



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

Regulation for Quality Markets



Annual Report 2012-13

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.



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Message from Chairman and CEO

This is our first joint statement as Chairman and CEO of the SFC. We decided that a single statement would be easier to digest and also enables us to better articulate our shared vision for the SFC.

We would first like to thank Dr Eddy Fong, the SFC's first non-executive Chairman, for his unstinting support over six years of dedicated service, and we wish him well in his future endeavours.

“

I wish to give special thanks to my predecessor, Eddy, for laying a very solid foundation for me to build on. I feel both honoured and conscious of the vital responsibility which rests upon me. I shall do my utmost to ensure that we stand firm as a regulator and stick to our mission through good times as well as in more challenging periods.”

– Carlson Tong



Carlson Tong
Chairman

Our mission

The SFC is firmly committed to strengthening and protecting the integrity and soundness of Hong Kong's financial markets for the benefit of the investing public as well as the financial industry. Our aim is to ensure that investors are at all times properly informed – so that they are in a position to make the best decisions – and also that conduct in our markets is properly regulated so that long- and short-term investment decisions can be made with confidence.

Upholding market confidence

2012 was another difficult year globally, with major uncertainty in the United States and Europe, and with concerns being expressed over the sustainability of the growth story in parts of Asia. However, as a regulator, economic headwinds cannot divert us from our day job which is to ensure that confidence in our markets is maintained throughout all market cycles.

One word occurs more than most when we discuss our approach to regulation within the SFC: “*quality*.” Quality in regulation signifies commitment to upholding integrity and transparency in the way markets operate, in the way firms conduct their businesses, in the way listed companies govern themselves and communicate with investors, and in the way investors trade in our markets. It should ideally comprise educated investors, good gatekeeping, professional and ethical practitioners, an efficient market that keeps pace with technological advances, good product choices and effective enforcement. All are necessary to instil investor confidence and keep untoward risk at bay.

Regulation and market development

We often hear that regulators need to strike a “balance” between facilitating market development and protecting investors, leaving an impression that these two elements of our remit are mutually incompatible. This would be mistaken; there should be complete alignment between investor protection and market development because each rests on an understanding that all market participants should be confident in the integrity and transparency of Hong Kong as an international financial centre. Sustainable market development and independent, robust regulation to protect investors are complementary and inseparable.

“
There has been a false assumption that regulators have to strike a balance between market development and regulation; in reality, the two align completely. I cannot emphasise enough that there is no advantage in lowering our standards to attract business. Strong regulation underpins investor confidence in our markets.”
– Ashley Alder

Responding proactively to changing markets and new regulatory challenges is not a choice, but a necessary commitment. Of course it is often said that over-regulation stifles legitimate market activity. And there is little doubt that regulation aimed at establishing the right level of safety and soundness in any financial system will result in costs for market participants. These costs may relate to the need to fix inadequate internal controls within firms, or the need for firms to take risk



Ashley Alder
CEO

management or compliance more seriously to minimise the chances of violating laws and regulations. But the end result should be unitary: the right degree of safety and soundness across the market will justify the cost. And of course as markets increase in complexity – whether of products or technology – the equation changes.

The key point is that any temptation to race to the regulatory bottom is entirely inconsistent with Hong Kong's development as an international financial centre. It can look superficially attractive to introduce a large measure of flexibility in some areas, or to lower the bar in others, to chase new business opportunities. But that would be pursuing a strategy which is the antithesis of sustainable market development.

Regulatory arbitrage is, therefore, not in our lexicon; we make every effort to ensure high standards, consistency and certainty in pursuing our regulatory mandate. We think that our work over the past year demonstrates this approach in action, including the need to respond to rapid change.

Our work

During the year, we pursued a range of initiatives and legislative projects. These included:

Enhancing the initial public offering (IPO) sponsor regime: We published a consultation paper in May 2012 and conclusions in December 2012. The new requirements will apply to listing applications submitted from 1 October 2013. They focus on the need for sponsors to thoroughly understand the companies which aspire to join our stock market before a listing application is made.

Establishing the new continuing disclosure regime for listed companies: With effect from 1 January 2013, companies are required to disclose important developments in a timely manner; breaches of this requirement can result in sanctions imposed by the Market Misconduct Tribunal.

Reporting short positions in stocks: To increase market transparency, we began in September 2012 weekly publication of the aggregate reported short positions in specific shares on the SFC website. The new reporting regime enables the SFC to better monitor potential risks or concentrations in our markets and also gives participants useful information.

Regulating electronic trading: In March 2013 we issued our conclusions on the regulation of internet trading, direct market access and algorithmic trading. To allow firms to adapt to the new regime, the proposals will come into effect on 1 January 2014.

Facilitating investment products development: We authorized the first Renminbi Qualified Foreign Institutional Investor (RQFII) A-share exchange-traded fund (ETF) in June 2012, the first dual-counter RQFII A-share ETF in October 2012, and the first physical silver and platinum ETFs in November 2012.

Market Misconduct Tribunal: Legislation enacted in May 2012 means that we can now directly institute proceedings before the Market Misconduct Tribunal to enforce the new listed company disclosure requirement and the six existing types of market misconduct under the Securities and Futures Ordinance¹.

Enforcement: We continued to send strong deterrent messages in all areas of responsibility with more cases before Hong Kong's courts and tribunals. These included landmark outcomes like the litigation against Hontex International Holdings Company Ltd that returned over \$1 billion to minority shareholders in a false IPO prospectus case, more injunctions and disqualification orders against company wrongdoers, more insider dealing cases as well as actions against sponsors and other intermediaries over a range of issues including hidden fees and charges, mis-selling and internal control and due diligence failures. Apart from the Hontex recovery, our actions resulted in over \$117.6 million in remediation of detected wrongdoing. We completed 36 disciplinary cases against intermediaries and successfully prosecuted 36 individuals and corporations.

¹ The six types of market misconduct under the Securities and Futures Ordinance are insider dealing, false trading, price rigging, disclosure of information about prohibited transactions, disclosure of false or misleading information inducing transaction and stock market manipulation.

We are also engaged in a number of new initiatives, including proposed legislation for regulation of the over-the-counter derivatives market, reviewing the “professional investor” regime, working with fellow regulators to enhance the regulation of investment-linked assurance schemes, as well as stepping up the regulation of dark pools. (See Operational Review (pages 31-57) and Corporate Outlook (pages 23-27) for details.)

We are conscious that it is vital to communicate our policies and proposals to all key stakeholders via consultations, seminars and informal dialogue. We also work closely with our fellow regulators here and overseas.

Future work

Participating in global regulatory developments

In response to the global financial crisis, governments across the globe have undertaken a major overhaul of financial regulation. It has become apparent that this has potentially far-reaching effects on foreign jurisdictions, including those in Asia. Although we are fully committed to the post-crisis consensus for reform agreed by the G-20 leaders – ranging from derivatives legislation to resolution regimes to address the “too-big-to-fail” problem – we also recognise that “one-size-fits-all” solutions may not work well in all situations. In particular they often do not take into account legitimate differences in regulatory systems to deal with local market characteristics or economic and financial development in growth markets. And the effective export to Asia of rules designed in the European Union and the United States could lead to excessive costs, fragmented markets and reduced liquidity impacting on the availability of financing to real economies.

We believe that there should be a stronger, collaborative “Asian voice” to respond in a measured and constructive way to these developments, and to articulate common goals within the region. For example, we think that the global debate about “shadow banking” needs to recognise regional differences: in this area the post-financial crisis focus in the West is on hedge funds, money market funds, securitisations and other forms of financial activity which were, rightly, seen to be connected to the crisis or which pose special risks. However in Asia the “non-bank sector” is very different, characterised by other financing channels calibrated to growth markets. These may demand different regulatory responses.

In order to ensure that we are able to contribute in a meaningful way to the development of rules which will impact on Hong Kong, Asia and the global economy, it is vital that we are properly represented in international standard-setting organisations. We sit on the Board of the International Organization of Securities Commissions (IOSCO), we now chair the IOSCO Asia-Pacific Regional Committee (starting May 2013) and we also co-chair the Working Group on Shadow Banking in Asia of the Financial Stability Board with Bank Negara Malaysia. The group’s mandate is to consider the Asian context discussed above. We make sure that we take a very active part in the policy and standard-setting work of IOSCO through representations in all policy committees and the key task forces.

Strengthening ties with the Mainland

Our ties with mainland China will continue to grow; Hong Kong is now a prime location for driving the internationalisation of the renminbi and this development will increasingly characterise Hong Kong’s position as an international financial centre. The launch of funds under the RQFII scheme following its introduction in late 2011 marked a breakthrough for our investment product market. For the first time, SFC-authorized funds could invest directly in the Mainland’s equity and interbank bond markets in renminbi. The scheme was further expanded in March 2013 to increase the types of qualified RQFII holders and to reduce investment restrictions of RQFII funds.

We are now working closely with Mainland authorities to build a mutual recognition platform for public funds. If successful this will open up a new channel for funds to be sold directly to investors in mainland China and Hong Kong, with a streamlined authorization process. Of course we make sure that investor protection is a key part of any new development.

Contributing to Hong Kong's development as a world-class financial centre

Hong Kong is well positioned to develop into a major wealth and asset management centre – an explicit strategy in which we play a key role. We are working closely with the Government, key industry associations and market participants to develop the legal and regulatory regime to enable Hong Kong to enhance its role as a location for a range of fund business to set up and thrive.

We also work closely with the Mainland and The Stock Exchange of Hong Kong Ltd to further develop Hong Kong as a venue for listing and capital market financing and trading for international and Mainland players; again this is an area which can only grow in size and sophistication in the next few years.

Protecting investors

Supervision, surveillance and enforcement are the essential regulatory tools underpinning sound markets. In a quality market, wrongdoers are punished and investors are compensated for losses arising from market fraud and misconduct. We take a tough line against offenders and will pursue criminal sanctions

whenever we can. Of course investors also have to recognise that they have responsibility for their own decision making when participating in markets with comprehensive disclosure requirements and business conduct rules. The new Investor Education Centre works to equip investors with the ability to make informed financial decisions and manage their money wisely.

Finally, we would like to thank the Board and all our colleagues for their exceptional commitment and dedication. We could not carry out our work to the high standard we expect of ourselves without a committed and professional team. Our people are our most important asset. With our unique positioning and vital role in the financial community, the SFC is a place where "people with a purpose" can thrive.

As we move through 2013, our core objective is to regulate in order to ensure that quality markets attract quality participants and grow Hong Kong sustainably as a leading international financial centre.

Carlson Tong
Chairman

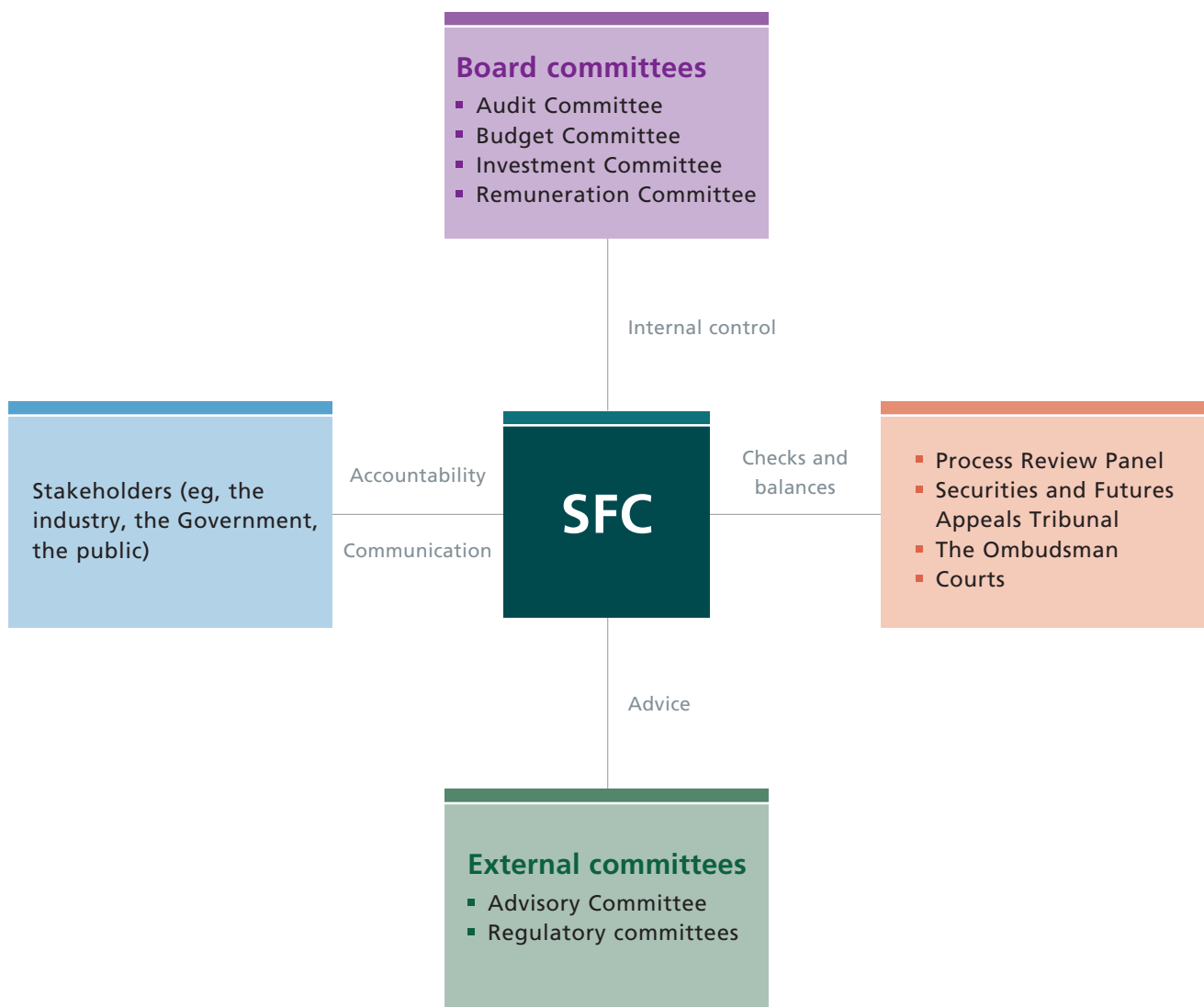
Ashley Alder
CEO

Corporate **Governance**



As the statutory regulator of Hong Kong’s securities and futures markets, the SFC is dedicated to promoting transparency, accountability and communication. Our governance framework lays down a clearly defined management structure, independent checks and balances, high conduct standards, and comprehensive operational and financial control procedures. The objective is to ensure that we act with credibility, dedication, fairness and transparency at all levels to fulfil our mandates effectively. Furthermore, a strong corporate governance culture hinges on a dynamic relationship between the SFC and the market.

Governance framework



Board

The Board is responsible for setting the SFC's overall direction and policies, providing strategic guidance to senior management, and overseeing the functions carried out by the Executive Committee (ExCo) (see page 10). The Board meets at least once a month.

Constitution

The constitution and proceedings of the Board are stipulated by the Securities and Futures Ordinance (SFO). The Board comprises a non-executive Chairman, a Chief Executive Officer (CEO), Executive Directors (EDs) and Non-Executive Directors (NEDs). NEDs form the majority of the Board.

All 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. The emoluments of Board members are determined by the Government. Details are disclosed on page 83.

We adopt the following practices to help our Board members maintain high corporate governance standards:

- Board members receive adequate information before meetings to enable thorough consideration of any issues raised.
- Minutes of the Board meetings are circulated to members for comments.
- Board members are provided with information regarding our operation and financial condition on a monthly basis.
- Apart from its monthly meetings, from January 2013 the Board has started holding quarterly meetings to discuss policies in the pipeline. Board members are also able to seek additional information about policy proposals where necessary.

- Each newly-appointed Board member is briefed on the SFC's work, and provided with relevant documents, including the staff code of conduct. All Board members must declare conflicts of interest.
- NEDs chair the Audit Committee, the Budget Committee, the Investment Committee and the Remuneration Committee. These committees are all established by the Board, which is also informed of all committee decisions.

Our Commission Secretariat supports the Board and assists it in dealing with a wide variety of SFC-wide policies and initiatives, including liaising with Board members and organising meetings.

Chairman and CEO

Since the enactment of the Securities and Futures (Amendment) Ordinance 2006, the posts of Chairman and CEO have been split to improve accountability.

The Chairman leads the Board in setting the overall direction, policies and strategies of the SFC and in monitoring the performance of the executive arm in fulfilling them. He provides counsel to the CEO on how the organisation is run.

The CEO has executive responsibility for the day-to-day operations. He develops strategic objectives, including setting the SFC's agenda and priorities, and implementing the objectives as agreed with the Board. He also reports regularly to the Board, assigns responsibilities to senior management and supervises their work.

Year in review

On 20 October 2012, Mr Carlson Tong succeeded Dr Eddy Fong as Chairman of the SFC. Dr Fong stepped down on 19 October 2012.

Ms Teresa Ko and Dr Kelvin Wong were appointed as NEDs for a two-year term, from 1 August 2012 and 20 October 2012 respectively. Mrs Angelina Lee's term as an NED expired on 31 July 2012. Two NEDs, Prof Leonard Cheng and Mr Anderson Chow, were re-appointed for a two-year term from 1 January 2013.

NEDs come from a range of professional backgrounds, including law, academia and accountancy, and offer a good mix of experience and expertise, as well as an independent perspective.

Three EDs were re-appointed for a three-year term: Mr Brian Ho (effective from 28 August 2012); Mr Keith Lui (effective from 28 August 2012); and Mr Mark Steward (effective from 25 September 2012).

As at 31 March 2013, the Board had 13 members, namely, a non-executive Chairman, seven NEDs and five EDs (including the CEO). (See pages 18-22 for the full list of Board members and their biographies.)

Last year, 17 Board meetings were held.

Executive Committee

Led by the CEO, the ExCo comprises four other EDs, the Chief Counsel and four Senior Directors. As the sole executive body with the highest authority within the organisation, the ExCo is charged with delegated duties for administrative, financial and management responsibilities and functions. It is also responsible for implementing goals set by the Board and ensuring that the SFC functions effectively. At its bi-weekly meetings, it considers proposals and funding requests submitted by all units. It also meets weekly to discuss topical issues.

SFC committees

Board committees

Board committees (see page 11) focus on clearly-defined areas of the SFC's operations. They play an important role in ensuring that the SFC is accountable and transparent.

During the year under review, we established the Investment Committee which advises on the SFC's fund management policies and strategies, and monitors the performance of its investments.

Attendance records of the Board and Board committees during the year are on page 16.

External committees

To reflect market participants' diverse interests, external committees consist of a range of stakeholders, comprising a large external membership drawn from the market. The committees fall into two categories, namely advisory and regulatory, and play a significant role in the governance of the SFC.

Advisory Committee: Set up under the SFO, it offers insight, advice and recommendations on a range of policy matters. It is chaired by our Chairman and comprises the CEO and not more than two other EDs, as well as a majority of external representatives appointed by the Financial Secretary under the authority delegated by the HKSAR Chief Executive.

Regulatory committees: Also set up under the SFO, each committee specialises in particular regulatory areas, such as market supervision, investment products, shareholders' rights and interests, and takeovers and mergers. Members are appointed by the Board and include NEDs, EDs and a large external representation.

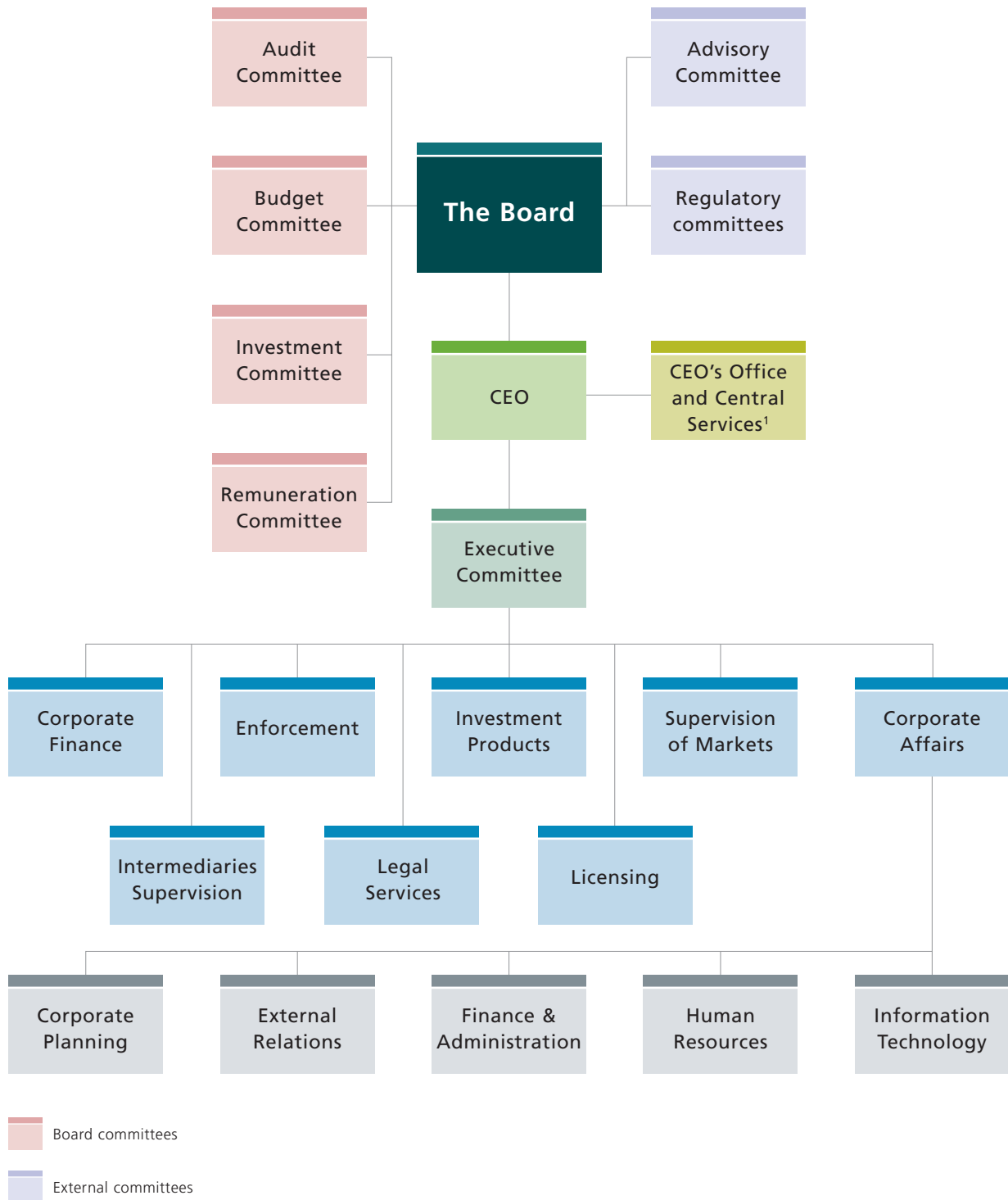
For the role and functions of each of the external committees, see pages 131-140.

Committee	Membership	Responsibilities
Audit Committee	Comprises three NEDs	<ul style="list-style-type: none"> Reviews annual financial statements Recommends the appointment of external auditors Considers the scope and planning of external audit and reviews the audit findings Examines management's procedures to ensure effective financial and internal controls Considers other matters as required, including complaints against SFC staff
Budget Committee	Comprises three NEDs and two EDs ¹	<ul style="list-style-type: none"> Examines and approves the parameters and basis used in the annual budget Considers the mid-year budget review Recommends the annual budget
Investment Committee	Comprises four NEDs, two EDs and a Senior Director ¹	<ul style="list-style-type: none"> Advises on the SFC's fund management policies, strategies and investment guidelines Recommends the appointment of investment manager and advisor and monitors their performance including their compliance with the investment guidelines Advises on investment risk management and asset allocation and monitors the performance of investments
Remuneration Committee	Comprises eight NEDs	<ul style="list-style-type: none"> Reviews the structure and level of staff remuneration Reviews trends in remuneration packages and recommends adjustments Considers other matters as required, including recommendations to the Government on EDs' remuneration and re-appointment of certain EDs

¹ In non-voting capacity



Organisation structure



¹ CEO's Office and Central Services include the Chief Executive Officer's Office, Commission Secretariat, International and China, Risk and Strategy, and Press Office.

Our structure

During the year, we established a new International and China team, which is part of the CEO's Office and Central Services. This team handles international and Mainland matters and maintains close relationships with regulators in other jurisdictions.

Following the restructuring, we renamed the Policy, China and Investment Products Division the Investment Products Division.

Standards of conduct

As a regulator, we require high standards of integrity and conduct from our staff to promote and maintain public confidence. Staff must adhere to our code of conduct pertaining to confidentiality, conflicts of interest, personal investments and acceptance of gifts and hospitality, in addition to the relevant legal obligations. All new staff members are given a copy of the code. Failure to comply with the code may result in disciplinary action.

Accountability and transparency

Delegation of authority

We have a comprehensive system of delegation of authority under which the authority of the Board and different levels of the executive management is clearly delineated. The Board delegates certain regulatory powers and functions to EDs, with power to sub delegate to staff in their respective division, as permitted under the SFO.

Control and reporting

Financial control policies and procedures define the scope and responsibility for administration, financial and management functions, including appointment of contractors, fee collection, investment, expenditure and budgeting, etc.

We adopt the International Financial Reporting Standards for reporting and disclosure of financial statements. An external firm is appointed to conduct an interim review and annual audit. The interim financial statements and the annual audited statement are approved by the Board upon recommendation by the Audit Committee. Our financial statements are published in quarterly reports and the annual report. The budget is submitted to the Financial Secretary for approval and is tabled before the Legislative Council (LegCo) after consideration by the Budget Committee and the Board every year.

We also provide regular reports to the Government. We attend meetings at LegCo to explain policy initiatives and other issues of public interest, including meetings of the Panel on Financial Affairs. We discuss draft legislation at meetings of relevant LegCo-designated bills committees and sub-committees.

Handling complaints and grievances

We have established procedures for handling complaints or grievances. Reports of improper practices of the SFC or our staff can be made under our public interest grievance procedures. These cover criminal activities such as accepting a bribe, financial or administrative malpractice as well as failure to comply with the SFO. The procedures for lodging complaints are posted on our website.



Engagement with stakeholders

We use a range of channels to maintain dialogue with stakeholders, including the Government, industry, regulatory counterparts and the general investing public. We also address public enquiries received verbally or in writing.

Prior to introducing any regulatory change, we conduct public consultations and announce consultation conclusions before implementation. In addition to the annual report, our quarterly reports summarise key regulatory action and organisational activities, and financial details. We also issue press releases and industry-related publications, including the *Dual Filing Update* and *Takeovers Bulletin*.

Our corporate website (www.sfc.hk) enables stakeholders to access information easily. The website includes all SFC publications, press releases, consultation documents and conclusions, as well as a dedicated section on corporate governance and corporate social responsibility.

Risks

We identify, assess and manage external and internal risks in a timely and systematic manner.

External risks

Each division closely monitors and manages regulatory risks in its respective area. In addition, the Risk and Strategy team fosters a cross-divisional dialogue of existing and emerging risk themes facing the SFC and the Hong Kong financial markets.

During the year, the Risk and Strategy team set up a series of risk-focused industry meetings with a range of financial institutions. The objective of these meetings is to enable us to stay actively informed about the evolution of financial markets, market structure, product innovation, emerging risks and risk management practices. These meetings also enable us to establish a dialogue with institutions to better understand current risks and risk mitigation. We assess different

perspectives and approaches, communicate views across relevant industry sectors and factor this work into our overall policy development.

We have a market contingency plan providing detailed procedures for dealing with emergencies that may affect Hong Kong's securities and futures markets, such as precipitous market falls and trading/clearing system failure. The plan is designed to enable us to act promptly and appropriately to deal with such situations as they arise.

Internal risks

We conduct annual internal control reviews to assess whether we adhere to our systems of internal control, as well as to evaluate and enhance the adequacy of these procedures. Conducted by an external audit firm, the review has its focus approved by the Audit Committee annually. During the year, information technology security, budget commitment, expenditure and purchase process were under review.

We have in place a business resumption plan covering readily identifiable risks, including technical problems, fires, natural disasters and other emergencies. The plan is communicated within the organisation and updated from time to time.

We have a range of measures, including office and computer access controls, to protect our information and information systems from unauthorised access, use, modification or destruction. We also have an information security policy to provide guidance to staff on how to protect the confidentiality and integrity of information.

Independent checks and balances

We are subject to external checks and balances designed to ensure fairness in our decision making, observance of due process, and proper use of our regulatory powers.

Process Review Panel: An independent panel established by the HKSAR Chief Executive in 2000, the panel consists of representatives from various community segments and two ex-officio members, namely the SFC Chairman and a representative from the Secretary for Justice.

Securities and Futures Appeals Tribunal: Chaired by current or former judges appointed by the HKSAR Chief Executive, the tribunal comprises two other members drawn from a panel appointed by the Financial Secretary under delegated authority.

We are also subject to judicial review by the courts and indirect oversight by the Ombudsman.

Independent body	Function	Tasks handled
Process Review Panel	<ul style="list-style-type: none"> Reviews and advises on the adequacy of our internal procedures and operational guidelines, including those on handling of complaints, licensing applications, inspection of intermediaries, product authorization, disciplinary/enforcement action, etc 	<ul style="list-style-type: none"> Reviewed 55 selected cases and published the 11th report in September 2012 Concluded that the SFC had generally followed its internal procedures and operational guidelines in handling those cases
Securities and Futures Appeals Tribunal	<ul style="list-style-type: none"> Reviews specified decisions made by the SFC Has power to confirm, vary or set aside SFC decisions (and where a decision is set aside, substitute any other decision it considers appropriate) or refer the matter back to the SFC with directions 	<ul style="list-style-type: none"> Received request to review three cases of SFC regulatory decisions Decided on one case (reasons for determination pending), allowed one to be withdrawn
The Ombudsman	<ul style="list-style-type: none"> Handles public complaints against the SFC and its staff for alleged maladministration 	<ul style="list-style-type: none"> Conducted two preliminary inquiries including one case brought forward from 2011-12
Courts	<ul style="list-style-type: none"> Handles judicial reviews of SFC decisions 	<ul style="list-style-type: none"> Subjected to one application for judicial review brought forward from 2011-12 which was dismissed in 2012-13

Meeting attendance record

Meetings attended/held	Board	Audit Committee	Budget Committee	Investment Committee	Remuneration Committee	Executive Committee
Chairman						
Eddy Fong ¹	7/7	N/A	N/A	N/A	1/1	N/A
Carlson Tong ²	15/17	N/A	N/A	3/3	1/1	N/A
Executive Directors						
Ashley Alder	16/17	N/A	2/2	2/3	N/A	22/24
Brian Ho	13/17	N/A	N/A	N/A	N/A	18/24
Alexa Lam	13/17	N/A	2/2	N/A	N/A	13/24
Keith Lui	17/17	N/A	N/A	3/3	N/A	23/24
Mark Steward	17/17	N/A	N/A	N/A	N/A	24/24
Non-Executive Directors						
Chan Kam Lam	11/17	N/A	N/A	N/A	1/2	N/A
Leonard Cheng	12/17	N/A	2/2	N/A	2/2	N/A
Anderson Chow	10/17	N/A	N/A	2/3	0/2	N/A
Teresa Ko ³	8/13	0/1	1/2	N/A	1/1	N/A
Angelina Lee ⁴	3/4	1/1	N/A	N/A	1/1	N/A
Lawrence Lee	16/17	2/2	N/A	N/A	2/2	N/A
Wong Kai Man	14/17	2/2	2/2	2/3	2/2	N/A
Kelvin Wong ⁵	8/8	N/A	N/A	2/2	1/1	N/A
Senior Directors & Chief Counsel						
Benedicte Nolens	N/A	N/A	N/A	N/A	N/A	22/24
Stephen Po	N/A	N/A	N/A	N/A	N/A	21/24
Stephen Tisdall	N/A	N/A	N/A	N/A	N/A	21/24
Andrew Wan	N/A	N/A	N/A	3/3	N/A	23/24
Andrew Young	N/A	N/A	N/A	N/A	N/A	22/24

¹ Appointment expired on 19.10.2012.

² Mr Tong was appointed as a Non-Executive Director on 1.4.2011 and appointed as the Chairman on 20.10.2012.

³ Appointment started on 1.8.2012.

⁴ Appointment expired on 31.7.2012.

⁵ Appointment started on 20.10.2012.

Performance pledges

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

		% of cases meeting the pledge		
		2012/13	2011/12	2010/11
Applications for subordinated loan or modification/waiver of requirements under the SFO				
Commence review of application upon receipt	2 business days	98% ¹	100%	98.3%
Authorization of investment products²				
Take-up of applications upon receipt	2 business days	100%	100%	100%
Preliminary response to applications after take-up for unit trusts, mutual funds and investment-linked assurance schemes and MPF pooled investment funds	7/14 ³ business days	100%	100%	100%
Preliminary response to applicants after take-up for other products	14 business days	100%	100%	100%
Enquiries				
Preliminary replies ⁴	5 business days	99.9% ⁵	100%	100%
Processing of licensing applications⁶				
Corporations	15 weeks	100%	96%	100%
Representatives (provisional licences)	7 business days	99% ⁷	98%	97%
Representatives (normal licences)	8 weeks	100%	99%	98%
Representatives (responsible officers)	10 weeks	99% ⁷	99%	96%
Transfer of accreditation	7 business days	99% ⁷	94%	94%
Complaints				
Preliminary response	2 weeks	99.9% ⁸	99.8%	99.2%

¹ Two cases failed to meet the pledge due to operational issues or unexpected complications.

² Compliance with our performance pledges is measured in relation to applications in respect of which all of the required documentation is supplied by the applicants in a comprehensive manner.

³ For unit trusts and mutual funds, effective from 1 May 2011, the target of 14 business days is applicable for the following types of schemes:

- new umbrella funds
- schemes with new management company
- specialized schemes under Chapter 8 of the *Code on Unit Trusts and Mutual Funds*
- UCITS funds that use expanded investment powers
- schemes with policy implications

⁴ On 1 April 2012, the pledge for replying to enquiries was changed to five business days.

⁵ Due to resource constraints, one case failed to meet the pledge.

⁶ Compliance with our performance pledges is measured in relation to applications in respect of which all of the required documentation is supplied by the applicants in a comprehensive and efficient manner and in which delays, for which we have no responsibility, do not occur.

⁷ Some cases failed to meet the pledges largely due to resource constraints and/or unexpected complications.

⁸ Due to resource constraints, one case failed to meet the pledge.

Board members



- 1 Carlson Tong
- 2 Alexa Lam
- 3 Brian Ho
- 4 Chan Kam Lam
- 5 Lawrence Lee
- 6 Keith Lui
- 7 Anderson Chow



- 8 Ashley Alder
- 9 Teresa Ko
- 10 Mark Steward
- 11 Leonard Cheng
- 12 Kelvin Wong
- 13 Wong Kai Man

Carlson TONG, JP

Chairman

From 20 October 2012

Current appointment expires on 19 October 2015

Member, Exchange Fund Advisory Committee; Chairman, Hong Kong Sports Institute Ltd; Chairman, English Schools Foundation; Chairman, Employees' Compensation Insurance Levies Management Board; Member, Banking Advisory Committee of the Hong Kong Monetary Authority; Member, HKEx Listing Nominating Committee; Chairman, KPMG China (2007-2011); Chairman, KPMG ASPAC and Member, KPMG Global Board (2009-2011).

Chairs Investment Committee and Advisory Committee. Member of Remuneration Committee, Nominations Committee, SFC (HKEC Listing) Appeals Committee and Process Review Panel for the SFC.

Ashley ALDER

Chief Executive Officer

From 1 October 2011

Current appointment expires on 30 September 2014

SFC: Executive Director (2001-2004); Herbert Smith: Partner and Head of Asia (2004-2011), Partner (1994-2001), Associate (1986-1994); Solicitor admitted to practice in England and Wales in 1986 and in Hong Kong in 1990.

Chairs Nominations Committee. Member of Budget Committee, Executive Committee, Advisory Committee, Investment Committee and SFC (HKEC Listing) Committee.

The Hon CHAN Kam Lam, SBS, JP

Non-Executive Director

From 15 November 2007

Current appointment expires on 14 November 2013

Member, Chinese People's Political Consultative Conference; Elected Member (Kowloon East), Legislative Council of HKSAR; Board Member, Airport Authority; Member, Council of the Hong Kong Polytechnic University; Member, Deposit-taking Companies Advisory Committee; Member, Travel Industry Compensation Fund Management Board.

Member of Remuneration Committee and SFC (HKEC Listing) Appeals Committee.

Prof Leonard K CHENG, JP

Non-Executive Director

From 1 January 2011

Current appointment expires on 31 December 2014

Dean of Business and Management, The Hong Kong University of Science and Technology; Director, Hong Kong Institute for Monetary Research; Member, Statistics Advisory Board (2010-2012); Member, Hong Kong Port Development Council (2011-2012); Member, Provisional Minimum Wage Commission (2009-2010); Member, Broadcasting Authority (2003-2009); Member, Manpower Development Committee (2002-2006); Member, Monitoring Group on Trials and Studies for the Harbour Area Treatment Scheme (2001-2003); Member, Investment Promotion Strategy Group (2000-2001); Member, Advisory Committee on New Broad-based Taxes (2000-2001); Member, International Review Panel, Strategic Sewage Disposal Scheme (2000-2001); Member, Hong Kong Committee for Pacific Economic Cooperation (1998-2004); Member, Economic Advisory Committee (1996-2001); Member, Shanghai-Hong Kong Council for the Promotion and Development of Yangtze (1998-2002).

Deputy Chairman of Remuneration Committee and Budget Committee; Member of SFC (HKEC Listing) Appeals Committee.

Notes:

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

Dr Eddy C Fong served on the Board as Chairman during the reporting year from 1 April to 19 October 2012.

Mrs Angelina P L Lee served on the Board as Non-Executive Director during the reporting year from 1 April to 31 July 2012.

Anderson CHOW Ka Ming, sc

Non-Executive Director

From 1 January 2011

Current appointment expires on 31 December 2014

Senior Counsel; Recorder, Court of First Instance of the High Court of HKSAR; Honorary Lecturer, Department of Professional Legal Education, Faculty of Law, The University of Hong Kong; Chairman, Water Pollution Control Appeal Board; Chairman, Air Pollution Control Appeal Board; Chairman, Standing Committee on Company Law Reform; Member, Law Reform Commission; Investigation Committee Convenor and Member of Investigation Panel A, Hong Kong Institute of Certified Public Accountants; Practising Senior Counsel Member, Barristers Disciplinary Tribunal Panel; Member, Management Committee of the Consumer Legal Action Fund; Member, Appeal Board on Public Meetings and Processions; Deputy High Court Judge, HKSAR (2009); Deputy Chairman, Administrative Appeals Board (2005-2011); Alternate of the Disciplinary Committee Convenor, Hong Kong Institute of Certified Public Accountants (2005-2011); Member, Disciplinary Panel A of the Hong Kong Institute of Certified Public Accountants (2002-2011); Member, Criminal and Law Enforcement Injuries Compensation Board (2005-2011); Chairman, Appeal Tribunal (Buildings) (2000-2007); Member, Disciplinary Chair Committee of Securities and Futures Commission to act as Chairman of the Takeovers and Mergers Panel in disciplinary proceedings and Takeovers Appeal Committee (2008-2010); Member, Appointment Advisory Board of Hong Kong International Arbitration Centre (2008-2010).

Member of Remuneration Committee, Investment Committee, SFC (HKEC Listing) Appeals Committee, Investor Compensation Fund Committee, Securities Compensation Fund Committee and Nominations Committee.

Brian HO Yin Tung

Executive Director Corporate Finance Division

From 28 August 2006

Current appointment expires on 27 August 2015

SFC: 1992-1994 and 1995-present; Senior Director (2000-2006); Solicitor admitted in Hong Kong in 1988; Member, HKEx Listing Nominating Committee; Member, the Advisory Committee on Bond Market Development.

Chairs Public Shareholders Group. Member of Nominations Committee, Executive Committee and Committee on Real Estate Investment Trusts.

Teresa KO Yuk Yin, JP

Non-Executive Director

From 1 August 2012

Current appointment expires on 31 July 2014

China Chairman and Partner, Freshfields Bruckhaus Deringer; Solicitor; Member, Exchange Fund Advisory Committee; Member, Expert Advisory Committee for M&A, China Securities Regulatory Commission; Member, Standing Committee on Disciplined Services Salaries and Conditions of Services; Council member, Hong Kong University of Science and Technology; Chairman, Listing Committee (2009-2012) and Deputy Chairman, Listing Committee (2006-2009), The Stock Exchange of Hong Kong Ltd; Independent Director, Travel Industry Council of Hong Kong (2005-2010); Member, Standing Committee on Company Law Reform (2005-2011).

Chairs Audit Committee. Deputy Chairman of Takeovers and Mergers Panel. Member of Budget Committee, Remuneration Committee, Takeovers Appeal Committee and SFC (HKEC Listing) Appeals Committee.

Alexa LAM, JP

Deputy Chief Executive Officer Executive Director, Investment Products Division, International and China

From 1 December 2001

Current appointment expires on 28 February 2014

SFC: Executive Director and Chief Counsel (March-November 2001); Chief Counsel (1999-2001); Senior Adviser-Chairman's Office (1998-1999); Co-chair, Working Group on Margining Requirements of the Basel Committee on Banking Supervision and the International Organisation of Securities Commissions; Member, Hong Kong Trade Development Council Financial Services Advisory Committee; Member, Hong Kong Trade Development Council Asian Financial Forum Steering Committee; Member, Professional Advisory Board – University of Hong Kong Faculty of Law's Asian Institute of International Financial Law.

Chairs Products Advisory Committee and Committee on Real Estate Investment Trusts. Member of Advisory Committee, Budget Committee, Executive Committee, Securities Compensation Fund Committee, Investor Compensation Fund Committee and SFC (HKEC Listing) Committee.

Lawrence LEE Kam Hung, JP

Non-Executive Director

From 15 November 2009

Current appointment expires on 14 November 2013

Chairman, Hong Kong, PRC and Vietnam offices, Baker & McKenzie; Member, Corporate Group, Baker & McKenzie; Chairman, Asia Pacific Regional Council, Baker & McKenzie (1999-2000); Executive Committee member, Baker & McKenzie (1997-2000); Member, the Hospital Authority; Chairman, the Hospital Governing Committee of Pamela Youde Nethersole Eastern Hospital; Fellow of Hong Kong Securities and Investment Institute; Member, the Supervisory Board of the Hong Kong Housing Society (2000-2004).

Chairs Remuneration Committee. Member of Audit Committee and SFC (HKEC Listing) Appeals Committee.

Keith LUI Kei Kwong

Executive Director

Supervision of Markets Division

From 28 August 2006

Current appointment expires on 27 August 2015

SFC: 1991-1994 and 1995-present; Commission Secretary (2001-2004); Senior Director (2002-2006); Member, HKEx Risk Management Committee.

Chairs Securities Compensation Fund Committee and Investor Compensation Fund Committee. Member of SFC (HKEC Listing) Committee, Executive Committee and Investment Committee. Director of the Investor Compensation Company Ltd.

Mark STEWARD

Executive Director

Enforcement Division

From 25 September 2006

Current appointment expires on 24 September 2015

Deputy Executive Director, Enforcement, Australian Securities and Investments Commission (ASIC) (2004-2006); Director, Enforcement, ASIC (2003-2004); Solicitor admitted in Australia in 1990.

Member of SFC (HKEC Listing) Committee and Executive Committee.

Non-Executive Director of the Financial Dispute Resolution Centre Ltd.

WONG Kai Man, BBS, JP

Non-Executive Director

From 26 May 2009

Current appointment expires on 25 May 2015

Director, Fung (1906) Foundation Ltd; Director, Victor and William Fung Foundation Ltd; Independent Non-Executive Director, Shangri-la Asia Ltd; Independent Non-Executive Director, SUNeVision Holdings Ltd; Independent Non-Executive Director, SCMP Group Ltd; Independent Non-Executive Director, China Construction Bank Corporation; Independent Non-Executive Director, VTech Holdings Ltd; Honorary Associate Professor, School of Business, The University of Hong Kong; Member, Listing Committee, Growth Enterprise Market, The Stock Exchange of Hong Kong Ltd (1999-2003); Member, Hospital Governing Committee, Haven of Hope Hospital; Court and Council Member, The University of Hong Kong; Director, the School of Professional and Continuing Education, The University of Hong Kong; Court Member, the City University of Hong Kong; Director, Haven of Hope Christian Service; Director, World Vision Hong Kong.

Chairs Budget Committee. Deputy Chairman of Audit Committee and Investment Committee. Member of Remuneration Committee and SFC (HKEC Listing) Appeals Committee.

Dr Kelvin WONG Tin Yau, FHKIoD

Non-Executive Director

From 20 October 2012

Current appointment expires on 19 October 2014

Executive Director and Deputy Managing Director of COSCO Pacific Ltd; Council Chairman, The Hong Kong Institute of Directors; Chairman (2006-2008) and Council Advisor, Hong Kong Chinese Orchestra Ltd; Board Director, Hong Kong Sports Institute Ltd; Member, Main Board and GEM Listing Committee of The Stock Exchange of Hong Kong Ltd; Member, Standing Committee on Company Law Reform; Member, Corruption Prevention Advisory Committee of Independent Commission Against Corruption; Member, Appeal Board Panel (Town Planning); Member, The Board of Review (Inland Revenue Ordinance); Council member, The Hong Kong Management Association; Member, OECD/World Bank Asian Corporate Governance Roundtable.

Member of SFC (HKEC Listing) Committee and SFC (HKEC Listing) Appeals Committee, Investment Committee and Remuneration Committee.

Note:

FHKIoD refers to Fellow of The Hong Kong Institute of Directors.

Corporate Outlook

To fulfil the role of regulator, we take a risk-based and interactive approach. Frequent dialogue with the securities and futures industry allows us to stay in step with business evolution, product innovation, structural changes in the market, developments in risk management and emerging risks. We co-operate with other regulators in Hong Kong to tackle systemic and emerging risks, while playing an active role in global regulatory initiatives. Internally, we continually assess existing and emerging risk themes facing the SFC and Hong Kong financial markets and, as a result, take measures to enhance our regulatory regime.

We emphasise the need to ensure the sustainable growth of Hong Kong as an international financial centre, working with the market to enable financial innovation to take place, whilst ensuring that investor protection is not compromised. For example, we have improved disclosure requirements and selling practices for investment products, and ensured that our “gate-keeping” role as a licensing authority and a regulator of listed companies operates fairly and efficiently.

Finally, we contribute to the long-term competitiveness of Hong Kong by ensuring that the regulation of Hong Kong’s financial markets is benchmarked to international standards.

To effectively address these objectives, it is important that the SFC operates efficiently and that resources are optimised.

Promoting market quality

Quality in regulation signifies a commitment to upholding market integrity and transparency, including the way markets operate, the way firms carry out their businesses, how listed companies and investors communicate, and how investors participate in our markets.

IPO sponsors

In December 2012 we issued the conclusions to a consultation on the enhanced regulation for initial public offering (IPO) sponsors. Since then, we have been working closely with The Stock Exchange of Hong Kong Ltd (SEHK) on measures to streamline the regulatory commenting process so that companies can be listed more efficiently. We have also been working with the Hong Kong Securities and Investment Institute (HKSI) on the preparation of two new regulatory examinations, as well as a refresher course, for individuals seeking to act as Sponsor Principals or to engage in sponsor work.

Separately, we will assist the Government on the legislative amendments required to clarify sponsors’ liability under the Companies Ordinance.

OTC derivatives

It is anticipated that, subject to the enactment of necessary legislation, a new regulatory regime governing the conduct of over-the-counter (OTC) derivatives business will be introduced in 2014. It is expected that this will involve two new types of regulated activity, namely, Type 11 regulated activity (dealing in OTC derivative products or advising on OTC derivative products); and Type 12 regulated activity (providing clearing agency services for OTC derivative transactions). We will collaborate with the HKSI in the preparation of new regulatory examinations. It is further anticipated that the scope of two existing regulated activities, Type 7 (providing automated trading services) and Type 9 (asset management), will be expanded to reflect changes arising out of the introduction of the new regime.

It is expected that an enabling bill will be tabled in the Legislative Council during the 2012-13 legislative session. A consultation exercise concerning relevant subsidiary legislation is also being planned.

Meanwhile, the Hong Kong Monetary Authority (HKMA) and Hong Kong Exchanges and Clearing Ltd (HKEx) target to finalise the setting up of a trade repository and a new clearing house, respectively, in 2013.

Alternative liquidity pools

In response to global and local growth of alternative liquidity pools (commonly referred to as “dark pools¹”), we are reviewing the regulatory requirements and the standards of conduct expected of operators of off-exchange trading platforms. We plan to conduct a public consultation concerning dark pools during the course of 2013.

Listing of overseas companies

Listings from non-Mainland overseas companies are an important element of Hong Kong’s development as an international financial centre. We continue to work with SEHK to review the regulatory approach to overseas companies seeking primary or secondary listings in Hong Kong and expect to conclude this exercise during the year.

Shareholder engagement

We plan to issue a consultation paper in 2013 on proposed guidance for institutional investors on standards of shareholder engagement. We aim to encourage the exercise of shareholders’ rights in order to raise corporate governance standards in Hong Kong.

HKEx

We will work with HKEx on the regulatory aspects of its plans to launch new asset classes in fixed income and currency, as well as commodities following its acquisition of LME Holdings Ltd. We support a strategy which aims to develop Hong Kong’s role as a truly global hub for international and mainland China capital flows and will develop our regulation to facilitate this goal whilst ensuring appropriate levels of investor protection as well as system safety and soundness.

We will work with HKEx on specific regulatory issues arising from implementation of its strategic plan, including the vertical integration of trading and clearing services across asset classes, and the building of common platforms with improved access and connectivity.

Enhancing investor protection

Independent and robust regulation to protect investors is complemented by effective investor education. It is crucial that investors are in a position to make informed decisions. Of course, visible and effective enforcement is indispensable; it should be a legitimate expectation of all market participants that if our rules and laws are violated wrongdoers are punished, and we will make every effort to ensure victims who have been harmed are remediated.

Investor Protection Bill

This bill should be introduced to the Legislative Council later this year. It covers legal liability of IPO sponsors, supervisory co-operation agreements with overseas regulators and enhancing the regulatory regime for non-corporate entities listed on SEHK to ensure a level-playing field.

Effective enforcement

We will actively pursue our strategic approach, focusing on key enforcement programmes in insider dealing, market manipulation, corporate misgovernance, intermediary misconduct and unlicensed regulated activity. The recently introduced price-sensitive information disclosure regime for listed companies will be a new area in which we will focus our detection efforts.

At the same time, we will ensure we deploy our resources efficiently, in light of the number and complexity of our investigations, the frequent need to secure evidence from other jurisdictions, potentially time-consuming litigation and the growing need for specialist expertise. We will continue to make the fullest use of all remedies and sanctions as set out in the Securities and Futures Ordinance (SFO), not only to reduce financial crimes, but also to secure positive outcomes that are in the best interests of the investing public.

Professional investor regime

In 2011 we undertook to conduct a comprehensive review of the current professional investor regime. The concept of professional investors was first introduced to the Code of Conduct² in 2001 to address intermediaries dealing with

¹ These are facilities that allow dealing outside traditional exchanges without public disclosure of prices.

² This refers to the *Code of Conduct for Persons Licensed by or Registered with the SFC*.

wealthy and sophisticated investors. The concept is also used under the SFO to, among other things, enable issuers to raise funds in the private placement market.

We published the *Consultation Paper on the Proposed Amendments to the Professional Investor Regime and the Client Agreement Requirements* in May 2013. The consultation will end on 14 August 2013.

High-yield bonds

Fixed income products, including high-yield bonds, have been actively marketed and sold to investors in the current low interest rate environment. Further to our November 2012 circular drawing intermediaries' attention to the features and risks of high-yield bonds, we will continue to closely monitor licensed corporations' compliance with selling practice requirements.

ILAS

We worked closely with HKMA, the Office of the Commissioner of Insurance and The Hong Kong Federation of Insurers to introduce enhanced disclosure requirements for investment-linked assurance schemes (ILAS) in May 2013. In addition, we have engaged the Investor Education Centre to promote investors' awareness of key features of ILAS investments.

Going forward, we will continue to work with other financial regulators and the insurance industry to enhance disclosure for ILAS products, including, amongst others, disclosures under a uniform format for the calculation and presentation for intermediaries' remuneration. We will also continue to provide support to the Government on other regulatory initiatives concerning ILAS products.

Investor Education Centre

Armed with a broader mandate of investor education covering the entire financial sector, the new Investor Education Centre (IEC) will implement its strategy in phases over 2013-14, developing programmes and

resources for financial consumers and investors in Hong Kong. Using a combination of mass media campaigns and targeted outreach, and supported by all the financial regulators in Hong Kong, the IEC will seek to provide the public with access to comprehensive and impartial information about personal finance.

It will focus its efforts on a number of investment products (for example high-yield bond funds and ILAS), to help ensure members of the public understand key risks and features. In addition, a campaign is now under way about the need for and benefits of holistic planning to meet individuals' and families' financial goals throughout life. (See Investor Education Centre on pages 70-71.)

Enhancing Hong Kong as an international asset management hub

The SFC has a key role to play in enhancing Hong Kong as a wealth and asset management centre in the context of continued "opening" of cross border capital flows with the Mainland. To achieve this, we will continue to collaborate with Mainland authorities, the Government and the financial industry.

Offshore renminbi centre

Hong Kong is crucial to the process of transforming the renminbi into an internationally accepted and widely used currency. As mainland China continues to open its financial markets, we will see greater opportunities for the investment of offshore renminbi on the Mainland. For example, in March 2013, the Renminbi Qualified Foreign Institutional Investor (RQFII) scheme was further expanded to broaden the category of qualified RQFII holders and relax the investment restrictions of RQFII products. We will continue to enhance the existing regulatory regime to facilitate the development of a broader range of renminbi investment products.

Mutual recognition of funds

We have formed a working group with the China Securities Regulatory Commission to study the possibility of mutual recognition of funds between Hong Kong

and the Mainland. Under this proposal, we envisage that qualified SFC-authorized funds domiciled in and operating from Hong Kong would be “recognised Hong Kong funds” and qualified Mainland funds would be “recognised Mainland funds.” These funds could then obtain authorizations and be sold directly in each other’s markets. A mutual recognition arrangement promises to bring new opportunities to investors in Hong Kong. It should also enrich product offerings available in Hong Kong and provide the fund management industry with increased investment flows as well as new sales and marketing channels.

Open-ended investment company structure

We have been providing technical support to the Government to introduce an open-ended investment company structure for investment funds to domicile in Hong Kong, to complement the existing Hong Kong unit trust regime. We will continue to work with the Government in the forthcoming public consultation on the legal and regulatory framework necessary to establish these new fund vehicles.

Playing active role in global regulatory arena

The Group of Twenty (G-20), the Financial Stability Board (FSB), the Basel Committee on Banking Supervision and the International Organization of Securities Commissions (IOSCO), among other international organisations, are co-ordinating reforms to strengthen the global financial system following the financial crisis.

As Hong Kong is an international financial centre, it is important that the SFC takes an active role in global standard setting for the securities market through active participation in IOSCO. We are, therefore, represented on all seven policy committees and the key task forces of IOSCO.

Participation in IOSCO and FSB committees/initiatives

Mr Ashley Alder, Chief Executive Officer (CEO), chairs the IOSCO Asia-Pacific Regional Committee, from May 2013. This grouping aims to enhance closer

collaboration among regulators in the region in the pursuit of common goals and interests. Mr Alder also has led the establishment of a new IOSCO Task Force on Cross-Border Regulation, together with the Australian Securities and Investments Commission. This concerns the need for effective implementation and co-ordination when rules operate across borders in a global financial system. Other IOSCO committees in which we play a leading role include:

- the Committee on Regulation of Market Intermediaries, chaired by Mr Stephen Po, Senior Director of Intermediaries Supervision;
- the Working Group on Margining Requirements of the Basel Committee on Banking Supervision and IOSCO, co-chaired by Mrs Alexa Lam, Deputy CEO, Executive Director of Investment Products, International and China;
- the Standing Committee on Risk and Research Workstream on Emerging Risks, co-led by Ms Benedicte Nolens, Senior Director of Risk and Strategy.

Participation in global regulatory initiatives

We will continue to allocate significant time and resources to this area of work, amidst growing recognition of the need to examine the impact of international reforms in the Asia Pacific region, whose financial centres have become increasingly significant locally and internationally. (See Regulatory Collaboration on pages 49-51.)

The growth of structured financial products, particularly those targeting retail investors is another area in which the SFC takes a keen interest. The SFC is part of the IOSCO’s Working Group on Retail Structured Products.

We continued to work closely with the Government, HKMA and the other agencies to implement G-20 and FSB global financial reforms. As a member of the FSB’s Standing Committee on Standards Implementation and the FSB Regional Consultative Group for Asia, we actively participate in various aspects of FSB work. For instance, Mr Alder co-chairs a recently formed FSB Working Group on Shadow Banking in Asia.

The SFC also has an important role to play in the Financial Sector Assessment Programme, a joint effort by the International Monetary Fund and World Bank to comprehensively review Hong Kong's financial sector and its financial market supervision to see how it benchmarks against international standards, including IOSCO's principles for securities regulation. The last review was conducted 10 years ago and preparation of a new review later this year is now underway.

Strengthening organisational efficiency

Our people are our greatest asset. We will continue to devote resources to programmes to nurture and retain talent to meet long-term organisational needs. With increasingly complex markets and financial products, it is equally crucial that we continue to enhance cross-divisional collaboration on many of our initiatives.

New International and China team

We have established an International and China team to lead our involvement in international collaboration and standard setting. In the aftermath of the recent global financial crisis, regulators from across the globe have had to formulate and implement significant regulatory reform. The SFC has contributed to this process and will continue to do so with greater frequency and intensity. In addition, cross-border interaction with mainland China will increase at a market and product level, as well as on a larger range of policy issues.

Department integration

We plan to combine the Intermediaries Supervision Department and the Licensing Department to form a new division. Establishing a single integrated division will enhance our ability to deal with an increasingly complex range of intermediary risks.

Risk and Strategy team

In 2012, we established a Risk and Strategy team, reporting to the CEO. A core objective is to engage in a pro-active industry outreach programme, so as to enable the SFC to stay abreast of the evolution of the financial markets, market structure, product innovation,

emerging risks and risk management practices. Starting March 2013, the team launched a formal risk-focused industry meeting programme with a group of global systemically important financial institutions. The team will continue to expand its industry outreach programme by broadening the range of financial market participants covered.

Leadership competency

An organisation-wide leadership competency model is now being completed. This will form the basis of a talent management framework which will allow us to better assess the development needs of our employees.

Stakeholder engagement

A new organisation-wide stakeholder engagement programme has been launched to ensure that our efforts are systematic, consistent, co-ordinated and effective when we interact with all those outside the SFC who are interested in or affected by our work.

System upgrades

We will continue to place emphasis on system upgrades to further strengthen organisational efficiency. Examples include:

- implementation of an extended workflow process for us to better manage licensing application assessments, including approvals, refusals and reporting;
- enhancement of internal systems and the SFC Online Portal in anticipation of the introduction of the new regulatory regime governing the conduct of OTC derivatives business, and in relation to the enhanced IPO sponsors regime which will impose additional eligibility criteria on Sponsor Principals; and
- the launch of a centralised, internal system to provide our staff with a one-stop search function for business information, with additional controls and validation functions. More work is planned to integrate this system with others to make our work – and thereby the way in which we interact with all those seeking authorizations, licences, and other SFC decisions – more effective and efficient.

Snapshots of the Year

2012

May

Empowering the SFC to implement new key regulatory initiatives, amendments to the Securities and Futures Ordinance take effect.

June

Short position reporting regime comes into effect with new reporting requirements.



The Court of First Instance orders Hontex International Holdings Company Ltd to make a \$1.03 billion repurchase offer to investors who either subscribed for Hontex shares in its initial public offering or acquired them in the secondary market.

與證監達賠償協議 7700 股民受惠
洪良 10 億回購股份成先例

SFC milestone as buyback ordered

Victor Cheung

Hontex International Holdings (0946) agreed to buy back shares of minority shareholders for HK\$1.03 billion as it could face further court battles with the securities regulator.

The Fujian-based fabric manufacturer, suspended from trading in March 2010, agreed to pay HK\$2.06 per share to buy back shares from its 7,700 outstanding shareholders, excluding the management.

Recent proceedings against Hontex, the Securities and Futures Commission alleged the company inflated its turnover and pre-tax profits from 2006-2008, as well as the cash position in the prospectus prepared for its December 2009 initial public offering.

In March 2010, the SFC obtained a court order to freeze the HK\$97.4 million net proceeds it raised from the IPO. According to an SFC statement yesterday, Hontex conceded that it was "reckless in allowing materially false and misleading information to be included in its prospectus."

...penion, but before their HK\$2.15 prior at listing. Those who still hold shares since the public float stand to lose about HK\$90 per share, excluding fees.

This marks the first time the SFC has successfully demanded repurchase of shares at a company being prosecuted.

Hontex said it will hold an extraordinary general meeting within two months at which shareholders will vote on the share buyback plan.

The company will use the HK\$832 million to fund the repurchase, with the rest to be funded by chairman Shau Tien-po, who owns 60 percent of the firm.

Earlier this month, the SFC revoked the license of Mega Capital (Asia), which sponsored the Hontex public float, and imposed a record HK\$42 million fine. The license of Hong Hui-hung, a former managing director of Mega Capital, was also revoked.

The SFC has been seeking to make IPO sponsors more responsible for their work, proposing they be held criminally liable for providing misleading information to prospectuses.

The watchdog has also proposed



News clippings of Hong Kong Economic Journal and The Standard

The SFC authorizes the first Renminbi Qualified Foreign Institutional Investor A-share exchange-traded fund for listing in Hong Kong.



August

After a comprehensive revamp, the upgraded corporate website is launched.



October

Dr Eddy Fong steps down from the post of SFC Chairman and Mr Carlson Tong is appointed as his successor.



November

Supported by the SFC and other financial regulators, the Investor Education Centre is officially launched.



December

The SFC co-hosts a seminar with the Hong Kong Monetary Authority and the Organisation for Economic Co-operation and Development on financial consumer protection and education in Asia. It is followed by the Asia Financial Consumer Protection Roundtable.



The consultation conclusions on the proposed initial public offering sponsor regime are issued. The new requirements will apply to listing applications submitted on or after 1 October 2013.



2013

January

The new statutory disclosure regime becomes effective on 1 January 2013, under which all Hong Kong-listed companies have a statutory duty to disclose inside information to the public in a timely manner.

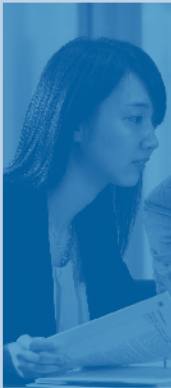


February

The SFC relocates its office from Chater House to Cheung Kong Center with improved office facilities and environment.



Operational Review



Key achievements

The Operational Review section sets out how we delivered our statutory objectives in the past year and highlights the result of our efforts across the full spectrum of our regulatory work, in ensuring fair play, enhancing investor protection and, above all, upholding a quality market.

The tables below highlight milestones reached during 2012-13. More details are provided in the following chapters.

Regulatory standards/updates		See also
SFO amendment	May 2012: the Legislative Council enacted the Securities and Futures (Amendment) Ordinance 2012 to give the disclosure of inside information requirement statutory backing; and to empower the SFC to refer cases to the Market Misconduct Tribunal directly including in relation to the existing six types of market misconduct under the Securities and Futures Ordinance (SFO)	pp 40, 45
Financial Dispute Resolution Centre	May 2012: amended the <i>Code of Conduct for Persons Licensed by or Registered with the SFC</i> to require SFC-licensed corporations to participate in the dispute resolution scheme run by the Financial Dispute Resolution Centre (FDRC), paving the way for its establishment. In June 2012, the FDRC, partially funded by the SFC, officially opened	p 35
Short position reporting	June 2012: the Securities and Futures (Short Position Reporting) Rules came into effect. Prior to the effective date, a one-month pilot test was conducted for the public to become familiar with the online reporting system September 2012: started weekly publication of aggregate short positions of specified shares	p 37
OTC derivatives	July 2012: issued a joint consultation conclusions paper with the Hong Kong Monetary Authority on the proposed regulatory regime for the over-the-counter (OTC) derivatives market and also a joint supplemental consultation paper proposing the scope of new or expanded regulated activities and the regulatory oversight of systemically important players	p 37
Anti-money laundering	July 2012: amended the SFC's <i>Guideline on Anti-Money Laundering and Counter-Terrorist Financing (AML/CFT)</i> to bring it up to date and in line with the United Nations (Anti-Terrorism Measures) (Amendment) Ordinance 2012. A self-assessment checklist was published in December 2012 to facilitate licensed corporations in assessing their compliance with AML/CFT requirements	p 35
Electronic trading	March 2013: published conclusions to a two-month consultation in July 2012 on proposals to enhance the regulatory framework for electronic trading. The new rules will take effect on 1 January 2014	p 38
International collaboration	February 2013: the International and China team was established to manage our efforts in international collaboration and standard setting	pp 13, 27
Risk-focused industry meetings	March 2013: the Risk and Strategy team launched risk-focused industry meetings with a range of financial institutions to enable the SFC to stay informed and to better understand the evolution of the financial markets, market structure, product innovation, emerging risks and risk management practices	pp 14, 27, 53

Enforcement		See also
Key cases	<p>June 2012: the court ordered Hontex International Holdings Company Ltd, which misled investors by issuing a false IPO prospectus, to make a repurchase offer to buy back shares worth over \$1 billion. Mega Capital (Asia) Company Ltd was fined \$42 million and had its licence revoked in April 2012 for failing to discharge its sponsor's duties in Hontex's listing application</p> <p>July 2012: reprimanded Société Générale's Hong Kong branch for failings in internal controls in its wealth management activities. The bank has reimbursed over US\$13.7 million to its customers</p> <p>September 2012: former Chief Executive Officer of China Asean Resources Ltd (formerly Medical China Ltd) ordered by the Court of First Instance to pay compensation to the company in disqualification proceedings</p> <p>October 2012: former Chairman of VST Holdings Ltd convicted and jailed on ten counts of rigging the price of his company's shares</p> <p>November 2012: former CITIC Pacific Ltd executive jailed for insider dealing in the company's shares ahead of a profit warning</p> <p>March 2013: reprimanded and fined Manulife Asset Management (Hong Kong) Ltd \$24 million for inadequate internal controls</p>	<p>pp 44, 46-47</p> <p>p 47</p> <p>p 44</p> <p>p 46</p> <p>p 45</p> <p>p 47</p>
"SFC in Action II"	<p>March 2013: produced "SFC in Action II," the second series of a law-enforcement themed TV drama, highlighting the importance of vigorous enforcement action</p>	<p>p 53</p>

Market infrastructure/development		See also
CEPA	<p>June 2012: facilitated the inclusion of five securities-related co-operation measures in the signing of Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) Supplement IX</p>	<p>pp 50-51</p>
After-hours futures trading	<p>February 2013: approved Hong Kong Exchanges and Clearing Ltd's proposal to introduce an after-hours trading session for its futures market to bring Hong Kong on a par with international financial markets</p>	<p>p 39</p>

Product development		See also
Exchange-traded funds	<p>June 2012: authorized the first physical A-share exchange-traded fund (ETF) under the Renminbi Qualified Foreign Institutional Investor (RQFII) scheme</p> <p>October 2012: authorized a physical RQFII A-share ETF, as the first listed product in Hong Kong using a dual-counter trading model with both renminbi and Hong Kong dollar trading counters</p> <p>November 2012: authorized the first physical silver and platinum ETFs in Hong Kong</p>	<p>pp 42-43</p>
Funds	<p>January 2013: authorized the first renminbi-denominated money market fund which is also available for investment by mandatory provident fund schemes</p>	<p>p 42</p>

Listing matters		See also
IPO sponsors	December 2012: published conclusions to the consultation on enhancing the initial public offering (IPO) sponsor regime carried out in May 2012. Effective on 1 October 2013, the new regime emphasises early, comprehensive due diligence and a properly drafted prospectus to accompany the application	p 40
Disclosure of inside information	June 2012: issued guidelines on the disclosure of inside information, which took effect on 1 January 2013	p 40
First B-to-H share conversion	December 2012: the B-shares of China International Marine Containers (Group) Co, Ltd were successfully converted to list as H-shares by introduction on The Stock Exchange of Hong Kong Ltd	p 41

Intermediaries supervision		See also
Internal controls	May 2012: introduced amendments to the <i>Code of Conduct for Persons Licensed by or Registered with the SFC</i> , extending the retention period for telephone recordings for client orders from three months to six months and banning the use of mobile phones to accept client orders in the workplace. These measures took effect on 1 December 2012	p 35
Selling practices	October 2012: published <i>Report on the Thematic Inspection of Selling Practices of Licensed Corporations</i> after conducting a review of selling practices and the regulatory compliance of selected licensed corporations December 2012: published findings of the survey on sale of non-exchange traded investment products, which was undertaken to facilitate supervision of selling practices	p 35

Operational efficiency		See also
SFC Online Portal	Approximately 94% of all annual returns in 2012-13 were submitted through the portal, streamlining the submission process for our licensees and significantly reducing the use of paper	p 36
Employer branding	Branded the SFC as “the right place for people with a purpose” to highlight our unique positioning in the financial community and exciting career development opportunities	p 65
Website	August 2012: launched a revamped corporate website following a comprehensive redesign, featuring a sub-site of codes and guidelines which collates and presents regulatory materials in a readily searchable format	p 69

Investor education		See also
Investor Education Centre	November 2012: launched the Investor Education Centre, solely funded by the SFC, with a broader financial education mandate following the SFO amendment	pp 70-71

Intermediaries

Our licensing regime creates standards with which industry practitioners seeking to be, and to remain, licensed must comply. We also supervise and monitor more than 1,900 licensed corporations¹ in Hong Kong, with a particular focus on their business conduct and financial soundness.

Revising *Licensing Information Booklet*

We published an updated edition of the *Licensing Information Booklet* in November 2012 to bring it into line with the current licensing regime and the practices that we adopt in relation to the licensing or registration of intermediaries under the Securities and Futures Ordinance (SFO). The changes relate to, among others, the inclusion of content concerning Type 10 regulated activity² and references to the SFC Online Portal (see page 36 for more information) as an additional channel for submitting applications as well as making fee payments to the SFC.

Licensing intermediaries

The number of licensed corporations reached a record high of 1,905 during the year, while the total number of SFC licensees and registrants declined 2% to 38,746.

38,746

licensees and registrants

Hong Kong continues to attract hedge fund managers or advisers and credit rating agencies (CRAs). As at 31 March 2013, the number of licensed hedge fund managers or advisers increased 5% year-on-year to 371. We also granted licences to the first two Mainland-related CRAs in mid-2012, bringing the total number of licensed CRAs to seven.

In June 2012, we completed the processing of the licence applications that had arisen out of the transfer by six banks to licensed corporations within their respective groups of their initial public offering sponsor business. We granted licences under the SFO to approximately 840 individuals who were previously responsible for conducting sponsor work within those six banks.

Licensees¹

	Corporations		Representatives		Responsible officers		Total		Change
	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	
Stock exchange participants	463	453	11,602	11,618	1,601	1,568	13,666	13,639	0.2%
Futures exchange participants	115	117	940	952	149	150	1,204	1,219	-1.2%
Stock exchange and futures exchange participants	65	65	3,720	3,984	392	380	4,177	4,429	-5.7%
Non-participants	1,262	1,205	14,911	15,890	3,409	3,208	19,582	20,303	-3.6%
Total	1,905	1,840	31,173	32,444	5,551	5,306	38,629	39,590	-2.4%

¹ This table represents a snapshot view as at each financial year-end. The figures exclude registered institutions. The total number of licensees and registrants is 38,746.

¹ Licensed corporations broadly include stockbrokers, investment banks, futures and leveraged forex dealers, fund managers, investment advisers and credit rating agencies in Hong Kong.

² Providing credit rating services

Reducing premium of Licensed Holders Insurance Scheme

Last year, we worked with an industry working group, comprising representatives of various broker associations and brokerages, on the renewal of the Licensed Holders Insurance Scheme for the scheme year 2012-2013 and, potentially, from 2013 to 2015 as well. The premium for year 2012-2013 was reduced by approximately \$4.8 million from the previous year.

Supervising by inspections, on-site reviews and surveys

In the past year, we conducted 271 risk-based inspections. Besides reviewing the protection of client assets, other focus areas during the year included dark pool operations, short-selling and client facilitation trading.

The new provisions under the Code of Conduct³ relating to sale of investment products have become fully operational since September 2011. We monitored licensed corporations on their compliance with the new Code of Conduct requirements through thematic on-site inspections.

Following our review of selected licensed corporations' selling practices and regulatory compliance, we published the *Report on the Thematic Inspection of Selling Practices of Licensed Corporations* in October 2012 to highlight specific deficiencies and shortcomings, as well as best practices adopted by some firms. Intermediaries may use the report to strengthen their management supervision and compliance programmes.

To help us supervise selling practices, we conducted a survey to better understand the overall market structure and to identify the major types of non-exchange-traded investment products sold by licensed corporations. Findings of the survey were published in December 2012.

Findings of our fourth survey on Hong Kong's hedge fund industry were published in March 2013. As at 30 September 2012, SFC-licensed hedge fund managers managed 676 hedge funds, up from 538 in 2010. The total hedge fund assets under management increased 37.8% to US\$87.1 billion from US\$63.2 billion in 2010.

Enhancing regulatory standards

In support of the establishment of the Financial Dispute Resolution Centre (FDRC), we issued consultation conclusions in May 2012 on proposed amendments to the Code of Conduct³, requiring persons regulated by the SFC or the Hong Kong Monetary Authority to comply with the FDRC Scheme and be bound by its process. Other amendments to strengthen internal controls included recording client orders and retaining such recordings for six months, banning the use of mobile phones to accept client orders in the workplace and reporting suspicious activities by clients.

We published revisions to the SFC's *Guideline on Anti-Money Laundering and Counter-Terrorist Financing* to reflect amendments to the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance. We issued a checklist to assist licensed corporations in assessing their compliance with the core requirements of the amended ordinance and our guidelines. In addition, we held several seminars and issued advisory circulars to promote licensees' awareness and compliance with the relevant statutory and regulatory requirements.

Promoting compliance

During the year, we took the following steps to provide guidance on compliance matters and assist intermediaries in minimising fraud risk, including:

- issuing circulars to highlight the importance of guarding against email scams and misappropriation risk, and putting in place comprehensive controls;
- meeting with broker associations and holding a joint seminar with the Hong Kong Institute of Certified Public Accountants to discuss fraud risk and financial risk;
- engaging an accounting firm to conduct a circularisation exercise over a number of client accounts of sampled brokers to test the accuracy of the brokers' records of client assets and balances;
- meeting with broker associations and issuing a circular to draw intermediaries' attention to the features and risks of high-yield bonds and funds investing in them, bonds with certain special features as well as selling practice requirements, including suitability obligations;

³ This refers to the *Code of Conduct for Persons Licensed by or Registered with the SFC*.

- issuing a circular to set out the factors to be considered in determining whether an SFC-authorized fund is a derivative product for the purpose of the Code of Conduct³; and
- encouraging participation in Hong Kong Exchanges and Clearing Ltd's training sessions for handling securities transactions under the renminbi and Hong Kong dollar dual-counter model.

Processing investor claims

Our subsidiary, the Investor Compensation Company Ltd, continued to process remaining claims for clients of a brokerage that had defaulted in the past, as well as claims against five brokerages relating to individual disputes. One claim was rejected.

Compensation funds

	2012/13	Change	2011/12	Change	2010/11
NAV of all compensation funds (\$ million)	2,257.2	4.6%	2,157.9	2.1%	2,113.8
▪ Unified Exchange Compensation Fund ¹	64.1	2.2%	62.7	1.8%	61.6
▪ Investor Compensation Fund ²	2,193.1	4.7%	2,095.2	2.1%	2,052.2

¹ See pages 108-119 for the financial statements of the Unified Exchange Compensation Fund

² See pages 92-107 for the financial statements of the Investor Compensation Fund

SFC Online Portal at a glance

Introduced in September 2009, the SFC Online Portal offers a suite of electronic services to licensees, registrants and associated entities – from submitting online licensing applications, notifications and annual returns to managing all such e-documents and making payments. By allowing online form completion and validation, the portal reduces end-to-end turnaround time, while electronic payments help streamline payment processes. This marks a significant step forward from a conventional paper-based work environment.

Information submitted via the portal is captured and processed through our internal workflow system, which validates applicants' identification and screens applications.

To date, we have conducted demonstration sessions on the operation of the portal for more than 30 financial services groups, representing 37% of the licensed population in Hong Kong.

As at 31 March 2013, 95% of all licensed individuals, corporations and registered institutions had activated their portal accounts. Approximately 161,000 annual returns and notifications were submitted through the portal, and approximately \$110 million in application fees and annual fees were settled with online-generated invoices. Besides optimising procedural efficiency, the portal is an effective green initiative, having saved approximately 505,000 pieces of paper in terms of annual returns and notifications since its launch.



Market infrastructure and trading

We supervise market operators, namely, the exchanges, clearing houses and alternative trading venues. To ensure our markets evolve in stride with international developments, we introduced and worked on new rules during the year.

Paving way for OTC derivatives regulation

We continued to work with the Hong Kong Monetary Authority and the Government to introduce legislative amendments to the over-the-counter (OTC) derivatives regime.

We published the consultation conclusions paper in July 2012, which set out the proposed scope of mandatory obligations on OTC derivative transactions. Simultaneously, a supplemental consultation paper was issued listing proposed oversight arrangements for OTC derivatives market participants. These comprise new and expanded regulated activities to be introduced under the proposed regime, transitional arrangements for market participants, as well as oversight of systemically important participants.

Pending the coming into effect of the proposed regime, we put in place an interim measure in June 2012 to support voluntary clearing of OTC derivative transactions through a recognised clearing house.

Separately, in line with the proposed regime to implement mandatory clearing, we have been reviewing the draft rules and procedures of the new clearing house to be set up by Hong Kong Exchanges and Clearing Ltd (HKEx), as well as documentation and systems that are relevant to the new clearing house's application to be a "recognised clearing house."

Introducing new short position reporting regime

Weekly reporting of reportable short positions commenced when the Securities and Futures (Short Position Reporting) Rules came into effect on 18 June 2012. Reports are required to be submitted through a designated online reporting system. In addition to publishing a range of guidelines to assist compliance with such reporting, we conducted a one-month pilot run in May 2012 for the industry and the investing public to familiarise them with the online reporting system and enable intermediaries to test whether their internal systems and procedures were ready to comply with the reporting requirements.

The reports provide us with greater visibility of the overall short-selling activities and thereby help us monitor the market more effectively. To offer the public a better picture of short-selling activities in Hong Kong, we started publishing, weekly, aggregate short positions of each specified share from 7 September 2012.

Launching dual-counter trading

With the listing of Renminbi Qualified Foreign Institutional Investor (RQFII) A-share exchange-traded funds (ETFs) since July 2012 (see Investment Products on page 42), we worked closely with HKEx and relevant parties to ensure smooth trading, clearing and settlement of these products. The four RQFII A-share ETFs authorized to date are traded in both Hong Kong dollar and renminbi under two stock codes, utilising the dual-counter trading model offered by The Stock Exchange of Hong Kong Ltd (SEHK). The two currency counters of the same stock are inter-transferrable. These ETFs enjoy market making facility, short-selling tick rule and stamp duty exemptions.

In October 2012, we approved the addition of a renminbi-trading counter to a company listed and traded in Hong Kong dollar counter on SEHK, the shares of which are then traded in the two currencies. This marked the first equity security traded under the dual-counter trading model and the first renminbi-traded equity security outside mainland China.

Modernising electronic trading regulations

In step with global regulatory developments, we formulated proposals to enhance the existing regulatory framework for electronic trading. In July 2012, we conducted a two-month consultation on our proposals which included internet trading, direct market access and algorithmic trading. The proposals require licensed or registered persons to put in place appropriate and specific policies, procedures and controls to ensure that their electronic trading activities will not pose undue risks to the market. Respondents generally supported our initiatives. The consultation conclusions, which were published in March 2013, retained the majority of the proposals. The new regime will come into effect on 1 January 2014.

Regulating ATS and dark pools

We approved five Part III automated trading services¹ (ATS) applications from overseas exchanges in the year, bringing the total number of ATS to 30 as at end March 2013.

Separately, the voluntary flagging requirement introduced by SEHK in February 2011 on trades in Hong Kong listed securities executed in dark pools² by SEHK participants has been made mandatory from October 2012 onwards. Since then, SEHK participants are required to flag trades executed in dark pools by labelling them as "ALP" (alternative liquidity pools)

when they report such trades. SEHK has also started publishing on its website an aggregate ALP trade percentage figure on a monthly basis. With the new requirement and information, we have been able to monitor more closely the local development of dark pools. From April 2012 to March 2013, ALP trades accounted for about 2.2% of the total turnover in the Hong Kong securities market.

On the other hand, the number of corporations that are licensed under Part V¹ to provide ATS remained at 22 as at 31 March 2013, including 13 dark pool operators. Over time, in line with market changes and developing views concerning the regulation of dark pools, some variations in the conditions imposed on the licences of these dark pool operators have occurred. We do not consider it ideal for variations to exist in the licensing conditions under which different dark pool operators are obliged to carry on business in Hong Kong. Accordingly, we plan to conduct a review concerning the licensing and supervision of dark pools, with the objective of developing a consistent and clear set of standards, to which all dark pool operators in Hong Kong will have to adhere. A public consultation exercise concerning these and related matters is expected in 2013.

Implementing risk control of clearing houses

In October 2012, we approved measures proposed by HKEx that aim at improving the risk management controls of HKEx's clearing houses and thus their overall soundness. The changes were implemented by HKEx in November 2012. Key measures include introducing a margin requirement and a dynamic guarantee fund in the securities market, strengthening stress testing assumptions for all clearing houses and implementing measures that help alleviate the financial burden of clearing participants.

¹ As a general principle under the SFC's *Guidelines for the Regulation of Automated Trading Services*, ATS providers which also perform traditional dealer functions (eg, agency broking, principal trading, market making, holding of clients' securities or funds, and securities borrowing and lending) are expected to be licensed under Part V of the Securities and Futures Ordinance (SFO) in respect of each of the different regulated activities that they conduct, including the provision of ATS. Entities which provide ATS solely are expected to be authorized under Part III of the SFO.

² These are facilities that allow dealing outside traditional exchanges without public disclosure of prices.

Commencing after-hours futures trading

In February 2013, we approved HKEx's proposal to introduce an after-hours trading session for its futures market. The after-hours futures trading (AHFT) session, which was launched in April 2013, allows investors to hedge or adjust their positions in response to market news and events in the European and United States time zones. The AHFT also strengthens Hong Kong's position as an international financial centre.

Facilitating HKEx's acquisition

The United Kingdom Financial Services Authority (FSA) approved the acquisition of LME Holdings Ltd (LME) by HKEx in November 2012. The transaction was completed in December 2012. While the FSA continues to regulate LME, as the regulator of HKEx, we have the responsibility to ensure that HKEx will continue to manage risks associated with its business and operations prudently. We are discussing with the FSA in setting up an appropriate supervisory co-operation and information sharing mechanism to render mutual assistance in carrying out our respective supervisory responsibilities.

Approving futures and options contracts

We approved HKEx's proposal to launch currency futures contract of CNH (ie, offshore renminbi traded in Hong Kong) against US dollars. The contract, which started trading from September 2012, provides investors with an alternate trading and hedging tool to manage their renminbi exposure.

During the year, we also approved HKEx's proposals to introduce options contracts on three individual stocks and two A-share ETFs.



Listings and takeovers

Over the past year, we took steps to tighten rules, scrutinise listing and takeovers matters, enhance disclosures and transparency, and oversee the listing-related functions of The Stock Exchange of Hong Kong Ltd (SEHK).

Strengthening regulatory framework

In May 2012, we launched a consultation on proposals to enhance the regulatory regime of initial public offering (IPO) sponsors. After reviewing responses from a wide array of respondents¹, we published the conclusions in December 2012. The new requirements aim to ensure that sponsors thoroughly understand any company aspiring to access Hong Kong's securities market before making a listing application. As set out in the Code of Conduct², the requirements will apply to listing applications submitted on or after 1 October 2013. The reforms emphasise early, comprehensive due diligence and a properly drafted prospectus to accompany the application, and encourage sponsors to take a responsible, proactive and constructive role when leading IPOs.

In addition, we recommended to the Government that the Companies Ordinance be amended to clarify that the civil and criminal prospectus liability provisions apply to sponsors, and the prosecution will bear the burden of proving the requisite state of mind of the defendant and the materiality of the untrue statement in the prospectus. We are assisting the Government on the proposed legislative amendments.

Separately, we published a consultation paper in November 2012 on proposals to extend the market misconduct and disclosure of interest requirements in Parts XIII to XV of the Securities and Futures Ordinance to cover all listed entities, whether they are companies or other types of business organisations. The proposals aim to enhance market transparency and promote consistency of regulation for all listed entities. The conclusions paper was published in March 2013. We will recommend to the Government the proposed legislative amendments.

To cultivate a disclosure culture among listed companies, we launched the statutory disclosure regime of inside information, which came into operation on 1 January 2013. We collaborated with SEHK on changes to the

Listing Rules to facilitate a smooth transition. Since 1 December 2012, we have begun a consultation service on the application of these new provisions to help listed companies comply with the new requirements. Announcements concerning inside information totalled 1,092 for the three months ended March 2013, as compared to 766 announcements of price-sensitive information for the corresponding period last year.

1,092

inside-information announcements made
in the first quarter of 2013

We approved changes to the Listing Rules to facilitate listing-related activities and to streamline requirements or procedures. These include:

- initiating a recommended practice for listed companies to report their environmental, social and governance performance; and
- introducing a "comply or explain" requirement under which listed companies should have a policy concerning board diversity.

Vetting listings

Under the dual filing regime, we commented on 100 out of the 124 listing applications received via SEHK during the year. We deferred commenting on 15 cases due to fundamental issues or serious deficiencies in the initial submissions, which required substantial improvements to be made to the initial draft listing documents.

In July 2012, we issued the *Dual Filing Update* newsletter to highlight the major deficiencies in the applications reviewed during the year ended 31 March 2012. We expressed concern that listing application materials continued to fall short of the expected standard and that the submission of sub-standard listing application materials would inevitably prolong the vetting process.

We reviewed the listing application of China International Marine Containers (Group) Co, Ltd (CIMC), the first company to convert its B shares into

¹ These include sponsors, the investor community, lawyers, accountants and various corporate governance bodies.

² This refers to the *Code of Conduct for Persons Licensed by or Registered with the SFC*.

H shares for listing in Hong Kong by way of introduction. Following the share conversion, CIMC's H shares were successfully listed and began trading in December 2012.

Our eighth annual review report on SEHK's performance in its regulation of listing matters in 2011 was issued in November 2012. We considered that SEHK's operational procedures and decision-making processes were appropriate to enable the discharge of its statutory obligations to maintain an orderly, informed and fair market. We also identified certain areas where SEHK could enhance its performance, primarily in relation to its processes and procedures when reviewing IPO and structured product listing applications.

Scrutinising takeovers matters

During the review period, we dealt with 66 takeovers-related transactions and handled 185 applications. We continued to come across cases with increasingly complex deal structures. When reviewing cases, we sought to ensure that all shareholders were being treated fairly.

The Takeovers Panel met twice during the year to consider matters referred by the Takeovers Executive³ as particularly novel, important or difficult points were at issue.

Decisions on the two cases considered by the Panel were published in April 2012 and February 2013 respectively. In summary:

- the Panel decided that certain oral statements made by a representative of China Petroleum & Chemical Corporation (one of the joint offerors for the shares and options of China Gas Holdings Ltd) which were

widely reported in the press did not constitute a "no increase statement" in relation to the offer price under the *Takeovers Code*. Nevertheless, the Panel ruled that the statements were ambiguous and created uncertainty. The offerors duly complied with the Panel's request to issue a clarification announcement; and

- the Panel ruled that an obligation under the *Takeovers Code* to make a chain principle offer for Greenheart Group Ltd would be triggered if Sino-Forest Corporation proceeded to transfer substantially all its assets to a new company wholly owned by its creditors under a creditor arrangement plan. As a result of the Panel's decision, an offer was made to Greenheart's shareholders.

In May 2012, we publicly censured Capital VC Ltd and Yau Chung Hong (Yau), who was a director of Capital VC and a member of its investment committee, for breaching the mandatory general offer requirement under the *Takeovers Code*. We also imposed a cold shoulder order⁴ against Yau for 18 months with effect from 23 May 2012 depriving him of access to the securities market. Yau and Capital VC did not make a general offer for Longlife Group Holdings Ltd after increasing their collective shareholding in the company to above 30% in June 2011. Both Yau and Capital VC's investment committee adopted wholly inadequate measures to ensure compliance with applicable regulatory requirements.

To provide further guidance to the market, the Takeovers Executive issued a new Practice Note in September 2012 to explain in simple terms how the offer price in a chain principle offer should be determined. Four issues of the *Takeovers Bulletin* were also published to inform the industry of takeovers-related matters and to provide statistics of cases in the previous quarter.

New listing applications

	2012/13	2011/12	2010/11
Total listing applications received ¹	124	191	201
Of which: cases lapsed/withdrawn/rejected during the year	34	63	24
New listings in the year (including successful transfers from the Growth Enterprise Market to the Main Board)	57	102	117

¹ These include 13 (2011-12: 9; 2010-11: 17) applications for transfer from the Growth Enterprise Market to the Main Board.

³ The Takeovers Executive refers to the Executive Director of the Corporate Finance Division of the SFC or any delegates of the Executive Director.

⁴ Cold shoulder order is one of the sanctions provided under the *Takeovers Code*.

Investment products

As an international financial centre with a robust regulatory regime and a large pool of investment professionals, Hong Kong remains a preferred platform for asset management business in the region. While facilitating market growth and product innovation, we continue to perform our gate-keeping functions in authorizing investment products offered to the public and monitoring their compliance with disclosure and other requirements. As of the end of March 2013, there were 2,505 SFC-authorized investment products on offer to the public.

Broadening scope of renminbi products

In the past year, we strengthened our role in driving the process of transforming the renminbi into an internationally accepted and widely used currency and Hong Kong's development as a premier offshore renminbi centre. We achieved a number of key milestones in broadening the scope of authorized renminbi products.

Since the rollout of the Renminbi Qualified Foreign Institutional Investor (RQFII) scheme in December 2011, we have been maintaining a close dialogue with the Mainland authorities to facilitate the expansion of the regime. In April 2012, the Mainland authorities expanded the RQFII scheme to allow RQFII licence holders to develop and launch exchange-traded funds (ETFs) tracking A-share indices for listing on The Stock Exchange of Hong Kong Ltd (SEHK). We authorized

the first RQFII A-share ETF in June 2012, followed by three other RQFII A-share ETFs, thus offering local and international investors an alternative to directly invest in the A-share market. This also marked the introduction of the world's first listed products offering a dual-counter model with both renminbi and Hong Kong dollar secondary market trading counters on an exchange. The scheme was further expanded in March 2013 to enable more market players to set up in Hong Kong to participate in the scheme and to allow more flexibility in the underlying investments and product design of RQFII funds.

During the year, we authorized the first renminbi-denominated money market fund which is also available for investment by mandatory provident fund schemes. As of the end of March 2013, we authorized the following renminbi investment products:

Renminbi investment products

	2012/13
RQFII unlisted funds	19
RQFII A-share ETFs ¹	4
Renminbi offshore dim sum bonds/fixed income funds	13
Renminbi gold ETF	1
Renminbi real estate investment trust	1
Renminbi-denominated paper gold scheme	1

¹ These ETFs adopt the dual-counter model.

Authorized investment products

	2012/13	2011/12	2010/11
Unit trusts and mutual funds	1,847	1,863	1,944
Investment-linked assurance schemes	258	254	248
Pooled retirement funds	35	35	35
MPF master trust schemes	40	39	40
MPF pooled investment funds ¹	299	297	305
Others ²	26	25	22
Total	2,505	2,513	2,594

¹ 117 funds included in this category were offered both as retail unit trusts as well as pooled investment funds for MPF purposes.

² Other schemes comprise 17 paper gold schemes and nine real estate investment trusts.

Aggregate quota size of

RMB63.6 billion

of RQFII funds authorized

Facilitating ETF market growth

Hong Kong remains one of the largest and most active ETF markets in Asia. ETF activity in Hong Kong has increased significantly over the past few years both in terms of asset size and trading volume. We have been working with the fund industry to enable the introduction of ETFs tracking different asset classes in view of growing investor interest. In November 2012, we authorized Hong Kong's first physical silver and platinum ETFs for listing on SEHK.

Enhancing regulatory disclosure requirements

Given prevailing low interest rates, there is an increasing investment demand for high-yield bond fund products, which may provide regular income or distributions to investors. In light of additional product risks which investors should be aware of, and as part of our efforts to protect investors, we have imposed additional disclosure requirements for SFC-authorized funds which may distribute dividends out of capital. We have also required the management companies of SFC-authorized funds to enhance the disclosures in offering documents concerning funds with investments accounting for more than 10% of the fund's net asset value in securities issued and/or guaranteed by a single sovereign issuer which is below investment grade. We rolled out the above requirements after extensive discussions with the fund industry. Investor education materials outlining the distribution policy for funds and high-yield bond funds have also been launched to raise public awareness.



Planning towards Mainland-HK mutual recognition of funds

Building on the experience and success of the RQFII scheme, we are working with Mainland authorities on a proposed arrangement for mutual recognition of funds between Hong Kong and the Mainland. Under this arrangement, it is envisaged that qualified SFC-authorized funds which are domiciled in and operating from Hong Kong would enjoy the status as "recognised Hong Kong funds," and qualified Mainland funds would enjoy the status of "recognised Mainland funds." We have formed a working group with the China Securities Regulatory Commission and will maintain our close dialogue with the relevant Mainland authorities to work on this initiative.

Developing legal and regulatory framework for OEIC

We are working with the Government on the introduction of an open-ended investment company (OEIC) legal structure. We will provide the necessary technical and regulatory support to facilitate the Government's consultation on the proposal.

Releasing survey on fund management activities

In July 2012, we released the 13th *Fund Management Activities Survey* for 2011, conducted annually to help the SFC to assess the local fund management industry for policy setting and operational planning. The survey showed that Hong Kong's combined fund management business amounted to \$9,038 billion in 2011. On a trailing three-year average basis, the combined fund management business continued on an upward trend and amounted to \$9,212 billion in value.



Enforcement

We continued to take firm and prompt action in combating misconduct and abuse in our securities and futures markets. Through prosecution and disciplinary actions against rule-breakers, we strive to protect the investing public and send strong deterrent messages to the markets.

Taking firm and prompt action

In the year, we successfully prosecuted 29 persons and seven corporations, three of whom were convicted of 12 counts of market manipulation and one convicted of two counts of insider dealing.

We obtained orders to disqualify four company directors who failed to perform their duties properly. There are also civil actions pending before the courts to seek disqualification and compensation orders against a total of 19 individuals, as well as 54 criminal charges against eight persons and one corporation.

Utilising sections 213 and 214

To address the harm caused by market misconduct and to seek redress for the victims, we continue to actively deploy sections 213¹ and 214² of the Securities and Futures Ordinance (SFO).

Repurchase of shares ordered by Court

On 20 June 2012, the Court of First Instance (CFI) granted the orders that we had sought against Hontex International Holdings Company Ltd (Hontex) to make a repurchase offer to investors who had subscribed for Hontex shares in the initial public offering or had purchased them in the secondary market and still held them as of the date of the CFI's order.

The 7,700 shareholders were given the choice whether to approve the repurchase scheme and whether to accept or reject the repurchase offer. The repurchase offer closed on 29 October 2012 and the final level of acceptance was 98.73%. This was a landmark result which returned over \$1 billion to shareholders and sent a clear message to the market that there is a mechanism to effectively undo the consequences of issuing a false or misleading prospectus.

Other civil actions seeking remedial orders

- The CFI ordered Li Wo Hing (WH Li), former Chief Executive Officer of Medical China Ltd, now known as China Asean Resources Ltd to pay \$10.7 million in compensation to the company as a result of his misappropriation of company assets. Both WH Li and James Li Nga Kuk, the former Chairman of the company, were disqualified from being a director or taking part in the management of any corporation without the court's approval for seven and four years respectively.
- We obtained disqualification orders in the High Court against Andy Wong, former Chairman and Executive Director of Sunlink International Holdings Ltd, and the company's former Financial Controller Lee Chak To for failing to make timely disclosure of price sensitive information to the market concerning the company's financial position in 2008. Wong and Lee were disqualified for five years and 42 months respectively.
- We are seeking remedial orders against Du Jun, former Managing Director of Morgan Stanley (Asia) Ltd. As a result of the Court of Appeal's (CA) decision to reduce Du's fine in the criminal proceedings, the amount of over \$23 million has been frozen pending further order in the civil proceedings.
- The CFI made an interim freezing order in December 2012 to freeze over \$13.6 million of Augustine Cheong Kai Tjeh, a Director of Business Development based in Singapore of the Titan Petrochemicals Group. We are seeking restoration orders against Cheong in proceedings alleging that he dealt in the company's shares in January 2012 on inside information.
- We have commenced civil proceedings in the CFI against three current and former Directors of First China Financial Network Holdings Ltd. They were alleged to have breached their duties to the company resulting in it distributing a further dividend of around RMB18.7 million to an external party who was the seller in an acquisition made by the company in 2007.

¹ Section 213 of the SFO gives the SFC the power to apply to the Court of First Instance (CFI) for an injunction and other orders when there are contraventions of the provisions of the SFO and specified provisions of the Companies Ordinance.

² Under section 214 of the SFO, the CFI may make orders disqualifying a person from being a company director or being involved in the management of any corporation for up to 15 years. The Court may also make a range of orders it considers appropriate, including ordering a company to bring proceedings in its own name against any person specified.

- In proceedings against five defendants relating to allegations of misappropriation of client assets, we have obtained an interim freezing order to freeze over \$156 million assets of Mo Shau Wah, former account executive of China Pacific Securities Ltd. We also had similar orders to freeze the assets of the company's former settlement clerk and three nominees.

Obtaining audit papers for investigation

In August 2012, we commenced proceedings in the CFI against Ernst & Young Hong Kong (Ernst & Young) for failing to produce specific accounting records in response to our notices relating to Ernst & Young's work as the reporting accountant and auditor for Standard Water Ltd before its resignation in March 2010. Ernst & Young claimed that the relevant records were held by its joint venture partner in mainland China, Ernst & Young Hua Ming, and that the documents could not be produced to the SFC because of various restrictions under PRC laws and regulations including auditors' duty of confidentiality and the law concerning state secrets. The case is about compliance with Hong Kong law and is not challenging the application of any PRC law. For this reason, the result will provide important clarification to both listed companies and accounting firms in Hong Kong concerning their obligations.

We are invoking section 185³ of the SFO that empowers the CFI to inquire into the circumstances of Ernst & Young's non-compliance with our requests for these records. The case was part-heard by the CFI in March 2013 and the hearing resumed in May 2013.

Issuing restriction notice

In March 2013, we issued a restriction notice under sections 204 and 205⁴ of the SFO to Salisbury Securities Ltd, prohibiting the company from carrying on regulated activities and dealing with client assets until further notice. The purpose of the restriction notice is to protect the existing assets of the company, including client assets, while inquiries continue.

Combating securities crimes

During the year, we and the Department of Justice successfully prosecuted a number of persons for various offences under the SFO in criminal proceedings. With the enactment of the Securities and Futures (Amendment) Ordinance 2012, we can directly bring proceedings before the Market Misconduct Tribunal (MMT), enabling us to combat market misconduct in a streamlined and efficient manner.

- On 26 October 2012, Simon Chui Wing Nin, a former Assistant Director of finance at CITIC Pacific Ltd, was found guilty of insider dealing in the company's shares prior to a profit warning issued in 2008. Chui was sentenced to 15 months imprisonment and a fine of \$1,018,855. The Court also ordered that he be disqualified from being a director in Hong Kong for three years and pay the investigation costs.
- We have on-going civil proceedings against Du Jun in which we are seeking various orders including orders to return money to the counterparties to his insider dealing. After being convicted of insider dealing in the District Court, Du appealed to the CA which upheld the conviction on nine counts of insider dealing in the shares of CITIC Resources Holdings Ltd but reduced the term of imprisonment from seven years to six years. The CA also reduced the fine to enable money to be made available for our civil proceedings. Du sought to further appeal against his conviction and sentence but later abandoned his application. The criminal proceedings against Du have now concluded and we will pursue our civil action.
- In March 2013, the MMT made a finding that Sun Min had engaged in insider dealing in the shares of China Huiyuan Juice Group Ltd in August 2008 in connection with the bid of Coca Cola Company to acquire the company. In May 2013, the MMT ordered that Sun shall not, without the permission of the Court, be a director of any listed company or deal in any securities or futures contracts in Hong Kong for nine months starting from 14 May 2013. She was also ordered to pay about \$21 million to the Government as disgorgement of her profits made and pay the investigation costs.

³ Under section 185, the SFC may apply to the CFI for an inquiry into a failure by a person to comply with its powers under sections 179, 180, 181 and 183 to gather information, and, if the Court decides that there is no reasonable excuse for non-compliance, it can make orders requiring compliance and/or impose punishments on that person.

⁴ Sections 204 and 205 of the SFO empower the SFC to prohibit or restrict a licensed corporation from carrying on its licensed business activities and disposing of or dealing with property including client assets respectively.

- A broker, Chan Yuk Hing, and his client, Paul Frederic Chane Yin, were found guilty of manipulating the share price of Multifield International Holdings Ltd in 2009. The Court ordered Chan and Chane to serve 80 and 100 hours of community service respectively and the latter was also fined. Chan and Chane have lodged appeals against their convictions.
- In the MMT proceedings brought against Duncan Chui Tak Keung, the ex-Chairman of Sino Katalytics Investment Corporation, and Peter Yau Chung Hong, an Executive Director of the company, it was found that both Chui and Yau had engaged in market misconduct through false trading, price rigging and manipulation of the market for shares in the company. The MMT ordered Yau to make payment to the Government to disgorge his profits made; that both Chui and Yau shall not act as directors or take part in the management of a listed company for two years; and that they shall be prohibited from dealing in any securities for two years and pay investigation costs. Both Chui and Yau have lodged appeals against the decision.
- Proceedings have been initiated in the MMT against Yue Da Mining Holdings Ltd (YDM), Yue Da Group (HK) Company Ltd (YDHK), controlling shareholder of YDM, Li Libin, a former Director of YDHK, Dong Liyong, the CEO of YDM, and Qian Jinbiao, former Company Secretary and Financial Controller of YDM. It was alleged that they had engaged in the trading of the shares of YDM which created a false appearance of strong market demand of YDM shares resulting in artificial support and/or increase in the price of YDM shares. The substantive hearing at the MMT will take place in June 2013.
- Li Jialin, the Chairman of VST Holdings Ltd (VST), was sentenced to six months of imprisonment for price rigging in VST shares. The District Court also fined him \$240,000 for failing to disclose his interest in VST shares and disqualified him from being a director of any listed company for one year.
- Ng Kwok Wing, a licensed representative of Phillip Securities (Hong Kong) Ltd and Phillip Commodities (HK) Ltd, pleaded guilty to illegal short-selling in the shares of Pacific Plywood Holdings Ltd and was fined.
- Seven and four investors were respectively convicted of illegal short-selling in Imagi International Holdings Ltd and Bao Yuan Holdings Ltd and were fined.
- We prosecuted two insurance agents for advising clients to invest in a fund through an asset management firm to which they were not accredited. Lau Chun Yin and Chau Chi Ho were fined and ordered to pay the SFC's investigation costs.

Licenses disciplined with fines amounting to

\$83.5 million

Disciplining licensees

We took disciplinary action against licensed corporations and individuals over a range of misconduct and internal control deficiencies, with 27 licensees disciplined and fines amounting to \$83.5 million.

Poor sponsor work gets penalised

We revoked Mega Capital (Asia) Company Ltd's (Mega Capital) licence to advise on corporate finance and fined it \$42 million for failing to discharge its sponsor duties when it acted as the sole sponsor in the listing application of Hontex in 2009. The penalty was based on the grounds that Mega Capital's due diligence work was inadequate and sub-standard, that it failed to act independently and it did not properly supervise its transaction staff. This is the heaviest penalty we have imposed for sponsor failures to date.

In addition, the licences of Hong Hui Lung and Wong Tang Chung, who were the two responsible officers and sponsor principals in charge of Mega Capital's transaction team that worked on Hontex's listing application, were revoked and suspended for three years respectively.

Actions against internal control failures

- Société Générale (SG) was reprimanded for internal control failings in its wealth management activities regarding the non-disclosure of certain fees and charges in secondary-market transactions of over-the-counter products between April 2003 and January 2006. SG agreed to reimburse all affected customers the full value of the undisclosed fees with interest. Almost all eligible customers have accepted the offer, and SG has paid out reimbursements of over US\$13.7 million. SG was also required to undergo an internal control review by an independent reviewer.
- Manulife Asset Management (Hong Kong) Ltd was reprimanded and fined \$24 million for inadequate internal controls in the sale of Manulife Global Fund from 2007 to 2012. The deficiencies were related to the company's systems and processes for understanding its customers' background and investment objectives for the sale of the fund.
- RBC Investment Management (Asia) Ltd (RBC) was reprimanded and fined \$4 million for providing investment advice to clients on a number of non-SFC authorized funds between November 2006 and July 2008. RBC also agreed to make repurchase offers or pay compensation to relevant customers.
- Merrill Lynch (Asia Pacific) Ltd was reprimanded and fined \$3.5 million for failing to take adequate steps to properly handle complaints of 11 clients in 2008. These clients were victims of a fraud involving around \$56.4 million invested in investment products perpetrated by Joyce Hsu Ming Mei, a former sales representative. The company also agreed to engage an independent law firm and auditor to conduct a review of all client accounts handled by Hsu.
- We publicly reprimanded and fined CIC Investor Services \$4 million for its failures between 2004 and 2010 to comply with regulatory requirements in treating clients as professional investors and to keep adequate records of its investment advice to clients.
- President Securities (Hong Kong) Ltd was reprimanded and fined \$2 million for failing to act in the best interests of its clients when accepting subscriptions for a number of Lehman Brothers related structured products by 21 Taiwanese clients in 2008.
- Deutsche Securities Asia Ltd was reprimanded and fined \$2.5 million for regulatory breaches and internal control failings relating to position limit failures.
- IMC Asia Pacific Ltd was reprimanded and fined \$1.5 million for regulatory breaches and internal control failures concerning a large number of short-selling input errors between May 2007 and July 2010 and its failure to report the errors to Hong Kong Exchanges and Clearing Ltd until mid-2010.



Bans on re-entering industry

- We imposed life bans on five licensed representatives in the past year. Ho Wing Kin, Joyce Hsu Ming Mei and Wong Chiu Wan were prohibited for life for fraud and misappropriation of client assets; while Polly Sun Chor Fun was banned after she was convicted of conspiracy to defraud in relation to trading of warrants. Du Jun was banned for life for insider dealing in the shares of a listed company.
- We prohibited Ng Chi Keung from re-entering the industry for 10 years for failing to establish the true identity of the holder of an account and allowing unauthorised persons to operate that account.
- Chu Lai Sze, Leung Kam Yu and Esther Lee Ying Chih were each banned for three years – the former for forging a customer's signature on documents and the latter two for unauthorised trading in client accounts.

Clarifying disclosure standard

The CFI dismissed a judicial review brought by a financial institution (named "X" under an anonymity order) in relation to our decision to refuse disclosure of certain internal documents and working papers requested by X in our disciplinary proceedings against it. This case endorsed the SFC's standard of disclosure in disciplinary proceedings, namely the test of "relevance." In this context, "relevant" evidence included evidence relied on by the SFC and evidence that might disprove the SFC's concerns or assist the particular case of X.

Enforcement activities

	2012/13
Trading inquiries issued under S181 ¹	5,130
Investigations started	300
Investigations completed	306
Investigations completed within seven months (%)	173 (57%)
Persons charged in criminal proceedings	33 ²
Criminal charges laid	116 ²
Notices of Proposed Disciplinary Action ³	43
Decision Notices ⁴	36
Persons subject to ongoing civil proceedings	59
Compliance advice letters issued	330

¹ 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.

² The SFC brought a total of 116 criminal charges against 33 persons, with eight charges laid against three for market manipulation.

³ A Notice of Proposed Disciplinary Action is 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.

⁴ A Decision Notice sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

For more statistics on our enforcement activities, see SFC Activity Data on pages 56-57 and Breakdown of SFC Activity Data on pages 120-130.



Regulatory collaboration

To foster effective regulatory and enforcement co-operation, we work closely with regulators in overseas markets, mainland China and Hong Kong to discuss issues of common interest or matters that require collaboration. We play an active role in relation to setting international standards on securities regulation through our participation in global forums.

Engaging international regulators IOSCO

As a member of the Board of International Organization of Securities Commissions (IOSCO), we are keen to participate in policy discussions and to be involved in shaping policy recommendations. Highlights of our work in its policy committees and other key task forces are set out below:

- Our Deputy CEO, Executive Director of Investment Products, International and China continued to co-chair the Working Group on Margining Requirements, a joint initiative of IOSCO and the Basel Committee on Banking Supervision to implement Group of Twenty (G-20) commitments on over-the-counter (OTC) derivatives. The working group aimed at establishing internationally-consistent margin standards for non-centrally-cleared derivatives, mitigating systemic risk in the derivatives markets, and increasing standardisation and central clearing of derivatives. Two consultation papers were released to seek public comments on the margin requirements for uncleared OTC derivatives. Besides the Task Force on OTC Derivatives Regulation and the OTC Derivatives Regulators' Forum, we also participated in meetings among the authorities with responsibility for regulating the OTC derivatives markets in Asia, Europe and the Americas to discuss cross-border issues on the regulation of these markets.
- Our Senior Director of Intermediaries Supervision continued to chair the Committee on Regulation of Market Intermediaries, a position the SFC has held since 2009. This committee has published the final report on *Suitability Requirements with Respect to the Distribution of Complex Financial Products*, the *Report on Investor Education Initiatives Relating to*

Investment Services and a consultation report on *Recommendations Regarding the Protection of Client Assets*.

- We led the establishment of the Task Force on Cross-Border Regulation, through which we intend to highlight the need for effective co-ordination of cross-border regulation in securities markets among IOSCO members.
- We hosted a meeting of the Committee on Multinational Disclosure and Accounting in Hong Kong in November 2012 to consider issues on accounting, auditing and disclosure matters. Disclosure of non-GAAP¹ measures of issuer performance, and implementation and enforcement issues on financial reporting were discussed.
- To help improve risk transparency in the financial system, monitor cross-border risk transfer and keep track of systemic risk, we took part in the second IOSCO exercise to collect systemic risk data on large hedge fund portfolios. The global data collected from participating IOSCO members will be analysed by a task force comprising the United Kingdom Financial Services Authority, the US Securities and Exchange Commission and the SFC.
- Under the respective committees, we provided contributions on the methodology for identifying and analysing the indicators for non-banking systemically important financial institutions (including market intermediaries and investment funds). Under the Committee on Investment Management, we helped develop the principles and best practices on regulating exchange-traded funds (ETFs). As an active member of the Working Group on Retail Structured Products, we also provided input on the regulatory approach for retail structured products.
- We contributed to the policy recommendations made by IOSCO, including the final reports on principles for the valuation of collective investment schemes and principles of liquidity risk management for collective investment schemes, the consultation papers issued by the Standing Committee on Secondary Markets, and a number of reports released by the Committee on Commodity Futures Markets.

¹ GAAP refers to generally accepted accounting principles.

- We actively participated in the Standing Committee on Risk and Research (SCRR), working with international regulators towards identification and mitigation of systemic and emerging risks. During 2012 and continuing in 2013, our Senior Director of Risk and Strategy, was selected, alongside the IOSCO Secretariat to co-lead the SCRR Workstream on Emerging Risks. Topics discussed include business and product developments (eg, the evolution of central clearing and collateral management), areas of potential emerging risks (eg, the search for yield and the compression in bond yields), and the evolution of risk management practices as a result of lessons from the global financial crisis.

In the year, we worked with our counterparts in Singapore and Australia to express our common concerns to the US Commodity Futures Trading Commission regarding the cross-border application of certain swap provisions to non-US persons.

Starting from May 2013, our CEO chairs the Asia-Pacific Regional Committee, which aims to facilitate closer co-operation and collective action among regulators in pursuing Asia's common interests.

FSB

As a member of the Financial Stability Board's (FSB) Standing Committee on Standards Implementation (SCSI) and the FSB Regional Consultative Group for Asia, we actively participate in various aspects of FSB work. During the year, we were appointed to co-chair the Working Group on Shadow Banking in Asia that studies how shadow banking in Asia differs from the rest of the world. We hosted the second annual meeting of the SCSI and an industry participants' session, which covered country peer reviews and future thematic peer reviews on FSB principles for reducing reliance on ratings of credit rating agencies, OTC derivatives reforms and commercial real estate underwriting. We also contributed to the work of the G-20 on measures to enhance the transparency and competition of the credit rating industry.

We collaborated with the Hong Kong Monetary Authority (HKMA), the Mandatory Provident Fund Schemes Authority (MPFA) and the European Securities and Markets Authority on entering into a memorandum of understanding with European Union supervisors under the Alternative Investment Fund Managers Directive (AIFMD) initiative to facilitate cross-border supervision of those intermediaries subject to AIFMD, such as managers of alternative investment funds.

Collaborating with the Mainland

Our collaboration with Mainland authorities continued to build up their support for policy measures that would further strengthen Hong Kong's status as a premier offshore renminbi centre and an international asset management centre.

RQFII

We co-operated with our Mainland counterparts to roll out the second batch of Renminbi Qualified Foreign Institutional Investor (RQFII) products in the form of listed physical A-share ETFs. We also held high-level discussions with various Mainland authorities to pursue further expansion of the RQFII scheme and facilitation of other renminbi investment products offered in Hong Kong.

In November 2012, an additional RMB200 billion of RQFII investment quota was approved by Mainland authorities. In March 2013, the RQFII scheme was further expanded to, among other things, relax the eligibility of RQFII holders and the investment restrictions of RQFII funds. The new rules allow more market players in Hong Kong to participate in the scheme and promote the development of a broader range of renminbi investment products.

CEPA

We played an instrumental role in the formulation and implementation of co-operation initiatives in the securities sector under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA).

Five securities-related measures were included in CEPA Supplement IX signed in June 2012 to facilitate Hong Kong financial institutions' access to the Mainland securities market and strengthen the linkage between the securities markets on both sides. Major progress was also made regarding the implementation of initiatives under previously signed CEPA Supplements:

- The first Hong Kong-Mainland joint-venture investment advisory company was established and opened for business.
- Two Hong Kong stock ETFs were listed on the Mainland stock exchanges.
- More eligible Hong Kong financial institutions could access the Mainland securities market through the Qualified Foreign Institutional Investor scheme.
- The eligibility requirements for overseas listing of Mainland enterprises were relaxed.
- The upper limit of the stake held by foreign shareholders in Mainland joint-venture securities companies was raised from 33% to 49%.

Other initiatives

We provided support and strategic input to the Government to enhance Hong Kong's regional co-operative relationship with Guangdong, Shanghai and other provinces and cities on the Mainland. We conducted a seminar in Shanghai with the China Securities Regulatory Commission (CSRC) and the Securities Association of China for Mainland securities firms, their subsidiaries in Hong Kong and the staff of CSRC. The seminar discussed the regulatory framework of the Hong Kong securities market and the business development opportunities for Mainland securities firms in Hong Kong.

Requests for regulatory co-operation

	2012/13		2011/12		2010/11	
	In ¹	Out ²	In	Out	In	Out
Enforcement-related requests for assistance	112	146	104	104	93	74
Licensing-related requests for assistance	96	953	76	964	86	1,068

¹ "In" represents requests received.

² "Out" represents requests made.

In addition, we exchanged views with CSRC, the stock exchanges in mainland China and Hong Kong, and China Securities Depository and Clearing Corporation on issues relating to regulatory co-operation and development of cross-border investment products at the 44th meeting pursuant to the Memorandum of Regulatory Cooperation in Shenzhen.

Working with local regulators

We maintained constant dialogue with HKMA on issues related to licensing and supervision of intermediaries. In anticipation of the implementation of the statutory regulatory regime governing the regulation of MPF intermediaries, regular discussions were conducted with HKMA, MPFA and the Insurance Authority for the purpose of exchanging views on a wide range of matters, including complaint handling, supervisory and investigation activities, and the sharing of licensing and registration information.

Exchanging information

Last November, we launched the Asia Pacific Takeovers Regulators Forum, an e-platform jointly set up and hosted with the Securities Commission, Malaysia. The forum is designed to facilitate the exchange of ideas and views regarding takeovers and related matters among regulators in the Asia-Pacific region.

Jointly with HKMA and the Organisation for Economic Co-operation and Development, we co-hosted a seminar for financial authorities and related organisations primarily from Asia. The seminar discussed and reviewed the key developments and challenges facing financial consumer protection and education in the region. The Asia Financial Consumer Protection Roundtable, which took place after the seminar, enabled the exchange of ideas among senior executives from government financial authorities and regulators.

Communicating with stakeholders

As a financial regulator, the rules we enforce have a significant impact on society as a whole. That is why effective communication with our stakeholders is crucial. We also encourage interactive communication with the industry, investors and the general public. To ensure that our outreach is effective, an organisation-wide stakeholder engagement programme has been introduced.

Maintaining dialogue with industry

We maintain a dialogue with the industry, so that we can understand its concerns, and explain regulatory developments. All regulatory initiatives involve industry consultation; we communicate proposed changes and explain clearly what we plan to achieve. In the period under review, we have issued four consultations and six consultation conclusions. Our collaborative approach means that we hold regular briefing sessions and seminars to discuss risks and challenges facing the industry. We have also launched a series of risk-focused industry meetings with financial institutions (see page 14).

In addition to our annual and quarterly reports, we compile other publications such as the *Takeovers Bulletin* and the *Dual Filing Update*. We also publish a range of reports and surveys, eg, the annual *Fund Management Activities Survey*, the half-yearly *Review of the Global and Local Securities Markets* and the *Financial Review of the Securities Industry*.

7,746

public enquiries addressed

Educating investors through multi-media channels

Our investor education work aimed at highlighting the inherent risk in new and increasingly complex products, particularly as the Renminbi Qualified Foreign Institutional Investor (RQFII) scheme gathered momentum. We explained the differences between RQFII A-share exchange-traded funds (ETFs) and other listed A-share ETFs in our e-newsletter, *InvestEd Intelligence*, and newspaper columns. We also uploaded a list of frequently asked questions on this topic on the InvestEd website.

We underlined educational messages about the inherent risks of leveraged investing and renminbi products by re-running three-minute episodes of "Pointers for Investing" on pay TV and mobile platforms. In newspaper articles, we also discussed investment strategies and the inherent risks of renminbi bonds and bond funds, including high-yield bond funds.

Industry professionals were invited to explain the risks associated with trading leveraged products and investing overseas, the meaning of credit ratings and the disclosure of price-sensitive information by listed companies in "Money Talks," an eight-episode radio interview series aired on Commercial Radio between June and August in 2012.

To encourage people to monitor their personal finances more closely, we produced a new video series focusing on financial planning: "Put your Assets in Order." Interviewed by hip hop artist Det Dik, three market professionals shared their expertise in building, monitoring and reviewing an investment portfolio, assessing volatility and managing risks in 12 short video clips. This video series debuted on buses in Hong Kong in August 2012, supported by promotion on major online portals. We also explained the basics of financial planning in *InvestEd Intelligence* and in our weekly column in *Headline Daily*.

Investor-related activities

	2012/13
Educational booklets and articles	71
Participants in talks, seminars and workshops	5,829
No. of times of broadcast of educational messages on radio/TV	1,995
InvestEd website average daily page views ¹	55,006

¹ The figure refers to the average number of web pages browsed per day between April and November 2012. The website materials were transferred to the Investor Education Centre site as it went live in November 2012.

From April to November 2012, we organised 26 seminars attracting about 5,800 participants, including university students, secondary school teachers, police officers and senior citizens. Our purpose was to help them understand the operation of the securities and futures markets, alert them to scams and market malpractice, and encourage financial planning. Our investor education

work was delegated to the Investor Education Centre, with its launch on 20 November 2012 (see Investor Education Centre on pages 70-71).

Raising public awareness on our enforcement work

We highlighted our enforcement work in tackling market misconduct in the second series of a law-enforcement themed TV drama, "SFC in Action." Jointly produced with Radio Television Hong Kong (RTHK), "SFC in Action II" was broadcast on TVB Jade and simultaneously on RTHK's website from 2 April 2013.

The TV series is a fictional representation of the SFC's work in six episodes, with each featuring a stand-alone story dealing with a key strategic enforcement priority including insider dealing, market manipulation, mis-selling by intermediaries, corporate governance involving IPO listings and sponsors, and unlicensed dealing.

Addressing public enquiries and concerns

We welcome public enquiries regarding the markets we regulate or our work as a regulator. In the period under review, we received a total of 7,746 enquiries.

Of 1,421 complaints received during the period, those falling under our jurisdiction were first assessed by our Complaints Control Committee (CCC), which is made up of senior executives from our various units. The main focus of the assessment is to determine whether the subject of a complaint (be it a person or a firm) has complied with the rules and regulations that we are responsible for administering. We do not initiate investigations or take further action if, in our opinion, the complaint lacks sufficient detail or does not suggest material misconduct.

After CCC's preliminary assessment, 219 complaints were further reviewed by our various divisions, including 100 cases investigated by our Enforcement Division. In addition, 87 were referred to Hong Kong Exchanges and Clearing Ltd or other relevant financial regulators.

Public complaints¹

Complaints by nature	2012/13	2011/12	2010/11
Conduct of licensed intermediaries and registered institutions	276	582	632
Listing-related matters and disclosure of interests	433	462	483
Market misconduct	295	465	415
Products	7	5	11
Other financial activities	410	439	393
Miscellaneous	0	16	3
Total	1,421	1,969	1,937

¹ This table shows the number of complainants.

Publications and other communications

	2012/13	Change	2011/12	Change	2010/11
Press releases issued	130	-14%	151	-6%	161
Consultation papers issued	4	-43%	7	17%	6
Consultation conclusions issued	6	-	6	-33%	9
Technical publications	5	-17%	6	-33%	9
Codes and guidelines issued	10	25%	8	33%	6
Corporate website average daily page views ¹	31,764 ²	N/A	N/A	N/A	N/A
Public enquiries	7,746	-8%	8,448	-8%	9,193
Risk-focused industry meetings	7 ³	N/A	N/A	N/A	N/A

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

² The corporate website underwent a re-design in 2012. The figure covers the period from 8 August 2012, the launch date of the revamped website, to 31 March 2013.

³ Since risk-focused industry meetings were launched in March 2013, the figure covers only the month of March.

Investor education highlights

As our investor education opens a new chapter, some of the work over the years is highlighted below.

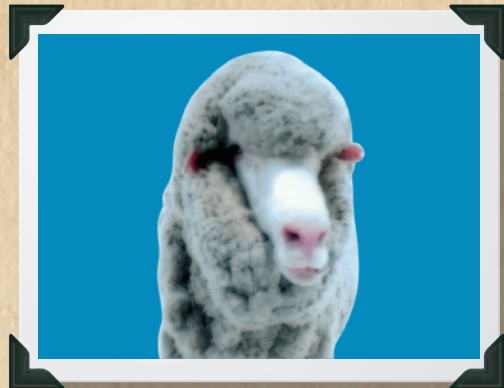


“Don't Guess When You Invest” drama

Investment knowledge programmes are not only introduced to secondary schools, but also extended to universities.

Dr Wise on SFC's Online Portal

Dr Wise advises the public on key investment issues through his online columns.



“Mr Sheep” TV commercial

“Mr Sheep,” a novice in investment, overcomes his herd instinct, learns to ask questions, and becomes a shrewd investor.



“All about Stock Investing” TV drama

Since 1996, we have produced hundreds of electronic segments for broadcasting on radio, TV, trains and buses.

Around **750** radio/TV segments,
broadcast over **15,000** times

Over **85,000** people attended our seminars



InvestEd — online portal for investor education

InvestEd evolves from the web-based Investor Resources Centre developed in the late 90s, and is dedicated to online education initiatives.



“Investment Triathlon” quiz

Apart from quizzes on multi-media channels, we also make financial knowledge appealing through TV game shows.



Winner of “Picture Your Investment Dream” photo competition

Through story telling and photography, we encourage people to realise their dreams with careful financial planning.



The “Ask Me” campaign

The campaign uses a Cantonese golden hit song of the same title to stress the importance of informed decisions.

More than

2.5 million

copies of booklets of

100

titles distributed

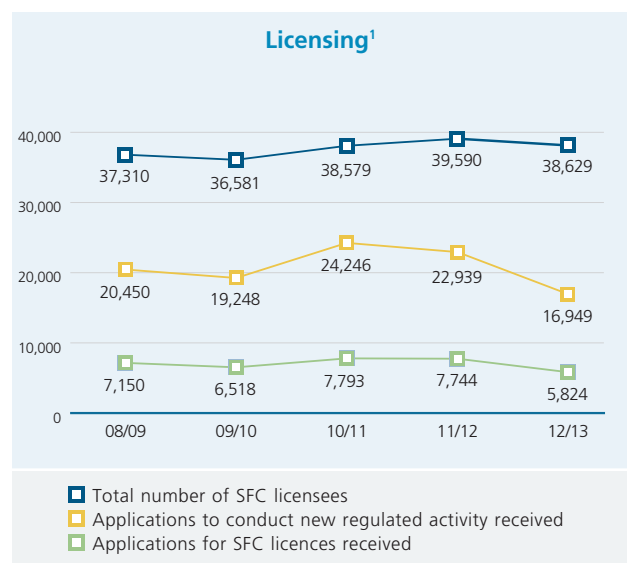
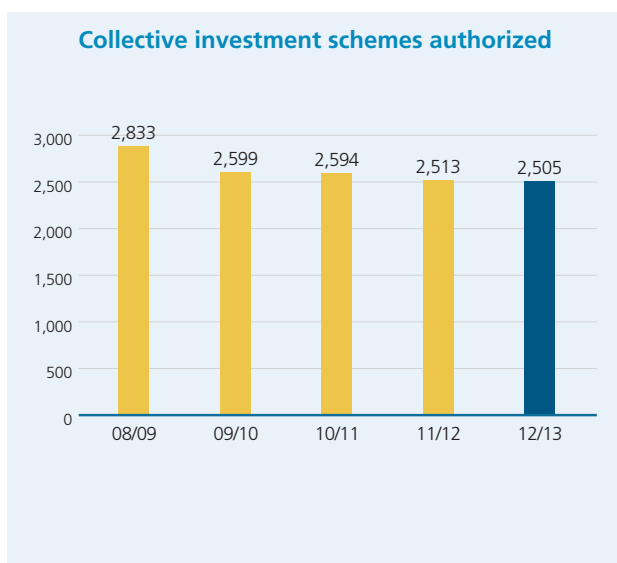
About

1.5 million visits

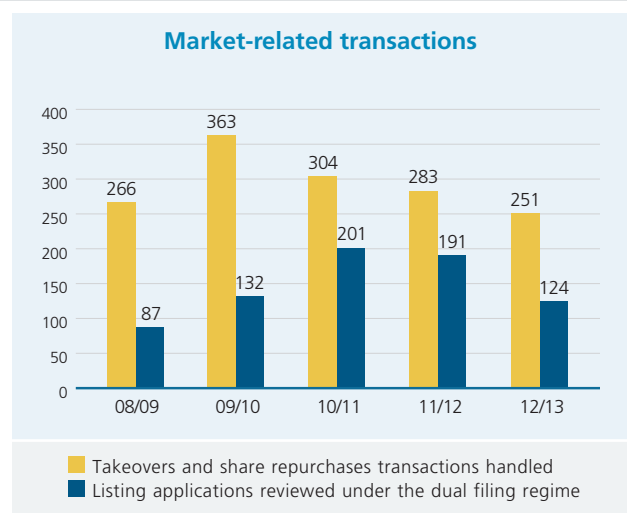
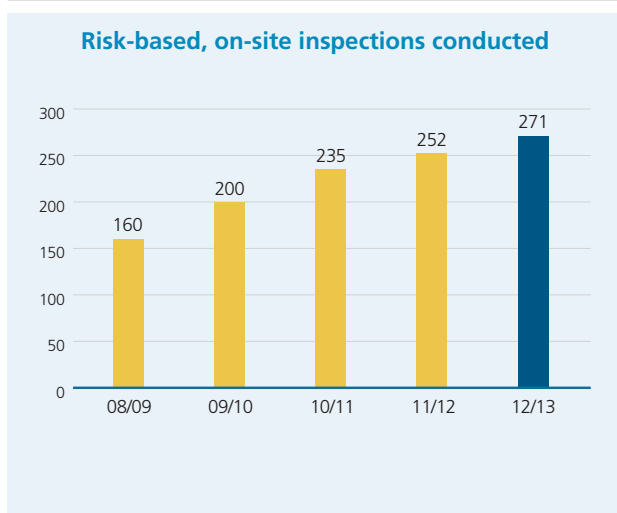
to the InvestEd site a year

SFC activity data

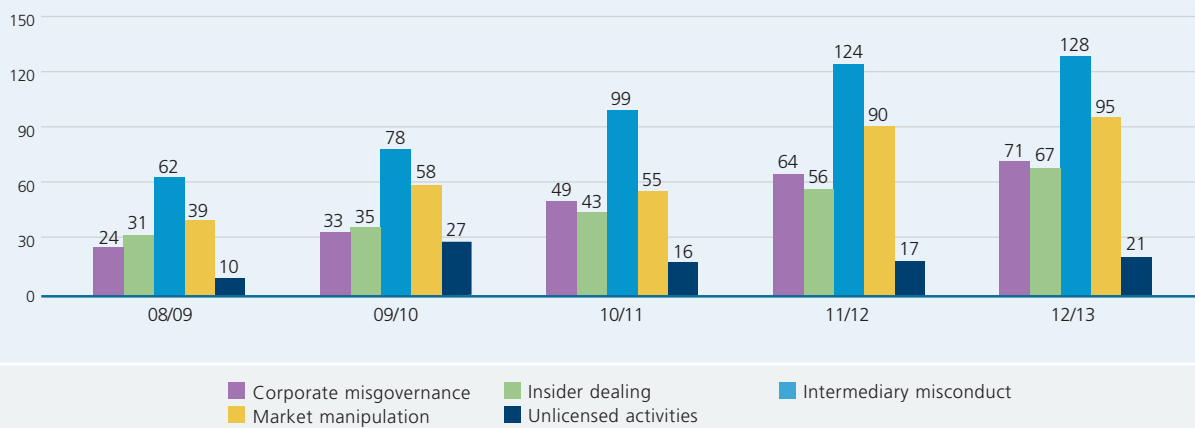
These charts and tables are intended to show at a glance some top-line measurable aspects of our activities, which, in turn, are a reflection of the market. Except noted otherwise, the figures are cumulative for each reporting year and compared over a five-year period. For a breakdown of some of these top-line items, see tables on pages 120-130.



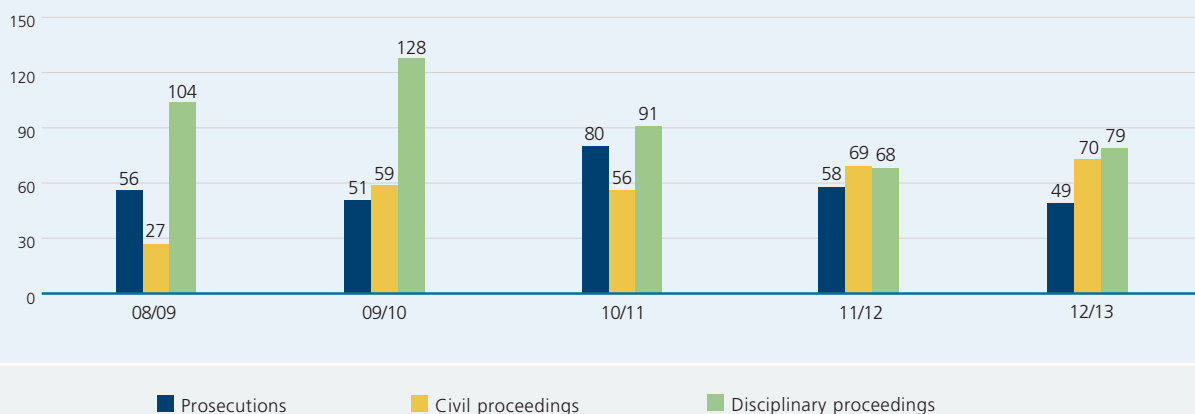
¹ This represents a snapshot view as at each financial year-end.



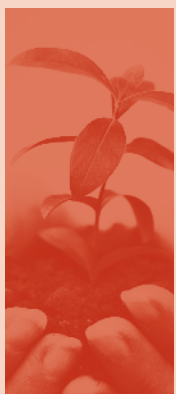
Investigations by nature



Persons subject to enforcement action



Corporate **Social Responsibility**



We believe that corporate social responsibility (CSR) is integral to every organisation. At the SFC, exercising CSR demonstrates our commitment to act responsibly in everything we do and create a positive impact on society. We expand our socially responsible efforts from the workplace to the environment and the broader community, and seek to live our CSR values.

Overseeing our CSR strategies and activities, the CSR Committee comprises representatives from various units and is chaired by the Chief Financial Officer and Senior Director of Corporate Affairs. Reporting to the Executive Committee, the CSR Committee is mandated to:

- develop CSR framework and policies aligned with the SFC's vision and mission;
- adopt practices and initiatives to promote CSR;
- set targets, key performance indicators and criteria for performance measurement;
- monitor and review the effectiveness of the SFC's CSR initiatives; and
- keep track of emerging CSR issues and make recommendations to the Executive Committee where appropriate.

The CSR Committee leads three working groups, which carry out initiatives for the benefit of the community, the environment, and the wellness of our staff. We have

developed one theme for each area, with a focus on launching multi-purpose activities this year. For instance, the donation of used items and old office furniture to non-government organisations (NGOs) serves to recycle resources and support the needy.

In the coming year, the CSR working groups will continue collaborating with external bodies to raise staff awareness of resources conservation and environmental protection, improve their psychological health and physical wellbeing, as well as encourage them to "invest" more time and efforts in the community.

CSR themes

	2012/13	2013/14
People	Exercising for a healthier living	Maintaining a work-life balance
Environment	Living green	Achieving greener results through awareness
Community	Being a giver	Volunteering as a social investment



Earth Hour 2013



Smiling Faces 2012

By inviting email suggestions and participants' responses to post-event surveys, the CSR Committee takes staff feedback on CSR initiatives into consideration in planning upcoming events.

Maintaining workplace quality

We recognise that people are our greatest asset, and their efforts and dedication are fundamental to our success in fulfilling our role as a regulator. This tenet underpins our efforts in providing a work environment which is safe, stable, and rewarding for our staff.

As an equal opportunities employer, we encourage employment practices which foster respect for employees' rights and diversity. For instance, as at 31 March 2013, female participation at middle management level or above was about 55%, continuing on an upward trend over the past three years.

Employee statistics

	2012/13	2011/12	2010/11
Male	33.3%	33.4%	33.2%
Female	66.7%	66.6%	66.8%
Female staff			
At Senior Manager grade or above	54.9%	54.4%	53.8%
At Director grade or above	36.5%	33.3%	37.8%
Average years of service	6.4	6.4	6.6

We remain committed to offering learning and development opportunities and to fostering the professional growth of our people. We also encourage continuous learning by providing e-learning modules and sponsorships to employees who have completed work-related further education (see Organisational Matters on pages 65-66).

54.9%

of female participation at middle management or above

We attach as much importance to the wellness and health of our people as their professional development. Initiatives to raise health awareness in our workplace include:

- organising a health talk on cancer prevention and diet;
- providing an on-site influenza vaccination and health screening programme to complement the corporate health plan;
- offering yoga sessions during lunch hours to help our staff maintain a balance of the mind and body;
- holding five theme days in the past year to encourage a healthier diet, including Fruity Days and Juicy Day; and
- setting up nursery rooms to support postnatal employees.

To promote greenness and staff wellness at work, we implemented the Little Plant Programme in June 2012 to offer small potted plants along with planting tips to our colleagues. This dual-purpose initiative not only brightens the office décor, but also improves indoor air quality. Nearly half of all SFC staff adopted potted plants through this programme.

Maintaining a work-life balance is key to quality of life. With this in mind, we organised a number of sports events and recreational activities throughout the year for our employees to spend quality time outside the workplace, including the SFC Bowling Night, Basketball Supervisory Cup, as well as hiking and geo-tours. All of these activities were very popular among our staff.



Birthday Happiness 2012



Kennel visit to Hong Kong Dog Rescue 2012

SFC Online Portal has saved
over 505,000
 pieces of paper

Protecting the environment

The SFC is an environmentally conscious organisation. We have developed an internal protocol, *A Guide to Working "Green" at the SFC*, to ensure that our staff follow appropriate measures to minimise our environmental impact and, where possible, lessen our carbon footprint. Key performance indicators relating to resource use and recycling are reported on a quarterly basis.

To reduce paper use from within the organisation, we have:

- launched the "Go Paperless, Go Inkless" campaign to publish paper and ink usage data every quarter along with conservation tips to raise green awareness;
- deployed the Data Management System to streamline the document management process and increase organisation-wide work efficiency;
- ceased printing and distributing SFC-branded diaries since 2011, and promoted the use of e-calendars in our e-mail system to keep track of work schedules and appointments;
- lowered the print run of this year's annual report by 24% and encouraged using the e-version, which offers interactive features and a search function, thereby saving about 28,000 pieces of paper;
- provided an animated Christmas e-card to all staff in place of traditional greeting cards; and
- distributed an e-notice to inform external parties, including SFC licensees and alumni, of our office relocation. About 37,000 pieces of paper have been saved via this initiative.



Fun Play Day 2013



ACCA Charity Fun Day 2013

We have put green ideas into practice by adopting environmentally friendly and energy-efficient designs for our new office. These include installing an energy-saving lighting system in meeting rooms, auto timers for indoor lighting after normal working hours, and adding natural lighting to work areas.

Our environmental protection efforts are not confined to our work environment. Over the years, we have introduced various initiatives to help market participants reduce paper consumption. These include:

- launched in September 2009, the SFC Online Portal has reduced processing time for applications and payments, and saved more than 505,000 pieces of paper in terms of annual returns and notifications (see more details in Intermediaries on page 36);
- evolving from a paper-based submission regime, our electronic financial return system (e-FRR) requires licensed corporations to submit their financial returns online. The e-FRR system helps reduce the consumption of more than 360,000 pieces of paper per year; and
- introduced jointly with Hong Kong Exchanges and Clearing Ltd in February 2011, the Mixed Media Offer process encourages the use of electronic listing documents in place of printed offering documents (eg, paper prospectuses).

The per-head waste generation and recycling figures over the past few years are indicative of our progress towards achieving our environmental protection goals. For instance, our paper consumption has continued to drop, down by approximately 11% in two years.

Besides recycling paper, toner, and ink cartridges, we donated more than 850 pieces of obsolete IT equipment to charities, including Caritas Hong Kong and Crossroads Foundation. Following our office relocation, we sold old surplus furniture to our staff in February 2013. All proceeds from the sale and the remaining items were donated to several local NGOs (see the next section for more details).

Recycling

	2012/13	2011/12	2010/11
Paper (kg)	51,735	24,325	25,311
Toner & printer ink cartridges (no.)	745	686	614
IT equipment (pieces) ¹	881	–	–

¹ Our IT department phased out a large quantity of obsolete hardware which was donated to charitable organisations this year.

The record-high staff adoption of potted plants through the Little Plant Programme this year marks the success of our initiative to promote a green culture.

Partnering with various NGOs, we have supported global warming prevention and environmental conservation causes by participating in:

- **No Shark Fins Policy:** As part of the World Wide Fund's (WWF) campaign to preserve the marine ecosystem, we adopted an organisation-wide No Shark Fins Policy in May 2012 and pledged not to serve sharks' fins in any SFC events thereafter.
- **Earth Hour 2013:** This is our third year of participation in the WWF's Earth Hour event. In support of this global sustainability movement, our staff pledged to turn lights off for one hour on 23 March 2013.

- **Tree planting:** Under the guidance of the Hong Kong Green Nature Union (HKGNU), our staff volunteered to plant seedlings on Peng Chau Island in October 2012.
- **Countryside Clean-up:** To preserve Hong Kong's natural habitat, our staff joined the HKGNU in cleaning up the refuse along the coastline of Yung Shue Wan and Sok Kwu Wan in March 2013.

Staff volunteering hours up

43%

Giving back to the community

We believe that together we can multiply the effect of our charitable contributions. During the year, we organised a range of community engagement events for our staff to make a positive impact on the community.

To boost employee volunteerism, we organised seven volunteering events, all of which received overwhelming responses from our staff, averaging an oversubscription rate of 172%. In aggregate, our staff contributed 567 hours to volunteering events, up 43% from the previous year.

Donation of used items to NGOs is one of our key focus areas this year from both a charitable and a green perspective. We undertook the following initiatives to serve the dual purpose of reducing waste and giving back to the community:



Basketball Supervisory Cup 2012



Countryside Clean-up 2013

Volunteering events

Month	Activity	Purpose	Outcome
May 2012	Birthday Happiness (with Birthday Happiness)	To show our care for socially disadvantaged children	Held a birthday party for 20 underprivileged children in Tin Shui Wai
Jul 2012	Smiling Faces (with Hong Kong Association for Cleft Lips and Palate)	To bring joy to physically disadvantaged children	Instilled a spirit of collaboration by preparing afternoon tea with those children
Sep 2012	Kennel visit (with Hong Kong Dog Rescue)	To understand the living environment of homeless dogs	Walked the dogs and learnt how to take care of them
Oct 2012	Birthday Happiness Continues (with Birthday Happiness)	To show our care for socially disadvantaged children	Organised a birthday party for 30 underprivileged children in Wong Tai Sin
Oct 2012	Peng Chau Tree Planting Day (with HKGNU)	To preserve the natural environment	Involved in positive eco-action by planting more than 10 seedlings on Peng Chau Island
Feb 2013	Fun Play Day (with Hong Kong Family Welfare Society)	To show our care for children	Made small handicrafts and desserts with underprivileged children, and gave out second-hand books and toys donated by our staff
Mar 2013	Countryside Clean-up (with HKGNU)	To raise awareness of environmental protection	Cleaned up refuse along the coastline of Yung Shue Wan and Sok Kwu Wan on Lamma Island

- phased out a large quantity of office furniture following our office relocation, put forth a staff sale and co-ordinated the recycling of these items with charities, including the Hong Kong Health Care Federation, Project Little Dream and Crossroads Foundation;
- donated the proceeds raised from the staff furniture sale to Friends of the Earth in March 2013;
- gave out 881 pieces of IT equipment¹ to charities, including Caritas Hong Kong and Crossroads Foundation to benefit people in need;
- collaborated with the Hong Kong Family Welfare Society and donated 19 boxes of toys and books targeting a group of underprivileged children;
- assembled 11 bicycles during one of our team building activities and donated them to the Salvation Army to support the setup of a bicycle team for disadvantaged children; and

- donated surplus food from in-house corporate events to Foodlink Foundation for the second year to help minimise food wastage.

During the year, our staff made donations to support various fund-raising events, including the ACCA² Charity Fun Day 2013, Community Chest events, World Cancer Research Fund Fruity Friday and the Standard Chartered Hong Kong Marathon 2013.

To increase staff involvement in our CSR initiatives, we held the Commission Volunteers Group logo design competition and invited all staff to vote for their favourite design. More than one-third of all SFC staff voted for the winning design.

In recognition of our charity contribution and participation in community service, we have been named as a 'Caring Organisation' by the Hong Kong Council of Social Services for the seventh consecutive year.

To help licensed persons broaden their knowledge and skills in carrying out regulated activities and keep up with new market developments, we have imposed

¹ These include personal computers, liquid-crystal display (LCD) monitors and printers.

² The Association of Chartered Certified Accountants

continuous professional training (CPT) requirements on licensees since 2001³. In addition to approving recognised CPT providers, we have been providing direct professional training to the industry. Throughout the year, our senior executives delivered 43.5 CPT-eligible hours of talks at training seminars organised by various professional bodies.

We also support charitable events held by industry-related non-profit groups for wider community outreach. For instance, in March 2013, we hosted the first of the three Women in Finance Asia's Education Series. The response was overwhelming, attracting more than 100 participants and successfully raising over \$16,000 for charitable causes.

Overall CSR contribution

	2012/13	2011/12	2010/11
Employees participating in volunteering activities	143	106	116
Total volunteer hours	567	396	456
Amount of funds raised for community causes (\$)	115,675	19,520	42,756
Corporate sponsorships for community causes ¹ (\$)	21,000	19,000	17,000

¹ These include donations in lieu of corporate gifts to the Tung Wah Group of Hospitals, ie, making donations in the name of guest speakers.

CSR Activities 2012/13

April – June 2012	July – September 2012	October – December 2012	January – March 2013
1. Little Plant Programme	1. CSR Committee meeting	1. Birthday Happiness Continues	1. CSR Committee meeting
2. Community Chest Green Day donation campaign	2. Smiling Faces	2. CVG logo design competition	2. 'Go Paperless, Go Inkless' campaign
3. Birthday Happiness	3. Fruity Friday	3. Recycling and donation campaign	3. Fun Play Day
4. Fruity Day	4. Kennel visit at Hong Kong Dog Rescue	4. Tree planting day	4. Tap Mun and Lai Chi Wo geo-tour
	5. SFC Bowling Night	5. In-house hand cream-making workshop	5. Juicy Day
	6. Community Chest Dress Casual Day	6. Fruity Day	6. Countryside Clean-up
		7. On-site health screening	7. In-house yoga sessions
		8. Health talk	8. Fruity Day
		9. Shek O hiking tour	9. Earth Hour 2013
		10. Community Chest Love Teeth Day	10. CSR reporting at Executive Committee meeting

³ As set out in 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.

Organisational Matters

We are committed to using our expertise and resources to fulfil our mandate as a globally respected regulator. We must also ensure that our human resources development, IT infrastructure and other corporate services can meet the demands of an increasingly complex and fast-moving market. Last year, we launched a number of initiatives to keep ourselves in step with new operational needs.

Encouraging engagement, communication, collaboration

We strive to provide a work environment where “people count” – one of our core values. Based on the results of our previous employee engagement survey, we took concrete steps to enhance communication, development opportunities and the overall working environment. New initiatives were launched during the year, ranging from introducing a study leave policy and promoting a learning culture of continuous education to creating an e-Recognition platform for sending e-thank you cards within the organisation.

As a proactive approach to encouraging collaboration in regulatory work, cross-divisional project groups were set up. On the communication front, our Chief Executive Officer (CEO) continued to inform all staff of the latest market and regulatory developments and organisational matters during regular “CEO Sharing Sessions.” In the same vein, Executive Directors briefed colleagues on hot topics. Additionally, the CEO also addressed staff questions submitted through the “Your Voice” mailbox on the SFC intranet.

“Enriching Your Work Life” was the slogan of a broad range of events organised by the Staff Activities Committee over the past year, ranging from workshops to geo-tours and sports activities. The highlight of the year was the Basketball Supervisory Cup, which was co-hosted with three other financial regulators to

Training, e-learning and sponsorships

	2012/13	2011/12	2010/11
% of employees who participated in internal training ¹	90%	97%	96%
Average hours of internal training per employee ¹	31.13	43.93	39.79
No. of employees who undertook e-learning	188	145	116
Education, examination and external local training sponsorships (\$)	1,068,101	606,217	725,101

¹ Including lectures, workshops, seminars, etc

enhance cross-organisational bonding (for more on the SFC’s social and volunteering activities, see Corporate Social Responsibility on pages 59-64).

Shaping our employer brand

To better position the SFC as an employer of choice, we have launched a branding campaign on what working at the SFC can offer as a career. This takes account of the unique work we do, the specialist knowledge and experience that the work requires, and the challenging environment in which we operate. “The right place for people with a purpose” is what defines us as an employer which provides a diverse range of career opportunities.

We continued to draw young recruits into our diverse talent pool in support of the organisation’s development. Now into its fourth year, we recruited 14 new graduate trainees into the Graduate Trainee Programme and achieved a retention rate of 93% over the past 12 months. Additionally, we placed 46 winter and summer student interns in various divisions.

Developing people

Continuous professional development is key to retaining a committed, high-calibre workforce. As part of this strategy, we hosted lectures, workshops and seminars featuring experienced market professionals to update employees on the issues of the day and build on their technical skills. During the year, we developed customised workshops and soft-skills and training courses, including a number of inspection and internet investigation workshops.

We also offered the following learning and development opportunities to our staff during the year:

Workshops on latest market trends: To tackle changes in an ever-dynamic financial market, we invited experienced market practitioners to lead workshops covering topics spanning algorithmic and high frequency trading and credit risk in over-the-counter derivatives.

668 staff

Seminars on international regulatory developments:

Speakers from local and overseas regulators and industry professionals were invited to brief our employees on a range of topics, including the latest developments at the International Organization of Securities Commissions and the United States Securities and Exchange Commission, as well as updates on the latest trends on the Mainland and in overseas markets. These seminars aim at raising our employees' awareness of international issues and current trends in the regulatory arena.

Overseas secondments and study trips: During the year, we organised short-term secondments with the United Kingdom Financial Services Authority on the topic of open-ended investment companies. We began our first secondment with the Australian Securities and Investments Commission. To promote cross-border regulatory exchanges, we continued our regular secondment programme with the China Securities Regulatory Commission (CSRC). We also organised visits to CSRC, the Shenzhen Stock Exchange and various fund houses to enrich our employees' understanding of the Mainland securities markets' operations.

Team-building events: We held a series of team-building events for various divisions to instil a sense of belonging and deepen the cohesiveness of our staff.

During 2012-13, each SFC staff spent 31.1 hours on training. Additionally, more employees have taken e-learning courses and benefited from education, examination and training sponsorships over the past three years.

We have introduced a competency framework to ensure all staff understand the leadership and technical knowledge, skills and behaviour expected of individual roles within the organisation. This framework supports the strategic management of our human resources and development work is now under way.

Our focus is to integrate these competencies into our recruitment and employee development practices. This will also provide our employees with high-level development road maps to facilitate their own career planning.

Rewarding our talent

We operate a total reward strategy in which remuneration policies and practices are reviewed every year to attract and retain talent. Our annual SFC Employee Awards recognise outstanding individuals and teams for their contribution to the organisation. Other key initiatives this year include the hosting of 10 seminars to update staff on the choices and terms offered under our Mandatory Provident Fund and Occupational Retirement Schemes Ordinance schemes.

Enhancing process efficiency and information security

During the year, we made improvements to our office and process efficiency:

New e-submission system: A user-friendly system was launched for the public to report their positions online under the new short position reporting regime that came into effect in June 2012 (see Market infrastructure and trading on page 37). The system streamlines the processing of submissions for publishing aggregated reportable short positions in a timely manner on our website.

Web protection improvement: A web attack mitigation service was implemented to improve the availability of the SFC online services, such as electronic filing of financial resources by licensed intermediaries.

Information security and infrastructure: A comprehensive system security audit was conducted by an external consultant to ensure that external submissions and our corporate website are well protected. Also, we relocated our backup and primary data centres to new locations with expanded capacity that minimises any system stoppage.

Internal information sharing: A new powerful search system was deployed to provide staff with a one-stop searching and a holistic view of information on licensed corporations and individuals as well as related parties.

Phone numbers: In January 2013, we upgraded the phone system and simplified our telephone number structure by migrating our telephone number from three sets of prefixes to a single prefix.

Relocating to new office

In early 2013, we relocated our office from Chater House to Cheung Kong Center, bringing 600 staff under one roof. The relocation completes our move to consolidate all operations into a single location to enhance operational efficiency. The relocation process was smooth and the new office was in full operation as at 4 February 2013.

The new office was designed to improve efficiency, while also offering staff a more productive working environment. It has more meeting rooms and facilities such as project rooms where staff can study and discuss cases or projects. The new office was also designed with the comfort and convenience of staff in mind, offering more storage space for individual workstations and better-equipped pantries.

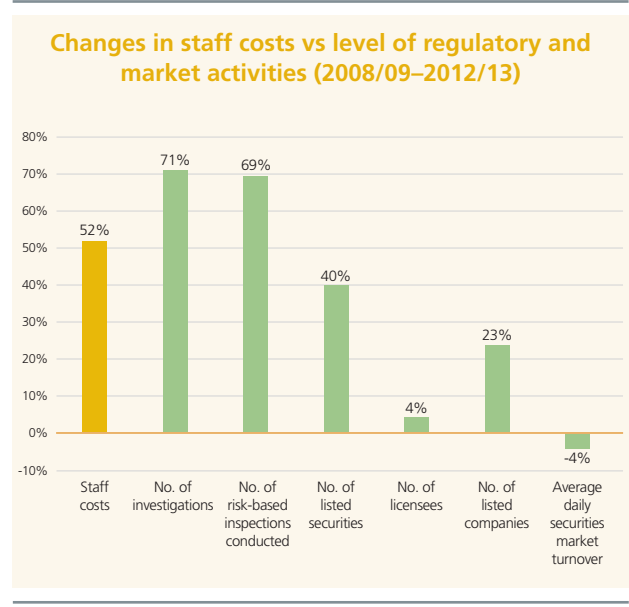
Managing financial performance

Expenditure

The costs of our ongoing regulatory activity were \$1,184 million, \$171 million below our original budget of \$1,355 million. Staff are our most valuable asset and accounted for about 64% of our total expenditures. Higher rental cost arising from our office relocation has led to higher premises and related expenses for the current year.

Expenditure breakdown

	2012/13	2011/12	2010/11
Staff costs	63.8%	72.1%	72.4%
Premises and related expenses	18.2%	11.4%	11.4%
Other expenses	13.3%	12%	10.9%
Depreciation	4.7%	4.5%	5.3%
Total	100%	100%	100%



Over the past five years, our staff costs increased 52% whereas during the same period, the increase in the numbers of investigations, risk-based inspections conducted, listed securities, licensees and listed companies were 71%, 69%, 40%, 4% and 23% respectively. On the other hand, the securities market turnover shrunk by 4% when compared with five years ago.



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 0.003% for securities transactions, which is significantly lower than the rate of 0.0125% when the transaction levy mechanism was first set up. Our fees are charged on a "user pays" principle. Although our fee income is below the attributable costs, we have not revised our fees and charges since 1994-95.

Funding breakdown

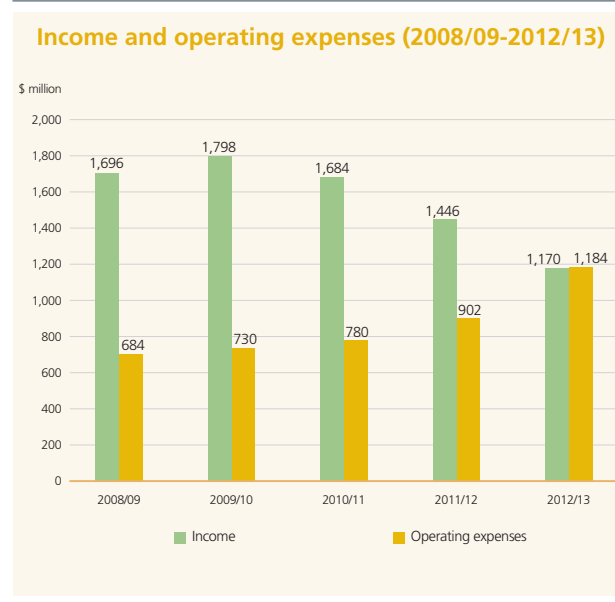
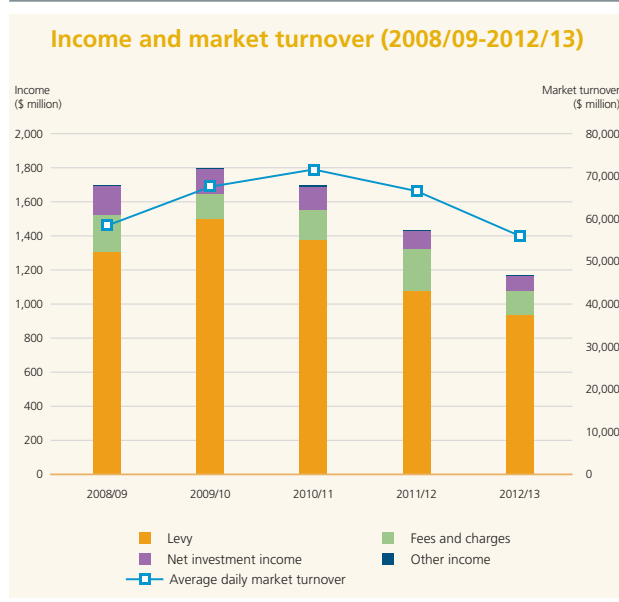
	2012/13	2011/12	2010/11
Levies	79.5%	75.6%	81.6%
Fees and charges	12.5%	15.9%	10.2%
Net investment income	7.3%	8%	7.6%
Others	0.7%	0.5%	0.6%
Total	100%	100%	100%

Total income for the year was \$1,170 million, down 19% from \$1,446 million a year ago. Owing to the decline in the turnover of the securities market, our levy income dropped by 15%, from \$1,092 million last year to \$930 million in the current year. Our income from fees and charges also reduced by 37%, from \$230 million last year to \$146 million this year as a result of the two-year licensing annual fee waiver that took effect on 1 April 2012.

The ratio of average expenses to income for the past five years was 55%. The average increase in expenses was 16% for the past five years whereas our income decreased 13% on average in the same period.

Owing to the increase in operational costs and the drop in income, we recorded a deficit of \$14 million for the year, compared to a surplus of \$544 million last year.

As of 31 March 2013, our reserves reached \$7.5 billion. We are obliged to manage our reserves according to the investment guidelines approved by the Financial Secretary.



Finances and staff

	2012/13	Change	2011/12	Change	2010/11
Income (\$ million)	1,170	-19%	1,445.7	-14%	1,683.8
Expenses including depreciation (\$ million)	1,184.1	31%	901.6	16%	780.4
No. of staff	668	9%	611	12%	544

Breakdown of staff

	31 March 2013		31 March 2012		31 March 2011	
	Actual	Budget	Actual	Budget	Actual	Budget
Professional	491	560	443	476	402	441
Support	177	176	168	172	142	146
Total	668	736¹	611	648	544	587

¹ 35 new headcounts were approved in response to legislation dependent initiatives in September 2012, bringing the approved total headcount in 2012-13 to 743. Seven staff members were transferred to the Investor Education Centre as at 1 December 2012, hence the revised headcount is 736.

Upgraded, more user-friendly corporate website

In August 2012, we launched a revamped corporate website following a comprehensive redesign. It delivers better online experience for target audiences in terms of navigation, functionality and information search. With better access and more information, the upgraded website helps the financial industry address compliance needs more efficiently while promoting a better public understanding of our regulatory work and of how markets work.

Key enhancements include:

- The sub-site of SFC-issued codes and guidelines, an online library built on a platform powered by Thomson Reuters, collates and presents regulatory materials, of current and all past versions, in a readily searchable, systematic format. It categorises rules by topic and in alphabetical order, highlights content changes, offers cross reference and advanced search functions. The SFC is the first Hong Kong regulator to offer such a sub-site and the first Chinese online version ever launched.
- The newly installed search engine can generate more comprehensive and meaningful results.

- The online regulatory update and calendar give an overview of the latest regulatory changes and decisions, including circulars to licensees, implementation of new or revised rules, as well as public consultations and conclusions.
- Quarterly updated activity data and charts provide details of our various regulatory functions.

After the launch, we ran three surveys to get user feedback. More than half of respondents in the first two surveys appreciated the new website's layout and organisation of information. About 80% of respondents in the third survey on the sub-site of codes and guidelines expressed overall satisfaction.



Investor Education Centre

Background

Financial education for consumers and investors complements regulation, enabling better understanding of financial products and services as well as their risk. It is even more important, in view of the development of increasingly complex products and services that cut across traditional boundaries of banking, insurance and securities.

There is also growing recognition around the world that financial literacy is a vital life skill. This is of particular relevance to Hong Kong, given its status as an international financial centre, and Hong Kong people's active participation in financial markets. It also improves consumer and investor confidence in dealing with financial services providers which in turn helps to underpin the overall stability and reputation of Hong Kong's financial services sector.

The SFC is the only Hong Kong regulator with a statutory mandate to educate investors, but this was only in relation to financial products and services within its regulatory remit. Other regulators and organisations also have educational initiatives, but these are generally focused on the organisations' respective jurisdictions.

In May 2012, the Securities and Futures Ordinance was amended to broaden the statutory investor education objective of the SFC. The change to the legislation also allowed the SFC to delegate its education function to a wholly-owned subsidiary, the Investor Education Centre (IEC), with a broadened mandate to provide education and information across the entire financial sector.

Establishment and governance

On 20 November 2012, the IEC was established with the mandate of delivering holistic financial education to the public to improve their financial literacy, equip them with the skills they need to make informed financial decisions and manage their money wisely. It will do this by providing credible and impartial financial education and information to the public covering all kinds of financial products and services.

Executive Committee

Chairman	CHENG Leonard	Non-Executive Director of the SFC
Members	CHAN Ka Ki, Catherine CHAN Sun Hung, Tony CHAN Tze Ching, Ignatius LARBEY Miles Howard LEE Wing Sing, Vincent WAN Chi Yiu, Andrew YIU Kei Chung, Thomas	Education Bureau Office of the Commissioner of Insurance Industry representative General Manager of the IEC Hong Kong Monetary Authority SFC Mandatory Provident Fund Schemes Authority



In the IEC logo, the letter "I" is represented as a bookmark and its prominent placement shows that the IEC's primary purpose is learning and education

The IEC is governed by an Executive Committee, appointed by the SFC, comprising a Chairman who is a Non-Executive Director of the SFC, representatives of the four financial regulators, namely the Hong Kong Monetary Authority, the Mandatory Provident Fund Schemes Authority, the Office of the Commissioner of Insurance and the SFC, as well as a representative of the financial industry, the Education Bureau and the General Manager of the IEC. The Executive Committee provides strategic oversight and advice and approves important policies and decisions.

The IEC, still in a development phase, will fulfil its mandate with the following strategic approach:

- Reaching the general public with key financial education messages through campaigns delivered by various media channels;
- Building sustainable and tailored outreach programmes for different sectors within the community with key messages for these groups;
- Offering a dedicated self-service website which provides comprehensive financial information and interactive tools and resources.



Executive Committee members

Funding

The IEC is funded by the SFC, with no extra levies or charges for the industry or investors. As of the end of March 2013, the SFC provided \$14.63 million for the establishment and operations of the IEC.

	\$'000
Start-up costs	3,028.93
Education programmes	7,875.42
Staff costs	3,242.16
Other expenses	487.56
Total	14,634.07

A full set of the IEC's audited financial statements can be found on its website (www.hkiec.hk).

Key activities

In addition to building its corporate and organisational infrastructure, the IEC has already conducted a number of education programmes, employing mass media and online channels to maximise the reach and appeal of the IEC's key messages, such as:

CNY campaign

Laisee envelopes were distributed to the public during the Chinese New Year (CNY) in February 2013, promoting the importance of good money management skills and financial planning. With the message "Even small amounts of saving can help you build your wealth," the red packets carried a Quick Response Code that directed people to a dedicated "CNY Money Management Tips" section on the IEC website, encouraging them to share their financial planning tips.



Radio dramas

A series of one-minute radio drama segments was aired on Metro Finance radio and Metro Finance Digital channel from December 2012 to February 2013. The series highlighted key issues about financial planning, such as goal setting, investment strategies, risk management and diversification, as well as the role of insurance in financial planning (eg, investment-linked assurance schemes, which are often referred to as ILAS) and the importance of monitoring one's investment portfolio.

Short videos

A series of three-minute videos, entitled "Pointers for Investing," highlighting the risks of renminbi products, ETFs, derivative warrants and margin trading was broadcast on TVB, nowTV and Cable TV, and promoted

on various popular news websites and mobile apps between January and March 2013. The videos enabled us to reach a broad spectrum of investors, including retirees, and working adults.

Print media

The IEC's regular column in the *Headline Daily* features different investing and financial planning issues. Three information booklets, namely, *How to Read Product Key Facts Statements*, *Equity-linked Investments*, and *Know Your Rights in the Sales Process* have been distributed.

Outreach programmes

Since November 2012, 18 seminars have been organised, attracting 1,050 participants from different segments of the community, including students and police officers. The topics were wide-ranging, covering the importance of financial planning, risks of certain investment products, etc.

Online learning

At the same time of the launch of the IEC, its corporate website went live allowing the public to gain access to a wide range of impartial education and information.

A word from IEC Chairman

The IEC has been established to holistically oversee and lead financial education initiatives in Hong Kong across the entire financial sector. However, even with our best effort and intention, financial education alone cannot prevent every poor financial decision from being made, nor can it prevent market fluctuations and misconduct by individual service providers and market participants. Thus, it complements, rather than replaces, strong and effective financial services regulation, enforcement and dispute resolution. Work in financial education requires long-term commitment and strategic planning. Over the coming months and years, IEC will develop its financial education strategy and work plans in phases, gradually expanding into new areas of content and developing broader and deeper educational programmes and resources for the public.



Prof Leonard Cheng

Independent auditor's report to the Securities and Futures Commission

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

We have audited the consolidated financial statements of the Securities and Futures Commission (SFC) and its subsidiaries (together referred to as the Group) set out on pages 73 to 91, which comprise the consolidated and the SFC statement of financial position as at 31 March 2013 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Hong Kong Securities and Futures Ordinance requires the directors of the SFC to prepare financial statements which give a true and fair view. The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the SFC and of the Group's affairs as at 31 March 2013 and of the Group's result and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

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

3 June 2013

Consolidated statement of comprehensive income

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

	Note	2013 \$'000	2012 \$'000
Income			
Levies		929,855	1,091,953
Fees and charges		146,291	230,074
Investment income	5	88,289	118,927
Less: custody and advisory expenses		(2,662)	(2,801)
Investment income net of third party expenses		85,627	116,126
Recoveries from Investor Compensation Fund		4,869	4,442
Other income	6	3,329	3,072
		1,169,971	1,445,667
Expenses			
Staff costs and directors' emoluments	7	755,407	650,564
Premises			
rent		167,471	73,525
rates, management fees and others		48,347	29,128
Other expenses	8	157,263	108,130
Depreciation	10(a)	55,575	40,227
		1,184,063	901,574
(Loss)/surplus and total comprehensive income for the year		(14,092)	544,093

The notes on pages 78 to 91 form part of these financial statements.

Consolidated statement of financial position

At 31 March 2013 (Expressed in Hong Kong dollars)

	Note	2013 \$'000	2012 \$'000
Non-current assets			
Fixed assets	10(a)	112,725	49,364
Held-to-maturity debt securities	9	2,935,841	4,802,488
		3,048,566	4,851,852
Current assets			
Held-to-maturity debt securities	9	2,808,214	1,567,623
Debtors, deposits and prepayments	14	139,759	168,160
Fixed and call deposits with banks	11	1,602,208	1,035,893
Cash at bank and in hand	11	2,909	3,348
		4,553,090	2,775,024
Current liabilities			
Fees received in advance		8,262	73,835
Creditors and accrued charges		114,854	67,888
		123,116	141,723
Net current assets		4,429,974	2,633,301
Total assets less current liabilities		7,478,540	7,485,153
Non-current liabilities	13	22,911	15,432
Net assets		7,455,629	7,469,721
Funding and reserves			
Initial funding by Government	15	42,840	42,840
Accumulated surplus		7,412,789	7,426,881
		7,455,629	7,469,721

Approved and authorised for issue by the SFC on 3 June 2013 and signed on its behalf by

Carlson Tong
Chairman

Ashley Alder
Chief Executive Officer

The notes on pages 78 to 91 form part of these financial statements.

Statement of financial position

At 31 March 2013 (Expressed in Hong Kong dollars)

	Note	2013 \$'000	2012 \$'000
Non-current assets			
Fixed assets	10(b)	112,625	49,358
Held-to-maturity debt securities	9	2,935,841	4,802,488
		3,048,466	4,851,846
Current assets			
Held-to-maturity debt securities	9	2,808,214	1,567,623
Debtors, deposits and prepayments	14	139,502	167,959
Fixed and call deposits with banks	11	1,602,208	1,035,893
Cash at bank and in hand	11	1,857	3,026
		4,551,781	2,774,501
Current liabilities			
Fees received in advance		8,262	73,835
Creditors and accrued charges		113,445	67,359
		121,707	141,194
Net current assets			
		4,430,074	2,633,307
Total assets less current liabilities			
		7,478,540	7,485,153
Non-current liabilities			
	13	22,911	15,432
Net assets			
		7,455,629	7,469,721
Funding and reserves			
Initial funding by Government			
	15	42,840	42,840
Accumulated surplus			
		7,412,789	7,426,881
		7,455,629	7,469,721

Approved and authorised for issue by the SFC on 3 June 2013 and signed on its behalf by

Carlson Tong
Chairman

Ashley Alder
Chief Executive Officer

The notes on pages 78 to 91 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2011	42,840	6,882,788	6,925,628
Total comprehensive income for the year	–	544,093	544,093
Balance at 31 March 2012 and 1 April 2012	42,840	7,426,881	7,469,721
Total comprehensive income for the year	–	(14,092)	(14,092)
Balance at 31 March 2013	42,840	7,412,789	7,455,629

The notes on pages 78 to 91 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

	2013 \$'000	2012 \$'000
Cash flows from operating activities		
(Loss)/surplus for the year	(14,092)	544,093
Adjustments for:		
Depreciation	55,575	40,227
Investment income	(88,289)	(118,927)
Exchange loss on revaluation of debt securities	23,203	–
Loss/(gain) on disposal of fixed assets	531	(4)
	(23,072)	465,389
Decrease in debtors, deposits and prepayments	6,581	26,062
(Decrease)/increase in fees received in advance	(65,573)	5,178
Increase/(decrease) in creditors and accrued charges	46,966	(3,616)
Increase/(decrease) in non-current liabilities	7,479	(6,965)
<i>Net cash (used in)/generated from operating activities</i>	(27,619)	486,048
Cash flows from investing activities		
Interest received	157,633	188,529
Held-to-maturity debt securities purchased	(1,043,311)	(2,599,374)
Held-to-maturity debt securities redeemed at maturity	1,598,640	2,401,520
Fixed assets purchased	(119,517)	(42,898)
Fixed assets sold	50	–
<i>Net cash generated from/(used in) investing activities</i>	593,495	(52,223)
Net increase in cash and cash equivalents	565,876	433,825
Cash and cash equivalents at beginning of the year	1,039,241	605,416
Cash and cash equivalents at end of the year	1,605,117	1,039,241

Analysis of the balance of cash and cash equivalents:

	2013 \$'000	2012 \$'000
Fixed and call deposits with banks	1,602,208	1,035,893
Cash at bank and in hand	2,909	3,348
	1,605,117	1,039,241

Notes to the consolidated financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

1. Status and principal activities

The Securities and Futures Commission (the SFC) is governed by Part II of the Hong Kong Securities and Futures Ordinance (the SFO). Under the SFO, the SFC has a duty to ensure an efficient, fair and transparent market and to promote public confidence and investor awareness in Hong Kong's securities, futures and related financial markets. In performing its duty, the SFC is required to act in the interest of the public and ensure that improper and illegal market activities are properly investigated. The registered office and principal place of business of the SFC is 35/F Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

2. Income

Details of the funding of the SFC are set out in Section 14 and Sections 394 to 396 of the SFO. Major sources of funding include:

- (a) levies collected by the Stock Exchange of Hong Kong Limited, Hong Kong Futures Exchange Limited and Hong Kong Mercantile Exchange Limited on transactions recorded on the Exchanges at rates specified by the Chief Executive in Council; and
- (b) fees and charges in relation to its functions and services according to the provision of subsidiary legislation.

3. Significant accounting policies

(a) Statement of compliance

We have prepared the consolidated financial statements, which comprise the SFC and its subsidiaries (together referred to as the Group), in accordance with International Financial Reporting Standards (IFRSs) (including applicable International Accounting Standards and Interpretations) issued by the International Accounting Standards Board (IASB). We set out below a summary of our significant accounting policies.

The IASB has issued certain new and revised IFRSs 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 20).

(b) Basis of preparation

We have prepared these financial statements using the historical cost basis as the measurement basis. The accounting policies have been applied consistently by the Group entities.

We prepare the financial statements in conformity with IFRSs which require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review the estimates and underlying assumptions on an ongoing basis. We recognise the revisions to accounting estimates in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the consolidated financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(c) Basis of consolidation

Subsidiaries are those entities in which the SFC has the power to govern the financial and operating policies. This is generally achieved by a shareholding of more than one half of the voting rights or issued capital. We include the financial statements of subsidiaries in 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 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 the Stock Exchange of Hong Kong Limited, Hong Kong Futures Exchange Limited and Hong Kong Mercantile Exchange Limited as income on an accruals basis.

(ii) Fees and charges

We record annual fees as income on a straight-line basis over the periods to which they relate. We record other fees and charges as income when they are receivable.

(iii) Investment income

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

(e) Operating leases

We treat the rent payable under operating leases as an expense in equal instalments over the accounting periods covered by the lease term. We recognise lease incentives received in the statement of comprehensive income as an integral part of the aggregate net lease payments made.

(f) Employee benefits

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

(g) Fixed assets and depreciation

We state fixed assets at cost less accumulated depreciation and any impairment losses (see note 3(o)). We charge depreciation to the statement of comprehensive income to write off the costs of fixed assets using the straight-line method over the estimated useful lives as follows:

Leasehold improvements	– 5 years or, if shorter, the life of the respective leases
Furniture and fixtures	– 3 to 5 years
Office equipment	– 5 years
Personal computers and software	– 3 years
Computer application systems	– 4 years
Motor vehicles	– 4 years

We capitalise subsequent expenditure only when it increases the future economic benefits embodied in the fixed assets. We recognise all other expenditure in the statement of comprehensive income as an expense as incurred.

We recognise gains or losses arising from the retirement or disposal of an item of fixed assets, being the difference between the net disposal proceeds and the carrying amount of the item, in the statement of comprehensive income on the date of retirement or disposal.

Notes to the consolidated financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(h) Investments

We state our investments in debt securities, which we have positive intention and ability to hold to maturity, initially at fair value and subsequently at amortised cost using the effective interest method less impairment losses, if any (see note 3(o)). We account for purchases and sales of debt securities on the settlement date.

(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).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity. As the SFC is a statutory body with its board members appointed by the Chief Executive of the Government of the Hong Kong Special Administrative Region under the SFO, any transactions with other government departments and agencies under normal dealings are not necessarily regarded as related party transactions in the context of International Accounting Standard (IAS) 24.

(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 comprehensive income.

(k) Debtors and other receivables

We state debtors and other receivables initially at their fair value and thereafter at amortised cost less impairment losses. We review the carrying amount of debtors and other receivables at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, we reduce the carrying amount to the estimated recoverable amount by means of a charge to the statement of comprehensive income (see note 3(o)).

Notes to the consolidated financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(m) Creditors and accrued charges

We state creditors and accrued charges initially at fair values and thereafter at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Investment in subsidiaries

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

(o) Impairment

We review the carrying amounts of the Group's assets at the end of each reporting period to determine whether there is any objective evidence of impairment. If any such evidence exists, we estimate the asset's recoverable amount, which is the higher of its net selling price and value in use. We recognise in the statement of 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 or 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 IASB has issued a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group. None of these developments are relevant to the Group's financial statements.

We have not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. Taxation

Section 3(3) of the SFO exempts the SFC from Hong Kong taxes.

Notes to the consolidated financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

5. Investment income

	2013 \$'000	2012 \$'000
Interest income	135,813	175,751
Amortisation of premium on held-to-maturity debt securities	(48,802)	(57,909)
Amortisation of discount on held-to-maturity debt securities	1,278	1,085
	88,289	118,927

Interest income is derived as follows:

	2013 \$'000	2012 \$'000
Interest income from held-to-maturity debt securities	121,828	165,953
Other interest income	13,985	9,798
Total interest income on financial assets not at fair value through profit or loss	135,813	175,751

6. Other income

	2013 \$'000	2012 \$'000
Investigation costs awarded	132	924
FinNet managed network and support fee	2,142	1,584
Sale of SFC publications	257	457
Gain on disposal of fixed assets	–	4
Others	798	103
	3,329	3,072

7. Staff costs and directors' emoluments

	2013 \$'000	2012 \$'000
Salaries and allowances	681,508	591,275
Retirement benefits	43,426	34,744
Medical and life insurance	21,606	16,840
Staff functions	2,185	1,571
Recruitment	5,663	4,951
Registration and membership fees	1,019	1,183
	755,407	650,564

The total number of staff as at 31 March 2013 was 678 (668 for the SFC, 7 for the Investor Education Centre and 3 for the Investor Compensation Company Limited) (at 31 March 2012: the total number of staff was 614 comprising 611 for the SFC and 3 for the Investor Compensation Company Limited).

Notes to the consolidated financial statements

For the year ended 31 March 2013 (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 & benefits in kind \$'000	Discretionary pay \$'000	Retirement scheme contributions ¹ \$'000	2013 Total \$'000	2012 Total \$'000
Chief Executive Officer						
Martin Wheatley, JP (resigned 8 June 2011)	-	-	-	-	-	2,103
Ashley Alder (appointed 1 October 2011)	-	6,090	2,800 ²	609	9,499	3,300
Executive Directors						
Alexa Lam, JP	-	5,000	1,333	500	6,833	6,833
Brian Ho	-	4,387	1,116	438	5,941	5,804
Keith Lui	-	4,347	1,189	434	5,970	5,792
Mark Steward	-	4,570	1,357	457	6,384	6,160
	-	24,394	7,795	2,438	34,627	29,992
Non-executive Chairman						
Dr Eddy C Fong, GBS, JP (retired 19 October 2012 ²)	558	-	-	-	558	841
Carlson Tong, JP (appointed 20 October 2012)	454	-	-	-	454	-
Non-executive Directors						
The Hon Chan Kam-lam, SBS, JP	253	-	-	-	253	243
Angelina PL Lee, SBS, JP (retired 31 July 2012 ²)	84	-	-	-	84	243
Lawrence Lee, JP	253	-	-	-	253	243
Wong Kai Man, BBS, JP	253	-	-	-	253	243
Anderson Chow, SC	253	-	-	-	253	242
Professor Leonard Cheng Kwok-hon, JP	253	-	-	-	253	242
Carlson Tong, JP (appointed as non-executive chairman on 20 October 2012)	139	-	-	-	139	242
Teresa Ko, JP (appointed 1 August 2012)	169	-	-	-	169	-
Dr. Kelvin Wong Tin-yau (appointed 20 October 2012)	114	-	-	-	114	-
	2,783	-	-	-	2,783	2,539
Total directors' emoluments	2,783	24,394	7,795	2,438	37,410	32,531

¹ this represents net contribution expenses accrued during the period ended 31 March 2013 in accordance with the accounting policy set out in note 3(f) on page 79. 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 at 31 March 2013 was \$1,646,000 (At 31 March 2012: \$1,645,000).

² retired having completed appointment period

³ performance-based variable pay covers the 18-month period from 1 October 2011 to March 31 2013, including \$1,800,000 for the period from 1 October 2011 to 30 September 2012 and \$1,000,000 for the period from 1 October 2012 to 31 March 2013.

Notes to the consolidated financial statements

For the year ended 31 March 2013 (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 2012/2013, representing the emoluments of the Chief Executive Officer and four executive directors, was \$34,627,000 (2011/2012: \$28,975,000 for four executive directors and one senior director) with the breakdown as follows:

	2013 \$'000	2012 \$'000
Salaries, allowances & benefits in kind	24,394	20,967
Discretionary pay	7,795	5,912
Retirement scheme contributions	2,438	2,096
	34,627	28,975

Their emoluments are within the following bands:

	2013 No. of individuals	2012 No. of individuals
\$4,000,001 to \$4,500,000	0	1
\$4,500,001 to \$5,000,000	0	0
\$5,000,001 to \$5,500,000	0	0
\$5,500,001 to \$6,000,000	2	2
\$6,000,001 to \$6,500,000	1	1
\$6,500,001 to \$7,000,000	1	1
\$7,000,001 to \$7,500,000	0	0
\$7,500,001 to \$8,000,000	0	0
\$8,000,001 to \$8,500,000	0	0
\$8,500,001 to \$9,000,000	0	0
\$9,000,001 to \$9,500,000	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):

(a) ORSO Scheme

(i) General grade staff

For general grade staff, we make monthly contributions equal to 12% of the fixed pay, subject to a vesting scale with the benefit fully vested upon completion of 10 years' service. We reinvest forfeited contributions for general grade staff who leave the Group prior to qualifying for 100% disbursement of the contributions into the total pool of contributions that will be shared by the existing members in the scheme at the end of the scheme year. The amount so reinvested during the year was nil (2012: nil).

(ii) Professional staff

We use forfeited contributions in respect of professional 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 \$981,000 (2012: \$3,713,000) and the amount so forfeited available at the end of the reporting period was \$126,000 (2012: \$86,000).

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.

Notes to the consolidated financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

8. Other expenses

	2013 \$'000	2012 \$'000
Training and development	6,783	7,271
Legal and professional services	31,278	26,297
Information and systems services	36,645	29,147
Auditor's remuneration	595	479
Funding for the Financial Dispute Resolution Centre	14,000	7,500
Funding for the Financial Reporting Council	4,631	4,410
Funding for the Hong Kong Securities and Investment Institute ¹	–	1,200
Funding for the International Financial Reporting Standards Foundation	389	390
Start-up costs of the Investor Education Centre	2,049	980
General office and insurance	6,511	6,476
Investor and other education programmes	13,469	11,216
International liaison and others	11,406	9,402
Exchange loss (see note 9)	28,976	3,362
Loss on disposal of fixed assets	531	–
	157,263	108,130

¹ Formerly known as the Hong Kong Securities Institute

9. Held-to-maturity debt securities

The Group and the SFC

		2013 \$'000	2012 \$'000
Maturing after one year			
In the second to sixth years	– unlisted	1,409,901	2,467,808
	– listed in Hong Kong	–	124,343
	– listed outside Hong Kong	1,525,940	2,210,337
		2,935,841	4,802,488
Maturing within one year	– unlisted	1,396,154	592,326
	– listed in Hong Kong	122,256	–
	– listed outside Hong Kong	1,289,804	975,297
		2,808,214	1,567,623
		5,744,055	6,370,111
Amortised cost at 31 March	– unlisted	2,806,055	3,060,134
	– listed in Hong Kong	122,256	124,343
	– listed outside Hong Kong	2,815,744	3,185,634
		5,744,055	6,370,111
Market value at 31 March	– unlisted	2,823,165	3,073,401
	– listed in Hong Kong	122,634	124,877
	– listed outside Hong Kong	2,852,507	3,227,935
		5,798,306	6,426,213

Notes to the consolidated financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

9. Held-to-maturity debt securities (cont'd)

The average yield to maturity of the debt securities was 0.5% at 31 March 2013 (2012: 0.9%).

In prior financial years, held-to-maturity debt securities denominated in US dollars was translated into Hong Kong dollars using the closing exchange rate ruling at the year-end rounded to 1 US dollar to 7.8 Hong Kong dollar. Starting from the current financial year, we translate our US dollar held-to-maturity debt securities using the closing exchange rate ruling at the year-end quoted to 4 decimal places to provide a valuation which is more compatible with the market practice. Exchange losses arising from the translation of year end held-to-maturity debt securities amounted to \$23.2 million are recognized in the statement of comprehensive income.

10. Fixed assets

(a) The Group

	Furniture, fixtures and leasehold improvements \$'000	Office equipment \$'000	Computer application systems \$'000	Personal computers and software \$'000	Motor vehicles \$'000	Total \$'000
Cost						
At 1 April 2012	70,666	8,091	127,086	65,071	1,599	272,513
Additions	85,851	3,448	13,910	15,508	800	119,517
Disposals	(55,386)	(4,051)	(2,580)	(6,039)	–	(68,056)
At 31 March 2013	101,131	7,488	138,416	74,540	2,399	323,974
Accumulated depreciation						
At 1 April 2012	58,671	6,074	102,743	54,368	1,293	223,149
Charge for the year	21,970	1,630	19,357	12,265	353	55,575
Written back on disposals	(55,062)	(3,799)	(2,580)	(6,034)	–	(67,475)
At 31 March 2013	25,579	3,905	119,520	60,599	1,646	211,249
Net book value						
At 31 March 2013	75,552	3,583	18,896	13,941	753	112,725
Cost						
At 1 April 2011	68,699	7,912	180,516	55,703	1,599	314,429
Additions	11,500	393	18,965	12,045	–	42,903
Disposals	(9,533)	(214)	(72,395)	(2,677)	–	(84,819)
At 31 March 2012	70,666	8,091	127,086	65,071	1,599	272,513
Accumulated depreciation						
At 1 April 2011	63,527	5,194	153,474	44,404	1,141	267,740
Charge for the year	4,677	1,093	21,664	12,641	152	40,227
Written back on disposals	(9,533)	(213)	(72,395)	(2,677)	–	(84,818)
At 31 March 2012	58,671	6,074	102,743	54,368	1,293	223,149
Net book value						
At 31 March 2012	11,995	2,017	24,343	10,703	306	49,364

Notes to the consolidated financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

10. Fixed assets (cont'd)

(b) The SFC

	Furniture, fixtures and leasehold improvements \$'000	Office equipment \$'000	Computer application systems \$'000	Personal computers and software \$'000	Motor vehicles \$'000	Total \$'000
Cost						
At 1 April 2012	70,651	8,035	127,086	64,830	1,599	272,201
Additions	85,851	3,448	13,910	15,359	800	119,368
Disposals	(55,386)	(4,051)	(2,580)	(6,035)	–	(68,052)
At 31 March 2013	101,116	7,432	138,416	74,154	2,399	323,517
Accumulated depreciation						
At 1 April 2012	58,655	6,025	102,743	54,127	1,293	222,843
Charge for the year	21,970	1,624	19,357	12,216	353	55,520
Written back on disposals	(55,062)	(3,799)	(2,580)	(6,030)	–	(67,471)
At 31 March 2013	25,563	3,850	119,520	60,313	1,646	210,892
Net book value						
At 31 March 2013	75,553	3,582	18,896	13,841	753	112,625
Cost						
At 1 April 2011	68,684	7,856	180,516	55,462	1,599	314,117
Additions	11,500	393	18,965	12,045	–	42,903
Disposals	(9,533)	(214)	(72,395)	(2,677)	–	(84,819)
At 31 March 2012	70,651	8,035	127,086	64,830	1,599	272,201
Accumulated depreciation						
At 1 April 2011	63,511	5,151	153,474	44,163	1,141	267,440
Charge for the year	4,677	1,087	21,664	12,641	152	40,221
Written back on disposals	(9,533)	(213)	(72,395)	(2,677)	–	(84,818)
At 31 March 2012	58,655	6,025	102,743	54,127	1,293	222,843
Net book value						
At 31 March 2012	11,996	2,010	24,343	10,703	306	49,358

Notes to the consolidated financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

11. Bank deposits and cash at bank

The effective interest rate on bank deposits and cash at bank at 31 March 2013 ranged from 0.3% to 1.22% (2012: 0.34% to 2.09%). These balances mature within one year at both 31 March 2013 and 31 March 2012.

12. Investments in subsidiaries

The SFC formed FinNet Limited (FinNet) on 6 November 2000 with an authorised share capital of \$10,000 and issued share capital of \$2 and Investor Compensation Company Limited (ICC) on 11 September 2002 with an authorised share capital of \$1,000 and issued share capital of \$0.2. On 20 November 2012, the SFC launched the Investor Education Centre (IEC) as a company limited by guarantee and not having a share capital. All of the three companies are incorporated in Hong Kong.

The objective of FinNet is to operate an electronic network to facilitate payment and delivery transactions and interconnection of all financial institutions and financial entities in Hong Kong.

The objective of ICC is to facilitate the administration and management of the Investor Compensation Fund established under the SFO.

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

All of the three companies are wholly owned subsidiaries of the SFC. As at 31 March 2013, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$2.2 (2012: \$2.2). The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

The statement of financial position of FinNet as at 31 March 2013 was immaterial and its expenses have been paid by the SFC. We have not therefore consolidated FinNet in the Group's financial statements.

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

13. Non-current liabilities

Non-current liabilities represent deferred lease incentives and provision for premises reinstatement cost. Deferred lease incentives consist of incentives granted by our landlord in connection with the lease of our office premises. We recognise the deferred lease incentives in our statement of comprehensive income on a straight line basis over the lease period from 2004 to 2017 as an integral part of the lease expense.

14. Debtors, deposits and prepayments

Debtors, deposits and prepayments include \$128,913,000 receivables classified as loans and receivables in accordance with the determination of IAS 39 (2012: \$160,338,000). Receivables are usually due within 30 days.

We do not provide an ageing analysis of debtors as there was no material overdue debtor balance included in "debtors, deposits and prepayments" as at 31 March 2013 and 2012.

15. 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. 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. The SFC manages its funding requirements from its income and accumulated surplus.

Notes to the consolidated financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

16. Capital commitments

Capital commitments outstanding at 31 March 2013 not provided for in the financial statements were as follows:

	2013 \$'000	2012 \$'000
Authorised and contracted for	37,733	29,366
Authorised but not contracted for	50,084	45,141

17. Commitment to pay rents for offices

At 31 March 2013 the minimum amount we are committed to pay in rent for our offices up to the expiry dates of the leases are as follows:

	The Group and the SFC	
	2013 \$'000	2012 \$'000
Payable next year	183,148	178,563
Payable in one to five years	617,143	736,774
Payable in more than five years	–	75,158
	800,291	990,495

During the year ended 31 March 2013, \$167,471,000 net of lease incentives, was recognised as an expense in the statement of comprehensive income in respect of operating leases (2012: \$73,525,000).

18. 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, Commodities Trading Ordinance (Chapter 250) – Dealers' Deposits Fund and Securities Ordinance (Chapter 333) – Securities Margin Financiers' Security Fund. In addition to the transactions and balances disclosed elsewhere in these financial statements, we have the following significant related party transactions.

(a) Reimbursement from the ICF for all the ICC's expenses, in accordance with Section 242(1) of the SFO

During the year, \$4,869,000 was recovered from ICF for ICC's expenses (2012: \$4,442,000). As at 31 March 2013, the amount due to ICF from ICC was \$291,000 (at 31 March 2012: \$85,000).

(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.

(c) Operating expenses of FinNet

During the year, all operating expenses incurred by FinNet were absorbed by the SFC. The amount absorbed for the year was \$27,000 (2012: \$22,000) including the provision for audit fee of \$11,650 (2012: \$11,100).

(d) Legal services provided by other related parties

- (i) Prior to the appointment of a non-executive director, the Group engaged him to provide legal services in respect of a number of matters. He continued to provide services in respect of matters commenced prior to his appointment. During the year, fees paid to him for such services amounted to \$391,000 (2012: \$496,000) under normal commercial terms and conditions.
- (ii) During the year, the Group engaged a law firm to provide legal advice regarding the establishment of a subsidiary, of which one of our non-executive director is a partner. The engagement of the legal services was made prior to the appointment of the non-executive director. The fees paid for such services amounted to \$107,000 (2012: nil) under normal commercial terms and condition.

Notes to the consolidated financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

19. Financial instruments

Financial instruments of the Group comprise held-to-maturity debt securities, bank deposits, cash at bank and debtors. These are classified into different categories at inception in accordance with IAS 39, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: held-to-maturity and other financial liabilities.

The main financial risks of the Group arise from its investments in held-to-maturity debt securities. The Group confers upon its Executive Directors the power to act upon the advice received from an external investment adviser 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 Executive Directors report thereon to the Group on a regular basis.

(a) Credit risk

The Group's credit risk is primarily attributable to debt security investments. The Financial Secretary has approved our investment policy which, subject to other control limits, only allows the Group to invest in high-quality dated securities, rated A or above. The policy also limits the exposure to each organisation and each country, except for the US Treasury. During the year, the Group complied with the above investment policy in order to manage its credit risk, and as a result, was not exposed to significant credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance.

(b) Interest rate risk

The Group's interest bearing assets mainly comprise fixed interest rate bearing debt securities and bank balances. The Group is subject to the risk that future cash flows from re-investments will fluctuate because of changes in market interest rates (re-pricing risk). The Group manages re-pricing risk of its fixed rate debt securities by imposing different levels of concentration and maturity limits. The effective interest rates and maturity profile of the Group's interest bearing assets are disclosed in the respective notes to the financial statements. At 31 March 2013, 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 \$30,458,000 (2012: \$19,916,000). As at 31 March 2013 the average duration of the Group's investment portfolio was 1.28 years (31 March 2012: 1.79 years).

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 2012.

(c) Exchange rate risk

The only foreign currency investment allowed under the Group's investment policy is US dollar dated securities. As the HK dollar is pegged to the US dollar, and since there were no other exchange rate exposures other than in US dollars and HK dollars, the Group was not exposed to significant foreign exchange risk at the end of the reporting period.

(d) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2013 and 2012 except for held-to-maturity debt securities as disclosed in note 9. The following summarises the major methods and assumptions used in estimating the fair values of these financial instruments.

- The fair value of listed held-to-maturity debt securities is based on quoted market prices at the end of the reporting period using current bid prices without any deduction for transaction costs. Fair values for unlisted debt investments are based on third party quotes.

Notes to the consolidated financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

20. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2013

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 March 2013 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Amendments to IAS 1, <i>Presentation of financial statements – presentation of items of other comprehensive income</i>	1 July 2012
IFRS 13, <i>Fair value measurement</i>	1 January 2013
<i>Annual improvements to IFRSs 2009-2011 cycle</i>	1 January 2013
Amendments to IFRS 7, <i>Financial instruments:</i>	
<i>Disclosures – Offsetting financial assets and financial liabilities</i>	1 January 2013
Amendments to IAS 32, <i>Financial instruments:</i>	
<i>Presentation – Offsetting financial assets and financial liabilities</i>	1 January 2014
IFRS 9, <i>Financial instruments</i>	1 January 2015

We are in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to result in a restatement of the Group's results of operations and financial position.

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 2013.

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 surplus of the Fund for the financial year ended 31 March 2013 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 94 to 107.

Members of the Committee

The members of the Committee during the year ended 31 March 2013 and up to the date of this report were:

Mr. Keith Lui (Chairman)
Mrs. Alexa Lam
Mr. Chow Ka Ming, Anderson, SC
Mr. Tai Chi Kin

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.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Fund is to be proposed at the forthcoming Investor Compensation Fund Committee meeting.

By order of the Committee

Keith Lui
Chairman

3 June 2013

Independent auditor's report to the Securities and Futures Commission

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 94 to 107, which comprise the statement of financial position as at 31 March 2013 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Securities and Futures Commission's responsibility for the financial statements

The Securities and Futures Ordinance requires the directors of the Securities and Futures Commission (SFC) to prepare financial statements which give a true and fair view. The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 31 March 2013 and of its surplus and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

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

3 June 2013

Investor Compensation Fund

Statement of comprehensive income

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

	Note	2013 \$'000	2012 \$'000
Income			
Net investment income	5	107,297	53,556
Exchange difference		9	(1,902)
Other investment income		–	49
		107,306	51,703
Expenses			
Investor Compensation Company Limited expenses	7	4,869	4,442
Auditor's remuneration		108	102
Bank charges		815	794
Professional fees		3,589	3,373
		9,381	8,711
Surplus and total comprehensive income for the year		97,925	42,992

The notes on pages 98 to 107 form part of these financial statements.

Statement of financial position

At 31 March 2013 (Expressed in Hong Kong dollars)

	Note	2013 \$'000	2012 \$'000
Current assets			
Financial assets designated at fair value through profit or loss			
– Debt securities	9	1,707,975	1,664,886
– Pooled fund	9	286,653	232,304
Interest receivable		14,350	18,579
Due from Investor Compensation Company Limited		292	85
Fixed and call deposits with banks	10	169,130	153,839
Cash at bank	10	16,525	26,652
		2,194,925	2,096,345
Current liabilities			
Provision for compensation	8	150	150
Creditors and accrued charges		1,665	1,010
		1,815	1,160
Net current assets		2,193,110	2,095,185
Net assets		2,193,110	2,095,185
Representing:			
Compensation fund			
Contributions from Unified Exchange Compensation Fund	11	994,718	994,718
Contributions from Commodity Exchange Compensation Fund	11	108,923	108,923
Accumulated surplus		1,089,469	991,544
		2,193,110	2,095,185

Approved and authorised for issue by the Securities and Futures Commission (the SFC) on 3 June 2013 and signed on its behalf by

Carlson Tong
Chairman of the SFC

Ashley Alder
Chief Executive Officer of the SFC

The notes on pages 98 to 107 form part of these financial statements.

Investor Compensation Fund

Statement of changes in equity

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

	Contributions from Unified Exchange Compensation Fund \$'000	Contributions from Commodity Exchange Compensation Fund \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2011	994,718	108,923	948,552	2,052,193
Total comprehensive income for the year	–	–	42,992	42,992
Balance at 31 March 2012 and 1 April 2012	994,718	108,923	991,544	2,095,185
Total comprehensive income for the year	–	–	97,925	97,925
Balance at 31 March 2013	994,718	108,923	1,089,469	2,193,110

The notes on pages 98 to 107 form part of these financial statements.

Statement of cash flows

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

	2013 \$'000	2012 \$'000
Cash flows from operating activities		
Surplus for the year	97,925	42,992
Net investment income	(107,297)	(53,556)
Exchange difference	(9)	1,902
(Increase)/decrease in amount due from Investor Compensation Company Limited	(207)	43
Increase in accounts payable and accrued charges	655	27
Net cash used in operating activities	(8,933)	(8,592)
Cash flows from investing activities		
Purchase of debt securities	(801,834)	(633,209)
Sale or maturity of debt securities	759,248	565,399
Sale of equity securities	932	1,109
Interest received	55,751	53,831
Net cash generated from/(used in) investing activities	14,097	(12,870)
Net increase/(decrease) in cash and cash equivalents	5,164	(21,462)
Cash and cash equivalents at beginning of the year	180,491	201,953
Cash and cash equivalents at end of the year	185,655	180,491

Analysis of the balance of cash and cash equivalents:

	2013 \$'000	2012 \$'000
Fixed and call deposits with banks	169,130	153,839
Cash at bank	16,525	26,652
	185,655	180,491

Notes to the financial statements

For the year ended 31 March 2013 (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 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. 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 the 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 & 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 the 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

The Fund prepares its financial statements in accordance with International Financial Reporting Standards (IFRSs) (including applicable International Accounting Standards and Interpretations) issued by the International Accounting Standards Board (IASB). A summary of the significant accounting policies adopted by the Fund is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Fund. Note 3(m) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 15).

Notes to the financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(b) Basis of preparation

We have prepared these financial statements using the historical cost basis as the measurement basis, except that we state financial instruments classified as designated at fair value through profit or loss at their fair value (see note 3(e)).

We prepare the financial statements in conformity with IFRSs which requires 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 comprehensive income provided it is probable that the economic benefits will flow to the Fund and we can measure reliably the revenue and costs. We record interest income as it accrues using the effective interest method.

(d) Translation of foreign currencies

We translate foreign currency transactions during the year into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. We translate monetary assets and liabilities denominated in foreign currencies that are stated at fair value into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. We record exchange gains and losses on translation in the statement of comprehensive income.

(e) Financial instruments

(i) Initial recognition

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

We initially measure financial instruments at fair value, which normally will be equal to the transaction price, plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. We charge transaction costs on financial assets and financial liabilities at fair value through profit or loss immediately.

We account for financial assets and financial liabilities on the date the Fund becomes a party to the contractual provisions of the instrument. We use settlement date accounting to record regular purchase or sale of financial assets. From this date, we record in our books any gains and losses arising from changes in fair value of the financial assets or financial liabilities.

The Fund's financial instruments mainly consist of debt and equity securities designated at fair value through profit or loss. We state financial assets and liabilities under this category at fair value and recognise changes in the fair value in the statement of comprehensive income in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in the statement of comprehensive income.

Notes to the financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(e) Financial instruments (cont'd)

(ii) Fair value measurement principles

We determine the fair value of financial instruments based on their quoted market prices on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments at the end of the reporting period without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices. Unlisted equity investments are shares in pooled funds. The fair value is determined based on the Fund's share in the net assets of the pooled funds as determined by the custodian.

(iii) Derecognition

We derecognise a financial asset when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership have been transferred.

We derecognise a financial liability when the obligation specified in the contract is discharged, cancelled or expired.

(iv) Offsetting

We offset the financial assets and financial liabilities and report the net amount in the statement of financial position where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(f) Impairment

We review the carrying amounts of the Fund'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 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 or amortisation, if we had not recognised any impairment loss.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(h) Other receivables

We state other receivables initially at fair value and thereafter at amortised cost less impairment losses (see note 3(f)), unless the effect of discounting would be immaterial, in which case we state them at cost less impairment losses.

(i) Provision for compensation

We make provision for liabilities arising from claims resulting from defaults for which it is probable that the Fund will require an outflow of economic benefits to settle the obligation and the amount can be estimated reliably, independent of whether a notice calling for claims pursuant to Section 3 of the Securities & Futures (Investor Compensation-Claims) Rules has been published. The provision covers all such claims received up to the date on which the financial statements are approved by the SFC. If the effect is material, we determine provisions by discounting the expected future cash flows that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Notes to the financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(i) Provision for compensation (cont'd)

The maximum liability of the Fund to claims for each default case is set at \$150,000 per claimant.

As the Fund is continually updating information in respect of claims received, it is possible that the recent claim experience is not indicative of future payments that will be required for claims received as at the end of the reporting period. Any increase or decrease in the provision would affect profit and loss in future years.

(j) Creditors and accrued charges

We state creditors and accrued charges initially at fair value and thereafter at amortised cost unless the effect of discounting would be immaterial, in which case we state them at cost.

(k) Provisions and contingent liabilities

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

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the obligation as a contingent liability, unless the probability of outflow of economic benefits is remote. We also disclose possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of outflow of economic benefits is remote.

(l) Related parties

For the purpose of these financial statements, a party is considered to be related to the Fund if:

- (a) A person, or a close member of that person's family, is related to the Fund if that person:

- (i) has control or joint control over the Fund;
- (ii) has significant influence over the Fund; or
- (iii) is a member of the key management personnel of the Fund.

- (b) An entity is related to the Fund if any of the following conditions applies:

- (i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(m) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Fund. None of these developments are relevant to the Fund's financial statements.

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Notes to the financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

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.

5. Net investment income

	2013 \$'000	2012 \$'000
Interest income from bank deposits	392	425
Interest income on financial assets designated at fair value through profit or loss	43,951	45,847
Realised loss on disposal of equity securities	(1)	(39)
Realised loss on redemption/disposal of debt securities	(3,060)	(4,129)
Gain on revaluation of equity securities	55,273	8,954
Gain on revaluation of debt securities	10,742	2,498
Net investment income	107,297	53,556

6. Levy from SEHK/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 of securities and futures contract with effect from 19 December 2005.

7. ICC expenses

The SFC formed 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 ICC. For the year ended 31 March 2013, ICC incurred costs of \$4,869,000 for its operations (2012: \$4,442,000).

8. Provision for compensation

We maintained provision for liabilities arising from claims received resulting from one default case for which ICC has published a notice calling for claims pursuant to Section 3 of the Securities & Futures (Investor Compensation-Claims) Rules. The maximum liability of the Fund to claims for this case is set at \$150,000 per claimant. The provision for compensation at 31 March 2013 was \$150,000 (31 March 2012: \$150,000). As at 31 March 2013, all provisions were expected to be paid within one year.

Notes to the financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

9. Financial assets designated at fair value through profit or loss

	2013 \$'000	2012 \$'000
(a) Debt securities		
(i) Listing status		
Listed – outside Hong Kong at quoted market prices	414,569	499,550
Listed – outside Hong Kong based on valuation techniques	126,329	112,595
Listed – in Hong Kong	262,227	167,820
Unlisted	904,850	884,921
	1,707,975	1,664,886
(ii) Maturity profile		
Within one year	482,050	664,820
After one year but within two years	363,765	246,059
After two years but within five years	721,216	607,328
After five years	140,944	146,679
	1,707,975	1,664,886
(iii) The weighted average effective interest rate of debt securities on 31 March 2013 was 1.3% (2012: 1.9%).		
(b) Pooled fund		
Unlisted	286,653	232,304

The pooled fund comprises mainly listed equity securities.

10. Deposits with banks and cash at bank

The effective interest rate on deposits with banks and cash at bank at 31 March 2013 ranged from 0.04% to 0.9% (2012: 0.2% to 0.9%). The balances mature within one year at both 31 March 2013 and 31 March 2012.

11. Contributions from UECF and CECF

Under Sections 74(2) and 75(2) of Schedule 10 of the SFO, the SFC may pay into the Fund such sum of money from the UECF and the CECF as it considers appropriate after 1 April 2003. Up to 31 March 2013, the SFC had \$994,718,000 (2012: \$994,718,000) and \$108,923,000 (2012: \$108,923,000) paid into the Fund from the UECF and the CECF respectively.

The Fund defines "capital" as including contributions from the UECF and the CECF and the accumulated surplus.

12. Material related party transactions

We have related party relationships with the SFC, ICC and the UECF. During the year, there were no significant related party transactions other than those disclosed in the financial statements for the year ended 31 March 2012 (refer to notes 7 & 11).

13. Financial risk management and fair values

The financial assets of the Fund mainly comprise debt securities and units in a pooled fund. The underlying investments of the pooled fund mainly comprise equity securities.

Notes to the financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

13. Financial risk management and fair values (cont'd)

The main financial risks of the Fund arise from its investments in debt securities and units in the pooled fund. The SFC appoints external investment managers to manage the Fund's investments and to ensure that the portfolio's investments comply with the Fund's investment policy approved by the SFC which sets control limits on credit risk, market risk, interest rate risk, liquidity risk and foreign currency risk. The external investment managers report thereon to the SFC on a regular basis.

The Fund's exposure to these risks and the financial risk management policies and practices used by the Fund to manage these risks are described below.

(a) Credit risk

The Fund's Investment Policy and Administrative Guidelines (the Policy) only allows the Fund to invest in pooled funds, fixed rate dated securities rated A or above or in bank deposits. The Policy further limits the Fund's exposure to each issuer and each country, except for holdings of US Treasuries, any issuances by Hong Kong Government and specified multilateral agencies rated AAA by Moody's or S&P's and approved pooled funds. The Fund's investment managers are responsible for managing the portfolio and ensuring the portfolio's investments meet the Policy and restrictions and reports thereon on a monthly basis. During the year, the Fund complied with the above Policy and, as a result, was not exposed to significant credit risk. 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.

(c) Interest rate risk

The Fund's interest bearing assets mainly comprise fixed interest rate bearing debt securities and bank deposits. The Fund's bank deposits are exposed to short term bank deposit interest re-pricing risk.

The Fund is subject to the risk that future cash flows of a debt security will fluctuate because of changes in market interest rates. In order to manage the re-pricing risk, the Fund adopts a policy of maintaining duration at no more than 2.5 years within its debt securities portfolio. As at 31 March 2013 the duration was 2.02 years (31 March 2012: 1.79 years).

At 31 March 2013, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Fund's gains on revaluation of debt securities and the accumulated surplus by approximately \$37,850,000 (2012: \$32,407,000). Further, at 31 March 2013, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would increase the Fund's interest income and the accumulated surplus by approximately \$4,392,000 (2012: \$5,221,000). The extent of any decrease in interest rate is expected to be minimal which would decrease the Fund's surplus by an insignificant amount. Other components of the accumulated surplus would not be affected (2012: Nil) by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Fund's accumulated surplus that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Fund which expose the Fund to fair value interest rate risk at the end of the reporting period. The analysis is performed on the same basis for the year ended 31 March 2012.

(d) Foreign currency risk

The Fund's investment policy allows the Fund to have US dollar foreign exchange exposure. As the HK dollar is pegged with the US dollar, the Fund was not exposed to significant foreign exchange risk.

Notes to the financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

13. Financial risk management and fair values (cont'd)

(e) Market risk

The investment activities of the Fund expose it to various types of market risks which are associated with the markets in which it invests, to the extent of the amount invested in debt and equity securities. Such risk will be reflected in the price and the carrying value of the financial assets concerned.

The Fund invests in units of a pooled fund, which mainly comprises listed equity securities, the performance of which is measured against the benchmark index MSCI AC Pacific ex Japan. It is estimated that a general increase/decrease of 15.1% in the benchmark index would increase/decrease the Fund's surplus and the accumulated surplus by approximately \$38,698,000 (2012: a general increase/decrease of 24.8% in the benchmark index would increase/decrease the Fund's surplus and the accumulated surplus by approximately \$50,410,000).

The sensitivity analysis above indicates the instantaneous change in the Fund's accumulated surplus that would arise assuming that the changes in the benchmark index had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Fund which expose the Fund to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Fund's investment in pooled fund would change in accordance with the historical correlation with the relevant benchmark index since the portfolio is diversified in terms of industry distribution and that all other variables remain constant. The analysis is performed on the same basis for 2012.

(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 IFRS 7, Financial Instruments: Disclosures, 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 2013 and 2012.

Where available, the fair value of the debt securities is the quoted market price. The fair value of unlisted debt securities is determined based on quotes from bond market-makers.

The fair value of the investment in the unlisted pooled fund is determined based on the Fund's share in the net assets of the pooled fund as determined by the custodian. The majority of the underlying assets of the pooled fund are listed securities.

Changes in the market conditions could materially affect fair value estimates. Any increase or decrease in the fair values of financial instruments would affect profit or loss in future years.

Investor Compensation Fund

Notes to the financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

13. Financial risk management and fair values (cont'd)

(f) Fair values of financial instruments (cont'd)

	2013			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Assets				
Trading securities				
– Listed	676,796	126,329	–	803,125
– Unlisted	379,900	524,950	–	904,850
Pooled fund				
– Unlisted	286,653	–	–	286,653
	1,343,349	651,279	–	1,994,628

	2012			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
Assets				
Trading securities				
– Listed	651,836	128,129	–	779,965
– Unlisted	99,215	785,706	–	884,921
Pooled fund				
– Unlisted	232,304	–	–	232,304
	983,355	913,835	–	1,897,190

During the year there were no significant transfers between financial instruments in Level 1 and Level 2.

14. Contingent liabilities

As at the date of this report, in addition to the provision made, as described in note 8, there are other claims received for which currently there is insufficient information to determine the likely level of payment. The maximum liability in respect of these claims is \$957,000 (2012: \$525,000). This is determined based on the lower of the maximum compensation limit of \$150,000 per claimant or the amount claimed.

Notes to the financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

15. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2013

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 March 2013 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Amendments to IAS 1, <i>Presentation of financial statements – Presentation of items of other comprehensive income</i>	1 July 2012
IFRS 13, <i>Fair value measurement</i>	1 January 2013
<i>Annual Improvements to IFRSs 2009-2011 Cycle</i>	1 January 2013
Amendments to IFRS 7, <i>Financial instruments: Disclosures – Offsetting financial assets and financial liabilities</i>	1 January 2013
Amendments to IAS 32, <i>Financial instruments: Presentation – Offsetting financial assets and financial liabilities</i>	1 January 2014
IFRS 9, <i>Financial Instruments</i>	1 January 2015

The Fund is in the process of making an assessment of what the impact of these amendments 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 2013.

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 2013, the Fund has transferred \$994,718,000 to the ICF. After settlement of all claims against the Fund and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund to the ICF.

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

Financial statements

The surplus of the Fund for the financial year ended 31 March 2013 and the state of the Fund's affairs as at that date are set out in the financial statements on pages 110 to 119.

Members of the Committee

The members of the Committee during the year ended 31 March 2013 and up to the date of this report were:

Mr Keith Lui (Chairman)
Mrs Alexa Lam
Mr Chow Ka Ming, Anderson, SC
Mr Lo Wai Keung, David
Mr Tai Chi Kin

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.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Fund is to be proposed at the forthcoming Securities Compensation Fund Committee meeting.

By order of the Committee

Keith Lui
Chairman

16 May 2013

Independent auditor's report to the Securities & Futures Commission

We have audited the financial statements of the Unified Exchange Compensation Fund (the Fund) established under Section 99 of the repealed Hong Kong Securities Ordinance set out on pages 110 to 119, which comprise the statement of financial position as at 31 March 2013 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Securities & Futures Commission's responsibility for the financial statements

The repealed Hong Kong Securities Ordinance (Chapter 333) requires the directors of the Securities and Futures Commission (SFC) to prepare financial statements which give a true and fair view. The directors of the SFC are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that the Fund is in the process of terminating its business and operations. 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.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 31 March 2013 and of its surplus and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

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

16 May 2013

Unified Exchange Compensation Fund

Statement of comprehensive income

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

	Note	2013 \$'000	2012 \$'000
Income			
Interest income		578	420
Recoveries	5	(1)	(1)
		577	419
Expenses			
Auditor's remuneration		45	43
Professional fees		15	14
Sundry expenses		1	1
		61	58
Surplus and total comprehensive income for the year		516	361

The notes on pages 114 to 119 form part of these financial statements.

Statement of financial position

At 31 March 2013 (Expressed in Hong Kong dollars)

	Note	2013 \$'000	2012 \$'000
Current assets			
Equity securities received under subrogation		1	1
Interest receivable		46	103
Fixed and call deposits with banks		73,939	72,647
Cash at bank		456	273
		74,442	73,024
Current liabilities			
Creditors and accrued charges	6	10,299	10,297
		10,299	10,297
Net current assets			
		64,143	62,727
Net assets			
		64,143	62,727
Representing:			
Compensation fund			
Contributions from SEHK	7	50,400	49,500
Excess transaction levy from SEHK	9	353,787	353,787
Special contribution	10	3,500	3,500
Additional contribution from SEHK	11	300,000	300,000
Additional contribution from the SFC	11	330,000	330,000
Special levy surplus	12	3,002	3,002
Accumulated surplus		18,172	17,656
		1,058,861	1,057,445
Contributions to Investor Compensation Fund	13	(994,718)	(994,718)
		64,143	62,727

Approved and authorised for issue by the Securities Compensation Fund Committee on behalf of the Securities and Futures Commission on 16 May 2013 and signed on its behalf by

Keith Lui
Chairman

Tai Chi Kin
Committee Member

The notes on pages 114 to 119 form part of these financial statements.

Unified Exchange Compensation Fund

Statement of changes in equity

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

	2013 \$'000	2012 \$'000
Compensation Fund balance as at 1 April	62,727	61,566
Net contributions from SEHK	900	800
Total comprehensive income for the year	516	361
Compensation Fund balance as at 31 March	64,143	62,727

The notes on pages 114 to 119 form part of these financial statements.

Statement of cash flows

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

	2013 \$'000	2012 \$'000
Cash flows from operating activities		
Surplus for the year	516	361
Interest income	(578)	(420)
Increase in creditors and accrued charges	2	3
Net cash used in operating activities	(60)	(56)
Cash flows from investing activities		
Interest received	635	337
Net cash generated from investing activities	635	337
Cash flows from financing activities		
Net contributions from SEHK	900	800
Net cash generated from financing activities	900	800
Net increase in cash and cash equivalents	1,475	1,081
Cash and cash equivalents at beginning of the year	72,920	71,839
Cash and cash equivalents at end of the year	74,395	72,920

Analysis of the balance of cash and cash equivalents:

	2013 \$'000	2012 \$'000
Fixed and call deposits with banks	73,939	72,647
Cash at bank	456	273
	74,395	72,920

Notes to the financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

1. Purpose, limitation and principal activity

The Fund provides compensation to investors who suffer a loss due to the default of an exchange participant of the Stock Exchange of Hong Kong Limited (SEHK). Part X of the repealed Securities Ordinance governs its operation.

SEHK receives and determines claims against the Fund. The Securities and Futures Commission (SFC) maintains and invests the money of the Fund and makes payments to claimants. Upon making payment to a claimant, the SFC is subrogated to the claimant's rights against the defaulter.

The repealed Securities Ordinance limits the total compensation amount that may be paid per exchange participant default to \$8 million. If allowed claims exceed the limit, payments are made proportionally to claimants. SEHK, with the approval of the SFC, can decide to exceed the limit if it considers, among other things, that the assets of the Fund so permit. For eight defaults since 1998, SEHK proposed and the SFC approved exceeding the limit via payment of up to \$150,000 per claimant or, if higher, the claimant's proportional share of the \$8 million limit.

If amounts owed to claimants against the Fund exceed the Fund's net assets, the SFC would apportion compensation payments to claimants as provided in the repealed Securities Ordinance. Unpaid claim amounts would be charged against future receipts by the Fund and paid when funds are available.

After the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. After settlement of all claims against the Fund and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund into the ICF. Claims for any defaults occurring after 31 March 2003 should be made against the ICF. If the sum of money in the Fund is not sufficient to meet its liabilities, the SFC shall pay into the Fund from the ICF the appropriate sum of money according to Section 242 of the SFO.

Apart from the above change and Section 112 of the repealed Securities Ordinance, under Section 74 of Schedule 10 of the SFO, Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund.

2. Money constituting the Fund

Before 1 April 2003, SEHK was required to keep deposited with the SFC \$50,000 for each SEHK trading right under the repealed Securities Ordinance. When the SFC makes compensation payments out of the deposits, the SFC may require SEHK to replenish the net amount paid after the SFC has exhausted its subrogated rights against the defaulter. The SFC pays to the SEHK the investment return earned on any remaining deposits net of Fund expenses. During the year, the SFC did not make such payment as the total of the compensation payments exceeded the deposits received from the SEHK (2012: Nil).

SEHK and the SFC have made contributions of their own money to the Fund. The SFC determines to retain investment returns earned on these contributions in the Fund.

Other sources of money for the Fund include: recoveries; SEHK replenishments detailed in note 16; special levy surplus detailed in note 12; and transaction levy received before the SFO became effective from 1 April 2003.

The Fund defines "capital" as including all elements of the Fund less contributions to the ICF and less contributions from SEHK (deposits for transferred trading rights) as disclosed on the face of the statement of financial position.

3. Significant accounting policies

(a) Statement of compliance

The Fund prepares its financial statements in accordance with International Financial Reporting Standards (IFRSs) (including applicable International Accounting Standards and Interpretations) issued by the International Accounting Standards Board (IASB). A summary of the significant accounting policies adopted by the Fund is set out below.

Notes to the financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(a) Statement of compliance (cont'd)

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Fund. Note 3(i) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 17).

(b) Basis of preparation

Under the SFO, the Fund will continue in operation until all claims against it and all its liabilities have been settled. As the Fund will eventually cease operation, we have prepared these financial statements on a break-up basis with assets stated at recoverable amounts. 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 as these are estimated to be immaterial.

We prepare the financial statements in conformity with IFRSs which requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. We make estimates and associated assumptions based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We review estimates and underlying assumptions on an ongoing basis. We recognise revisions to accounting estimates in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Recognition of income

(i) Interest income

We record interest income as it accrues using the effective interest method.

(ii) Recoveries

We recognise recoveries pursuant to Section 118 of the repealed Securities Ordinance as income to the Fund and recoveries re-distributed to claimants as expenses. We record recoveries received and re-distributed when and only when we can be virtually certain that the recoveries will be received and paid.

(iii) Replenishments by SEHK

We record replenishments from SEHK pursuant to Section 107 of the repealed Securities Ordinance as income of the Fund on a receipt basis. For the purpose of calculating the amount to be replenished by SEHK, we deem compensation payments up to the amount of \$8 million for each default to be charged to the contribution from SEHK.

(d) Impairment

We review the carrying amounts of the Fund'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 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 or amortisation, if we had not recognised any impairment loss.

Notes to the financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(f) Creditors and accrued charges

We state creditors and accrued charges initially at fair value and thereafter at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(g) Provisions and contingent liabilities

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

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the obligation as a contingent liability, unless the probability of outflow of economic benefits is remote. We also disclose possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of outflow of economic benefits is remote.

(h) Related parties

For the purpose of these financial statements, a party is considered to be related to the Fund if:

- (a) A person, or a close member of that person's family, is related to the Fund if that person:
 - (i) has control or joint control over the Fund;
 - (ii) has significant influence over the Fund; or
 - (iii) is a member of the key management personnel of the Fund.

- (b) An entity is related to the Fund if any of the following conditions applies:
 - (i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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 IASB has issued a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Fund. None of these developments are relevant to the Fund's financial statements.

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. Taxation

Section 87 of the Hong Kong Inland Revenue Ordinance exempts the Fund from Hong Kong Profits Tax.

Notes to the financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

5. Recoveries

In relation to the share distribution from C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd., the liquidators had advised SFC that shares were allocated to the Fund under its subrogation rights, subject to paying a processing fee to the liquidators. The Fund recognised as recoveries the sale proceeds of shares allocated and the remaining shares at market value as of 31 March 2013 after deducting relevant processing fees and charges for collecting and selling the shares received.

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

The movement of contributions from SEHK during the year was as follows:

	2013 \$'000	2012 \$'000
Balance brought forward	49,500	48,700
Add: 23 new trading rights issued (2012: 26)	1,150	1,300
Less: 5 relinquished trading rights refunded (2012: 10)	(250)	(500)
Balance carried forward	50,400	49,500

6. Creditors and accrued charges

Creditors and accrued charges comprised mainly compensation payments re-established for those cheque payments that were not cleared over six months from the cheque issuing date and accrued auditor's remuneration.

These liabilities are classified as financial liabilities measured at amortised cost in accordance with the determination in IAS 39 unless the effect of discounting would be immaterial, in which case they are stated at cost. They are due on demand or within one year and are unsecured.

7. Set-off of SEHK deposits and refunds/ contributions from 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 relinquishment. During the year, deposits of \$1,150,000 in respect of 23 new trading rights were received from SEHK.

During the year, the SFC had refunded to SEHK of \$250,000 in respect of the deposit of 5 relinquished trading rights. As at 31 March 2013, there are 12 trading rights in total that have been relinquished but not yet refunded.

Notes to the financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

8. Contingent liabilities

As at the date of this report, there is no outstanding claim against the Fund.

In relation to the default cases, any excess of recovered amounts (refer to note 5), if any, will be re-distributed to claimants. As the timing of re-distribution and amount of these potential excess amounts are uncertain at the date of this report, we disclose this as a contingent liability.

9. Excess transaction levy from SEHK

SEHK paid these amounts to the Fund from 1992 to 1994 under an agreement with the SFC and the Financial Secretary concerning SEHK's budget and its receipt of transaction levy.

10. Special contributions

In October 1993, a member of SEHK made a special contribution to the Fund in recognition of the SFC's concerns about its misconduct in handling its client trading activities.

11. Additional contributions from SEHK and the SFC

As a result of the relaxation of the compensation rules and compensation limit in 1998, the SFC and SEHK had injected \$330 million and \$300 million respectively to the Fund during the years 1998 to 2001.

12. Special levy surplus

In November 2000, the former Financial Services Bureau of the HKSAR Government transferred to the Fund \$3,002,000 under the provisions of the Exchanges (Special Levy) Ordinance.

13. Contributions to Investor Compensation Fund

When the SFO and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Under Section 74(2) of Schedule 10 of the SFO, the SFC may after 1 April 2003 pay into the ICF, which came into operation after 1 April 2003, such sum of money from the Fund as it considers appropriate. Total contributions paid into the ICF up to 31 March 2013 amounted to \$994,718,000 (2012: \$994,718,000).

14. Material related party transactions

The Fund has related party relationships with the Investor Compensation Fund and the SFC. During the year, there were no significant related party transactions other than those disclosed in the financial statements for the year ended 31 March 2012.

15. Financial risk management

The Fund's interest bearing assets mainly comprise deposits at banks which mature or re-price in the short term, as a result of which the Fund is subject to a limited exposure to interest rate risk due to fluctuations in the prevailing market rates. At 31 March 2013, it is estimated that a general increase/decrease of 100 basis points in the interest rates, with all other variables held constant, would increase/decrease the Fund's surplus and accumulated surplus by approximately \$739,000 (2012: \$726,000). Other components of accumulated surplus would not be affected (2012: Nil) by the changes in interest rates. The exposure to credit and liquidity risks arises in the normal course of the Fund's operation. The Fund is not exposed to any foreign exchange risk as all transactions and balances are denominated in HK 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.

16. Replenishments from SEHK

Under Section 107 of the repealed Securities Ordinance, the SFC may require SEHK to replenish the Fund with an amount that is equal to that paid in connection with the satisfaction of the claim (limited to \$8,000,000 per each defaulted case) after the SFC has exhausted all relevant rights of action and other legal remedies against the defaulter.

Notes to the financial statements

For the year ended 31 March 2013 (Expressed in Hong Kong dollars)

16. Replenishments from SEHK (cont'd)

Up to 31 March 2013, SEHK has 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:

	2013 \$'000	2012 \$'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.

Replenishment from SEHK are not recognised in the statement of financial position given that the Fund is not aware of any need for requesting SEHK for replenishment in the near future.

17. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2013

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 March 2013 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Amendments to IAS 1, <i>Presentation of financial statements – Presentation of items of other comprehensive income</i>	1 July 2012
IFRS 13, <i>Fair value measurement</i>	1 January 2013
<i>Annual Improvements to IFRSs 2009-2011 Cycle</i>	1 January 2013
Amendments to IFRS 7, <i>Financial instruments: Disclosures – Offsetting financial assets and financial liabilities</i>	1 January 2013
Amendments to IAS 32, <i>Financial instruments: Presentation – Offsetting financial assets and financial liabilities</i>	1 January 2014
IFRS 9, <i>Financial Instruments</i>	1 January 2015

The Fund is in the process of making an assessment of what the impact of these amendments 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 Authorized unit trusts and mutual funds – by type

	Number	%	Total NAV ¹ (US\$ million)	%
Bond	338	20.36	467,175	37.75
Equity	970	58.43	498,959	40.32
Diversified	82	4.94	45,726	3.69
Money market	39	2.35	83,609	6.76
Fund of funds	72	4.34	9,332	0.75
Index	124	7.47	126,127	10.19
Guaranteed	14	0.84	515	0.04
Hedge	5	0.30	630	0.05
Other specialised ²	16	0.96	5,551	0.45
	1,660	100	1,237,624	100
Umbrella structures	187			
No. of authorized funds	1,847			

¹ Net asset value (NAV) as at 31 December 2012

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

Table 2 Authorized unit trusts and mutual funds – by origin

	Umbrella funds	Sub-funds	Single funds	Total	%	Total NAV ¹ (US\$ million)	%
Hong Kong	66	177	62	305	16.51	56,026	4.53
Luxembourg	53	992	0	1,045	56.58	777,043	62.79
Ireland	33	242	2	277	15	263,550	21.29
Guernsey	1	0	0	1	0.05	0	0
United Kingdom	5	43	5	53	2.87	44,997	3.64
Other Europe	0	0	0	0	0	0	0
Bermuda	2	3	2	7	0.38	793	0.06
British Virgin Islands	0	0	0	0	0	0	0
Cayman Islands	27	99	25	151	8.18	12,894	1.04
Others	0	0	8	8	0.43	82,321	6.65
No. of authorized funds	187	1,556	104	1,847	100	1,237,624	100

¹ Net asset value as at 31 December 2012 (excluding umbrella funds)

Table 3 Renminbi bonds: authorization of offer and marketing documents

	2012/13	2011/12	2010/11
Authorizations granted under section 105 of the SFO	0	0	4 ¹
Authorizations granted to register prospectuses under the Companies Ordinance	0	0	2 ²

¹ Include one renminbi bond offering with a retail issue size of RMB4,000 million

² Two renminbi bond offerings with an aggregate retail issue size of RMB3,000 million

Table 4 Unlisted retail structured products: authorization of offer and marketing documents

	2012/13	2011/12	2010/11
Structured products ¹ authorized	120	85	N/A
Authorizations granted under section 105 of the SFO	113	141	84

¹ Comprises common structured products such as equity linked investments and equity linked deposits. The power for the SFC to authorize structured products under the SFO came into effect on 13 May 2011. The number is on a "one product per key facts statement" basis.

Table 5 Takeovers activities

	2012/13	2011/12	2010/11
Codes on Takeovers and Mergers and Share Repurchases			
General and partial offers under the <i>Code on Takeovers and Mergers</i>	24	29	29
Privatisations	7	9	6
Whitewash waiver applications	29	31	30
Other applications under the <i>Code on Takeovers and Mergers</i>	175	209	224
Off-market and general offer repurchases	6	2	2
Other applications under the <i>Code on Share Repurchases</i>	10	3	13
Total	251	283	304
Executive Statements			
Sanctions imposed with parties' agreement ¹	1	2	2
Takeovers and Mergers Panel			
Meetings for review of the <i>Codes on Takeovers and Mergers and Share Repurchases</i>	0	3	1
Hearings before the Panel (disciplinary and non-disciplinary)	2	2	2
Statements issued by the Panel ²	2	2	2

¹ Pursuant to section 12.3 of the Introduction to the *Codes on Takeovers and Mergers and Share Repurchases*

² Pursuant to section 16.1 of the Introduction to the *Codes on Takeovers and Mergers and Share Repurchases*

Breakdown of SFC activity data

Table 6 Breaches noted during on-site inspections

Nature of Breaches	2012/13	2011/12	2010/11
Failure to comply with Financial Resources Rules	19	13	14
Failure to safekeep client securities	14	9	10
Failure to maintain proper books and records	23	9	6
Failure to safekeep client money	15	18	10
Unlicensed dealing and other registration issues	8	2	2
Breach of licensing condition	2	6	2
Breach of requirements of contract notes/statements of account/receipts	18	17	22
Failure to make filing/notification	0	1	1
Breach of margin requirements	5	2	3
Marketing malpractices	0	1	1
Illegal short selling of securities	7	1	0
Dealing malpractices	0	2	1
Breach of <i>Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission</i>	121	80	88
Breach of <i>Corporate Finance Adviser Code of Conduct</i>	12	1	10
Breach of <i>Fund Manager Code of Conduct</i>	17	20	24
Non-compliance with anti-money laundering guidelines	13	102	28
Breach of other rules and regulations of the Exchanges ¹	14	5	20
Internal control weaknesses	184	93	121
Others	69	54	39
Total	541	436	402

¹ Comprise The Stock Exchange of Hong Kong Ltd and Hong Kong Futures Exchange Ltd

Table 7 Successful prosecutions
Insider dealing

Defendants	Date of conviction	Fine (\$)/Penalty	Investigation costs awarded (\$)
CHUI Wing Nin	26.10.2012	1,018,855 and 15 months' imprisonment and disqualified from being a director for 3 years	228,469

Market manipulation

Defendants	Date of conviction	Fine (\$)/Penalty	Investigation costs awarded (\$)
CHAN Yuk Hing	29.6.2012	8,000 and 80 hours' community services	26,156
CHANE Yin Paul Frederic	29.6.2012	100 hours' community services	26,156
LI Jialin	22.10.2012	6 months' imprisonment for each of 10 counts of price rigging, to be served concurrently	168,282
Total: 3 entities		8,000	220,594

Provision of false or misleading statements¹

Defendants	Date of conviction	Fine (\$)	Investigation costs awarded (\$)
Asian Capital Resources (Holdings) Ltd	16.4.2012	100,000	17,683

¹ Cases where fines were below \$10,000 are not shown here.

Breakdown of SFC activity data

Table 7 Successful prosecutions (cont'd)

Unlawful short selling

Defendants	Date of conviction	Fine (\$)	Investigation costs awarded (\$)
CHAN Ki	26.4.2012	30,000	3,502
KUNG Ping Cheung	26.4.2012	30,000	3,502
TSANG Kwok Leung	28.6.2012	20,000	7,345
NG Kwok Wing	25.10.2012	14,000	17,803
Total: 4 entities		94,000	32,152

Disclosure of interests¹

Defendants	Date of conviction	Fine (\$)	Investigation costs awarded (\$)
WU Jiesi	5.7.2012	12,000	20,260
LAI Kwok Kwong	2.8.2012	30,000	33,713
WONG Koon Kau	25.10.2012	15,000	32,740
ZHAO Zhong Yao	10.1.2013	16,000	45,274
Total: 4 entities		73,000	131,987

¹ Cases where fines were below \$10,000 are not shown here.

Table 8 Most significant disciplinary action

Company/Name	Date of action	Conduct	Action/SFAT ¹ decision
NG Chi Keung	17.4.2012	Failed to establish the true identity of the account holder and allowed unauthorized trading	Banned for 10 years
Mega Capital (Asia) Company Ltd	22.4.2012	Failed to discharge sponsor duties in a listing application	Licence revoked and fined \$42 million
WONG Chiu Wan	8.5.2012	Fraud and misappropriation of client assets	Banned for life
SUN Chor Fun Polly	7.6.2012	Convicted of conspiracy to defraud in relation to trading of warrants	Banned for life
HONG Hui Lung	7.6.2012	Failed to properly review the due diligence work of the transaction team for a listing application	Licence revoked
IMC Asia Pacific Ltd	3.7.2012	Regulatory breaches and internal control failures	Reprimanded and fined \$1.5 million
LEUNG Chi Keung Edmond	11.7.2012	Engaged in insider dealing in the shares of a listed company	Banned for 10 years
Société Générale	17.7.2012	Internal control failings in its wealth management activities regarding the disclosure of certain fees and charges	Reprimanded and paid reimbursements of over US\$13.7 million to eligible customers
LEUNG Kam Yu	6.8.2012	Unauthorized trading in client accounts	Banned for 3 years
LEE Ying Chih Esther	9.8.2012	Unauthorized trading in client accounts	Banned for 3 years
RBC Investment Management (Asia) Ltd	16.8.2012	Provided investment advice to clients on a number of funds not authorized by the SFC	Reprimanded, fined \$4 million and agreed to make repurchase offers to eligible customers and pay compensation to eligible former customers
Merrill Lynch (Asia Pacific) Ltd	22.8.2012	Failed to take adequate steps to properly handle clients' complaints	Reprimanded and fined \$3.5 million
CHU Lai Sze	11.10.2012	Forged a customer's signature on documents	Banned for 3 years

¹ This refers to the Securities and Futures Appeals Tribunal.

Breakdown of SFC activity data

Table 8 Most significant disciplinary action (cont'd)

Company/Name	Date of action	Conduct	Action/SFAT ¹ decision
CIC Investor Services Ltd	14.11.2012	Failed to comply with regulatory requirements in relation to professional investors and failed to keep adequate records	Reprimanded and fined \$4 million
WONG Tang Chung	20.11.2012	Failed to properly review the due diligence work of the transaction team for a listing application	Banned for 3 years
President Securities (Hong Kong) Ltd	4.12.2012	Failed to act in the best interests of its clients when accepting subscriptions for a number of Lehman Brothers structured products	Reprimanded and fined \$2 million
Deutsche Securities Asia Ltd	18.12.2012	Regulatory breaches and internal control failings relating to position limit failures	Reprimanded and fined \$2.5 million
HO Wing Kin	4.2.2013	Fraud and misappropriation of client assets	Banned for life
HSU Ming Mei Joyce	5.2.2013	Fraud and misappropriation of client assets	Banned for life
DU Jun	4.3.2013	Insider dealing in the shares of a listed company	Banned for life
Manulife Asset Management (Hong Kong) Ltd	4.3.2013	Deficient internal controls in relation to the distribution of its fund	Reprimanded and fined \$24 million
HO Kei Him Calvin	12.3.2013	Failed to disclose to his employer all related securities accounts and trading; failed to take adequate steps to avoid conflicts of interests; and made false and/or misleading declarations in relation to outside securities accounts related to him	Banned for 14 months
TSANG Siu Kam Selina	26.3.2013	Took orders from a third party without the client's written authorization and carried out trades for the client without his knowledge and authorization	Banned for 2 years

Table 9 Other enforcement action

	2012/13	2011/12	2010/11
S179 ¹ enquiries commenced	16	23	17
S181 ² enquiries commenced (no. of letters sent)	176 (5,130)	175 (4,034)	160 (4,165)
S182 ³ directions issued	302	296	252
Show cause letter ⁴ issued	1	1	0
Rule 8 ⁴ direction issued	1	1	0
Cases with search warrant executed	40	15	22
Compliance advice letters issued	330	240	185
Criminal litigation			
(a) Insider dealing			
Persons summonsed on summary (summonses laid)	0 (0)	3 (12)	0 (0)
Person charged on indictment (no. of charge)	0 (0)	0 (0)	0 (0)
(b) Market manipulation			
Persons summonsed on summary (summonses laid)	3 (8)	3 (10)	9 (76)
Person charged on indictment (no. of charge)	0 (0)	0 (0)	0 (0)
(c) Others			
Persons summonsed on summary (summonses laid)	30 (108)	32 (185)	56 (285)
Person charged on indictment (no. of charge)	0 (0)	0 (0)	0 (0)
Civil litigation			
(a) S213 ⁵ action			
Persons against whom S213 action is ongoing	39	41	28
Persons against whom S213 action is completed	8	3	4
(b) S214 ⁶ action			
Persons against whom S214 action is ongoing	19	16	14
Persons against whom S214 action is completed	5	9	5
(c) Others			
Persons against whom other civil action is ongoing	1	0	2
Persons against whom other civil action is completed	1	0	2
Disciplinary enquiries			
Notices of Proposed Disciplinary Action ⁷ issued	43	39	29
Notices of Decision ⁸ issued (including S201 ⁹ agreement)	36	38	49
SFAT hearings			
Hearings commenced	3	0	7
Hearings completed	1	8	13

¹ Section 179 of the SFO gives the SFC the power to compel the production of records and documents from persons related to a listed company in relation to fraud or other misconduct.

² Section 181 of the SFO gives the SFC the power to require information from intermediaries about trading transactions, including the identity information of the ultimate clients, the particulars and instructions relating to the transactions.

³ Section 182 of the SFO gives the SFC the power to investigate SFO offences, market misconduct, fraud, misfeasance and disciplinary misconduct, etc.

⁴ A Rule 8 direction is issued by the SFC pursuant to Section 8 of the Securities and Futures (Stock Market Listing) Rules, directing 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.

⁵ Section 213 of the SFO gives the SFC the power to apply to the Court of First Instance (CFI) for an injunction and other orders when there are contraventions of the provisions of the SFO and specified provisions of the Companies Ordinance.

⁶ Section 214 of the SFO gives the SFC the power to apply to the CFI for a range of orders, including disqualification orders against directors, where the business or affairs of a listed company is conducted in a manner which is oppressive or unfairly prejudicial to its members.

⁷ A notice issued by the SFC to regulated persons that it proposes to exercise its disciplinary powers, on grounds that they appear to be guilty of misconduct or not fit and proper.

⁸ A notice that sets out the SFC's decision and its reasons to take disciplinary action against regulated persons.

⁹ Section 201 of the SFO gives the SFC the power to resolve disciplinary proceedings by agreement when the SFC considers it appropriate to do so in the interest of the investing public or in the public interest.

Breakdown of SFC activity data

Table 10 Comparison with overseas regulatory agencies

It is difficult to obtain detailed data, in a consistent format, for sensible comparison of key performance measures with other regulators and this is complicated further by the different mandates which each of these regulators have. Nevertheless, we have set out in this table some key data relating to the size of certain other regulators for the interest of readers.

All foreign currency amounts have been translated into Hong Kong dollars with the exchange rate on 31 March of each of the three years.

	2012/13	2011/12	2010/11
SFC (year ended on 31 March)¹			
No. of staff	668	611	544
Total expenditure (\$ million)	1,184	902	780
US Securities and Exchange Commission (SEC) (year ended on 30 September)²			
No. of staff	4,223³	3,770 ⁴	3,844
Total expenditure (\$ million)	11,004³	9,161 ⁴	9,434
UK Financial Services Authority (FSA) (year ended on 31 March)⁵			
No. of staff	3,992⁶	3,502 ⁷	3,337
Total expenditure (\$ million)	6,757⁶	6,356 ⁷	5,977
Australian Securities and Investments Commission (ASIC) (year ended on 30 June)⁸			
No. of staff	Data not available	1,738 ⁹	1,893
Total expenditure (\$ million)	Data not available	3,108 ⁹	3,106

¹ The SFC is an independent non-governmental statutory body funded mainly by a market levy and is responsible for regulating the securities and futures markets in Hong Kong.

² The US SEC is an independent, non-partisan, quasi-judicial regulatory government agency with responsibility for administering the federal securities laws.

³ Continuing Resolution figures extracted from FY2014 Congressional Budget Justification

⁴ Actual figures extracted from FY2014 Congressional Budget Justification

⁵ The FSA is an independent non-governmental body funded by the firms it regulates. It has been given statutory powers to regulate the financial services in the UK including authorisation and regulation of deposit taking, insurance, mortgage lending, general insurance advice, mortgage advice and investment business.

⁶ Budget figures extracted from FSA Business Plan 2012/13

⁷ Actual figures extracted from FSA Annual Report 2011/12

⁸ The ASIC is an independent Commonwealth government body which enforces and regulates company and financial services laws to protect consumers, investors and creditors.

⁹ Actual figures extracted from ASIC Annual Report 2011/12

Table 11 Statistical information and financial position of the Hong Kong securities industry¹

	As at 31.12.2012	As at 31.12.2011	As at 31.12.2010
Securities dealers and securities margin financiers	907	856	831
Active cash clients ²	1,045,751	1,042,151	1,113,657
Active margin clients ²	139,375	135,201	132,101
Active clients (+1%)	1,185,126	1,177,352	1,245,758
Balance sheet	(\$ million)	(\$ million)	(\$ million)
Cash in hand and at bank ³	269,912	294,981	292,827
Amounts receivable from margin clients ⁴	58,812	50,171	58,468
Amounts receivable from clients and other dealers arising from dealing in securities	149,865	99,286	138,422
Proprietary positions	175,191	114,284	173,873
Other assets	169,357	142,096	147,754
Total assets (+17%)	823,137	700,818	811,344
Amounts payable to clients and other dealers arising from dealing in securities	349,854	252,342	287,645
Total borrowings from financial institutions	85,348	61,430	71,558
Short positions held for own account	64,444	62,492	107,211
Other liabilities	97,878	96,764	126,899
Total shareholders' funds	225,613	227,790	218,031
Total liabilities and shareholders' funds (+17%)	823,137	700,818	811,344

¹ Data were extracted from the monthly Financial Returns submitted under the Securities and Futures (Financial Resources) Rules by corporations licensed for dealing in securities or securities margin financing. Figures reported by an overseas incorporated licensed corporation that carries out its principal business activities outside Hong Kong and operates in Hong Kong as a branch office were excluded from these computations.

² Active clients are clients for whom the licensed corporation is required to prepare and deliver monthly statements of account in respect of the relevant reporting month under the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules.

³ Cash in hand and at bank includes trust monies held on behalf of clients totalled \$127,378 million (31.12.2011: \$115,368 million).

⁴ As at 31.12.2012, the average collateral coverage was 4.2 times (as at 31.12.2011: 3.9 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.

Breakdown of SFC activity data

Table 11 Statistical information and financial position of the Hong Kong securities industry¹ (cont'd)

	12 months to 31.12.2012	12 months to 31.12.2011	12 months to 31.12.2010
Profit and loss	(\$ million)	(\$ million)	(\$ million)
Total value of transactions ⁵	47,658,360	57,159,686	54,372,754
Net securities commission income	18,331	25,953	31,079
Gross interest income	7,213	6,399	5,280
Other income ⁶	76,829	77,524	82,365
Total operating income (-7%)	102,373	109,876	118,724
Total overheads and interest expense	102,783	103,764	102,224
Total operating profit (-107%)	(410)	6,112	16,500
Net profit on proprietary trading	8,050	3,671	10,606
Net profit for the period (-22%)	7,640	9,783	27,106

⁵ The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

⁶ Other income comprises fund management fee income, corporate finance income, inter-company management fee income and others.

Table 12 Stock market

	2012/13	2011/12	2010/11
No. of listed companies on the Stock Exchange	1,557	1,510	1,426
Main Board	1,378	1,337	1,258
Growth Enterprise Market	179	173	168
Market capitalisation (\$ billion)	21,953.2	19,775.3	21,396.9
Main Board	21,865.9	19,690.7	21,259.1
Growth Enterprise Market	87.3	84.6	137.8
Average daily market turnover (\$ million)	56,454.1	66,543.1	71,862.9
Main Board	56,316.6	66,328.5	71,363.8
Growth Enterprise Market	137.5	214.6	499.1

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. This section outlines the work of these committees and panels and provides a membership list by type in alphabetical order. For information on the Audit Committee, Budget Committee, Investment Committee, Remuneration Committee and Executive Committee, see our discussion in the Corporate Governance chapter on pages 8-22.

SFC committees Advisory Committee

Advises the SFC on any matter of policy regarding the performance of its functions.

Chairman	
Dr FONG Ching, Eddy, GBS, JP (to 19.10.2012) TONG Carlson, JP (from 20.10.2012)	
Members	
ALDER Ashley Ian	LEUNG Margaret, JP
CHEONG, Ying Chew Henry	LI Brian David Man Bun
CHEUNG Katherine Marn Kay	Dr LIN Yong
CHEW Fook Aun	LO Peter Chi Wai
DICKENS Mark Francis, JP (to 28.2.2013)	TSANG Frederick Sui Cheong
EU Andrew Douglas	WONG Anna Wai Kwan
LAM CHEUNG, Alexa, JP	WU Thomas Jefferson
No. of meetings: 4	Average attendance rate: 70%

Academic and Accreditation Advisory Committee

Approves industry-based courses and examinations for the purpose of meeting the licensing competence requirements, endorses applications from professional bodies and tertiary institutions as recognised institutions for providing continuous professional training, advises the SFC on areas to study in the context of enhancing Hong Kong's position as an international financial centre and provides input for the development of industry-related courses and training programmes.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Chairman	
TISDALL Stephen Clifford	
Members	
Prof CHAN Chi Fai, Andrew, SBS, JP	Dr MAK Sui Choi, Billy
CHOW Yuen Yee	PICKERELL Blair Chilton
KEE Nicholas Min Kwan	SO Yuk Sing, Christine
Prof LAU Hing Ling, Amy	YUEN Ho Duen, Judith
Prof LUI Ting Ming, Francis	
Secretary	
TUNG Ka Shun, Sam	
No. of meetings: 0	Average attendance rate: N/A

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Committees, panels and tribunal

Committee on Real Estate Investment Trusts

Advises the SFC on general policy matters or regulatory issues that are related to the *Code on Real Estate Investment Trusts* (REITs), the overall market development of REITs, the property or securities market or investment management in Hong Kong or elsewhere, professional practices or guidelines that are involved in the operation of REITs, and fund investment or management in general.

During the year, the Committee met once to discuss policy issues in relation to REITs.

Chairman

LAM CHEUNG, Alexa, JP

Members

CHENG Wai Meng, Milton	LAW Shing Mui, Alice (to 15.7.2012)
Prof CHENG Yu Shek, Joseph, JP	LEUNG Kar Cheung, Catherine
Dr CH' IEN Kuo Fung, Raymond, GBS, CBE, JP	LIM Chai Geok
CHOI Fung Yee, Christina	LUI Yin Tat
FOK Glenn	LYNN Sui Yuen, Robert
HO Yin Tung, Brian	MAGUIRE John Martin
KONG YAO FAH Sew Youne	NIGHTINGALE Anthony John Liddell, CMG, SBS, JP
Dr KWOK Chi Piu, Bill, JP	Prof PANG Tsan Wing, SBS

Secretary

CHAN Duen, Grace

No. of meetings: 1

Average attendance rate: 75%

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 Repurchases* or of the Takeovers Appeal Committee on a case-by-case basis.

During the year, there were no disciplinary proceedings under the *Codes on Takeovers and Mergers and Share Repurchases* nor meetings of the Takeovers Appeal Committee involving members of this Committee.

Members

CHAN Kin Keung, Anthony, SC (to 9.11.2012)	LI Gladys Veronica, SC
CHAN King Sang, Edward, SC	NG Kar Fai, Peter, SC
HO Ambrose, SC	WONG Yuk Lun, Horace, SC

No. of meetings: 0

Average attendance rate: N/A

Investor Compensation Fund Committee

Administers the Investor Compensation Fund and regulates its procedures in accordance with Part XII of the Securities and Futures Ordinance (SFO).

During the year, the Committee met once to consider the financial statements of the Fund and dealt with other administrative matters.

Chairman	
LUI Kei Kwong, Keith	
Members	
CHOW Ka Ming, Anderson, SC LAM CHEUNG, Alexa, JP	TAI Chi Kin
No. of meetings: 1	Average attendance rate: 75%

Investor Education Advisory Committee

Provides ideas and support to the SFC in setting its investor education targets.

During the year, the Committee held two meetings to review the SFC's investor education work from April to October 2012 and discussed the scope and results of the Financial Knowledge and Capability Survey which facilitated the prioritisation of investor education effort for the Investor Education Centre in its first year of establishment.

Chairman	
WAN Chi Yiu, Andrew	
Members	
CHAN King Cheung, BBS FUNG Wei Lung, Brian LAU Ka Shi, Betsy LEE Kam Wing, Bruno (from 1.11.2012) Dr MAK Sui Choi, Billy PAN San Kong, Terry (to 31.10.2012)	POGSON Timothy Keith PONG Po Lam SIN Tak Wah WONG Pak Chung WONG Wan Ming, Rosa YEUNG Jason Chi Wai
Alternate Members	
LAM Po Yee (to 16.10.2012) LO Wai Keung, David	PAN San Kong, Terry (from 1.11.2012) TAM Sau Ngor, Vera
Secretary and Ex-officio Member	
LAI, Ivy Wan Ying	
No. of meetings: 2	Average attendance rate: 88.5%

Committees, panels and tribunal

Nominations Committee

Nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee.

During the year, the Nominations Committee met once to consider the appointment and reappointment of members to the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee.

Ex-officio Members	
ALDER Ashley Ian (Chairman) CLARK Stephen Edward	HO Yin Tung, Brian
Members	
CHOW Ka Ming, Anderson, SC Dr FONG Ching, Eddy, GBS, JP (to 19.10.2012)	TONG Carlson, JP (from 1.11.2012)
Alternate members to CLARK Stephen Edward	
KO, Teresa Yuk Yin, JP LIU Chee Ming	MAGUIRE John Martin
No. of meetings: 1	Average attendance rate: 80%

Products Advisory Committee

The Committee may be consulted by the SFC on a wide range of matters relating to the *SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products, the SFC Code on MPF Products* and the *Code on Pooled Retirement Funds*, overall market environment, industry practices and novel product features.

During the year, the Committee held a sub-group meeting to discuss trends of retail fund products and related issues/risks.

Chairman	
LAM CHEUNG, Alexa, JP	
Members	
CHAN King Cheung, BBS Prof CHEUNG Yan Leung Stephen, BBS, JP CHING Kerry Kim Wai (from 1.4.2012 to 1.8.2012) CHOI Fung Yee, Christina CHOW Ka Leung, Louis DEBRUYNE Lieven FUNG Hau Chung, Andrew, JP FUNG Ka Shing, Bernard GOOD Nicholas Michael Whateley HSU David HUI Mei Ying LAU Ka Shi, Betsy LAW Shing Mui, Alice (to 15.7.2012) LEE Chi Kee, Trevor LEE Mun Nang (to 30.4.2012) Prof LIU Pak Wai, SBS, JP	LUK Kin Yu, Peter LUO Jiabin MAHOMED Ferheen MASSEY LI Susan Hong McSHANE Darren Mark MURRAY Alastair Elliot NORONHA Virginia NOYES Keith Samuel PAN Sau Kong, Terry (from 1.8.2012 to 11.9.2012) RICHARDSON David Alexander SHIU Barbara STEEL Roger David (from 30.4.2012) TSANG Jacob Chung WONG Wai Sum, Wilfred WONG Wan Ming, Rosa YIP Chi Leung
Secretary	
POON Wing Yee, Loreen	
No. of meetings: 1	Average attendance rate: 78.6%

Public Shareholders Group

Advises on issues relating to shareholders' rights and interests.

During the year, the Group met three times and discussed a number of issues, including SFC's review of initial public offering sponsor regime, proposal on the new prospectus regime, and a proposal to encourage investors to engage with their investee companies.

Chairman	
HO Yin Tung, Brian	
Members	
BROWN Melissa	PHADNIS Dhananjay
CHAN Chi Keung, Raymond	PULLING Edward
KWOK Lam Kwong Larry, BBS, JP	SHAH Asit Sudhir
MUH Anthony Yi Tong	Prof SO Raymond
NGAN Wai Wah	YE Xiang
No. of meetings: 3	Average attendance rate: 50%

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 financial statements of the Fund and dealt with other administrative matters.

Chairman	
LUI Kei Kwong, Keith	
Members	
CHOW Ka Ming, Anderson, SC	LO Wai Keung, David
LAM CHEUNG, Alexa, JP	TAI Chi Kin
No. of meetings: 1	Average attendance rate: 80%

Committees, panels and tribunal

SFC Dual Filing Advisory Group

Advises on treatment of cases and policy issues under the dual filing regime.

During the year, there were no circumstances that called for the convening of a meeting of the Group.

Members

BROWN Stephen James	KERR William Walter Raleigh
CHAN Yuk Sing, Freeman	LEE Carmelo Ka Sze
CLARK Stephen John	LUNG Hak Kau
HANNING Matthew Paul	WANG Elizabeth Lily Chiang
IP Koon Wing, Ernest	WECHSLER Joshua
JOHNSON Nicholas Regan	

No. of meetings: 0

Average attendance rate: N/A

SFC (HKEC Listing) Committee

Exercises powers and functions equivalent to those of the Main Board and GEM Listing Committees of The Stock Exchange of Hong Kong Ltd (SEHK) when actual or potential conflicts of interest arise between Hong Kong Exchanges and Clearing Ltd (HKEx) as the holding company of SEHK and the proper performance of SEHK's listing functions. In such cases, the relevant SEHK functions may be undertaken by the SFC.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Chairman

Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting.

Members

ALDER Ashley Ian	STEWART Mark Robert
KEYES Terence Francois	TISDALL Stephen Clifford
LAM CHEUNG, Alexa, JP	TSOI Tong Hoo, Tony
LEE Carmelo Ka Sze	Dr WONG Tin Yau, Kelvin
LUI Kei Kwong, Keith	YOUNG Andrew John
PHENIX Paul Anthony	YU Ka Po Benita

No. of meetings: 0

Average attendance rate: N/A

SFC (HKEC Listing) Appeals Committee

Exercises powers and functions equivalent to those of SEHK's Listing Appeals Committee when actual or potential conflicts of interest arise between HKEx and the proper performance of listing functions by SEHK. In such cases, the relevant powers and functions may be exercised by the SFC.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Chairman	
Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting.	
Members	
The Hon CHAN Kam Lam, SBS, JP Prof Leonard K CHENG, JP CHOW Ka Ming Anderson, SC Dr FONG Ching, Eddy, GBS, JP (to 19.10.2012) KO, Teresa Yuk Yin, JP (from 1.8.2012)	LEE Lawrence, JP LEE Pui Ling, Angelina, SBS, JP (to 31.7.2012) TONG Carlson, JP WONG Kai Man, BBS, JP Dr WONG Tin Yau, Kelvin (from 20.10.2012)
No. of meetings: 0	Average attendance rate: N/A

Share Registrars' Disciplinary Committee

Hears and determines disciplinary matters relating to share registrars in the first instance.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Chairman	
LIU Swee Long, Michael	
Deputy Chairman	
CHARLTON Julia Frances	
Members	
CHIONG Chung Seng, Desmond FONG Loong Choon, Julian LIU Yun Bonn NESBITT Gavin Paul NG Wai Sum, Sam	NORRIS Nicholas Andrew RICHARDSON David Alexander SHAFTESLEY Colin TANG Yuen Shun, Cynthia WONG Shiu Hoi, Peter
No of meetings: 0	Average attendance rate: N/A

Committees, panels and tribunal

Share Registrars' Disciplinary Appeals Committee

Hears and determines appeals from 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.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Takeovers and Mergers Panel

Hears disciplinary matters in the first instance and reviews rulings by the Executive 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 Repurchases* (Codes) and the Rules of Procedure for hearings under the Codes and recommends appropriate amendments to the Codes and Rules of Procedure to the SFC.

During the year, the Panel met twice to rule on matters relating to the application of the Codes.

Chairman

CLARK Stephen Edward

Deputy Chairmen

KO, Teresa Yuk Yin, JP
LIU Chee Ming

MAGUIRE John Martin

Members

CHAN Yuk Sing, Freeman

CHARLTON Julia Frances

CHEUNG Yuk Tong

DENNY Roger Michael

DESAI Kalpana

IP Koon Wing, Ernest

KWOK Tun Ho, Chester

LAM Sung Lai, Edward

LEE Pui Ling, Angelina, SBS, JP

LIU Che Ning

LIU Swee Long, Michael

LIU Yun Bonn

LO Kin Ching Joseph

LUNG Hak Kau

MA, Ka Ming Teresa

NESBITT Gavin Paul

NORMAN David Michael

NORRIS Nicholas Andrew

RODGERS Daniel James

SABINE Martin Nevil

SCHWILLE Mark Andrew

SWIFT, Christopher Lee

TAN Siew Boi, May

TORTOISHELL Andrew

VAS CHAU Lai Kun Judy

WEBB David Michael

WINTER Richard David

YU Ka Po Benita

No. of transaction-related meetings: 2

Average attendance rate: N/A

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.

During the year, there were no circumstances that called for the convening of a meeting of the Committee.

Members		
CHAN Yuk Sing, Freeman	LIU Che Ning	RODGERS Daniel James
CHARLTON Julia Frances	LIU Chee Ming	SABINE Martin Nevil
CHEUNG Yuk Tong	LIU Swee Long, Michael	SCHWILLE Mark Andrew
CLARK Stephen Edward	LIU Yun Bonn	SWIFT, Christopher Lee
DENNY Roger Michael	LO Kin Ching Joseph	TAN Siew Boi, May
DESAI Kalpana	LUNG Hak Kau	TORTOISHELL Andrew
IP Koon Wing, Ernest	MA, Ka Ming Teresa	VAS CHAU Lai Kun Judy
KO, Teresa Yuk Yin, JP	MAGUIRE John Martin	WEBB David Michael
KWOK Tun Ho, Chester	NESBITT Gavin Paul	WINTER Richard David
LAM Sung Lai, Edward	NORMAN David Michael	YU Ka Po Benita
LEE Pui Ling, Angelina, SBS, JP	NORRIS Nicholas Andrew	
No. of meetings: 0	Average attendance rate: N/A	

Independent Panels and Tribunal

Arbitration Panel under Securities and Futures (Leveraged Foreign Exchange Trading) (Arbitration) Rules

Resolves disputes in accordance with the Securities and Futures (Leveraged Foreign Exchange Trading) (Arbitration) Rules.

During the year, no new cases were received and there was no outstanding case as at 31 March 2013.

Chairman
CHAN Siu Chung, Justin
Deputy Chairman
LAM Yuk Kun, Lawrence
Members
CHAN Kang Muk, Woody
LAU Cheuk Hang, Philip
LEE Pui Shan, Rosita

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 the receipt and handling of complaints, licensing and inspection of intermediaries, and disciplinary action.

Chairman	
Dr CHENG Mo Chi, Moses, GBS, OBE, JP (from 1.11.2012)	CHOW Wing Kin, Anthony, SBS, JP (to 31.10.2012)
Members	
CHAN Kam Wing, Clement (from 1.11.2012)	LEE Jor Hung, Dannis, BBS (to 31.10.2012)
CHIU Chi Cheong, Clifton (to 31.10.2012)	LEE Pui Shan, Rosita (from 1.11.2012)
CHOW Yuen Yee	LEE Wai Wang, Robert (from 1.11.2012)
FUNG Hau Chung, Andrew, JP (to 31.10.2012)	Dr the Hon LEUNG Mei Fun, Priscilla, JP
Prof HO Yan Ki, Richard	LIU Che Ning (to 31.10.2012)
Dr HU Zhanghong (from 1.11.2012)	MAK Chi Ming, Alfred (from 1.11.2012)
Dr LAM Kit Lan, Cynthia	SUN Tak Kei, David, BBS, JP (to 30.6.2012)
Ex-officio Members	
Dr FONG Ching, Eddy, GBS, JP (to 19.10.2012)	TONG Carlson, JP (from 20.10.2012)
LAI Ying Sie, Benedict, SBS, JP	

Securities and Futures Appeals Tribunal

Reviews a range of regulatory decisions made under the SFO by the SFC and to determine any question or issue arising out of or in connection with any review.

Chairmen		
His Honour Judge CARLSON Ian Erland		
The Hon Mr Justice HARTMANN Michael John, GBS, Justice of Appeal of the Court of Appeal of the High Court		
STUART-MOORE Michael, GBS		
The Hon Mr Justice WRIGHT Alan Raymond, SBS, Judge of the Court of First Instance of the High Court		
Members		
CHAN Kam Wing, Clement	KWAN Pak Chung, Edward	MURRAY Alastair
CHAN Yuen Fan, Florence	KWOK Lam Kwong Larry, BBS, JP	TANG Yuen Shun, Cynthia
Prof CHANG Chieh, Eric	KWOK Pui Fong, Miranda	TSAI Wing Chung, Philip
CHEONG Ying Chew, Henry	Dr LAM Kit Lan, Cynthia	TSANG Sui Cheong, Frederick
CHIN Vincent	LAM Sze Cay, Kevin	WONG Wai Kwan, Anna
CHIU Lai Kuen, Susanna	LIM Wai Tin, Cynthia	WONG Yuen Fai, Stanley, JP
CHU Koh Ann	LIN C, James	YUNG Wen Yee, Wendy
CHUI Yik Chiu, Vincent	LIU Swee Long, Michael	
Dr HU Zhanghong	Prof LOW Chee Keong	

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