	88,338	86,525
Cash at bank		1,922	224
		<b>90,457</b>	86,857
<b>Current liabilities</b>			
Creditors and accrued charges	7	10,325	10,303
Relinquished trading rights payable to SEHK	8	800	750
		<b>11,125</b>	11,053
<b>Net current assets</b>		<b>79,332</b>	75,804
<b>Net assets</b>		<b>79,332</b>	75,804
Representing:			
<b>Compensation fund</b>		<b>79,332</b>	75,804

Approved and authorised for issue by the Securities Compensation Fund Committee on behalf of the Securities and Futures Commission on 14 May 2019 and signed on its behalf by

**Keith Lui**  
Chairman

**Tai Chi Kin Calvin**  
Committee Member

The notes on pages 157 to 163 form part of these financial statements.

## Statement of changes in equity

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	Trading rights deposits from SEHK (note 8) \$'000	Excess transaction levy from SEHK (note 9) \$'000	Additional contributions from SEHK and the SFC (note 10) \$'000	Other contributions (note 11) \$'000	Accumulated surplus \$'000	Contributions to Investor Compensation Fund (note 12) \$'000	Total \$'000
Balance at 1 April 2017	51,200	353,787	630,000	6,502	26,120	(994,718)	72,891
Net contributions from SEHK	2,300	-	-	-	-	-	2,300
Surplus and total comprehensive income for the year	-	-	-	-	613	-	613
Balance at 31 March 2018 and 1 April 2018	53,500	353,787	630,000	6,502	26,733	(994,718)	75,804
Net contributions from SEHK	1,000	-	-	-	-	-	1,000
Surplus and total comprehensive income for the year	-	-	-	-	2,528	-	2,528
Balance at 31 March 2019	54,500	353,787	630,000	6,502	29,261	(994,718)	79,332

The notes on pages 157 to 163 form part of these financial statements.

## Unified Exchange Compensation Fund

### Statement of cash flows

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	2019 \$'000	2018 \$'000
<b>Cash flows from operating activities</b>		
Surplus and total comprehensive income for the year	2,528	613
Adjustment for:		
Interest income	(1,534)	(691)
	994	(78)
Increase in accounts receivable	–	(9)
Increase/(decrease) in creditors and accrued charges	22	(360)
Increase in relinquished trading rights payable to SEHK	50	150
Net cash generated from/(used in) operating activities	1,066	(297)
<b>Cash flows from investing activities</b>		
Interest received	1,445	670
Net cash generated from investing activities	1,445	670
<b>Cash flows from financing activities</b>		
Net trading rights deposits from SEHK	1,000	2,300
Net cash generated from financing activities	1,000	2,300
Net increase in cash and cash equivalents	3,511	2,673
Cash and cash equivalents at beginning of the year	86,749	84,076
<b>Cash and cash equivalents at end of the year</b>	<b>90,260</b>	<b>86,749</b>

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

	2019 \$'000	2018 \$'000
Fixed deposits with banks	88,338	86,525
Cash at bank	1,922	224
	90,260	86,749

The notes on pages 157 to 163 form part of these financial statements.

## Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 1. Purpose, limitation and principal activity

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

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

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

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

After the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. After the settlement of all claims against the Fund and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund into the ICF. Claims for any defaults occurring after 31 March

2003 should be made against the ICF. If the sum of money in the Fund is not sufficient to meet its liabilities, the SFC shall pay into the Fund from the ICF the appropriate sum of money according to Section 242 of the SFO.

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

### 2. Money constituting the Fund

Before 1 April 2003, SEHK was required to keep deposited with the SFC \$50,000 for each SEHK trading right under the repealed Securities Ordinance. When the SFC makes compensation payments out of the deposits, it may require SEHK to replenish the net amount paid after the SFC has exhausted its subrogated rights against the defaulter. The SFC pays to SEHK the investment return earned on any remaining deposits net of the Fund expenses. During the year, the SFC did not make such payment as the total of the compensation payments exceeded the deposits received from SEHK (2018: Nil).

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

Other sources of money for the Fund include: recoveries detailed in note 4; SEHK replenishments detailed in note 15; other contributions detailed in note 11; and excess transaction levy received before the SFO became effective from 1 April 2003 detailed in note 9.

The Fund defines "capital" as including all elements of the Fund less contributions to the ICF and less contributions from SEHK (trading rights deposits from SEHK).

# Unified Exchange Compensation Fund

## Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies

#### (a) Statement of compliance

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

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

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 16).

#### (b) Basis of preparation

Under the SFO, the Fund will continue in operation until all claims against it and all its liabilities have been settled. As the Fund will eventually cease operation, we have prepared these financial statements on a non-going concern basis. We expect that the operations of the Fund will be maintained until all claims and recoveries from liquidators in relation to the broker defaults that happened on or before 31 March 2003 have been fully settled. We have not provided for potential future claims and recoveries as these cannot be reliably estimated. We have also not provided in the financial statements for all expenses expected to be incurred subsequent to the end of the reporting period and up to the date operations will cease and these are estimated to be immaterial.

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

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

#### (c) Recognition of income

##### (i) Interest income

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

##### (ii) Recoveries

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

##### (iii) Replenishments from SEHK

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

## Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (d) Impairment of financial assets

##### (i) Accounting policies applying from 1 April 2018

The Fund assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

##### (ii) Accounting policies applied until 31 March 2018

The carrying amounts of the Fund's assets are reviewed at each reporting period to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Fund about one or more of the following loss events which have an impact on the future cash flows of the assets that can be estimated reliably:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;
- disappearance of an active market for financial assets because of financial difficulties; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, the carrying amount of financial assets held at amortised cost is reduced to the estimated recoverable amount by means of a charge to the statement of profit or loss and other comprehensive income.

#### (e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and fixed deposits with banks with original maturities of three months or less that are readily convertible to known amounts of cash.

#### (f) Creditors and accrued charges

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

#### (g) Provisions and contingent liabilities

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

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



# Unified Exchange Compensation Fund

## Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 3. Significant accounting policies (cont'd)

#### (h) Related parties

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

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

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

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Fund.

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

#### (i) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Fund. Except as described below, these developments have had no material effect on how the Fund's results and financial position for the current or prior periods have been prepared or presented.

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

#### HKFRS 9, *Financial Instruments*

HKFRS 9 replaces the provisions of HKAS 39, *Financial Instruments: Recognition and Measurement* that relate to the recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

The adoption of HKFRS 9 resulted in changes in accounting policies and potential adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures need not be restated.

Financial assets that were previously measured at amortised cost (eg, fixed deposits with banks) will continue with their classification and measurement with the adoption of HKFRS 9. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

## Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 4. Recoveries

During the year ended 31 March 2019, the Fund recognised as recoveries the payment from the liquidator of C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd.

### 5. Taxation

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

### 6. Fixed deposits with banks

The effective interest rate on bank deposits at 31 March 2019 ranged from 1.31% to 2.00% (2018: 0.55% to 1.35%). The balances of deposits at both 31 March 2019 and 31 March 2018 mature within one year.

### 7. Creditors and accrued charges

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

These liabilities are classified as financial liabilities measured at amortised cost in accordance with the determination in HKFRS 9, Financial instruments unless the effect of discounting would be immaterial, in which case they are stated at cost. They are due on demand or within one year and are unsecured.

### 8. Trading rights deposits from SEHK/ Relinquished trading rights payable to SEHK

According to Section 104 of the repealed Securities Ordinance, SEHK contributes to the Fund in respect of each trading right at the rate of \$50,000 per trading right. In the absence of claims or other provisions as set out in Section 106 of the repealed Securities Ordinance, the SFC must refund to SEHK the deposit within six months after the trading right was relinquished. During the year, deposits of \$1,350,000 in respect of 27 new trading rights were received from SEHK and deposits of \$300,000 in respect of six relinquished trading rights were refunded to SEHK. As at 31 March 2019, 16 trading rights totalling \$800,000 were relinquished but not yet refunded.

The movement of trading rights deposits from SEHK during the year was as follows:

	2019 \$'000	2018 \$'000
Balance brought forward	53,500	51,200
Add: new trading rights issued	1,350	2,700
Less: relinquished trading rights refunded	(300)	(250)
Adjustment for: increase in relinquished trading rights payable to SEHK	(50)	(150)
Balance carried forward	54,500	53,500

### 9. Excess transaction levy from SEHK

SEHK paid these amounts to the Fund from 1992 to 1994 under an agreement with the SFC and the Financial Secretary concerning SEHK's budget and its receipt of transaction levy. A portion of this balance was contributed to the ICF, note 12 provides more details on the contributions made to the ICF.

### 10. Additional contributions from SEHK and the SFC

Following the revisions of the compensation rules and compensation limit in 1998, the SFC and SEHK had injected \$330 million and \$300 million respectively to the Fund during the years 1998 to 2001. A portion of this balance was contributed to the ICF, note 12 provides more details on the contributions made to the ICF.

## Unified Exchange Compensation Fund

### Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

#### 11. Other contributions

In October 1993, a member of SEHK made a special contribution of \$3,500,000 to the Fund in recognition of the SFC's concerns about its misconduct in handling its client trading activities. In November 2000, the former Financial Services Bureau of the HKSAR Government transferred \$3,002,000 to the Fund under the provisions of the Exchanges (Special Levy) Ordinance. A portion of this balance was contributed to the ICF, note 12 provides more details on the contributions made to the ICF.

#### 12. Contributions to Investor Compensation Fund

When the SFO and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Under Section 74(2) of Schedule 10 of the SFO, the SFC may after 1 April 2003 pay into the ICF, which came into operation after 1 April 2003, such sum of money from the Fund as it considers appropriate. Total contributions paid into the ICF up to 31 March 2019 amounted to \$994,718,000 (2018: \$994,718,000), no further contributions has been made to the ICF since 1 April 2005.

#### 13. Material related party transactions

The Fund has related party relationships with the ICF and the SFC. There were no significant related party transactions other than those disclosed in the financial statements of the Fund for the years ended 31 March 2019 and 2018.

#### 14. Financial risk management

The Fund's interest bearing assets mainly comprise fixed deposits at banks which mature or re-price in the short term, as a result of which the Fund is subject to a limited exposure to interest rate risk due to fluctuations in the prevailing market rates. At 31 March 2019, it was estimated that a general increase/decrease of 100 basis points in the interest rates, with all other variables held constant, would increase/decrease the Fund's surplus and accumulated surplus by approximately \$883,000 (2018: \$865,000). The exposure to credit and liquidity risks arises in the normal course of the Fund's operation. The Fund is not exposed to any foreign exchange risk as all transactions and balances are denominated in Hong Kong dollars.

The Fund's credit risk is primarily attributable to amounts at bank. Management's policy is that bank balances are placed only with licensed banks rated P-1 or A-1 by Moody's or S&P respectively. There are no amounts past due or impaired.

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

## Notes to the financial statements

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

### 15. Replenishments from SEHK

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

Up to 31 March 2019, SEHK replenished \$16,361,000 to the Fund. In compliance with Section 107 of the repealed Securities Ordinance, if no further recoveries were to be collected, the SFC may require SEHK to further replenish \$70,816,000 to the Fund as follows:

	2019 \$'000	2018 \$'000
Compensation paid up to the \$8 million limit as set out in Section 109(3) of the repealed Securities Ordinance	100,738	100,738
Less: recoveries received for compensation paid up to \$8 million	(29,946)	(29,946)
Add: recoveries re-distributed to claimants	16,385	16,385
Less: replenishments from SEHK	(16,361)	(16,361)
Net amount the SFC may request SEHK for replenishment	70,816	70,816

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

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

### 16. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 March 2019 and which have not been adopted in these financial statements.

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

# Breakdown of SFC activity data

Table 1 Authorised unit trusts and mutual funds – by type

	As at 31.3.2019		As at 31.3.2018	
	Number	Total NAV (US\$ million)	Number	Total NAV (US\$ million)
Bond	474 (23.9%)	534,298 (34.2%)	449 (22.7%)	569,700 (33.9%)
Equity	1,005 (50.7%)	721,365 (46.2%)	1,030 (52.1%)	787,889 (46.9%)
Diversified	181 (9.1%)	165,708 (10.6%)	172 (8.7%)	180,353 (10.7%)
Money market	44 (2.2%)	22,284 (1.4%)	45 (2.3%)	20,905 (1.2%)
Fund of funds	110 (5.5%)	22,581 (1.4%)	116 (5.9%)	22,897 (1.4%)
Index <sup>1</sup>	162 (8.2%)	96,164 (6.2%)	157 (7.9%)	97,637 (5.8%)
Guaranteed	3 (0.2%)	72 (0%)	3 (0.2%)	105 (0%)
Hedge	0 (0%)	0 (0%)	1 (0.1%)	26 (0%)
Other specialised <sup>2</sup>	5 (0.3%)	748 (0%)	5 (0.3%)	1,061 (0.1%)
Sub-total	1,984 (100%) <sup>3</sup>	1,563,220 (100%)	1,978 (100%) <sup>3</sup>	1,680,573 (100%)
Umbrella structures	232		237	
<b>Total</b>	<b>2,216</b>		<b>2,215</b>	

<sup>1</sup> Including leveraged and inverse products.

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

<sup>3</sup> These percentages do not add up to total due to rounding.

Table 2 Authorised unit trusts and mutual funds – by origin

	As at 31.3.2019				As at 31.3.2018		
	Umbrella funds	Sub-funds	Single funds	Total	Total NAV (US\$ million)	Total	Total NAV (US\$ million)
Hong Kong	149	558	82	789 (35.6%)	154,831 (9.9%)	758 (34.2%)	158,199 (9.4%)
Luxembourg	49	1,015	0	1,064 (48%)	1,059,476 (67.8%)	1,041 (47%)	1,105,904 (65.8%)
Ireland	22	194	2	218 (9.8%)	207,154 (13.3%)	239 (10.8%)	232,586 (13.8%)
United Kingdom	4	23	26	53 (2.4%)	73,987 (4.7%)	69 (3.1%)	109,340 (6.5%)
Mainland China	2	2	46	50 (2.3%)	19,615 (1.3%)	50 (2.3%)	20,855 (1.2%)
Other Europe	1	2	0	3 (0.1%)	140 (0%)	3 (0.1%)	137 (0%)
Bermuda	0	0	1	1 (0%)	153 (0%)	1 (0%)	173 (0%)
Cayman Islands	5	20	5	30 (1.4%)	7,718 (0.5%)	46 (2.1%)	9,033 (0.5%)
Others	0	0	8	8 (0.4%)	40,146 (2.6%)	8 (0.4%)	44,346 (2.6%)
<b>Total</b>	<b>232</b>	<b>1,814</b>	<b>170</b>	<b>2,216 (100%)</b>	<b>1,563,220 (100%)<sup>1</sup></b>	<b>2,215 (100%)</b>	<b>1,680,573 (100%)<sup>1</sup></b>

<sup>1</sup> These percentages do not add up to total due to rounding.

Table 3 Takeovers activities

	2018/19	2017/18	2016/17
<b>Codes on Takeovers and Mergers and Share Buy-backs</b>			
General and partial offers under Code on Takeovers and Mergers	55	59	73
Privatisations	6	11	13
Whitewash waiver applications	21	41	37
Other applications under Code on Takeovers and Mergers <sup>1</sup>	275	289	365
Off-market and general offer share buy-backs	9	1	4
Other applications under Code on Share Buy-backs <sup>1</sup>	7	0	2
<b>Total</b>	<b>373</b>	<b>401</b>	<b>494</b>
<b>Executive Statements</b>			
Sanctions imposed with parties' agreement <sup>2</sup>	2	5	4
<b>Takeovers and Mergers Panel</b>			
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	1	2	0
Hearings before the Panel (disciplinary and non-disciplinary)	0	1	2
Statements issued by the Panel <sup>3</sup>	0	1	2

<sup>1</sup> Including stand-alone applications and those made during the course of a code-related transaction.

<sup>2</sup> Pursuant to section 12.3 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

<sup>3</sup> Pursuant to section 16.1 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

## Breakdown of SFC activity data

**Table 4 Breaches noted during on-site inspections**

	2018/19	2017/18	2016/17
Failure to comply with Securities and Futures (Financial Resources) Rules	9	12	13
Failure to safekeep client securities	32	38	58
Failure to maintain proper books and records	13	33	36
Failure to safekeep client money	28	59	62
Unlicensed dealing and other registration issues	17	23	13
Breach of licensing conditions	5	7	8
Breach of requirements of contract notes/statements of account/receipts	31	62	85
Failure to make filing/notification	1	2	8
Breach of margin requirements	8	5	6
Marketing malpractices	0	0	1
Illegal short selling of securities	0	0	1
Dealing malpractices	3	3	11
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission <sup>1</sup>	275	320	441
Breach of Corporate Finance Adviser Code of Conduct	8	8	18
Breach of Fund Manager Code of Conduct	67	93	82
Breach of regulation of online trading	3	4	8
Non-compliance with anti-money laundering guidelines	201	175	201
Breach of other rules and regulations of the Exchanges <sup>2</sup>	12	17	14
Internal control weaknesses <sup>3</sup>	443	535	598
Others	80	80	91
<b>Total</b>	<b>1,236</b>	<b>1,476</b>	<b>1,755</b>

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

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

<sup>3</sup> Comprised deficiencies in management review and supervision, operational controls over the handling of client accounts, segregation of duties, information management, adequacy of audit trail for internal control purposes, amongst other weaknesses.

Table 5 Successful prosecutions

Defendants	Date of conviction	Fine (\$) / Penalty	Investigation costs awarded (\$)
<b>Insider dealing</b>			
AU-YEUNG Siu Pang	19.2.2019	120,000 and four-month imprisonment	33,365
<b>Provision of false/misleading statements</b>			
DBA Telecommunication (Asia) Holdings Limited	28.6.2018	20,000	15,151
<b>Short selling</b>			
HUI Kwok Piu	26.7.2018	231,000	23,564
<b>Provision of false/misleading representation to the SFC</b>			
LUI Ho Yeung	11.5.2018	12,000	12,301

Note: Cases with fines below \$10,000 are not shown in this table.

Table 6 Other public disciplinary actions

Company / Name	Date	Conduct	Action
NG Wing Leung, Stephen and CHAN Yee Lee, George	24.4.2018	Failure to comply with the employee account dealing requirements under the Fund Manager Code of Conduct	Reprimanded and each fined \$100,000
LAU Ki Fung	12.6.2018	Failure to keep proper records of order instructions from clients	Reprimanded and fined \$80,000
POON Chun Hing	18.7.2018	Provided false and misleading information to his client and the SFC as well as conducted transactions through an unlicensed corporation	Banned from re-entering the industry for 30 months
KWOK Lai Kwan, Fonia	27.8.2018	Conviction for unlicensed asset management	Banned from re-entering the industry for 12 months
NGO Wing Chun	20.9.2018	Unauthorised transfer of customer data	Banned from re-entering the industry for 12 months
LAM Wai Kit and CHAN Ho Wai	10.12.2018	Failure to exercise due skill, care and diligence in handling research reports and ensure the maintenance of appropriate standards of conduct and adherence to proper procedures by FT Securities Limited	Licences suspended for nine months
W. Falcon Asset Management (Asia) Limited	4.2.2019	Window-dressed its liquid capital, breached the terms of a restriction notice and failure to provide timely notification of the resignation of its director who engineered the window-dressing scheme	Licence revoked

Note: See Enforcement on pages 65-72 for details of the most significant disciplinary actions.



## Breakdown of SFC activity data

**Table 7 Other enforcement actions**

	2018/19	2017/18	2016/17
S179 <sup>1</sup> inquiries commenced	26	24	27
S181 <sup>2</sup> inquiries commenced (number of letters sent)	294 (9,074)	261 (8,461)	301 (8,960)
S182 <sup>3</sup> directions issued	231	274	407
Rule 8 directions <sup>4</sup> issued	4	12	4
Show cause letters <sup>4</sup> issued	2	11	3
Cases with search warrants executed	30	22	34
Compliance advice letters issued	234	277	548
Criminal, Civil and Market Misconduct Tribunal (MMT) proceedings			
(a) Insider dealing			
Individuals/corporations summonsed (summons laid)	1 (5)	4 (7)	0 (0)
Individuals/corporations involved in ongoing civil proceedings	11	13	16
Individuals/corporations involved in ongoing MMT proceedings	5	0	0
(b) Market manipulation			
Individuals/corporations involved in ongoing MMT proceedings	0	3	3
(c) Others			
Individuals/corporations summonsed (summons laid)	4 (37)	10 (47)	10 (46)
Individuals/corporations involved in ongoing civil proceedings	90	84	110
Individuals/corporations involved in ongoing MMT proceedings	25	13	26
Disciplinary enquiry			
Notices of Proposed Disciplinary Action <sup>5</sup> issued	22	29	49
Notices of Decision <sup>6</sup> issued (including S201 <sup>7</sup> agreement)	34	32	56
SFAT hearings			
Applications to SFAT	4	4	1
Applications/hearings completed	5	3	4

<sup>1</sup> 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.

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

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

<sup>4</sup> A Rule 8 direction is issued by the SFC pursuant to Section 8 of the Securities and Futures (Stock Market Listing) Rules, directing The Stock Exchange of Hong Kong Limited (SEHK) to suspend trading in the shares of a listed company on grounds that the market is misinformed, disorderly or unfair. A show cause letter is sent by the SFC to inform a listed company that it is minded to exercise its power under the aforesaid Rules to direct SEHK to suspend trading in the shares of the company, in the absence of a satisfactory explanation.

<sup>5</sup> A notice issued by the SFC to regulated persons that it proposes to exercise its disciplinary powers, on grounds that they appear to be guilty of misconduct or not fit and proper.

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

<sup>7</sup> Section 201 of the SFO gives the SFC the power to resolve disciplinary proceedings by agreement when the SFC considers it appropriate to do so in the interest of the investing public or in the public interest.

Table 8 Statistical information and financial position of the Hong Kong securities industry<sup>1</sup>

	As at 31.12.2018	As at 31.12.2017	As at 31.12.2016
Securities dealers and securities margin financiers	1,312	1,222	1,104
Active cash clients <sup>2</sup>	1,410,319	1,320,332	1,289,563
Active margin clients <sup>2</sup>	463,970	337,599	267,132
Active clients	1,874,289	1,657,931	1,556,695
<b>Balance sheet</b>	<b>(\$ million)</b>	<b>(\$ million)</b>	<b>(\$ million)</b>
Cash in hand and at bank <sup>3</sup>	515,715	515,547	446,465
Amounts receivable from margin clients <sup>4</sup>	180,800	205,977	171,633
Amounts receivable from clients and other dealers arising from dealing in securities	158,495	164,226	125,471
Proprietary positions	89,096	139,502	110,756
Other assets	282,426	312,152	224,196
Total assets	1,226,532	1,337,404	1,078,521
Amounts payable to clients and other dealers arising from dealing in securities	531,638	568,641	481,339
Total borrowings from financial institutions	111,396	170,411	86,731
Short positions held for own account	38,285	62,161	33,194
Other liabilities	148,483	164,033	143,941
Total shareholders' funds	396,730	372,158	333,316
Total liabilities and shareholders' funds	1,226,532	1,337,404	1,078,521
	12 months to 31.12.2018 (\$ million)	12 months to 31.12.2017 (\$ million)	12 months to 31.12.2016 (\$ million)
<b>Profit and loss</b>			
Total value of transactions <sup>5</sup>	89,678,389	73,901,390	63,495,134
Net securities commission income	24,197	23,079	18,739
Gross interest income	22,471	17,259	14,026
Other income <sup>6</sup>	114,637	107,079	98,344
Total operating income	161,305	147,417	131,109
Total overheads and interest expense	137,757	123,878	116,978
Total operating profit	23,548	23,539	14,131
Net profit on proprietary trading	14,783	11,667	6,893
Net profit for the period	38,331	35,206	21,024

<sup>1</sup> Data were extracted from the monthly financial returns submitted under the Securities and Futures (Financial Resources) Rules by corporations licensed for dealing in securities or securities margin financing. Figures reported by an overseas incorporated licensed corporation that carries out its principal business activities outside Hong Kong and operates in Hong Kong as a branch office were excluded.

<sup>2</sup> Active clients are clients for whom the licensed corporation is required to prepare and deliver monthly statements of account in respect of the relevant reporting month under the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.

<sup>3</sup> Cash in hand and at bank include trust monies held on behalf of clients which totalled \$285,686 million (31.12.2017: \$286,461 million).

<sup>4</sup> As at 31.12.2018, the average collateral coverage was 3.7 times (as at 31.12.2017: 4.1 times). It represents the number of times the aggregate market value of securities collateral deposited by margin clients over the total amount of margin loan due from these clients on a given date on an industry-wide basis.

<sup>5</sup> The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

<sup>6</sup> Comprises fund management fee income, corporate finance income, inter-company management fee income and others.

## Committees, panels and tribunal

A number of committees and panels have been set up to advise the SFC on various matters and perform other functions as set out in their terms of reference. Their responsibilities and members are listed in this section. For information on the board committees and Executive Committee, see our discussion in Corporate Governance on pages 14-35.

### SFC Committees

#### Advisory Committee

Advises the SFC on any matter of policy regarding the performance of its functions.

Chairman	
TONG Carlson, SBS, JP (to 19.10.2018)	LUI Tim Leung Tim, SBS, JP (from 20.10.2018)
Members	
ALDER Ashley Ian, JP	GRAHAM David
Dr AU King-lun, MH	KUNG Yeung Ann Yun-Chi
BENNETT Prudence Ann	LEUNG Fung Yee Julia, SBS
Prof CHAN Kalok	SHIPMAN Mark Graham
CHAN Lap-tak Jeffrey	Dr TAN Yue-heng
CHOI Fung Yee Christina	WINTER Richard David
CHRISTIANSON Sun Wei	YIN Ke
DING Chen	
<b>Number of meetings: 3</b>	<b>Average attendance rate: 65%</b>

#### Academic and Accreditation Advisory Committee

Approves industry-based courses and examinations for the purpose of meeting the licensing competence requirements, endorses applications from professional bodies and tertiary institutions as recognised institutions for providing continuous professional training (CPT), advises the SFC on areas to study in the context of enhancing Hong Kong's position as an international financial centre and provides input for the development of industry-related courses and training programmes.

During the year, the Committee met once to consider a number of matters, including the CPT regime, the competence and CPT requirements for the over-the-counter derivatives licensing regime, and the relevant industry experience for Fintech practitioners.

Chairperson	
LEUNG Fung Yee Julia, SBS	
Members	
Prof CHENG Wui Wing Joseph	LO Wai Shun Wilson
CHEUNG Wai Kwok Gary	PAN San Kong Terry
DAVIS Nigel	PONG Po Lam Paul
Prof HOWELLS Geraint	WONG Wing Fai Joseph
Prof LEUNG Siu Fai	
Secretary	
TUNG Ka Shun Sam	
<b>Number of meetings: 1</b>	<b>Average attendance rate: 80%</b>

## Committee on Real Estate Investment Trusts

Advises the SFC on general policy matters or regulatory issues that are related to the Code on Real Estate Investment Trusts (REITs), the overall market development of REITs, the property or securities market or investment management in Hong Kong or elsewhere, professional practices or guidelines that are involved in the operation of REITs, and fund investment or management in general.

During the year, the Committee met once to discuss policy issues in relation to REITs.

<b>Chairperson</b>	
CHOI Fung Yee Christina	
<b>Members</b>	
BANKS Ian Robert (to 30.6.2018)	Prof HUI Chi Man, MH
CHAN Duen Grace	KWOK Lam Kwong Larry, SBS, JP
Dr CHAN Ho Wah Terence	LAU Chun Kong, JP
CHAN Wing Hing Barry	NG Yiu Fai (Curtis NG)
CHIANG Sui Fook Lilian	WONG Chi Ming Sally
HO Edmund	WU Thomas Jefferson, JP
HO Yin Tung Brian	YEONG Wei Ming Alexandra
<b>Secretary</b>	
TSE Lok Min	
<b>Number of meetings: 1</b>	<b>Average attendance rate: 86%</b>

## Disciplinary Chair Committee

Members are nominated by the Nominations Committee on the basis that they are duly experienced and legally qualified persons. Their role is to act as Chairman of the Takeovers and Mergers Panel in disciplinary proceedings under the Codes on Takeovers and Mergers and Share Buy-backs or of the Takeovers Appeal Committee on a case-by-case basis.

<b>Members</b>	
DAWES Victor, SC	LI Gladys Veronica, SC
JAT Sew Tong, SC, JP	SHIEH Wing Tai Paul, SC
LAM Douglas Tak Yip, SC	WONG Man Kit Anson, SC

## Fintech Advisory Group

Aims to broaden the SFC's understanding of the opportunities, risks and regulatory implications of the latest Fintech trends and developments.

During the year, the Group met twice to discuss a range of topics, such as cloud computing, big data, blockchain and virtual assets.

<b>Chairperson</b>	
LEUNG Fung Yee Julia, SBS	
<b>Members</b>	
ADVANI Alokik Indru (to 31.7.2018)	LI Ting (to 28.2.2019)
ARSLANIAN Henri-Kevork	MA Henry (from 1.3.2019)
CHENG Andrew (from 1.3.2019)	MCCORMACK Urszula
GUZY Melissa C. (to 28.2.2019)	SPIEGL, Florian Mattheaus (from 1.3.2019)
JOHNSTONE Syren	TAN Jessica
LEWIS Antony	
<b>Ex-officio members</b>	
CHIONG Sai Lung Ron (to 25.6.2018)	CHIU Ka Lai Clara
<b>Number of meetings: 2</b>	<b>Average attendance rate: 91%</b>

## Committees, panels and tribunal

### Investor Compensation Fund Committee

Administers the Investor Compensation Fund and regulates its procedures in accordance with Part XII of the Securities and Futures Ordinance (SFO).

During the year, the Committee met once to consider the financial statements of the Fund and dealt with other administrative matters.

<b>Chairman</b>	
LUI Kei Kwong Keith	
<b>Members</b>	
ATKINSON Thomas Allan	TAI Chi Kin Calvin (from 1.1.2019)
KO Teresa Yuk Yin, JP (to 31.7.2018)	Dr WONG Ming Fung William, SC (from 1.8.2018)
LEE Kwok Keung Roger (to 31.12.2018)	
<b>Number of meetings: 1</b>	<b>Average attendance rate: 100%</b>

### Investor Compensation Company Limited Claims Committee

Reviews and determines investors' claims for compensation from the Investor Compensation Fund.

<b>Chairman</b>	
KO Teresa Yuk Yin, JP (to 31.7.2018)	Dr WONG Ming Fung William, SC (from 1.8.2018)
<b>Members</b>	
CHAN Lui Clara	MONG Yee Wai (from 24.2.2019)
FUNG Wei Lung Brian	MUKADAM Thrity Homi
LO Dak Wai Alexandra, JP	NG Oliver Tse Kuen (to 23.2.2019)
LUI Kei Kwong Keith	TSO Pui Sze Teresa
MAK Po Shuen Olivia	WAN Chi Yiu Andrew
<b>Number of meetings: 2</b>	<b>Average attendance rate: 80%</b>

### Nominations Committee

Nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee.

During the year, there were no circumstances which called for a meeting. The Committee considers the appointment and reappointment of members to the Takeovers and Mergers Panel and the Takeovers Appeal Committee by e-circulation.

<b>Chairman (ex-officio member)</b>	
ALDER Ashley Ian, JP	
<b>Members</b>	
LUI Tim Leung Tim, SBS, JP (from 20.10.2018)	Dr WONG Ming Fung William, SC
<b>Ex-officio members</b>	
CLARK Stephen Edward	HO Yin Tung Brian
<b>Alternate members to CLARK Stephen Edward</b>	
CHAN Yuk Sing Freeman	MAGUIRE John Martin
KO Teresa Yuk Yin, JP	WEBB David Michael
LIU Chee Ming	
<b>Number of meetings: 0</b>	<b>Average attendance rate: N/A</b>

## Products Advisory Committee

The SFC may consult the Committee on a wide range of matters relating to the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products, the SFC Code on MPF Products and the Code on Pooled Retirement Funds, overall market environment, industry practices and novel product features.

During the year, the Committee held a meeting to discuss the regulation of trustees and custodians as well as eligibility and disclosure requirements for green or environmental, social and governance funds.

Chairperson	
CHOI Fung Yee Christina	
Members	
ABRAT Katherine Anna	LYU Hong (Sandra LU)
AU Chi San Charity (Charity AU) (from 20.6.2018)	Dr MAK Sui Choi Billy
CHAN Duen Grace	Dr MALDONADO-CODINA Guillermo Eduardo (Bill MALDONADO)
CHAN Siu Ping Chordio	NOYES Keith Samuel
DASWANI Praveen Mohan (to 7.6.2018)	PAN San Kong Terry
DING Chen	PANG Wai Sau Queenie
FUNG Ka Shing Bernard	SHIPMAN Mark Graham
HUI Mei Ying (Carol HUI)	TURL Graham Douglas
Dr HUNG Tin Yau Victor	TZATZAKIS Costa (Con TZATZAKIS)
LAU Karen Ga-Yun (from 20.4.2018)	WONG Man Yee (Fanny WONG)
LAW Shing Mui Alice	WONG Pui Ling Pauline
LECKIE Stuart Hamilton, OBE, JP	YANG Qiumei (to 30.9.2018)
LEE Chi Kee Trevor	YEONG Wei Ming Alexandra
LIU Yun Bonn	
Secretary	
POON Wing Yee Loreen	
<b>Number of meetings: 1</b>	<b>Average attendance rate: 81%</b>

## Public Shareholders Group

Advises on issues relating to shareholders' rights and interests.

During the year, the Group met three times and discussed various policy subjects, such as The Stock Exchange of Hong Kong Limited's (SEHK) proposals relating to backdoor listing and continuing listing criteria, and listed companies with disclaimer or adverse audit opinion on financial statements.

Chairman	
HO Yin Tung Brian	
Members	
BENNETT Prudence Ann	SCHLABBERS Manuel
CHEN Yang Chung Roy	TYE Philip Andrew (from 11.10.2018)
CHIA Chin-Ping (from 1.4.2018)	van Rijn Arnout
HO John	WANG Fang (from 11.10.2018)
HUANG Zhi Hong Rawen (from 11.10.2018)	WONG Chi Ming Sally (from 11.10.2018)
LAU Ka Shi, BBS	WONG David (Nicholas)
LIU Hung Ho Ellis (to 10.8.2018)	WONG Yu Tsang Alex
LU Ting	WOO Ka Biu Jackson (from 11.10.2018)
PARK Yoo Kyung	
<b>Number of meetings: 3</b>	<b>Average attendance rate: 72%</b>

## Committees, panels and tribunal

### Securities Compensation Fund Committee

Administers the Unified Exchange Compensation Fund and regulates its procedures in accordance with Part X of the repealed Securities Ordinance which, under section 74 of Schedule 10 to the SFO, continues to apply to and in relation to any claim for compensation from the Fund made before 1 April 2003.

During the year, the Committee met once to consider the Fund's financial statements and to deal with other administrative matters.

Chairman	
LUI Kei Kwong Keith	
Members	
ATKINSON Thomas Allan	MAK Po Shuen
KO Teresa Yuk Yin, JP (to 31.7.2018)	TAI Chi Kin Calvin (from 1.1.2019)
LEE Kwok Keung Roger (to 31.12.2018)	Dr WONG Ming Fung William, SC (from 1.8.2018)
<b>Number of meetings: 1</b>	<b>Average attendance rate: 100%</b>

### SFC (HKEC Listing) Appeals Committee

Exercises powers and functions equivalent to those of SEHK's Listing Appeals Committee when actual or potential conflicts of interest arise between Hong Kong Exchanges and Clearing Limited (HKEX) as the holding company of SEHK and the proper performance of listing functions by SEHK. In such cases, the relevant powers and functions may be exercised by the SFC.

There were no circumstances which called for a meeting of the Committee during the year.

Chairman	
Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting.	
Members	
AU Siu Cheung Albert, BBS	Dr LIN James C (from 1.8.2018)
CHAN Sui Kuen Agnes (From 20.10.2018)	LUI Tim Leung Tim, SBS, JP (from 20.10.2018)
CHENG Wai Sun Edward, GBS, JP	MA Xuezheng Mary
HUANG Lester, SBS, JP	Dr WONG Ming Fung, SC
<b>Number of meetings: 0</b>	<b>Average attendance rate: N/A</b>

## SFC (HKEC Listing) Committee

Exercises powers and functions equivalent to those of the Main Board and GEM Listing Committees of SEHK when actual or potential conflicts of interest arise between HKEX and the proper performance of SEHK's listing functions. In such cases, the relevant SEHK functions maybe undertaken by the SFC.

There were no circumstances which called for a meeting of the Committee during the year.

Chairman	
Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting.	
Members	
ALDER Ashley Ian, JP	LUI Kei Kwong Keith
ATKINSON Thomas Allan	PHADNIS Dhananjay Shrikrishna
BROWN Melissa	TYE Philip Andrew
CHAN YUK Sing Freeman	WONG David (Nicholas)
CHOI Fung Yee Christina	YEUNG Eirene
LEUNG Fung Yee Julia, SBS	YOUNG Andrew John
<b>Number of meetings: 0</b>	<b>Average attendance rate: N/A</b>

## Share Registrars' Disciplinary Committee

Hears and determines disciplinary matters relating to share registrars in the first instance.

There was no circumstance which called for a meeting of the Committee during the year.

Chairman	
NORMAN David Michael	
Deputy Chairman	
KWOK Tun Ho Chester	
Members	
CHAN Henry	LO Dak Wai Alexandra, JP
CHUI Ming Wai	TSAI Wing-chung Philip, BBS, JP
KONG YAO FAH Sew Youne (Marie-Anne KONG)	YUEN Ka Fai
Dr LIN James C	
<b>Number of meetings: 0</b>	<b>Average attendance rate: N/A</b>

## Share Registrars' Disciplinary Appeals Committee

Hears and determines appeals from the Share Registrars' Disciplinary Committee. Members of the Share Registrars' Disciplinary Appeals Committee for the hearing of each appeal case brought before it consists of members of the Share Registrars' Disciplinary Committee who did not preside or participate in the disciplinary hearing of that case.

There were no circumstances which called for a meeting of the Committee during the year.



## Committees, panels and tribunal

### Takeovers and Mergers Panel

Hears disciplinary matters in the first instance and reviews rulings by the Takeovers Executive<sup>1</sup> at the request of any party dissatisfied with such a ruling. Considers novel, important or difficult cases referred to it by the Executive. Reviews, upon request by the SFC, the provisions of the Codes on Takeovers and Mergers and Share Buy-backs and the Rules of Procedure for hearings under the Codes and recommends appropriate amendments to the Codes and Rules of Procedure to the SFC.

During the year, the Panel met once to discuss takeovers-related policy matters.

Chairman	
CLARK Stephen Edward	
Deputy Chairmen	
CHAN Yuk Sing Freeman	MAGUIRE John Martin
KO Teresa Yuk Yin, JP	WEBB David Michael
LIU Chee Ming	
Members	
BROWN Melissa	SABINE Martin Nevil
CHAN Che Chung (Conrad CHAN)	SCHWILLE Mark Andrew
CHARLTON Julia Frances	SHAH Asit Sudhir
CHENG Wai Sun Edward, GBS, JP (from 20.10.2018)	SOUTAR James Alexander
FU Yat Hung David	VAS CHAU Lai Kun Judy
IP Koon Wing Ernest	WINTER Richard David
LAM Chor Lai Celia	WOLHARDT Julian Juul
LEE Kam Hung Lawrence, BBS, JP	WONG Wai Ming
LIU Yun Bonn	WONG Yu Tsang Alex
NORMAN David Michael	YU Ka Po Benita
NORRIS Nicholas Andrew	YUEN Ka Fai (Frank YUEN)
PARK Yoo Kyung	
<b>Number of policy meetings: 1</b>	<b>Average attendance rate: 50%</b>
<b>Number of non-disciplinary hearings: 0</b>	<b>Average attendance rate: N/A</b>
<b>Number of disciplinary hearings: 0</b>	<b>Average attendance rate: N/A</b>

<sup>1</sup> The Takeovers Executive refers to the Executive Director of the Corporate Finance Division of the SFC or his delegate.

## Takeovers Appeal Committee

Reviews disciplinary rulings of the Takeovers and Mergers Panel at the request of an aggrieved party for the sole purpose of determining whether any sanction imposed by the Panel is unfair or excessive.

There were no circumstances which called for a meeting of the Committee during the year.

Members	
BROWN Melissa	NORRIS Nicholas Andrew
CHAN Che Chung (Conrad CHAN)	PARK Yoo Kyung
CHAN Yuk Sing Freeman	SABINE Martin Nevil
CHARLTON Julia Frances	SCHWILLE Mark Andrew
CHENG Wai Sun Edward, GBS, JP (from 20.10.2018)	SHAH Asit Sudhir
CLARK Stephen Edward	SOUTAR James Alexander
FU Yat Hung David	VAS CHAU Lai Kun Judy
IP Koon Wing Ernest	WEBB David Michael
KO Teresa Yuk Yin, JP	WINTER Richard David
LAM Chor Lai Celia	WOLHARDT Julian Juul
LEE Kam Hung Lawrence, BBS, JP	WONG Wai Ming
LIU Chee Ming	WONG Yu Tsang Alex
LIU Yun Bonn	YU Ka Po Benita
MAGUIRE John Martin	YUEN Ka Fai (Frank YUEN)
NORMAN David Michael	
<b>Number of meetings: 0</b>	<b>Average attendance rate: N/A</b>

## Independent Panels and Tribunal

### Arbitration Panel under Securities and Futures (Leveraged Foreign Exchange Trading) (Arbitration) Rules

Resolves disputes in accordance with the Securities and Futures (Leveraged Foreign Exchange Trading) (Arbitration) Rules.

The panel received no new cases during the year and none were carried over from the previous year.

Chairman	
LAM Yuk Kun Lawrence	
Deputy Chairperson	
LEE Pui Shan Rosita	
Members	
CHAN Siu-ping Chordio	LEUNG Tak-lap
CHEUNG Tai Keung Jack	

## Committees, panels and tribunal

### Process Review Panel for the Securities and Futures Commission

Reviews and advises the SFC upon the adequacy of the SFC's internal procedures and operational guidelines governing the action taken and decisions made by the SFC and its staff in the performance of its regulatory functions, including those related to the handling of complaints, licensing applications, inspection of intermediaries, investment products authorisation, exercise of investigation and disciplinary action, and corporate finance transactions (including the administration of listing rules).

Chairman	
Dr CHENG Mo Chi Moses, GBM, GBS, JP (to 31.10.2018)	LEE Kam-hung Lawrence, BBS, JP (from 1.11.2018)
Members	
CHAN Kam Wing Clement (to 31.10.2018)	KWAN Wing-han Margaret (from 1.11.2018)
CHAN Lap-tak Jeffrey (from 1.11.2018)	KWOK Tun Ho Chester
CHAN Lena	LAI Hin-wing Henry (from 1.11.2018)
CHAU Suet-fung Dilys (from 1.11.2018)	LEE Pui Shan Rosita (to 31.10.2018)
CHUA Suk-lin Ivy (from 1.11.2018)	LEE Wai Wang Robert (to 31.10.2018)
CHUI Yik-chiu Vincent (from 1.11.2018)	Dr MAK Sui Choi Billy
DING Chen	TSANG Sui Cheong Frederick
Dr HU Zhanghong (to 31.10.2018)	YUEN Shuk-kam Nicole
Ex-officio members	
CHEUNG Kam-Wai Christina, JP	TONG Carlson, SBS, JP (to 19.10.2018)
LUI Tim Leung Tim, SBS, JP (from 20.10.2018)	

### Securities and Futures Appeals Tribunal

Reviews a range of specified decisions made under the SFO by the SFC, the Monetary Authority or a recognised investor compensation company, and hears and determines any question or issue arising out of or in connection with any review.

Chairmen	
HARTMANN Michael John, GBS, former Non-Permanent Judge of the Court of Final Appeal	
KWOK Hing Wai Kenneth, SBS, SC, JP, former Deputy Judge of the Court of First Instance of the High Court	
TALLENTIRE Garry, former Deputy Judge of the Court of First Instance of the High Court	
LUNN Michael Victor, GBS, former Vice President of the Court of Appeal of the High Court (from 1.1.2019)	
Members	
CHAN Lap-tak Jeffrey	Prof LEUNG Siu-fai
CHAN Mei-bo Mabel	MAK Kwong-fai
CHAN Sze-oi Rebecca	Dr MAK Sui Choi Billy
CHENG Wai-sum Yvonne	MUH Yi-tong Anthony
CHEUNG Wing-han Ivy	NG Joo-yeow Gerry
CHIN Vincent	SHIH Edith
CHING Kim-wai Kerry	TSANG Chi-wai Roy
DATWANI Mohan	TSANG Kam-yin Wendy
DING Chen	TSE Wai-ming Timothy
HO Chiu-ping Dennis	WONG Hin-wing Simon
HUI Ming-ming Cindi	WONG Kwok-ching Jamee
KONG Chi-how Johnson	YUEN Miu-ling Wendy
LAI Hin-wing Henry	ZEE Helen

# Glossary and abbreviations

## Abu Dhabi Global Market Financial Services Regulatory Authority

The authority that regulates the financial services sector in Abu Dhabi.

## Alternative liquidity pool (ALP)

An electronic system which allows crossing or matching of orders anonymously outside traditional exchanges without any pre-trade transparency. Also known as dark pool or alternative trading system.

## Automated trading services (ATS)

Electronic facilities, outside of those provided by a recognised exchange company or clearing house, through which participants may trade, clear and settle securities, futures contracts and over-the-counter (OTC) derivatives.

## Boiler rooms

Frauds which may claim to be licensed and operate in a particular jurisdiction, and offer potentially worthless or false investment opportunities.

## Central counterparty

Facilitates trading in derivatives and equities markets by acting as the buyer to every seller and the seller to every buyer, thereby ensuring the performance of open contracts.

## China Banking and Insurance Regulatory Commission (CBIRC)

A ministry-level agency directly under the State Council which regulates the Mainland's banking and insurance industries.

## China Securities Regulatory Commission (CSRC)

A ministry-level agency directly under the State Council which regulates the Mainland's securities and futures markets.

## Cold shoulder order

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

## Crypto-assets

Includes cryptocurrencies, funds investing in cryptocurrencies and related products, cryptocurrency futures contracts and structured products.

## Exchange participant

A company with rights to trade on or through The Stock Exchange of Hong Kong Limited or Hong Kong Futures Exchange Limited.

## Exchange-traded fund (ETF)

Open-ended collective investment schemes which trade throughout the day like a stock on the secondary market (ie, through an exchange). ETFs may be managed actively or passively.

## Financial Action Task Force (FATF)

An inter-governmental body established to set standards and promote measures to combat money laundering, terrorist financing and related threats to the integrity of the international financial system.

## Financial Stability Board (FSB)

An international body which promotes global financial stability through recommendations for, and the implementation and monitoring of, policy initiatives and international standards.

## Financial technology (Fintech)

The application of information and communications technology to financial services.

## GEM

A stock market operated by Hong Kong Exchanges and Clearing Limited to provide fund-raising opportunities for small to mid-sized companies which may not meet the Main Board listing requirements. Formerly known as the Growth Enterprise Market.

## German Federal Financial Supervisory Authority

An integrated financial supervisor for the banking, securities and insurance sectors in Germany.

## Global Financial Innovation Network

An international network of financial services regulators and related organisations committed to supporting financial innovation in the interests of investors.

## Group of Twenty (G20)

An international forum for the governments and central bank governors from 19 of the world's major economies plus the European Union.

## Green finance

Financial instruments or investments which facilitate green development and help manage environmental and climate risks and opportunities.

## Hong Kong Trade Repository

A centralised registry of records of OTC derivatives transactions.

## Glossary and abbreviations

### **International Organization of Securities Commissions (IOSCO)**

A body of securities regulators worldwide which develops, implements and promotes adherence to internationally recognised standards for securities regulation.

### **Investment-linked assurance scheme (ILAS)**

A life insurance policy with investment elements that provides both insurance protection and investment options, usually through funds.

### **Leveraged and inverse products**

Products structured as ETFs for public offering in Hong Kong. Leveraged products aim to deliver a daily return equivalent to a multiple of the underlying index return while inverse products aim to deliver the opposite of the daily return of the underlying index.

### **Luxembourg Commission de Surveillance du Secteur Financier**

The authority regulating participants and products in Luxembourg's financial sector.

### **Mandatory provident fund (MPF)**

An employment-based retirement savings scheme which requires regular mandatory contributions by employees and employers in Hong Kong.

### **Market Misconduct Tribunal (MMT)**

An independent full-time body established under the Securities and Futures Ordinance (SFO) which imposes civil sanctions against those it determines to be guilty of market misconduct.

### **Open-ended fund companies (OFC)**

Collective investment schemes structured in corporate form with limited liability and variable share capital.

### **Over-the-counter (OTC) derivatives**

Financial instruments which are usually traded directly between dealers and principals rather than via an exchange and whose values are derived from those of underlying assets.

### **Paris Agreement**

An agreement within the United Nations Framework on Climate Change to make finance flows consistent with a low-carbon future.

### **Real estate investment trust (REIT)**

A collective investment scheme constituted as a trust that invests primarily in real estate with the aim to provide returns to holders derived from rental income.

### **Rights issue**

An offer to existing holders of a listed company's securities which enables them to subscribe to an additional number of securities in proportion to their existing holdings.

### **Securities and Futures Appeals Tribunal (SFAT)**

A body established under the SFO to review specified decisions made by the SFC, the Monetary Authority or a recognised investor compensation company.

### **Securities and Futures Ordinance (SFO)**

Together with subsidiary legislation, the law in Hong Kong relating to financial products and the securities and futures market and industry, as well as to their regulation and to other matters including the protection of investors.

### **Security token**

Digital representations of ownership of assets (eg, gold or real estate) or economic rights (eg, a share of profits or revenue) utilising blockchain technology.

### **Security token offerings (STO)**

Specific offerings of security tokens which have features of traditional securities offerings.

### **UK Financial Conduct Authority (FCA)**

The conduct and prudential regulator for financial markets and financial services firms in the UK.

### **Unit trust**

A collective investment scheme constituted in trust form.

### **Virtual assets**

Digital representations of value, such as cryptocurrencies, crypto-assets and digital tokens.

### **Whitewash waiver**

A waiver of a party's obligation to make a mandatory offer to other shareholders of a company arising from an issue of new securities of that company.



**Contact  
Information**

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35/F, Cheung Kong Center  
2 Queen's Road Central  
Hong Kong  
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Facsimile : (852) 2521 7836  
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**Auditor**

PricewaterhouseCoopers

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