



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

**Annual
Report**
2020-21

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Message from Chairman and CEO



Tim Lui
Chairman

“Our core mission is to strengthen Hong Kong’s position as an international financial centre and uphold fair and orderly markets in which investors can have full confidence.”

The challenges we face are unprecedented. Global crises such as the COVID-19 pandemic and climate change will continue to have a major impact on the financial system and addressing these issues is now a permanent feature of our work.

We also need to stay vigilant and maintain a sharp focus on our core mission: to play a leading role in strengthening Hong Kong’s position as an international financial centre and uphold fair and orderly markets in which investors can have full confidence.

The efforts we made in recent years to adopt a front-loaded, interventionist approach and reorient the organisation help us adapt quickly to stay ahead of emerging risks and ensure the continuity and effectiveness of our operations when times are uncertain.

Despite heightened volatility and a changing geopolitical environment, markets have been operating smoothly and trading in Hong Kong has been very active.

At a fundamental level, the essential attributes of Hong Kong’s regulatory system remain unchanged, as do our core values of independence, integrity and public accountability. It is always vital that we operate—and are seen to operate—in an impartial and transparent manner, without fear or favour.

A commitment to fundamentals

As the pandemic subsides, rapid, targeted regulatory action will still be crucial to maintain the operational resilience of our firms and market infrastructure. It will be equally important that we remain flexible and accommodate how firms and licensees need to adapt to changes in the business environment without relaxing our prudential and conduct standards or compromising market integrity.

We have now stepped up our supervision of firms and funds with a focus on new types of operational risks and potential vulnerabilities. In addition to conducting stress tests on brokers and tracking investment fund liquidity and redemptions, we keep a close watch on the potential impact of sanctions on firm operations and on overall market stability.

Over the past year, one in which we have seen major political and market developments internationally and domestically, clear communication with the industry and the public has been critical. Maintaining regular contact with global firms operating in Hong Kong to understand their priorities will continue to be essential. To ensure firms effectively manage business and conduct risks, we will keep up our close communication with licensed firms and industry associations so that our regulatory expectations are conveyed as clearly as possible.

“The essential attributes of Hong Kong’s regulatory system remain unchanged, as do our core values of independence, integrity and public accountability.”

Ashley Alder
Chief Executive Officer



A greater emphasis on earlier, more direct intervention has led to much better outcomes for investors in our markets, and this has been complemented by determined enforcement action to combat market misconduct and seek redress for investors. For example, we work closely with the Hong Kong Police to combat online “ramp-and-dump” schemes and other fraudulent activities and scams, and raise public awareness to help investors avoid falling victim to fraud or misconduct.

Hong Kong’s unique status

As part of our efforts to strengthen Hong Kong’s status as an international financial centre, we are determined to bolster Hong Kong’s competitiveness, from its role as a major corporate fund raising centre to its growth as an asset and wealth management hub.

Developing Hong Kong as the leading platform for overseas investors to access Mainland markets and hedge the attendant risks remains a key priority. The success of Stock Connect and other mutual market access schemes has showcased Hong Kong’s unique role intermediating global capital between a rapidly developing China and the rest of the world.

This role will only increase in importance. Despite concerns over economic decoupling, global markets are more complex and interconnected than ever before. Hong Kong is even better placed than before to attract more Mainland firms looking to diversify their sources of capital and to be the hub for a range of investment flows between China and overseas markets.

Our close relationship with our Mainland counterparts, especially with the China Securities Regulatory Commission, is premised on our common goal of addressing cross-border risks in our markets and safeguarding investors and market integrity. This forms a strong basis for the expansion of mutual market access involving the entire country as well as further market integration in the Guangdong-Hong Kong-Macau Greater Bay Area.

Globally, we will continue our longstanding participation in international standard-setting bodies to help Hong Kong play a larger role in developing the global regulatory agenda, particularly through the SFC’s chairmanship of the Board of the International Organization of Securities Commissions and participation in the Financial Stability Board.

Message from Chairman and CEO

We take a very active part in advancing global priorities including the urgent need to adapt the financial system to address the threat of climate change—one of the defining issues of our time. Hong Kong is uniquely positioned to contribute to global sustainable and green finance developments and we are actively engaged in this effort together with the Government and the other financial regulators through the Green and Sustainable Finance Cross-Agency Steering Group.

We will continue to strengthen our cooperation with local regulators and law enforcement agencies, particularly when it comes to joint efforts to tackle crime and misconduct.

Meeting the challenges

As always, enhancing regulation to facilitate healthy market development and align with international standards remains a high priority. We work hard to protect the undoubted credibility of our world-class regulatory framework, ensuring our efficiency and effectiveness as a globally-respected financial regulator.

Technology is fundamentally changing how business is conducted and we have been actively addressing emerging issues, including by introducing new arrangements to regulate virtual asset trading platforms. At the same time, new technologies provide regulators with opportunities for enhanced risk detection and more efficient workflows, and we are implementing a number of projects in these areas.

We are grateful to our staff for demonstrating commitment, professionalism and adaptability and working as “One SFC” in the face of the tremendous challenges presented by the pandemic. We also wish to thank our Board members for their advice and support during a critical time.

Tim Lui
Chairman

Ashley Alder
Chief Executive Officer

Strategic Priorities

To fulfil our core mission of safeguarding Hong Kong's financial stability and maintaining fair and orderly securities and futures markets, we adopt a coordinated regulatory approach to promote market quality and protect investors. Our overarching priority is to deliver world-class regulation and bolster Hong Kong's status as a leading international financial centre.

We adopt a front-loaded, multidisciplinary approach which leverages our resources and pools our expertise to tackle the greatest threats and the most significant or systemic risks through early, targeted intervention. These efforts cut across nearly all of our regulatory work, from the "ICE"¹ working group and our interventions in the listed market to our risk-based approach to intermediary supervision and market surveillance.

To stay vigilant to emerging risks and global developments which may affect Hong Kong's markets, we deploy the latest technology and maintain close contact with local, Mainland and overseas regulators and law enforcement agencies.

Delivering on our objectives in a challenging environment requires that we remain flexible and stand ready to recalibrate our operations and priorities. We are introducing new initiatives and organisational changes which will enable us to become a more effective regulator and better prepare our markets for the future.

Current initiatives

Listing matters

Our front-loaded regulatory approach and targeted efforts to suppress improper market practices have driven improvements in market behaviour. Since early 2017, we have directly intervened in more than 150 cases involving initial public offerings (IPO) or listed companies through the actual or potential use of our powers under the Securities and Futures (Stock Market Listing) Rules and the Securities and Futures Ordinance.



Chairman Mr Tim Lui

These interventions and our coordinated policy actions with the Stock Exchange of Hong Kong Limited have made it more difficult for listed companies to be used as vehicles for improper market activities. The introduction of an enhanced delisting regime and new reverse takeover rules to discourage backdoor listings resulted in fewer shell company transactions and reverse takeover applications.

We closely monitor other misconduct which could jeopardise the interests of the investing public, including firms' alleged involvement in or wilful neglect of obvious concerns about problematic capital market activities. For example, some underwriters or placing brokers charge unusually high commissions in small IPOs and are suspected of providing rebates to finance nominees' IPO subscriptions. The nominees then sell the shares at a profit, causing the share prices of newly listed companies to plunge on their first day of trading. Through our cross-divisional working group "ICE" and working closely with other regulators and government authorities, we have been addressing these and other types of market and corporate misconduct².

¹ ICE (Intermediaries, Corporate Finance, Enforcement) is a cross-divisional working group set up to tackle corporate misconduct.

² See Enforcement section on page 8.

Strategic Priorities

Intermediaries

During the year, intermediaries faced significant operational challenges arising from pandemic-related disruptions which tested the resilience of their information systems, personnel, facilities and relationships with third-party service providers and clients. Most firms' operations maintained "business as usual", although reconfigured staffing arrangements presented operational risks.

With pandemic disruptions likely to continue over the coming year, we have stepped up our monitoring of conduct and operational risks and carried out more frequent stress tests to assess licensed corporations' financial resilience. We will conduct a thematic review of the resilience of licensed corporations' business continuity plans during the pandemic, including the challenges of remote working, and share examples of good practices and lessons learned from the industry's pandemic planning and response.

Following our 2020 survey of the liquidity management practices of the controllers of selected brokers, we will engage with more brokers to understand their group liquidity profiles and identify potential problems for early supervisory action. In light of the financial difficulties of some parent groups, we stepped up supervision of their licensed affiliates to ensure that investors' interests are not adversely affected. We take proactive regulatory action where necessary to address any financial risks we identify.

The risks arising from the US sanctions against a number of Mainland and Hong Kong entities and individuals require a regulatory response³. We are collaborating proactively with other financial regulators to exchange information, conduct systemic risk analyses of the securities sector and collect market intelligence through ongoing discussions with industry participants.

Gatekeeping is an important part of our regulatory function. The next generation of our online licensing platform, which features web-based electronic forms and enables digital signatures and payments, will enhance the efficiency and transparency of gatekeeping and enable more efficient collection of data when it is fully operational later this year. It will also help better integrate our front-loaded, risk-based approach into our licensing function.

Later this year, we target to publish the conclusions to consultations on proposed conduct requirements for intermediaries conducting equity and debt capital raisings in Hong Kong and on amendments to align our anti-money laundering (AML) and counter-financing of terrorism guidelines with the latest international standards.

Asset and wealth management

Enhancements to our regulatory regime to facilitate the development of investment products, safeguard investors' interests and expand potential markets for public funds help strengthen Hong Kong's competitiveness as a global asset and wealth management centre.

We are working closely with the Government on legislative amendments to introduce a statutory mechanism for the re-domiciliation of overseas corporate funds to Hong Kong as open-ended fund companies (OFCs). Initiatives to refine the OFC regime in relation to winding-up procedures and AML and counter-financing of terrorism are underway. To attract more OFCs and real estate investment trusts (REITs) to Hong Kong, we administer the new grant scheme which provides subsidies for setting up OFCs and listing REITs.

We are actively involved in the Government's taskforce on providing tax concessions for carried interest distributed by locally managed private equity funds and other tax initiatives to increase Hong Kong's appeal as a preferred fund domicile.

To help us maintain an effective regulatory regime and achieve better investor outcomes, we are conducting a holistic review of investment-linked assurance schemes (ILAS) and will issue further guidance to the industry on ILAS product design and disclosures. We are also working on proposals to introduce a new regulated activity to bring the depositaries of SFC-authorized funds within our licensing, supervision and enforcement regime. We will issue a conclusions paper on the regulatory framework and launch a further consultation on the draft amendments to the subsidiary legislation and SFC codes and guidelines.

We plan to collect additional data on public funds' use of leverage to enhance our monitoring of these funds' activities and our understanding of developing trends in financial markets.

³ See the SFC press releases on 8 August and 12 November 2020.



Chief Executive Officer Mr Ashley Alder

To expand the market reach of our public funds, we are enhancing the existing mutual recognition of funds (MRF) arrangements and exploring similar arrangements with other jurisdictions. We are working with the China Securities Regulatory Commission (CSRC) to enhance the Mainland-Hong Kong MRF scheme, including to relax the sales limit and restrictions for overseas delegation to offer Mainland investors a more diversified pool of funds managed in Hong Kong.

To provide more investment opportunities for both local and overseas investors, we are working with the CSRC and stock exchanges to normalise the cross-listing of exchange-traded funds (ETF) on the Mainland and Hong Kong stock exchanges. We are also in discussions with local and Mainland authorities and working towards the implementation of ETF Connect.

The multi-party regulatory memorandum of understanding (MoU) we signed in January 2021 with six other Mainland, Hong Kong and Macau regulators⁴ to facilitate the implementation of the Greater Bay Area Wealth Management Connect scheme will enable investors to gain access to wealth management products through bank distribution channels. We are collaborating with the other signatories on the operational details.

Markets

In view of the widespread impact of the pandemic and the increasing interconnectedness of global markets, we made changes to help us monitor cross-market activities more systematically. To ensure timely and comprehensive assessments, we are working with other financial regulators and industry participants to enhance the quality of the data reported under different regimes. This will help us identify potential risks and vulnerabilities as well as consider appropriate policy responses.

We regularly review and enhance our market contingency plans and consider the tools available to be deployed in emergency situations to maintain the orderly functioning of the markets and the overall stability of the financial system. The introduction of a market-wide circuit breaker is under active review.

Effective risk governance is an essential component of our supervision of Hong Kong Exchanges and Clearing Limited (HKEX). We are working with HKEX to ensure that its risk management and control functions, as well as HKEX group compliance, have sufficient authority, independence and resources, and that governance arrangements provide accountability.

Our December 2020 consultation set out proposals to implement an investor identification regime at the trading level for Hong Kong's securities market and introduce an OTC securities transactions reporting regime for shares listed on the Stock Exchange of Hong Kong Limited which aim to detect potential market misconduct in a more timely and efficient manner. Both regimes will strengthen our market supervision capabilities and promote investor confidence, which are essential for Hong Kong to thrive as a premier international financial centre.

Together with the Government, we are preparing legislative changes to implement the uncertificated securities market regime. We will work with HKEX and the Federation of Share Registrars Limited to develop the technical aspects of the model and target to consult the public on proposed subsidiary legislation by the end of this year.

⁴ The People's Bank of China, China Banking and Insurance Regulatory Commission, CSRC, State Administration of Foreign Exchange, Hong Kong Monetary Authority and the Monetary Authority of Macao.

Strategic Priorities

Hong Kong's over-the-counter (OTC) derivatives regulatory regime is being implemented in phases and we are monitoring the development of global reform initiatives to assess their impact on the OTC derivatives market. We are working with the Government on legislative amendments to refine the scope of regulated activities under the OTC derivatives licensing regime.

We have reviewed HKEX's Fast Interface for New Issuance (FINI) initiative which targets to streamline and shorten the IPO settlement cycle and facilitate more efficient submission and processing of IPO applications on the proposed FINI platform. Following the publication of HKEX's FINI concept paper in November 2020, we are reviewing the revised proposal in light of market feedback.

Enforcement

Our enforcement efforts focus on tackling the most serious types of misconduct. Notwithstanding challenging operating conditions during the pandemic, we remain firmly committed to taking resolute enforcement action and delivering strong deterrent messages to protect the investing public and uphold market integrity.

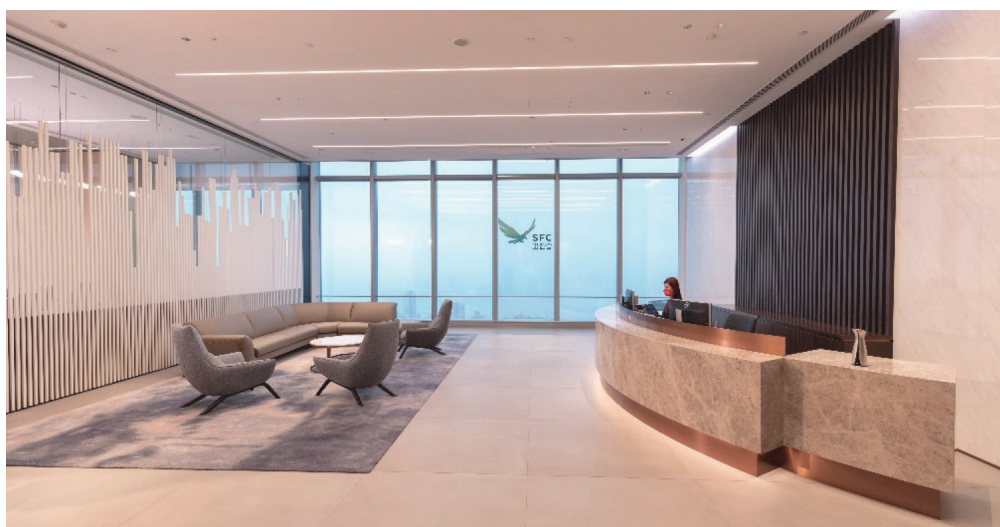
A top priority is to crack down on investment fraud and scams on online platforms. As "ramp-and-dump" market abuse cases proliferated, we acted swiftly to disrupt these activities, working jointly with the Police to conduct search operations, arrest suspected fraudsters and freeze assets. We also stepped up efforts to explain to the public how social media investment scams operate and provide tips for

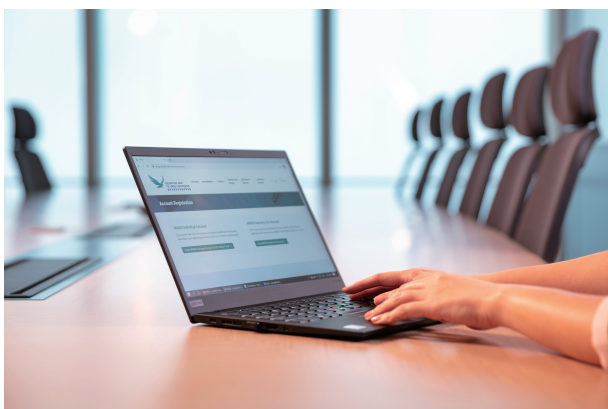
avoiding them. A joint SFC-Police campaign is underway to warn the public about the risks of falling victim to these scams.

As part of our ongoing effort to deter corporate fraud and improve the quality of our markets, we commenced legal proceedings against listed companies suspected of window-dressing their financial statements and entering into overpriced acquisitions as well as against directors who allegedly siphoned off the assets of their companies. Our aim is to prevent bad players from acting as directors of listed companies and protect shareholders from harm.

Intermediary misconduct is another enforcement priority. Taking enforcement action against breaches by sponsor firms helps raise standards for all new listings. Taking action against AML control failures prevents firms from being used as conduits for transferring suspicious funds into our capital markets, and we have sanctioned licensed firms and their responsible officers for regulatory breaches, such as failures to comply with requirements when handling third-party fund transfers, and imposed record fines on some firms.

We have taken up the role of Vice-Chair of the International Organization of Securities Commissions' (IOSCO) Committee on Enforcement and the Exchange of Information to help strengthen global securities law enforcement cooperation. To tackle cross-boundary securities crimes more effectively, we are strengthening our strategic cooperation with the CSRC.





Locally, our collaboration with the Financial Reporting Council was enhanced through a new MoU signed in February 2021. Working together, we aim to improve the overall quality of audits performed on Hong Kong listed companies by efficiently sharing our expertise and resources, including conducting joint investigations in cases of high importance.

We also maintain close cooperation with local regulatory partners. We work closely with the Hong Kong Monetary Authority (HKMA) to ensure that we adopt the same standards to assess compliance and that registered institutions meet our high regulatory expectations.

Green and sustainable finance

Climate change is an imminent threat which could severely disrupt economies and, together with other sustainability initiatives, it is increasingly a key focus for financial market authorities and the financial industry worldwide. Accordingly, we have been systematically implementing the goals set out in our *Strategic Framework for Green Finance* published in September 2018. We also participate in global policymaking and work with international counterparts to support the alignment of sustainability standards.

As climate change is increasingly recognised as a significant source of financial risk for businesses, a regulatory response is needed to enable the financial sector to respond. Taking reference from the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we proposed amendments to the Fund Manager Code of Conduct to require fund managers to consider climate-related risks in their investment management

and risk management processes and make appropriate disclosures. A consultation ended in January 2021 and we plan to publish the consultation conclusions later this year. We are also updating our guidance on enhanced disclosures by management companies of green and environmental, social and governance funds authorised by us.

Hong Kong is well-positioned to become a green and sustainable finance hub in the region, including in the Greater Bay Area. The vast size of Hong Kong's capital markets provides an opportunity for us to have a leadership role in shaping regulatory policies and standards for green and sustainable finance in the region as well as globally.

As the Co-Chair of the Green and Sustainable Finance Cross-Agency Steering Group, we are working with the Government and other local financial regulators to align climate-related disclosure requirements with the TCFD recommendations before 2025. We also support the IFRS⁵ Foundation's initiative to establish a new Sustainability Standards Board to develop and maintain a global, uniform set of sustainability reporting standards.

We welcome the Government's announcement of its goal to achieve carbon neutrality before 2050 and stand ready to work with it and other stakeholders to achieve this goal.

Communications

We are pursuing a more proactive, integrated external communication strategy to ensure that in an increasingly complex environment, our stance on key issues is articulated to the public effectively. This initiative will be led by a dedicated team using the full spectrum of communication channels, including social media. Disseminating our messages to the public in a consistent, compelling and proactive manner will heighten public understanding of our vital work and build the SFC's reputation as a globally respected and influential regulator.

Technology

Technology is a key component of our regulatory work. Under our information technology strategy, we adopt a cohesive approach to information sharing, digitalisation, process automation and risk detection.

⁵ International Financial Reporting Standards.

Strategic Priorities

We regularly assess how the latest technological developments and innovative business practices can be effectively and securely adopted to further our regulatory objectives and enhance our internal operations. Adjusting our supervision of the conduct of intermediaries who now routinely use technology to deliver financial services remains a major focus.

For example, we are developing advanced internal data analytic and risk assessment platforms to enhance our ongoing supervision. Data collected from intermediaries, including through a revamped business and risk management questionnaire and the revised financial return form, will be consolidated into a single platform for the purpose of firm monitoring, inspection planning and management reporting.

In the second half of this year, we aim to launch an internal data analytics platform which automates our analysis of trading data submitted by large securities brokers to alert us to irregularities and potential non-compliance.

Regulatory cooperation

To support Hong Kong's status as an international financial centre, we foster close collaboration with our overseas counterparts and actively participate in the work of international standard-setting bodies. Our Chief Executive Officer Mr Ashley Alder serves as Chair of the IOSCO Board and is an ex-officio member of the Financial Stability Board (FSB) Plenary and Steering Committee. Our senior executives have taken up other leadership roles in IOSCO's and the FSB's committees and working groups.

The working relationship between IOSCO and FSB has strengthened following Mr Alder's involvement and the

two organisations cooperate closely in the response to COVID-19-induced market stress and other regulatory initiatives which aim to ensure that global capital markets remain fair, orderly and resilient.

We jointly set up a working group with the Financial Services and the Treasury Bureau, HKMA, the Insurance Authority and HKEX to better and more strategically position Hong Kong as a leading international financial centre in the context of forward-looking opportunities and challenges. Through this mechanism, we are exploring how Hong Kong can enhance its role to complement the Mainland's economic and financial development whilst meeting the needs of international investors.

In light of greater market connectivity, our cooperation with Mainland regulators is increasingly important to safeguard market integrity and investors' interests. We will maintain close and effective communication with our Mainland counterparts both at a high level and through day-to-day interaction to enhance our regulatory cooperation and ensure the smooth implementation of market development initiatives, including all mutual market access schemes.

The development of the Greater Bay Area (GBA) is part of the key strategic plan in China's development blueprint. As the most open and international city in the area, Hong Kong can play an important role thanks to its deep pool of professional expertise, internationally recognised regulatory framework, sophisticated financial market with deep liquidity and solid financial infrastructure. We will work closely with Mainland authorities to implement the initiatives set out in the GBA Development Plan to support Hong Kong's securities sector.

Mission and Mandates

Mission statement

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

Mandates

Our work is defined and governed by the Securities and Futures Ordinance (SFO), which sets out our powers, roles and responsibilities.

Our statutory objectives

Maintain and promote a fair, efficient, competitive, transparent and orderly securities and futures industry

Help the public understand the workings of the industry

Provide protection for the investing public

Minimise crime and misconduct in the industry

Reduce systemic risks in the industry

Assist the Government in maintaining Hong Kong's financial stability

In 2012, the SFO was amended to broaden our statutory investor education objective. Since then, our education function has been delegated to a subsidiary, the Investor and Financial Education Council¹, which provides financial consumer education and information to help raise financial literacy in Hong Kong.

¹ Formerly the Investor Education Centre.

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

Regulatory functions

Our work can be divided into five principal areas. We adopt a multidisciplinary approach under a "one organisation" ethos to leverage all of our regulatory tools and pool our expertise to achieve our objectives.

Corporates

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

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

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

Intermediaries

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

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

Mission and Mandates

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

Products

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

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

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

Markets

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

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

Enforcement

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

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

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

Regulatory collaboration

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

Stakeholders

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

Corporate Governance

As a statutory regulator, we strive to meet the highest standards of corporate governance. A strong commitment to the principles of integrity, transparency and accountability is essential to ensure we deliver on our public mission in an efficient, fair and ethical manner.

Governance framework

We are committed to maintaining an effective corporate governance framework comprising a well-defined management structure, high standards of conduct, comprehensive operational and financial control procedures and independent checks and balances. This framework is in line with best governance practices for public bodies, including those set out in *Corporate Governance for Public Bodies – A Basic Framework*¹.

Board

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

Constitution

The Securities and Futures Ordinance (SFO) stipulates the constitution and proceedings of our Board. Members are appointed for a fixed term by the Chief Executive of the Hong Kong Special Administrative Region (HKSAR) or the Financial Secretary under delegated authority, and their appointment terms and conditions are determined by the HKSAR Government. Board members' emoluments for the year are detailed on page 117.

As of 31 March 2021, the Board comprised eight Non-Executive Directors (NEDs), including the Chairman; and six Executive Directors (EDs), including the Chief Executive Officer (CEO). An additional NED was appointed to join the Board commencing 1 April 2021.

Our NEDs have diverse backgrounds and bring to the Board a wide range of experience and expertise as well as a variety of independent perspectives. Collectively, the Board contributes to the development of the SFC's policies by providing constructive strategic comments.

See pages 17-24 for the full list of Board members and their biographies.

¹ Published by the Hong Kong Institute of Certified Public Accountants.

Corporate Governance

Chairman and CEO

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

Chairman

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

CEO

- Assuming executive responsibility for the SFC's day-to-day operations
- Developing strategic objectives, including setting the SFC's agenda and priorities, and implementing them as agreed with the Board
- Assigning responsibilities to senior management and supervising their work
- Reporting regularly to the Board

Executive Directors and Non-Executive Directors

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

Governance practices

We uphold high standards of corporate governance. We also put in place clear and proper policies and processes to facilitate the working of an efficient and accountable Board. We adopt the following practices:

- Arrange for the Board to hold monthly meetings, quarterly policy meetings and special meetings as needed as well as an annual off-site meeting
- Provide Board members with papers and relevant information sufficiently in advance to enable thorough consideration of agenda items
- Circulate draft minutes of Board meetings to members for comment

Key components of our governance framework



- Furnish Board members with information regarding our operations and financial condition on a monthly basis
- Keep the Board apprised of our policies and operations as appropriate
- Require Board members to observe policies regarding conflicts of interest
- Provide induction sessions and briefings on various topics to enable the NEDs to better understand the organisation and their responsibilities

In addition to regular Board meetings, we provide information updates from time to time to keep Board members informed of the SFC’s work, its impact on the markets and our interaction with stakeholders.

The Commission Secretariat is tasked with ensuring good corporate governance. It supports the Board and senior management and facilitates Board proceedings according to relevant policies and procedures. It also assists the CEO with strategic tasks and in overseeing organisation-wide initiatives. In addition to interacting with Board members and organising their meetings, the Secretariat also acts as the central contact point with the Government, the Legislative Council (LegCo) and its members, fellow regulators and other public bodies. The Secretariat is headed by the Commission Secretary who serves as the secretary to the Board, ExCo and Advisory Committee.

Board evaluation

The Board constantly seeks ways to improve its effectiveness. As part of a self-assessment it conducts every other year, each board member is invited to complete a questionnaire, on an anonymous basis, on how well the Board is functioning in some key areas of its responsibilities. An analysis of the findings is presented to the Board at its off-site meeting to consider areas for improvement.

Board appointments

During the year, Mr Ashley Alder was reappointed as CEO for another three-year term effective from 1 October 2020. Ms Julia Leung Fung-yea was reappointed as Deputy CEO and ED for a three-year term effective from 2 March 2021.

Mr Victor Dawes, SC and Mr Michael Wong Yick-kam were appointed as NEDs for a two-year term with effect from 1 August 2020 and 1 April 2021, respectively.

Dr James C Lin, Ms Agnes Chan Sui-kuen, Mr Edward Cheng Wai-sun, Mr Nicky Lo Kar-chun and Mr Clement Chan Kam-wing were reappointed as NEDs for two-year terms effective from 1 August 2020, 20 October 2020, 1 January 2021, 24 April 2021 and 26 May 2021, respectively.

Dr William Wong Ming-fung, SC stepped down as NED.

New Non-Executive Director

We welcomed Mr Victor Dawes, SC to our Board as an NED in August 2020.

A commercial litigator specialising in banking, company and securities law, Mr Dawes has worked closely with the SFC on enforcement cases over the years. While he has a longstanding interest in Hong Kong’s role as an international financial centre, serving as NED has given him a more comprehensive understanding of the SFC’s regulatory work.

Mr Dawes found that SFC executives engage with the Board more actively than at some other statutory regulators and committees. He has been impressed by the high quality of the papers presented to the Board, which make its discussions more efficient.

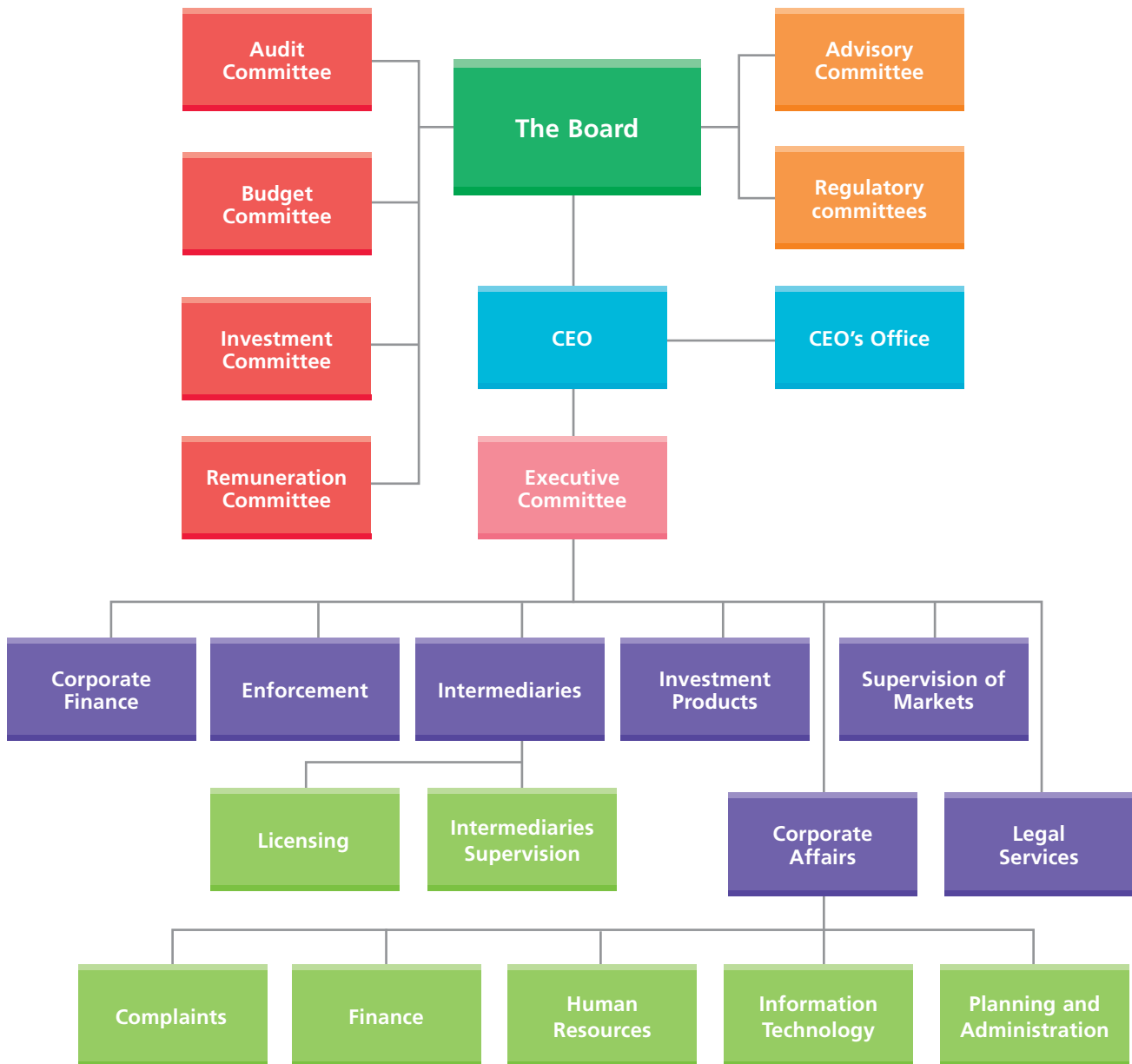
Hong Kong is a very special market and a large number of the companies we regulate have a cross-border presence, Mr Dawes observed. This presents great opportunities as well as challenges to regulators.

I am confident that the SFC, with its professional staff and good working relationship with Mainland authorities, will meet the challenges ahead.

Victor Dawes, SC



Organisational structure



■ Board committees
 ■ External committees

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

Board members



Tim LUI
Tim-leung SBS, JP

Chairman

From 20 October 2018
Current appointment to
19 October 2021

Other SFC-related positions

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

Current offices, public service and professional affiliations

- Chairman, Education Commission
- Member, Financial Leaders Forum, the HKSAR Government
- Member: Banking Advisory Committee and Exchange Fund Advisory Committee, Hong Kong Monetary Authority
- Member, Listing Nominating Committee, Hong Kong Exchanges and Clearing Limited
- Member, Public Service Commission
- Director, Hong Kong Academy of Finance
- Fellow Member, Hong Kong Institute of Certified Public Accountants
- Member, Institute of Chartered Accountants in England and Wales

Past offices and public service

- Partner (1989-2013) and Senior Advisor (2013-2018), PricewaterhouseCoopers Hong Kong
- Member, Global Board of PricewaterhouseCoopers International (2009-2013)
- President, Hong Kong Institute of Certified Public Accountants (1996-1997)
- Chairman, Committee on Self-financing Post-secondary Education (2012-2017)
- Chairman, Self-financing Post-secondary Education Fund Steering Committee (2011-2017)
- Chairman, Standing Commission on Directorate Salaries and Conditions of Service (2009-2015)
- Chairman, Employees' Compensation Insurance Levies Management Board (2001-2007)
- Chairman, Joint Committee on Student Finance (1999-2005)
- Member, University Grants Committee (2008-2019)



Ashley ALDER SBS, JP

Chief Executive Officer

From 1 October 2011
Current appointment to
30 September 2023

Other SFC-related positions

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

Public service

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

Past SFC position

- Executive Director, Corporate Finance (2001-2004)

Past offices

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



Julia LEUNG Fung-ye sbs

Deputy Chief Executive
Officer and Executive Director,
Intermediaries

From 2 March 2015

Current appointment to
1 March 2024

Other SFC-related positions

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

Current public service

- Member, Council of Advisers for Applied Research, Hong Kong Institute for Monetary and Financial Research

Past offices and public service

- Julius Fellow, International Economics, Chatham House (2014)
- Under Secretary for Financial Services and the Treasury, the HKSAR Government (2008-2013)
- Executive Director, Hong Kong Monetary Authority (2000-2008)

Publication

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



Thomas ATKINSON

Executive Director,
Enforcement

From 3 May 2016

Current appointment to
2 May 2022

Other SFC-related positions

- Member: Investor Compensation Fund Committee and Securities Compensation Fund Committee

Past offices

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



Agnes CHAN Sui-kuen

Non-Executive Director

From 20 Oct 2018
Current appointment to
19 Oct 2022

Other SFC-related positions

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

Current offices and public service

- Managing Partner, Hong Kong and Macau, Ernst & Young
- Hong Kong General Chamber of Commerce: Chairman, Financial and Treasury Services Committee; Member, General Committee
- Member, Users' Committee, Inland Revenue Department, the HKSAR Government
- Member, Exchange Fund Advisory Committee, Hong Kong Monetary Authority
- Member, Advisory Panel on BEPS 2.0, the HKSAR Government
- Member, Corporate Advisory Council, Hong Kong Securities and Investment Institute
- Accounting Advisory Expert, Ministry of Finance, People's Republic of China

Past public service

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



Clement CHAN Kam-wing MH, JP

Non-Executive Director

From 26 May 2019
Current appointment to
25 May 2023

Other SFC-related positions

- Deputy Chairman, Audit Committee
- Member, Remuneration Committee
- Member, SFC (HKEC Listing) Appeals Committee

Current offices and public service

- Managing Director of Assurance, BDO Limited
- Non-Executive Director, Hong Kong Mortgage Corporation Limited
- Non-Executive Director, Zhuzhou CRRC Times Electric Co., Ltd.
- Financial Reporting Council: Honorary Advisor; Member, Inspection Committee
- Member, Standing Committee on Company Law Reform, the HKSAR Government
- Member, Audit Committee, Consumer Council
- Hong Kong Institute of Certified Public Accountants: Member, Audit Committee; Member, Remuneration Committee; Member, Regulatory Oversight Board
- Independent Police Complaints Council: Chairman, Publicity and Survey Committee; Member
- Member, Solicitors Disciplinary Tribunal Panel
- Member, Audit Committee, Western Kowloon Cultural District Authority

Past public service

- Hong Kong Institute of Certified Public Accountants: President (2014); Chairman, Financial Reporting Standards Committee (2010-2014)
- Chairman, Australian Chamber of Commerce in Hong Kong (2007-2010)



**Edward CHENG
Wai-sun GBS, JP**

Non-Executive Director

From 1 January 2017
Current appointment to
31 December 2022

Other SFC-related positions

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

Current offices and public service

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

Past SFC-related positions

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

Past offices and public service

- Chairman, University Grants Committee (2011-2015)
- Chairman, Urban Renewal Authority (2004-2007)
- Independent Non-Executive Director, Orient Overseas (International) Limited (2009-2018)
- Member, Commission on Strategic Development (2013-2017)
- Board Member, Airport Authority Hong Kong (2011-2017)
- Council Member, Hong Kong Polytechnic University (2006-2009)
- Member, Advisory Committee on Corruption (2004-2009) and Operations Review Committee (1997-2003), Independent Commission Against Corruption
- Member, Steering Committee on Innovation and Technology (2004-2008)
- Council Member, City University of Hong Kong (2003-2007)
- Council Lay Member, Hong Kong Institute of Certified Public Accountants (2004-2005)
- Co-chairman, SUNDAY Communications Limited (1999-2005)
- Member, Executive Committee, Hong Kong Housing Society (2000-2004)
- Council Member, Education University of Hong Kong (formerly known as The Hong Kong Institute of Education) (2000-2002)



**Christina CHOI
Fung-ye**

Executive Director,
Investment Products

From 1 August 2016
Current appointment to
31 July 2022

Other SFC-related positions

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

Public service

- Vice-Chair, Committee on Investment Management, International Organization of Securities Commissions
- Member: Financial Services Advisory Committee and Asian Financial Forum Steering Committee, Hong Kong Trade Development Council

Past SFC position

- Senior Director, Investment Products (2012-2016)

Past offices

- Partner, Clifford Chance (2001-2004)



Victor DAWES sc

Non-Executive Director

From 1 August 2020
Current appointment to
31 July 2022

Other SFC-related positions

- Member: Audit Committee and Remuneration Committee
- Member: SFC (HKEC Listing) Appeals Committee and Disciplinary Chair Committee

Current offices and public service

- Senior Counsel, Temple Chambers
- Deputy Judge, High Court
- Member, Proceedings Committee, Hong Kong International Arbitration Centre
- Member, Advisory Body appointed under Part 10A of the Arbitration Ordinance
- Member, Disciplinary Panel, Hong Kong Institute of Certified Public Accountants

Corporate Governance



Brian HO Yin-tung

Executive Director,
Corporate Finance

From 28 August 2006
Current appointment to
27 August 2021

Other SFC-related positions

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

Public service

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

Past SFC position

- Senior Director, Corporate Finance (2000-2006)



Lester Garson HUANG SBS, JP

Non-Executive Director

From 15 November 2015
Current appointment to
14 November 2021

Other SFC-related positions

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

Current offices and public service

- Managing Partner and Co-Chairman, P. C. Woo & Co
- Ex-officio Member, Education Commission
- Chairman, Council of the City University of Hong Kong
- Chairman, Standing Committee on Language Education and Research
- Chairman, Social Welfare Advisory Committee
- Member, Hong Kong Academy of Finance
- Member, Public Service Commission

Past public service

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



**Rico LEUNG
Chung-yin**

Executive Director,
Supervision of Markets

From 28 August 2019
Current appointment to
27 August 2022

Other SFC-related positions

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

Public service

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

Past SFC position

- Senior Director, Supervision of Markets (2008-2019)

Past offices

- Chief Operations Officer, HKFE Clearing Corporation Limited (1994-2000)



Dr James C LIN

Non-Executive Director

From 1 August 2018
Current appointment to
31 July 2022

Other SFC-related positions

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

Current offices and public service

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

Past public service

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



Nicky LO
Kar-Chun SBS, JP

Non-Executive Director

From 24 April 2019
Current appointment to
23 April 2023

Other SFC-related positions

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

Current offices and public service

- Director, Italade Technology Holdings
- Hong Kong Monetary Authority: Chairman, Governance Sub-committee; Member, Exchange Fund Advisory Committee

Past public service

- Chairman, Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR (2013-2019)
- Member, Advisory Committee on Post-service Employment of Civil Servants (2009-2013)
- Chairman, Standing Commission on Civil Service Salaries and Conditions of Service (2006-2012)
- Member, Public Service Commission (2006-2012)
- Member, Standing Commission on Directorate Salaries and Conditions of Service (2006-2012)
- Member, Standing Commission on Disciplined Services Salaries and Conditions of Service (2001-2006)

Past offices

- Chief Executive Officer, Synnex Distributions (China) Ltd (1987-2013)
- Chief Executive Officer, Synnex Technology International (HK) Ltd (1987-2013)
- Principal Assistant Secretary and Deputy Secretary for Trade and Industry, the Trade and Industry Branch of the Government Secretariat (1985-1987)
- Administrative Officer, the HKSAR Government (1974-1987)

Notes:

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

During the year, Dr William Wong Ming-fung, SC served on the Board as Non-Executive Director until 31 July 2020.

Mr Ashley Alder's photo courtesy of Securities Commission Malaysia.

The Nominations Committee nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee. See pages 167-178 for information about SFC external committees.

Board meetings

In addition to monthly meetings, the Board also meets from time to time to conduct in-depth discussions of policy issues and convenes special meetings as needed. An annual off-site meeting is also held which sets out strategic objectives and management priorities.

Last year, 20 Board meetings were held with an average attendance rate of 97%.

Meeting attendance record

Meetings attended/held	Board	Audit Committee	Budget Committee	Investment Committee	Remuneration Committee	Executive Committee
Chairman						
Tim Lui Tim-leung	20/20	2/2 ¹	–	2/2	3/3	–
Executive Directors						
Ashley Alder	20/20	–	1/1	2/2	–	25/25
Julia Leung Fung-yee	20/20	–	1/1	1/2	–	25/25
Thomas Atkinson	18/20	–	–	–	–	24/25
Christina Choi Fung-yee	20/20	–	–	–	–	25/25
Brian Ho Yin-tung	19/20	–	–	–	–	22/25
Rico Leung Chung-yin	20/20	–	–	–	–	24/25
Non-Executive Directors						
Agnes Chan Sui-kuen	17/20	2/2	1/1	2/2	3/3	–
Clement Chan Kam-wing	20/20	1/2 ²	–	–	3/3	–
Edward Cheng Wai-sun	20/20	–	1/1	–	3/3	–
Victor Dawes, SC ³	15/15	1/1	–	–	2/2	–
Lester Garson Huang	20/20	–	1/1	–	3/3 ⁴	–
James C Lin	20/20	2/2	–	2/2	3/3	–
Nicky Lo Kar-chun	19/20	–	1/1	2/2	3/3 ⁵	–
William Wong Ming-fung, SC ⁶	3/5	1/1	–	–	1/1	–
Senior Director and Chief Counsel						
Andrew Wan Chi-yiu	–	–	–	2/2	–	23/25
Andrew Young	–	–	–	–	–	24/25

1 Appointed as a member of Audit Committee effective on 1 August 2020.

2 Appointed as Deputy Chairman of Audit Committee effective on 1 August 2020.

3 Appointed as a member of the Board, Audit Committee and Remuneration Committee effective on 1 August 2020.

4 Appointed as Chairman of Remuneration Committee effective on 1 August 2020.

5 Appointed as Deputy Chairman of Remuneration Committee effective on 1 August 2020.

6 Appointment expired on 31 July 2020.

Corporate Governance

SFC committees

Board committees

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

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

[^] In a non-voting capacity.

External committees

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

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

Each regulatory committee specialises in specific areas such as investment products, shareholders' rights and interests, takeovers and mergers, continuous professional training for licensees and investor compensation. Appointed by the Board, members include NEDs, EDs, industry representatives and other stakeholders. There were 14 regulatory committees as at the end of March 2021.

See pages 167-178 for the responsibilities and membership lists of the external committees.

Executive Committee

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

ExCo meets regularly to consider policy and operational proposals and expense requests from different divisions of the organisation. During the year, 25 ExCo meetings were held with an average attendance rate of 96%.

Standards of conduct

To promote and maintain public confidence, a high standard of integrity and conduct is required of our staff. In addition to complying with relevant legal obligations, staff are obligated to adhere to our code of conduct which spells out our standards in detail and covers confidentiality, conflicts of interest, personal investments and acceptance of gifts and hospitality. Each staff member is given a copy of the code. Failure to comply with the code may result in disciplinary action.

Accountability and transparency

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

Delegation of authority

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

Budgeting

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

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

Corporate Governance

Investment

We aim to achieve long-term financial sustainability and attach great importance to the prudent management of our reserves, which are managed according to the investment guidelines approved by the Financial Secretary.

We have delegated responsibility for the selection, retention and management of the investments of our Reserve Fund and the Investor Compensation Fund to external investment managers. We regularly review their compliance with the investment guidelines. The external investment managers have confirmed that they adopt the Principles of Responsible Ownership² in their undertakings to manage these investments. The Investment Committee monitors the performance of investments and advises on asset allocation and risk management.

Financial control and reporting

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

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

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

Our practices include:

- Selecting relevant accounting policies and applying them consistently
- Appointing an external firm to conduct an interim review and annual audit
- Presenting our interim and annual financial statements to the Audit Committee for consideration

- Seeking the Board's approval of quarterly and annual financial statements and publishing them in our quarterly and annual reports
- Reporting key financial data to the Board and ExCo on a monthly basis
- Providing regular reports to the Government

Handling complaints and grievances

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

Efficient use of resources

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

During the year, we relocated from Central to our new office in Quarry Bay. Rental expenses, one of our major expenditures, are approximately half of our previous lease in Central. The cost savings will enhance our long-term sustainability and support our plan to eventually purchase our own office premises. Starting from this year and across the eight-year lease term, the rental savings of around \$125 million per year will be transferred to our reserve set aside for the acquisition of office premises.

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

² Issued by the SFC in March 2016, these voluntary principles aim to provide guidance on how investors should fulfil their ownership responsibilities in relation to investments in Hong Kong listed companies.

Stakeholder communication

We engage with a wide range of stakeholders including the Government, LegCo members, the financial services industry, regulatory counterparts and the general investing public in a timely and effective manner³.

During the year, we set up a new communications team to pursue a more proactive external communication strategy and ensure we articulate our message to the public and other stakeholders as effectively as possible. We also introduced an official Facebook page which features updates on topics of interest to the general public. Our LinkedIn page provides information of interest to the financial industry and other professionals.

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

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

We adopt an open approach to disclosing information subject to the secrecy provisions of the SFO. Our corporate website (www.sfc.hk) provides up-to-date, easily accessible public and industry information, which is constantly reviewed and enriched. In October 2020, we introduced a redesigned corporate website to provide an improved user experience in terms of navigation, functionality and information retrieval.

Internally, we emphasise effective communication within the organisation. Apart from utilising our intranet and internal circulars, we organise regular CEO

sharing sessions and briefings by senior executives on the work of various divisions to keep our staff apprised of the latest developments and current priorities.

In November 2020, one staff member from the Complaints Team of our Corporate Affairs Division and one from the Intermediaries Division received The Ombudsman’s Awards 2020 for Officers of Public Organisations⁴.

Risk management

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

External risks

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

We adopt a forward-looking approach to identify current and emerging risks and assess the potential implications for the Hong Kong market. A comprehensive framework is in place to monitor a broad array of asset classes and detect possible vulnerabilities. We have developed our own indicators to monitor market trends, trading patterns and signs of any build up or concentration of positions across different market segments. We also keep in close contact with other financial regulators to share intelligence about market conditions and systemic concerns.

We adopt a comprehensive, structured approach to assessing risk using new regulatory technologies to collect and analyse large volumes of data and information as markets become more complex and interconnected. This year, we began using artificial intelligence to detect conflicts of interest in initial public offerings. We also enhanced our market surveillance system to detect more types of risks and identify abnormal price movements.

³ See Stakeholders on pages 82-85.

⁴ See Corporate Developments on pages 88-94.

Corporate Governance

The cross-divisional Risk Review Group identifies and monitors potential and emerging risks facing the SFC in a comprehensive manner. The group regularly reports to ExCo and the Board.

Amidst the COVID-19 outbreak, we reconfigured our staffing arrangements to ensure the continued delivery of our public services as usual and keep any interruptions or delays to a minimum. We also advised licensees and other market participants to contact us if they encountered difficulties in relation to their regulatory obligations.

Internal risks and control

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

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

In addition to appointing an external auditor, we engage an independent external firm to conduct internal audits to assess the effectiveness of our controls and identify the key risks of all our business processes. The scope of each review is approved by the Audit Committee and may include banking and investment, finance, procurement, human resources and information technology. The findings, together with recommendations, are reported back to the Audit Committee. Enhancements to related policies and procedures are then made where necessary.

To facilitate compliance with the Personal Data (Privacy) Ordinance, we provide staff with a data privacy manual and a quick guide comprising frequently asked questions and illustrative examples.

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

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

During the year, we expanded our remote access capacity and provided access to system applications to enable all staff to work from home, if necessary, in a secure and efficient manner during the COVID-19 pandemic.

Independent checks and balances

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

Independent body	Relevant functions	SFC-related tasks handled
Process Review Panel <ul style="list-style-type: none"> An independent panel established by the Chief Executive of the HKSAR in 2000 Comprises representatives from various sectors and two ex-officio members, namely the SFC Chairman and a representative from the Department of Justice 	<ul style="list-style-type: none"> Reviews and advises on the adequacy of our internal procedures and operational guidelines, including those for the handling of complaints and licensing applications, inspection of intermediaries, product authorisation, corporate finance transactions and the exercise of investigation and disciplinary powers 	<ul style="list-style-type: none"> Reviewed 54 cases and published its annual report in December 2020
Securities and Futures Appeals Tribunal <ul style="list-style-type: none"> Chaired by current or former judges appointed by the Chief Executive of the HKSAR and comprising two other members drawn from a panel appointed by the Financial Secretary under delegated authority 	<ul style="list-style-type: none"> Reviews specified decisions made by the SFC or the Investor Compensation Company Limited Has power to confirm, vary or set aside decisions made by the SFC (and where a decision is set aside, substitute any other decision it considers appropriate) or refer the matter back to the SFC with directions 	<ul style="list-style-type: none"> Received requests to review six new cases Decided on two cases Allowed two cases, one brought forward from 2019-20 and one received in 2020-21, 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"> Commenced four preliminary inquiries
Courts	<ul style="list-style-type: none"> Handle judicial reviews of SFC decisions 	<ul style="list-style-type: none"> Handled six judicial review cases

Performance pledges

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

		Cases meeting the pledge		
		2020/21	2019/20	2018/19
Applications for subordinated loan or modification/ waiver of requirements under the SFO				
Commence review of application upon receipt	2 business days	97% ¹	100%	100%
Authorisation/registration of investment products				
Take-up of applications upon receipt	5 or 2 business days ²	100%	100%	100%
Preliminary response to applications after take-up for investment-linked assurance schemes, paper gold schemes, private open-ended fund companies and certain funds under Thailand-Hong Kong Mutual Recognition of Funds ³	7 business days	100%	100%	100%
Preliminary response to applications after take-up for other products	14 business days	100%	100%	100%
General enquiries				
Preliminary replies	5 business days	100%	100%	100%
Processing of licensing applications⁴				
Corporations	15 weeks	100%	100%	100%
Representatives (provisional licences)	7 business days	99% ⁵	99%	99%
Representatives (normal licences)	8 weeks	99% ⁵	99%	99%
Representatives (responsible officers)	10 weeks	99% ⁵	99%	99%
Transfer of accreditation	7 business days	99% ⁵	99%	99%
Complaints against intermediaries and market activities				
Preliminary response	2 weeks	99.7% ⁶	99.8%	99.8%

1 Two cases failed to meet the pledge.

2 The pledge of five business days is applicable to the authorisation of the following products:

- Unit trusts and mutual funds
- Mandatory provident fund products (including pooled investment funds)
- Pooled retirement funds
- Real estate investment trusts

The pledge of two business days is applicable to the authorisation of other products (which include investment-linked assurance schemes and paper gold schemes), and the registration of private open-ended fund companies.

3 Hong Kong-domiciled feeder funds each investing in a single Thai-domiciled master fund which meets the requirements under Mutual Recognition of Funds between Thailand and Hong Kong.

4 During the year, we processed 11,961 applications that were subject to performance pledges, 10,306 of which were processed within the applicable period. The completion of the vast majority of the remaining 1,655 applications was delayed for reasons beyond our control. For example:

- unresolved fitness and properness issues;
- outstanding vetting requests;
- outstanding material information from applicants; and
- requests by applicants that we delay finalising their applications.

To more accurately reflect our performance, these applications are not included in the percentages stated.

5 The delay was usually short and resulted from unexpected complications, such as abnormal increases in our workflow and resulting resourcing difficulties.

6 20 cases failed to meet the pledge.

During the year, 99.98% of takeovers and mergers-related applications and transactions met the performance pledges. Details of the response time are listed in the following table.

Consultations and rulings under sections 6 and 8 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs (Codes)	
<i>Applications for rulings and consultations with the Takeovers Executive</i>	
All ruling applications and consultations under the Codes (except for those set out below)	5 business days ⁷
Applications for rulings that are conditional on obtaining shareholders' approval in a general meeting	Normally within 5 business days before the relevant general meeting
Fast track EFM/EPT applications and EFM/EPT annual confirmations ⁸	10 business days
All other EFM/EPT applications	21 business days
Comments and clearance of announcements and documents under Rule 12 of the Takeovers Code	
<i>First draft of firm intention announcement under Rule 3.5 of the Takeovers Code</i>	
No complex issues involved	2 business days
Complex issues involved	3 business days ⁹
<i>All other announcements (including revised drafts)</i>	
No complex issues involved	1 business day
Complex issues involved	3 business days ⁹
<i>All drafts of shareholders' documents¹⁰</i>	5 business days

⁷ If the subject matter involves complex issues in relation to the Codes, the time limit will be extended to 21 business days and the applicants will be informed of this.

⁸ EFMs and EPTs refer to exempt fund managers and exempt principal traders as defined under the Codes.

⁹ The parties will be informed of the longer time needed.

¹⁰ Including offer documents, offeree board circulars, whitewash circulars, scheme documents and share buy-back circulars.

Our People

Our people talk about how they worked flexibly and collaboratively to maintain our operations and carry out our regulatory functions during the COVID-19 pandemic.

Safety first

The safety and wellbeing of colleagues was a paramount concern when the outbreak first began. "Safeguarding health is always a top priority for us," Winnie Tam explained. Bonnie Chow agreed, observing that the protective measures adopted early on, including split-team arrangements and conducting meetings online, provided for physical distancing and ensured that urgent issues were handled quickly.

Maintaining business as usual required close coordination with team members as well as external parties. "When we worked in split teams, we had much less face-to-face interaction with colleagues," noted Zarina Curreem. To stay vigilant in monitoring funds offered to the public, it was very important for Cherry Fung and her team members to keep in frequent touch to avoid potential gaps in communication.

Being flexible was key. As a supervisor, Michelle Leung appreciated the need to attend to health conditions and she ensured staff rotations accommodated colleagues' individual circumstances. Winnie Tam was also mindful of keeping up team spirit and made sure her colleagues knew they could reach out to her whenever necessary.

Being proactive was also essential. Colin Lau kept in close communication with the stock exchange and clearing houses to ensure the markets remained open and orderly. "We stayed on top of their operations and contingency arrangements through constant calls and daily reports."

Naturally, some adjustments had to be made for routine operations, such as on-site searches and inspections, which require visits to other premises. Gary Chow stated that search operations are an integral part of the SFC's enforcement work but they inevitably involve personal contact. "We quickly came up with a comprehensive protocol to protect the health of everyone involved in these operations."

Working from home presented new challenges but staff adapted quickly to the new normal. Because Kenneth Choi's work involves reviewing paper files, he made sure to plan ahead for those tasks he could do more conveniently when it was his turn to go to the office. It took a while

for Zarina Curreem to get used to reading on screens and commenting digitally rather than on paper, but she found herself doing it even after she returned to the office. "It's much more environmentally-friendly," she said.

While working from home seemed isolating at first, Chevonne Chan discovered that it brought people closer. "When everyone is doing work calls from home, we naturally get to know more about our colleagues and counterparts, like the musical instruments their children play and what is for dinner. This helps us understand each other better and facilitates closer collaboration."

The SFC's own contingency measures helped our daily operations run smoothly, Michelle Leung related. "Our business continuity plan was devised well before the pandemic specifically to cope with unexpected, extreme circumstances."

Depending on technology

Technology became more important than ever when travel restrictions and social distancing measures were introduced. For Colin Lau, video conferencing allowed him to hold meetings with overseas counterparts when business travel was no longer possible. Gary Chow agreed, adding that modern technology could make virtual meetings just as effective as physical ones.

Making sure staff were properly equipped was a big job, especially when overseas shipments were delayed due to lockdowns. "As a team, we worked extra hard to quickly expand the capacity of our infrastructure, security, and applications to support working from home, including remote access and online meetings," recalled Jeff Lai. "We also made sure colleagues were kept informed of the new applications and services available to them."

Although demand for technology services rose when remote working was first implemented, Yvonne Yip observed that colleagues were very adaptive and they made good use of the online platforms and upgraded systems she helped develop to enable collaborative ways of working even when outside the office.

For Michelle Leung, the experience showed the importance of the new online licensing process¹, initiated in 2018. "In addition to minimising the impact of sudden disruptions, a fully digitalised platform is more efficient and cost-effective."

¹ See sidebar on page 48.



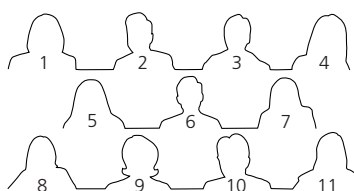
Access to upgraded technology made working from home more convenient and productive than Kenneth Choi had expected. "Our team was able to finish urgent projects on short notice and management was able to stay on top of the progress remotely and in real time."

Nonetheless, it was a particularly challenging day for Ada Lee when the electricity supply to her flat was suspended due to scheduled maintenance. "To be safe, I prepared extra laptops and mobile devices and made sure they were all charged the night before."

A sense of mission

For Ada Lee, it has been a challenging time but she now felt well prepared to deal with any situation. Chevonne Chan added that above all it is a sense of mission and public service which drives us. This was echoed by Kenneth Choi, who said: "I felt the mission behind our regulatory duties most strongly during the time of crisis, and I feel very privileged to be a part of the SFC and work for the greater good of our society."

1. Winnie Tam, Senior Manager, Intermediaries Supervision, Intermediaries
2. Kenneth Choi, Manager, Intermediaries Supervision, Intermediaries
3. Jeff Lai, Deputy Chief Information Officer, Information Technology, Corporate Affairs
4. Chevonne Chan, Senior Manager, Licensing, Intermediaries
5. Michelle Leung, Director, Licensing, Intermediaries



6. Colin Lau, Associate Director, Supervision of Markets
7. Cherry Fung, Manager, Investment Products
8. Yvonne Yip, Manager, Information Technology, Corporate Affairs
9. Zarina Curreem, Director, Corporate Finance
10. Gary Chow, Senior Manager, Enforcement
11. Bonnie Chow, Associate Director, Corporate Finance

Not pictured: Ada Lee, Senior Manager, Supervision of Markets



Operational Review

We strive to strengthen the integrity and soundness of the financial markets through our principal areas of work: corporates, intermediaries, products, markets and enforcement.

Highlights

Key figures for 2020-21

8,748

requests for trading and account records

204

cases initiated for investigation

179

individuals and corporations subject to ongoing civil proceedings

\$2.81 billion

in fines on licensees

5,575

new licence applications

As of 31 March 2021

47,178

licensees and registrants

including

3,159 licensed corporations

304

on-site inspections of intermediaries

132

press releases

65

circulars to the industry

77

Fintech-related enquiries

6,384

complaints against intermediaries and market activities

As of 31 March 2021

2,812

authorised collective investment schemes

including

835 Hong Kong-domiciled funds

257

listing applications received

469

takeovers-related transactions and applications

Highlights

Regulatory enhancements	
Competency framework	Proposed enhancements to the competency framework, including updating the entry requirements for corporations and individuals as well as the ongoing competency standards for individual practitioners.
Digital licensing process	Previewed new licensing functions on WINGS ¹ , our online platform for electronic forms and submissions, in preparation for the implementation of a fully digital licensing process later this year.
Equity and debt capital raisings	Launched a consultation on proposed conduct requirements for capital market transactions, including the standards of conduct expected of firms in bookbuilding, pricing, allocation and placing activities.
Investor identification	Consulted the public on the introduction of a trading-level investor identification regime for the Hong Kong securities market and an over-the-counter (OTC) securities transactions reporting regime for shares listed on the Stock Exchange of Hong Kong Limited (SEHK) to enhance our market surveillance.
Anti-money laundering	Began a consultation on proposed amendments to align our anti-money laundering and counter-financing of terrorism guidelines with international standards.
OTC derivatives regime	Concluded a consultation on refinements to the scope of regulated activities and competency requirements under the OTC derivatives licensing regime.
Open-ended fund companies	Removed all investment restrictions for private open-ended fund companies (OFC) and allowed eligible licensed or registered securities brokers to act as custodians for private OFCs.
	Concluded a consultation on customer due diligence requirements which will enhance the anti-money laundering and counter-financing of terrorism measures in respect of OFCs.
REITs Code	Amendments to the Code on Real Estate Investment Trusts (REITs) to provide Hong Kong REITs with more flexibility in making investments took effect in December 2020.
Pooled retirement funds	Proposed updates to the Code on Pooled Retirement Funds to strengthen investor protection by enhancing the requirements for fund operations and clarifying the obligations of key operators.

¹ Web-based INteGrated Service.

Market development	
Paperless securities market	Concluded a joint consultation with Hong Kong Exchanges and Clearing Limited (HKEX) and the Federation of Share Registrars Limited on the operational model for an uncertificated, or paperless, securities market in Hong Kong to make securities-related transactions more efficient and cost-effective.
Mutual recognition of funds	Entered into a mutual recognition of funds arrangement with the Securities and Exchange Commission of Thailand which allows eligible Hong Kong and Thai public funds to be distributed in the other market through a streamlined process.
Mainland-Hong Kong ETF cross-listing	Together with the China Securities Regulatory Commission (CSRC), approved four ETFs under a scheme which facilitates the cross-listing of ETFs between the Hong Kong and Mainland markets.
Swap-based L&I products	Authorised the first batch of swap-based leveraged and inverse (L&I) products tracking Mainland equity indices and the first gold futures leveraged product to provide investors with more short-term trading and hedging tools.
Grant scheme for OFCs and REITs	Began administering a three-year grant scheme to subsidise the formation of OFCs and listing of REITs in Hong Kong.
MSCI index derivatives	Approved 40 MSCI index futures and options contracts proposed by HKEX to expand its derivatives product line.
Greater Bay Area Wealth Management Connect	Entered into a memorandum of understanding (MoU) for information exchange and enforcement cooperation on the Cross-boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area. ²
Virtual asset trading platforms	Granted the first licence to a virtual asset trading platform in Hong Kong, which will only serve professional investors.
Industry guidance	Published frequently asked questions to provide additional guidance on the implications of our licensing regime for both single and multi-family offices.
Annual licensing fee waiver	Waived the annual licensing fees for all intermediaries and licensed individuals for the 2021-22 financial year, saving them an estimated \$230 million in total.

² With the People's Bank of China, China Banking and Insurance Regulatory Commission, CSRC, State Administration of Foreign Exchange, Hong Kong Monetary Authority and the Monetary Authority of Macao.

Highlights

Supervision	
Listing applications	Received 257 listing applications, including from nine WVR ³ and 22 pre-profit biotech companies, and directly sought information from or expressed concerns with 27 listing applicants.
Takeovers matters	Supervised 469 takeovers-related transactions and applications.
Corporate conduct	As part of our front-loaded approach to preventing corporate misconduct, we issued section 179 directions to gather additional information in 61 cases and issued letters to listed issuers detailing our concerns in six cases.
Inspections	Conducted 304 on-site inspections of intermediaries and noted 1,350 incidents of breaches of our rules.
Cybersecurity	Summarised the key findings and observations of our cybersecurity thematic review and provided guidance on our expected standards in a report and circular.
Leveraged foreign exchange trading	Set out good practices and our expected regulatory standards in a report on licensed corporations' leveraged foreign exchange trading activities.

Enforcement	
Surveillance	Made 8,748 requests for trading and account records from intermediaries as a result of surveillance of untoward price and turnover movements.
Investigations and prosecutions	Commenced 204 investigations and laid 29 criminal charges against nine persons and one corporation and secured convictions against seven persons and two corporations.
Notable disciplinary actions	Reprimanded and fined Goldman Sachs (Asia) L.L.C. US\$350 million (HK\$2.71 billion) for serious regulatory failures over 1Malaysia Development Berhad's bond offerings. Reprimanded and fined Guotai Junan Securities (Hong Kong) Limited \$25.2 million for multiple internal control failures and regulatory breaches.
Online investment scams	Conducted a joint operation with the Hong Kong Police Force against an active and sophisticated syndicate suspected of operating ramp and dump schemes.
Restriction notices	Issued restriction notices to 38 brokers prohibiting them from dealing with or processing assets, held in client accounts, related to suspected market manipulation and corporate misconduct.

³ Weighted voting rights.

Green and sustainable finance	
Steering Group	Initiated the establishment of the Green and Sustainable Finance Cross-Agency Steering Group with the Hong Kong Monetary Authority (HKMA) to coordinate the management of climate and environmental risks to the financial sector.
Management of climate-related risks	Consulted on proposed conduct requirements for fund managers to take climate-related risks into consideration when managing collective investment schemes.
International	Joined the European Commission's International Platform on Sustainable Finance which encourages private capital to make environmentally sustainable investments.

Regulatory cooperation	
Hong Kong	Entered into separate MoUs with the Competition Commission, Insurance Authority and Financial Reporting Council to enhance cooperation.
Mainland	Held the seventh and eighth high-level meetings with the CSRC to discuss cross-boundary regulatory cooperation and market development initiatives.
International	Mr Ashley Alder, our Chief Executive Officer, was reappointed as Chairman of the Board of the International Organization of Securities Commissions. Signed an MoU with the Monetary Authority of Singapore to deepen our cooperation in the oversight of central counterparties which provide clearing services in both markets.

Stakeholders	
Compliance Forum	Discussed the latest regulatory developments with financial industry participants at the SFC Compliance Forum 2020.
Social media	Introduced our official Facebook page featuring updates on topics of interest to the general public.
Website	Redesigned our website to provide improved navigation, functionality and access to information.

Corporates

We oversee listing and takeovers matters in Hong Kong, including takeovers and merger activities, vetting of listing applications, disclosure requirements, corporate conduct and the listing-related functions of the Stock Exchange of Hong Kong Limited (SEHK). We review listing and takeovers policies to promote the development of a fair and orderly securities market in Hong Kong.

Listing policy

To strengthen Hong Kong's position as an international financial centre and enhance the quality of our market, we work with SEHK to regularly review listing-related policies. In May 2021, the SFC and SEHK issued a joint statement on misconduct related to initial public offerings (IPOs) and our regulatory approach to tackling these issues.

Following our recommendation, SEHK launched a two-month consultation in August 2020 on proposals to enhance its disciplinary powers and sanctions. The consultation conclusions were published in May 2021. The new rules, which will come into effect in July 2021, strengthen SEHK's ability to hold directors and other individuals accountable for misconduct and rule breaches.

In January 2020, SEHK launched a public consultation on whether corporate shareholders should be allowed to hold weighted voting rights (WVR) in Hong Kong listed companies. The proposals included safeguards similar to those provided under Chapter 8A¹ of the Main Board Listing Rules. However, the legal and regulatory complexities of allowing corporate WVR need to be addressed.

After considering the public's diverse views² and consulting us, SEHK decided in October 2020 to give more time for the market to develop a better understanding of Hong Kong's regulatory approach. We worked closely with SEHK throughout the consultation exercise to develop a consensus on the way forward.

Meanwhile, SEHK decided to extend the existing grandfathering arrangements to include qualifying Greater China corporate WVR issuers³ which meet



specified criteria and allow them to secondary list in Hong Kong without having to amend their existing corporate WVR structures.

Working with us, SEHK reviewed the current overseas listing regime with a view to facilitating "homecoming" migration by high-quality Greater China issuers seeking a secondary listing. In March 2021, SEHK published a consultation paper on proposals permitting secondary listings by large, high-quality Greater China issuers from traditional industries and normalising the requirements for all issuers without WVR structures.

In November 2020, SEHK published a consultation paper on increasing the minimum profit requirement for new listings on the Main Board. The consultation conclusions paper was issued in May 2021.

In a July 2020 report, we reviewed SEHK's performance in its regulation of listing matters during 2018. Our review focused on the management of potential conflicts of interest by Hong Kong Exchanges and Clearing Limited (HKEX), including the interaction between the Listing Department and HKEX's business units in pre-IPO enquiries, oversight of the Listing Department and the Listing Committee's supervisory role, SEHK's handling of share option schemes and complaints about listing applicants and issuers.

¹ Chapter 8A sets out rules, and modifications to existing rules, applicable to issuers with, or which are seeking, a listing with a WVR structure.

² There were wide-ranging public views on how the proposed corporate WVR regime would operate in practice and whether modifications were required for it to operate as intended.

³ Greater China issuers which are (a) controlled by corporate WVR beneficiaries as at 30 October 2020; and (b) primary listed on a qualifying exchange (the New York Stock Exchange, Nasdaq or the Main Market of the London Stock Exchange) on or before 30 October 2020.

New listing applications

	2020/21	2019/20	2018/19
Listing applications received ^a	257	303	394
Listing applications lapsed/withdrawn/rejected during the year	121	172	166
Listing applications returned ^b	1	3	0
New listings ^c	148	182	193

a Including applications for transfer from GEM to the Main Board (2020/21: 17; 2019/20: 29; 2018/19: 16).

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

c Including successful transfers from GEM to the Main Board (2020/21: 6; 2019/20: 16; 2018/19: 11).

Shareholders' meetings

Following the Government's regulation restricting the size of group gatherings amidst the COVID-19 outbreak, we issued a statement jointly with SEHK in April 2020 to provide guidance to listed companies on the timing and conduct of general meetings.

Debt market

Together with SEHK, we regularly review the debt capital market regime. SEHK published consultation conclusions in August 2020 on changes to the listing regime for debt issues to professional investors only⁴, including raising the net asset requirements for issuers and introducing the minimum issuance size.

IPO applications

We vet listing applications and raise enquiries to determine whether an application gives rise to any concerns under the Securities and Futures (Stock Market Listing) Rules (SMLR). We may object to a listing of securities based on one or more of the grounds set out in section 6(2)⁵ of the SMLR.

During the year, we vetted 257 new listing applications, including nine from companies with a WVR structure and 22 from pre-profit biotech companies. Twelve companies achieved secondary listings on the Main Board under Chapter 19C of the Listing Rules⁶ during the year.

257
new listing applications

Exercising our powers under the SMLR, we issued seven letters of concern and 24 requisition letters directly to 27 listing applicants during the year. Amongst our concerns were the accuracy and completeness of the information submitted, legal and regulatory compliance issues, lack of sufficient public interest in the listing applicant's business and the genuineness of the financial information in the prospectus. Three of these listing applicants satisfactorily addressed our concerns, and were subsequently listed. As at 31 March 2021, 14 of these listing applicants had left our concerns unaddressed and not proceeded to listing.

⁴ Chapter 37 of the Main Board Rules: "Debt Issues to Professional Investors Only".

⁵ Under section 6(2) of the SMLR, the SFC may object to a listing if it appears to the SFC that: (a) the listing application does not comply with SEHK's requirements or an applicable provision of law, or does not contain sufficient information to enable an investor to make an informed decision; (b) the application is false or misleading; (c) the applicant has failed to furnish information as may be reasonably required by the SFC under section 6(1) of the SMLR; or (d) it would not be in the interest of the investing public or in the public interest for the securities to be listed.

⁶ Chapter 19C sets out the additional requirements, modifications or exceptions for companies that have, or are seeking, a secondary listing.

Corporates

Takeovers activities

	2020/21	2019/20	2018/19
General and partial offers under Code on Takeovers and Mergers	38	41	55
Privatisations	31	15	6
Whitewash waiver applications	33	13	21
Other applications under Code on Takeovers and Mergers [^]	361	281	275
Off-market and general offer share buy-backs	5	7	9
Other applications under Code on Share Buy-backs [^]	1	2	7
Total	469	359	373

[^] Including stand-alone applications and those made during the course of a Code-related transaction.
Note: Also see Table 1 in Breakdown of SFC activity data on page 159 for more details.

Corporate conduct

As part of our front-loaded approach to preventing corporate misconduct, we conduct daily reviews of corporate announcements to identify “red flags” and irregularities. During the year, we issued section 179⁷ directions to gather additional information in 61 cases and wrote to listed issuers detailing our concerns in six cases where, for example, there were indications that a corporate action or transaction may be conducted in a manner which is oppressive or unfairly prejudicial to shareholders.

The number of suspect transactions which appeared to warrant front-loaded intervention declined compared to the previous year. This suggests an encouraging improvement in corporate conduct following our active interventions in earlier years.

Takeovers

Despite the pandemic, we saw a surge in the number of takeovers with complex deal structures and difficult issues during the year. We remained vigilant in supervising and regulating takeovers activities in a manner consistent with the SFC’s front-loaded approach.

We identified a number of areas where we believe enhanced disclosure or clarification would help improve market integrity, efficiency and transparency in transactions to which the Codes on Takeovers and Mergers and Share Buy-backs apply. These improvements were communicated to the market via our quarterly *Takeovers Bulletin*.

⁷ Section 179 of the Securities and Futures Ordinance gives the SFC the power to compel the production of records and documents from persons related to a listed company.

Investigations and enquiries are an integral part of our regulatory functions and we sanctioned a number of parties during the year:

- In June 2020, we publicly censured Fu Kwan, chairman of Macrolink Capital Holdings Limited, for acquiring shares in the company within six months after the close of an offer at above the offer price in breach of dealing restrictions under the Takeovers Code⁸.
- In the same month, CICC Financial Trading Limited and China International Capital Corporation Limited were publicly criticised for breaching the dealing disclosure requirements during the offers for Dalian Port (PDA) Company Limited and Maanshan Iron & Steel Company Limited in 2019.
- In September 2020, we commenced disciplinary proceedings before the Takeovers Panel against Ngai Lai Ha. Ngai acquired shares of International Housewares Retail Company Limited in 13 instances during March to May 2019, triggering a mandatory general offer obligation each time. The proceedings were discontinued when we censured and imposed an 18-month cold-shoulder order against Ngai in November 2020.
- In October 2020, we publicly censured So Yuk Kwan and imposed a 24-month cold shoulder order on him for breaching the mandatory general offer requirement which was triggered by his and his nominee's acquisition of shares in AV Concept Holdings Limited.

⁸ The Code on Takeovers and Mergers.

Intermediaries

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

Licensing

As of 31 March 2021, the number of licensees and registrants remained steady at 47,178 as compared to last year, including the number of LCs which increased 2% to 3,159. During the year, we approved 177 new corporate licence applications. We received a total of 5,575 new licence applications, down 20% from the previous year.

Competency framework

In December 2020, we consulted the public on proposed enhancements to the competency framework, including updating the entry requirements for corporations and individuals as well as the ongoing competency and training standards for individual practitioners. The consultation period ended in February 2021 (see sidebar below).



Ms Julia Leung, Deputy Chief Executive Officer and Executive Director, Intermediaries, at the Asian Financial Forum 2021

Virtual assets

In December 2020, we granted the first licence to a virtual asset (VA) trading platform in Hong Kong. It only serves professional investors under our close supervision and is subject to tailor-made requirements which are comparable to those which apply to securities brokers and automated trading venues. We are considering other applications (see sidebar on page 49).

In May 2021, the Financial Services and the Treasury Bureau concluded a public consultation on a new legislative framework under which we would regulate all centralised VA exchanges, including those which only trade types of VAs which currently fall outside our jurisdiction.

Updating the competency framework

To ensure the competency framework keeps up with the changing regulatory landscape and the development of new financial products, we proposed updates and enhancements in a consultation launched in December 2020.

Key proposals included raising the minimum academic qualification requirements, recognising a broader range of qualifications, allowing applicants more flexibility for meeting the industry qualification and regulatory examination requirements and enhancing

the continuous professional training requirements. To address our concerns about the quality of work performed by some financial advisers on matters regulated by the Codes on Takeovers and Mergers and Share Buy-backs, competence requirements would be upgraded for individuals who are to advise on these matters.

To adopt a balanced approach when formulating the proposals, we consulted stakeholders including the Academic and Accreditation Advisory Committee, the Hong Kong Monetary Authority (HKMA) and various industry associations.

¹ Broadly, LCs include securities brokers, futures dealers, leveraged forex traders, fund managers, investment advisers, sponsors and credit rating agencies.

Family offices

Further to a January 2020 circular which discussed how our licensing regime applies to family offices, we published a set of frequently asked questions (FAQs) in September 2020 to provide additional guidance on the implications of the licensing regime for both single and multi-family offices and also participated in industry seminars to clarify regulatory issues. We received a number of new licence applications and enquiries from operators of family offices.

Annual licensing fee waiver

In view of current market conditions, we waived the annual licensing fees for all intermediaries and licensed individuals for the 2021-22 financial year. This measure will help the industry save approximately \$230 million.

Prudential risks

Securities margin financing

Markets remained volatile over the past year as concerns grew about the economic impact of COVID-19. Share prices of some stocks, particularly those with small market capitalisation, plummeted within a short period of time. Our review of securities

margin financing risks indicated that, following the implementation of the new margin financing guidelines in October 2019, brokers were more aware of these risks and remained generally resilient even in times of extreme market volatility. We also performed stress tests to gauge the financial exposure of brokers, especially those engaged in securities margin financing, to assess their financial resilience and monitor their settlement status.

Liquidity risk management

We conducted inspections of selected public and private fund managers with a focus on whether their risk management frameworks could enable them to act as required to meet liquidity demands under unexpected or stressed market conditions, including their use of special liquidity management tools to deal with significant redemption requests arising from market fluctuations and liquidity crunches. We also reviewed how fund managers regularly monitor and assess funds' liquidity profiles, conduct stress testing and design stress scenarios.

Licensees

	Corporations [^]		Representatives		Responsible Officers			Total [^]	
	As at 31.3.2021	As at 31.3.2020	As at 31.3.2021	As at 31.3.2020	As at 31.3.2021	As at 31.3.2020	As at 31.3.2021	As at 31.3.2020	Change
Stock exchange participants	595	604	11,931	12,208	2,157	2,196	14,683	15,008	-2.2%
Futures exchange participants	108	113	839	870	192	200	1,139	1,183	-3.7%
Stock exchange and futures exchange participants	88	84	4,912	4,862	669	612	5,669	5,558	2%
Non-stock/non-futures exchange participants	2,368	2,308	16,973	16,934	6,231	6,064	25,572	25,306	1.1%
Total	3,159	3,109	34,655	34,874	9,249	9,072	47,063	47,055	-

[^] These figures exclude 115 registered institutions as at 31 March 2021 and 112 as at 31 March 2020.

Intermediaries

Digitalised licensing process

In December 2020, we previewed new licensing functions on WINGS^a, our online platform for electronic forms and submission services. The new features include web-based licensing forms, upgraded administration capabilities and electronic signatures.

These functions provide greater convenience for the industry and allow us to better integrate our front-loaded, risk-based approach into our licensing work and prepare for the implementation of a fully digital licensing process later this year.

^a Web-based INteGrated Service.



We sought views from the industry when developing the new functions and organised three virtual workshops to introduce them to over 1,000

participants from LCs, banks, compliance advisory firms and law firms. Over 70% of intermediaries have activated their new portal accounts since the preview began in December 2020.

OTC derivatives

In June 2020, we released consultation conclusions on refinements to the regulatory scope of the over-the-counter (OTC) derivatives licensing regime as well as the competence and continuous professional training requirements under the regime. Legislative amendments to implement the refinements are in progress.

Variation margin requirements for non-centrally cleared OTC derivative transactions took effect on 1 September 2020. In view of the COVID-19 pandemic, we aligned the implementation of the initial margin requirements with the revised international timetable². They will now be phased in starting 1 September 2021.

We also deferred the effective date of margin requirements for non-centrally cleared single-stock options, equity basket options and equity index options by three years until 4 January 2024 to align with the European Union's timeline and prevent market fragmentation and regulatory arbitrage.

Conduct risks

Cybersecurity

In a September 2020 report and circular, we summarised the key findings and observations of our cybersecurity thematic review and provided guidance on our expected standards. The report highlighted deficiencies and instances of non-compliance in areas such as two-factor authentication and data encryption. It also included reminders of other requirements and good practices adopted by securities brokers.

In light of the need to introduce remote working arrangements during the pandemic, we issued a circular in April 2020 to remind LCs to assess their operational capabilities and implement appropriate measures to manage the cybersecurity risks associated with these arrangements.

Commodity futures brokers

In light of the extreme movements in the prices of crude oil futures, we issued a circular in April 2020 to remind commodity futures brokers to control their risk exposures and warn against opening new positions for clients who do not have sufficient financial capacity to bear the potential losses.

² The Basel Committee on Banking Supervision and the International Organization of Securities Commissions announced in April 2020 a one-year extension of the deadlines for completing the final implementation phases.

Leveraged foreign exchange trading

In April 2020, we issued a report summarising the findings of our survey of LCs’ leveraged foreign exchange trading activities and setting out our expected standards of conduct and internal controls.

Spread charges

In a joint circular issued with the HKMA in May 2020, we announced a concurrent thematic review to assess intermediaries’ spread charges and their compliance with requirements governing the disclosure of trading capacity and monetary benefits, with a focus on

the distribution of non-exchange traded investment products. We will consider the need to provide further guidance.

Corporate professional investors

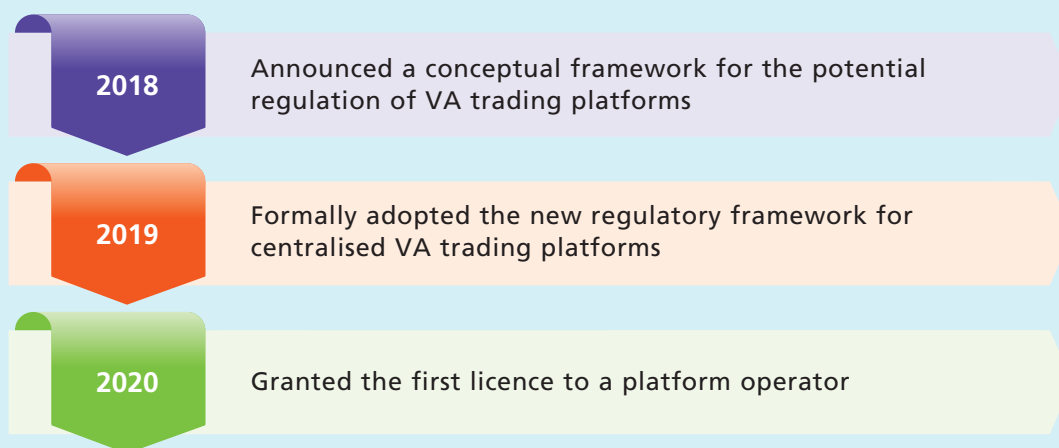
In September 2020, we issued a circular and updated FAQs to provide guidance on assessing the criteria for an intermediary to be exempted from certain Code of Conduct³ requirements when dealing with corporate professional investors, particularly investment vehicles which are owned by family trusts or offices and managed by professionals.

Regulation of VA trading platforms

We adopted a new regulatory framework for centralised VA trading platforms in November 2019 as part of our efforts to provide a clear, well-defined regulatory environment to support the development of the Fintech industry.

Licensed VA platforms are required to comply with existing regulatory requirements which are applicable to LCs, such as the competence requirements and fit and proper criteria.

They are also required to observe additional requirements to address specific risks associated with VAs, for example, safe custody of assets, anti-money laundering and prevention of market manipulation as well as criteria for the inclusion of VAs to be traded. Only clients with sufficient product knowledge may be allowed to trade.



³ Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

Intermediaries



Suitability requirements for complex products

In December 2020, we issued a circular and updated FAQs to provide guidance on how to conduct suitability assessments, explain product risks to clients with different degrees of financial sophistication and comply with the Code of Conduct requirements governing the distribution of complex products.

Regulatory enhancements

Equity and debt capital raisings

We launched a consultation in February 2021 on proposed conduct requirements for equity and debt capital raisings in Hong Kong. The requirements would help clarify the roles played by intermediaries in these transactions and set out the standards of conduct expected of them in book building, pricing, allocation and placing activities. A separate “sponsor coupling” proposal would require that, for an initial public offering of shares, at least one head of syndicate also act as a sponsor which is independent of the issuer.

Anti-money laundering

In September 2020, we launched a three-month consultation on proposals to amend our anti-money laundering and counter-financing of terrorism (AML/CFT) guidelines to align with the latest international standards and provide guidance on applying AML/CFT

measures in a more risk-sensitive manner. The proposed amendments also address some areas for enhancement identified in the September 2019 Mutual Evaluation Report of Hong Kong published by the Financial Action Task Force.

In December 2020, we issued a circular to share the findings of our inspections of AML/CFT controls and compliance practices. The circular highlighted several areas to which firms should pay priority attention as well as the roles and responsibilities of their senior management in putting in place effective AML/CFT controls to manage risks effectively and ensure regulatory compliance.

External electronic data storage

We published FAQs in December 2020 to address industry comments about operational difficulties in implementing the requirements in our October 2019 circular on the use of external electronic data storage. For example, some firms had difficulty obtaining undertakings from overseas external electronic data storage providers. By allowing the use of a Manager-In-Charge undertaking as an alternative, the FAQs address the industry’s feedback without undermining our regulatory objectives and ensure our prompt access to electronic regulatory records stored outside of Hong Kong. The FAQs also facilitate the keeping of electronic regulatory records with overseas affiliates.

Supervisory approach

We adopt a front-loaded, risk-based approach focusing on the greatest threats and the most significant or systemic risks. Our supervision of LCs focuses on financial risks and how they conduct business. We also closely monitor the operation and risk management of LCs and conduct stress tests particularly in times of extreme market conditions. We provide timely guidance to intermediaries to help them comply with regulatory requirements.

On-site reviews

On-site reviews are a key supervisory tool for us to understand an LC's business operations, risk management and internal controls and gauge its compliance with legal and regulatory requirements. During the year, we conducted 304 risk-based on-site inspections, including those conducted remotely due to the pandemic, and noted more than 1,300 breaches of the SFC's rules.

925

on-site inspections in the past three years

This year's thematic inspections covered AML/CFT, asset managers' liquidity risk management, intermediary misconduct in listed markets, foreign exchange activities, remote booking and operational and data risk management.

Off-site monitoring

We conduct off-site monitoring by analysing the information in regulatory filings as well as intelligence from other sources. We maintain regular interaction with LCs to assess their financial strength, internal controls and risk management practices.

This year, we conducted a limited survey of selected brokerage groups to understand their liquidity profiles and risk management at the group level. This facilitates our supervision of the financial integrity of the LCs within these groups.

Breaches noted during on-site inspections

	2020/21	2019/20	2018/19
Internal control weaknesses ^a	515	451	443
Breach of Code of Conduct ^b	262	273	275
Non-compliance with anti-money laundering guidelines	208	331	201
Failure to safekeep client money	35	42	28
Failure to safekeep client securities	28	31	32
Others	302	361	257
Total	1,350	1,489	1,236

a Comprising deficiencies in management review and supervision, operational controls over the handling of client accounts, segregation of duties, information management and adequacy of audit trails for internal control purposes, among other weaknesses.

b Commonly related to risk management, client agreements, safeguarding of client assets and information for or about clients.

Note: See Table 4 in Breakdown of SFC activity data on page 162 for more details.

Intermediaries

+17%

New licensed corporations (2018-2021)

Financial returns

We updated the financial return form to collect additional financial and risk data to enhance our supervision of LCs. The effective date for the revised form will be 1 January 2022, after enhancements to WINGS are completed (see sidebar on page 48).

SFC-HKMA joint product survey

Jointly with the HKMA, we launched a new annual survey covering the sale of non-exchange traded investment products by intermediaries. The findings from the survey will help us better understand market trends, identify risks and coordinate responses to address areas of common concern. The survey began with the period from 1 January to 31 December 2020 and its findings will be published later this year.

Industry guidance

We maintain close communication with the industry and regularly provide guidance through circulars. In survey results and thematic reports, we highlight best practices and our regulatory concerns with actual cases. When introducing a significant regulatory measure, we hold seminars to explain and clarify our policies and expectations.

Client facilitation

To provide further guidance on the provision of facilitation services to clients in the execution of residual odd lots⁴, we issued FAQs in December 2020

which set out that LCs may pre-arrange standing agreements with clients under certain circumstances and be exempted from the requirement to obtain explicit client consent on a trade-by-trade basis prior to each client facilitation trade.

Client asset protection

FAQs issued in October 2020 provided guidance to intermediaries on the requirements for client asset acknowledgement letters. Intermediaries were reminded that they should perform due diligence to assess and ensure that client assets held outside Hong Kong are adequately protected by the rules and regulations in the overseas jurisdiction as those assets might fall outside the ambit of the Hong Kong account opening rules.

Compliance Forum

In October 2020, we organised the SFC Compliance Forum on a virtual platform for 1,200 registrants to exchange views with our senior executives and industry leaders on the risks and opportunities facing the securities industry and capital markets, the management of liquidity, prudential and market risks, AML/CFT, family offices, private wealth management and sustainable finance.



The SFC Compliance Forum 2020 was held virtually

⁴ See details in the circulars issued on 14 February 2018 and 14 May 2019.

Statistical information and financial position of the Hong Kong securities industry

	As at 31.12.2020	As at 31.12.2019	As at 31.12.2018
Securities dealers and securities margin financiers	1,391	1,379	1,312
Active clients	3,207,677	2,024,849	1,874,289
Total assets (\$ million)	1,812,475	1,322,911	1,226,532

(\$ million)	12 months to 31.12.2020	12 months to 31.12.2019	12 months to 31.12.2018
Total value of transactions [^]	129,651,195	85,831,384	89,678,389
Total operating profit	30,904	11,962	23,548

[^] 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.

Note: Also see Table 8 in Breakdown of SFC activity data on page 166 for more details.

Products

We authorise and regulate investment products offered to the public in Hong Kong and monitor their ongoing compliance with regulatory requirements. Formulating policy initiatives to strengthen Hong Kong's position as a global asset and wealth management centre and a preferred fund domicile is also a priority.

Authorisations and market development

Authorisations

As of 31 March 2021, a total of 2,812 SFC-authorized collective investment schemes (CIS) were on offer to the public. During the year, we authorised 188 CIS, comprising 180 unit trusts and mutual funds (including 110 Hong Kong-domiciled funds), one investment-linked assurance scheme (ILAS) and seven mandatory provident fund (MPF) pooled investment funds.

We also authorised 146 unlisted structured investment products for public offering during the year.

ETFs and leveraged and inverse products

As of 31 March 2021, the number of SFC-authorized exchange-traded funds (ETFs) listed on the Stock Exchange of Hong Kong Limited (SEHK) was 148, including 26 leveraged and inverse (L&I) products, with total assets under management (AUM) of \$394.41 billion. The average daily turnover of these ETFs was \$7 billion in the preceding 12 months.

During the year, we and the China Securities Regulatory Commission (CSRC) approved four ETFs under a scheme which facilitates the cross-listing of ETFs between the Hong Kong and Mainland markets (ETF Cross Listing). As of 31 March 2021, the total AUM of the four cross-listed ETFs was \$729.3 million.

Authorised CIS

	As at 31.3.2021	As at 31.3.2020	As at 31.3.2019
Unit trusts and mutual funds – Hong Kong-domiciled	835	762	789
Unit trusts and mutual funds – non-Hong Kong-domiciled	1,382	1,373	1,427
ILAS	298	299	300
Pooled retirement funds	33	33	34
MPF schemes	27	29	31
MPF pooled investment funds	212	206	191
Others	25 [^]	26	25
Total	2,812	2,728	2,797

[^] Comprising 13 paper gold schemes and 12 real estate investment trusts (REITs).

Authorised unlisted structured investment products

	As at 31.3.2021	As at 31.3.2020	As at 31.3.2019
Unlisted structured investment products [#]	146	146	125

[#] On a "one product per key facts statement" basis, including equity-linked investments and deposits.

We authorised the first batch of swap-based L&I products tracking Mainland equity indices and the first gold futures leveraged product.

We also authorised the first feeder ETF under streamlined requirements which allow investment in eligible UCITS¹ master ETFs.

We worked with SEHK to further enhance the efficiency and liquidity of ETFs in the secondary market. A new spread table and a continuous quoting market making regime for ETFs were introduced in June 2020.

We also jointly published guidance and organised a webinar with SEHK for the ETF industry on matters commonly encountered by ETF managers, including the publication of announcements, suspension and resumption of primary market dealing and secondary market trading.

To mitigate mispricing risk, we collaborated with SEHK to impose price limits of 15% on ETFs during the pre-opening session of their first trading day.

Authorised unit trusts and mutual funds domiciled in Hong Kong – fund flows by type^a (US\$ million)

For the year ended 31 March 2021, Hong Kong-domiciled funds reported overall net inflows of US\$16,495 million, which was primarily attributed to bond funds and index funds.

	12 months to 31.3.2021			12 months to 31.3.2020		
	Subscription	Redemption	Net subscription/ (redemption)	Subscription	Redemption	Net subscription/ (redemption)
Bond	24,575	16,204	8,371	19,020	14,125	4,895
Equity	23,741	21,339	2,402	14,220	16,959	(2,739)
Mixed	7,923	7,600	323	7,020	8,192	(1,172)
Money market	18,870	17,794	1,076	9,509	7,675	1,834
Fund of funds ^b	2,900	3,458	(558)	2,819	2,875	(56)
Index ^c	39,103	34,210	4,893	25,093	27,006	(1,913)
Guaranteed	0	12	(12)	1	11	(10)
Other specialised ^d	0	0	0	25	31	(6)
Total	117,112	100,617	16,495	77,707	76,874	833

a Based on data reported by funds domiciled in Hong Kong.

b Excluding feeder funds whose master funds are authorised by the SFC.

c Including ETFs and L&I products.

d Including futures and options funds, structured funds and funds which invest in financial derivative instruments.

1 Undertakings for collective investment in transferable securities.

Products

Renminbi products

As of 31 March 2021, there were 53 SFC-authorized unlisted funds² and 39 ETFs³ primarily investing in the onshore Mainland securities markets⁴ or offshore renminbi bonds, fixed income instruments or other securities. The scope of renminbi products continued to expand with the introduction of ETF Cross Listing in August 2020 and the authorisation of the first set of renminbi-denominated L&I products in July 2020.

To encourage and facilitate the set-up of private OFCs, we removed all investment restrictions for private OFCs and allowed eligible licensed or registered securities brokers to act as custodians for private OFCs since September 2020.

We also concluded a further consultation in December 2020 on requiring OFCs to appoint a responsible person to carry out anti-money laundering and counter-financing of terrorism functions.

Open-ended fund companies

We registered 10 open-ended fund companies (OFC) during the year, including the first unlisted public OFC. We also approved the establishment of a number of OFC sub-funds, including five authorised ETFs.

SFC-authorized renminbi investment products

	As at 31.3.2021
Unlisted products	
Unlisted funds primarily investing in the onshore Mainland securities markets or offshore renminbi bonds, fixed income instruments or other securities	53
Unlisted funds (non-renminbi denominated) with renminbi share classes	267
Paper gold schemes with renminbi features	1
Recognised Mainland funds under the Mainland-Hong Kong Mutual Recognition of Funds arrangement	50
Unlisted structured investment products issued in renminbi ^a	145
Listed products	
ETFs primarily investing in the onshore Mainland securities markets or offshore renminbi bonds, fixed income instruments or other securities	39
ETFs (non-renminbi denominated) with renminbi trading counters	18
Renminbi L&I products	2
Renminbi gold ETFs ^b	1
Renminbi REITs	1

a The number is on a "one product per key facts statement" basis.

b Only includes gold ETF denominated in renminbi.

2 Excluding recognised Mainland funds under Mainland-Hong Kong Mutual Recognition of Funds.

3 Refers to unlisted funds or ETFs which are renminbi denominated.

4 Refers to onshore Mainland investment through the Qualified Foreign Investor, Stock Connect, Bond Connect and the China Interbank Bond Market.

Grant scheme for OFCs and REITs in Hong Kong

As one of our initiatives to strengthen the competitiveness of Hong Kong as a global asset and wealth management centre and a preferred fund domicile, we worked closely with the Government to introduce a three-year grant scheme to subsidise the formation of OFCs and listing of REITs in Hong Kong.

Effective 10 May 2021, the grant scheme covers 70% of eligible expenses incurred in setting up an OFC or listing a REIT in Hong Kong, subject to a cap of \$1 million per OFC and \$8 million per REIT.

Administered by the SFC, the scheme strengthens Hong Kong's asset and wealth management industry by encouraging the use of the OFC structure and broadening the REIT market.

Three-year grant scheme

	OFC	REIT
Subsidy (% of eligible expenses)	70%	
Cap	\$1 million	\$8 million

Mutual recognition of funds

We proactively promote cross-border offerings of eligible Hong Kong public funds to the Mainland and other overseas markets through mutual recognition arrangements. This helps to broaden the investor base for Hong Kong public funds, strengthen Hong Kong as a competitive global asset and wealth management centre and encourage the development of local investment expertise.

In January 2021, we signed a mutual recognition of funds (MRF) agreement with the Securities and Exchange Commission of Thailand which allows eligible Hong Kong and Thai public funds to be distributed in the other market through a streamlined process and expedites the approval process for local feeder funds investing in MRF-eligible master funds in the other market. We hosted a webinar in February 2021 to explain these new initiatives to the industry.

Under the Mainland-Hong Kong MRF regime, a total of four funds were approved during the year, bringing the total to 82. As of 31 March 2021, the aggregate net subscription for both Mainland and Hong Kong MRF funds was about RMB15.7 billion.

Greater Bay Area Wealth Management Connect

In January 2021, we entered into a memorandum of understanding (MoU) with the People's Bank of China, China Banking and Insurance Regulatory Commission, CSRC, State Administration of Foreign Exchange, Hong Kong Monetary Authority and the Monetary Authority of Macao on the Cross-boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area. The MoU provides a framework for the exchange of supervisory information and enforcement cooperation as well as a liaison mechanism for investor protection issues.

Products

Asset and wealth management activities

The *Asset and Wealth Management Activities Survey 2019*, released in August 2020, showed that Hong Kong's asset and wealth management business posted strong growth despite the challenges facing global markets, with AUM increasing by 20% year-on-year to \$28,769 billion as at 31 December 2019. Net fund inflows of \$1,668 billion⁵ were recorded in 2019.

Hong Kong's asset
and wealth management business

AUM increased to
\$28,769 billion

Regulatory enhancements

Real estate investment trusts

Following a two-month public consultation, amendments to the Code on Real Estate Investment Trusts took effect in December 2020 to provide Hong Kong REITs with more flexibility in making investments. Key enhancements include allowing investments in minority-owned properties, providing more flexibility to invest in property development projects, increasing the borrowing limit from 45% to 50% of gross asset value and broadly aligning the requirements for REIT's connected party transactions and notifiable transactions with the requirements for listed companies.

Pooled retirement funds

In view of the wide participation in Hong Kong by employers and employees of occupational retirement schemes which invest in pooled retirement funds, we launched a public consultation on proposals to update the Code on Pooled Retirement Funds in December 2020. Key proposals would strengthen investor protection by enhancing the requirements for fund operations and clarifying the obligations of key operators.



Ms Christina Choi, Executive Director, Investment Products, speaks at the Offshore China Fund Awards 2020

Electronic dissemination of investment product documents

With the use of electronic media increasing, we issued guidance to the industry to facilitate the dissemination of post-sale investment product documents in electronic form.

COVID-19 measures

In view of the volatility and uncertainty in local and international markets caused by the pandemic, our surveillance of locally domiciled high-yield bond funds remains heightened.

We reminded ETF managers to closely monitor the secondary market trading of ETFs and manage ETFs in the best interests of investors even under extreme market conditions. We also urged ETF market makers to have proper business contingency plans to deal with any potential operational disruptions.

To alleviate the administrative burden on fund managers due to the COVID-19 outbreak, we issued frequently asked questions in August 2020 to regularise the temporary relief measures provided for product-related applications, such as allowing document submissions in soft copy only and providing flexibility for fee payments.

⁵ Some fund inflows were attributable to business restructuring by international firms which allocated more AUM to Hong Kong in 2019.

Surveillance and monitoring

To monitor the risk exposure of Hong Kong-domiciled SFC-authorized funds, we require asset managers to report key data periodically, including subscription and redemption flows, liquidity profiles, asset allocations and securities financing and borrowing transactions.

We also closely monitor the liquidity of SFC-authorized funds through reports from asset managers on unusual or untoward activities, including significant redemptions, suspensions of dealing and liquidity problems.

Amidst geopolitical tensions, we monitor and assess the impact of measures imposed by foreign authorities on the operation of SFC-authorized funds. In particular, we closely monitor the impact on retail funds and structured products of the US executive order prohibiting investments in specific Mainland companies. We actively engaged with relevant managers, trustees and custodians and reminded them that any actions taken by them should be fair having regard to the best interests of investors.



Our senior executives engage with the industry on the REIT regime

In anticipation of the potential discontinuation of the London Interbank Offered Rate after the end of 2021, we conducted a survey of licensed management companies of Hong Kong-domiciled SFC-authorized funds to assess their readiness and reminded them to properly manage the associated risks.

We perform routine surveillance of advertisements and handle complaints about property-related or other suspected arrangements which may be CIS. We looked into nine suspicious CIS cases during the year.

Message from Chairman and CEO

Strategic Priorities

Mission and Mandates

Corporate Governance

Our People

Operational Review

Corporate Developments

Corporate Social Responsibility

Financial Statements

Supplementary Information

Green and sustainable finance

Supporting the development of green and sustainable finance is a key focus for us. In keeping with the Government's pledge to achieve carbon neutrality before 2050, we are spearheading efforts to advance Hong Kong's position as a green and sustainable finance hub in the Asia-Pacific Region, including in the Guangdong-Hong Kong-Macao Greater Bay Area, and have made progress in achieving the priorities set out in our *Strategic Framework for Green Finance* published in September 2018.

We integrate green and sustainable finance into our policies and operations. Our Investment Committee enquires into how and to what extent external fund managers incorporate environmental, social and governance (ESG) principles into their investment and risk analysis processes to ensure that they discharge their obligations in accordance with the SFC's Principles of Responsible Ownership.

Asset managers

Our Climate Change Technical Expert Group is chaired by Ms Julia Leung, Deputy Chief Executive Officer and Executive Director of Intermediaries, and includes industry representatives and other stakeholders. It provides views and support to the SFC in formulating regulatory policies and providing practical industry guidance. During the year, we met with the group to obtain insights into our proposed requirements for fund managers to incorporate climate-related risks into their investment and risk management processes and make appropriate disclosures.

We subsequently launched a consultation in October 2020 where we proposed amendments to the Fund Manager Code of Conduct to provide high-level principles along with guidance setting out the expected baseline requirements and enhanced standards to facilitate fund managers' compliance. To align with global green and sustainable finance trends, we made reference to the widely endorsed framework set out by the Task Force on Climate-related Financial Disclosures (TCFD) in developing the proposals. We plan to publish the consultation conclusions later this year.



Announcing the launch of the Green and Sustainable Finance Cross-Agency Steering Group's strategic plan

Green and ESG funds

We keep in view local and global market and regulatory developments concerning green and ESG investment products, and may provide further guidance or impose additional requirements for green and ESG funds where appropriate. We maintain a central database on our website of all SFC-authorized green and ESG funds which comply with the requirements set out in our April 2019 circular on enhanced disclosures by the management companies of these funds. There are now more than 40 SFC-authorized green or ESG funds.

Listed companies

We work closely with the Stock Exchange of Hong Kong Limited (SEHK) to enhance the ESG reporting framework for listed companies. Following our approval, amendments to the Listing Rules which include a new disclosure requirement for significant climate-related issues and mandatory disclosure of ESG governance structures came into effect for financial years commencing on or after 1 July 2020. We also support SEHK's efforts to educate the market, including its updated guidance letter for initial public offering applicants published on 24 July 2020, which highlighted the importance of incorporating corporate governance and ESG mechanisms into the listing process.

Regulatory collaboration

We collaborate with local and overseas counterparts¹ to drive efforts to reorient capital flows towards green and sustainable activities and embed sustainability practices in Hong Kong's financial sector.

In a major step in advancing the sustainable finance agenda for Hong Kong, we initiated the establishment of a Green and Sustainable Finance Cross-Agency Steering Group in May 2020 to coordinate the management of climate and environmental risks in the financial sector and support the Government's broader climate strategies. The steering group is co-chaired by our Chief Executive Officer Mr Ashley Alder and Mr Eddie Yue, Chief Executive of the Hong Kong Monetary Authority (HKMA), and comprises representatives from the Government and other regulators².

In December 2020, the steering group jointly announced a long-term strategic plan with six focus areas and five near-term action points (see sidebar on page 62) to strengthen Hong Kong's financial ecosystem to support a greener and more sustainable future.

The SFC plays a key role in global efforts to address sustainability and climate change issues through our active involvement in the International Organization of Securities Commissions (IOSCO). During the year, Mr Ashley Alder participated in a roundtable with international regulators on climate reporting chaired by Mr Mark Carney, UN Special Envoy on Climate Action and Finance, to discuss IOSCO's global standard-setting efforts.

Ms Julia Leung serves as Vice Chair of the IOSCO Sustainable Finance Task Force and co-leads a

workstream on greenwashing and disclosures by asset managers. We also lead the IOSCO Asia-Pacific Regional Committee's green and sustainable finance working group to coordinate the regulation of sustainability and climate-related disclosures in the region.

In December 2020, we and the HKMA became members of the European Commission's International Platform on Sustainable Finance (IPSF) representing Hong Kong to encourage private capital to make environmentally sustainable investments. We actively participate in the Network of Central Banks and Supervisors for Greening the Financial System and the United Nations Sustainable Stock Exchanges Initiative Advisory Group.

Raising investor awareness

We also work with other public bodies and industry associations to raise awareness. In collaboration with the Investor and Financial Education Council (IFEC)³, we launched initiatives to help investors understand green and sustainable finance and related investment topics. This year, the IFEC coordinated efforts by regulators and industry practitioners to promote wider green awareness amongst retail investors.

Our senior management spoke at local and international events to promote Hong Kong as a regional and global green and sustainable finance hub. In a keynote speech at Hong Kong's UN75 Dialogue⁴ in May 2020, our Chairman Mr Tim Lui discussed financial sector initiatives to manage climate change and promote sustainability. During the year, Mr Alder participated in climate-related discussions and shared his views on green finance at industry conferences and other global fora. We also used our new Facebook page to inform the public about our work in this area.

1 See Regulatory engagement on pages 78-81.

2 The Financial Services and the Treasury Bureau, Environment Bureau, Hong Kong Exchanges and Clearing Limited, Insurance Authority and the Mandatory Provident Fund Schemes Authority.

3 The IFEC is an SFC subsidiary which is dedicated to improving financial literacy in Hong Kong.

4 A global conversation initiated by the United Nations to mark its 75th anniversary.

Hong Kong's strategy for green and sustainable finance

In December 2020, the Green and Sustainable Finance Cross-Agency Steering Group announced its six focus areas and five near-term action points to strengthen Hong Kong's financial ecosystem to support a greener and more sustainable future.

Focus areas

Strengthening climate-related financial risk management

Promoting the flow of climate-related information at all levels to facilitate risk management, capital allocation and investor protection

Enhancing capacity building for the financial services industry and raising public awareness

Encouraging innovation and exploring initiatives to facilitate capital flows towards green and sustainable causes

Capitalising on Mainland opportunities to develop Hong Kong into a green finance centre in the Greater Bay Area

Strengthening regional and international collaboration

Action points

Make climate disclosures aligned with the TCFD recommendations^a mandatory by 2025

Adopt a Common Ground Taxonomy to be developed by the IPSF Working Group on Taxonomies^b

Support the IFRS Foundation's proposal to establish a new Sustainability Standards Board to develop a global, uniform set of sustainability reporting standards and other efforts to converge standards globally

Promote climate-focused scenario analysis to assess the impact on financial institutions under different climate pathways

Establish a platform for financial regulators, government agencies, industry stakeholders and academia to coordinate cross-sectoral capacity building



a The Financial Stability Board created the TCFD to improve the reporting of climate-related financial information. The TCFD recommendations are structured around four thematic areas: governance, strategy, risk management, and metrics and targets.

b The taxonomy will provide a common reference point for the definition of investments which are considered as environmentally sustainable across IPSF jurisdictions.

Markets

We supervise and monitor exchanges, clearing houses, share registrars and automated trading services (ATS) in Hong Kong to ensure orderly markets. We introduce measures to improve market infrastructure and support Hong Kong's development as a premier risk management centre.

Supervision of HKEX

Volatility control mechanism

Following our approval, the Stock Exchange of Hong Kong Limited (SEHK) introduced initial enhancements to its volatility control mechanism to cover more securities in May 2020. Further enhancements, implemented in March 2021 after our approval, allow multiple triggers of the volatility control mechanism during a trading session. Separately, the introduction of a market-wide circuit breaker is still being studied.

Derivatives market suspension

We reviewed Hong Kong Exchanges and Clearing Limited's (HKEX) suspension of the derivatives market in September 2019 and requested that it take necessary measures to enhance system resilience and adopt our recommendations in areas such as prevention, system monitoring, mitigation and communication. We closely monitored how HKEX implemented the remedial measures and ensured that our recommendations were fully adopted. In December 2020, HKEX issued a report on the incident which included its response to our recommendations.

OTC derivatives

In line with the G20 commitments to reform the over-the-counter (OTC) derivatives market, an OTC derivatives regulatory regime is being implemented in phases in Hong Kong¹. We continue to work on improvements to the regime, such as enhancing data quality and promoting data harmonisation in trade reporting.

Investor identification

In December 2020, we launched a consultation on the introduction of a trading-level investor identification regime for the Hong Kong securities market and an OTC securities transactions reporting regime for shares listed on SEHK². The proposals aim to enhance our market surveillance function by facilitating the identification of investors placing securities orders and by collecting data on off-exchange securities transactions. This would help ensure market integrity and put us on par with developments in major overseas jurisdictions.



Uncertificated securities market

Following the conclusion in April 2020 of a joint consultation with HKEX and the Federation of Share Registrars Limited on a proposed operational model for an uncertificated, or paperless, securities market, we worked with the Government to prepare the necessary legislative changes. This initiative will make securities-related transactions, including initial public offerings and corporate actions, more efficient and cost-effective.

¹ See more on the OTC derivatives licensing regime on page 48.

² The consultation closed in March 2021.

Stock Connect

Mainland-Hong Kong Stock Connect enables mutual market access and provides a unique opportunity for Hong Kong and Mainland investors to trade eligible stocks in each other's markets.

As of 31 March 2021, Stock Connect covered 1,472 Mainland stocks and 519 Hong Kong stocks, representing about 80% of the combined market capitalisation of the two markets. Net inflows since the programme's launch amounted to RMB1,835.4 billion for southbound trading and RMB1,302.2 billion for northbound trading.

The share of Hong Kong market turnover attributable to Stock Connect is significant and growing. On

Mainland-Hong Kong Stock Connect

RMB 1,835.4 billion

Southbound net inflows since launch

average, daily southbound trading was 14% of total trading in the Hong Kong stock market during January to March 2021, compared to 9% in 2020 and 6% in 2019.

Northbound trading was 7% of the Mainland market total in the first three months of 2021, 5% in 2020 and 4% in 2019.

Trends in Stock Connect

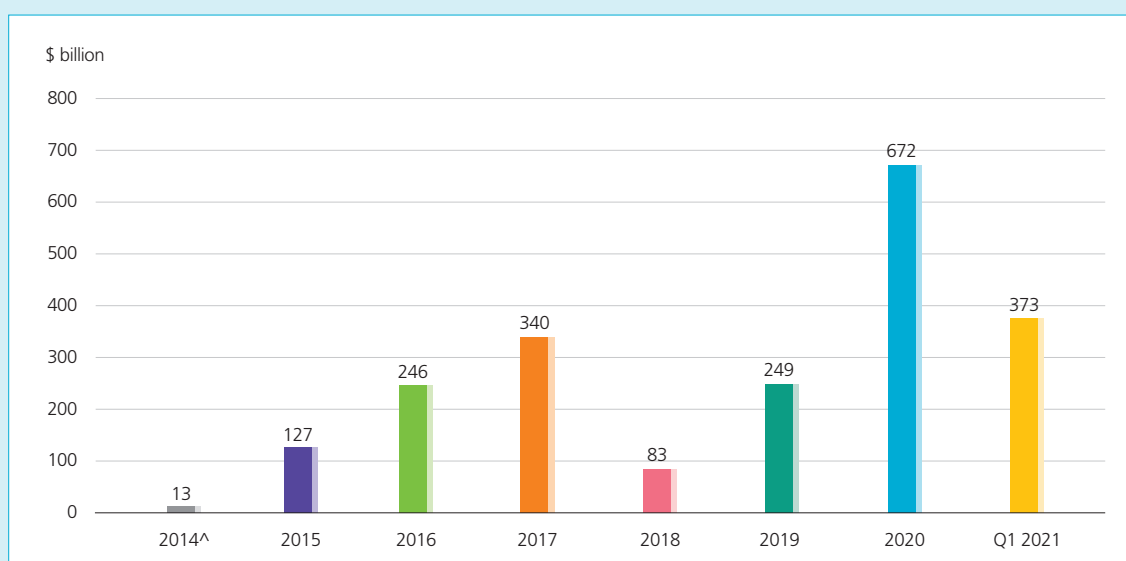
Since the launch of Stock Connect in November 2014, southbound trading has accounted for an increasing share of the Hong Kong market.

Southbound net inflows reached a total of \$672.1 billion for 2020. This was an annual record high and almost double the previous record in 2017.

Since March 2019, southbound net inflows were recorded for 24 consecutive months and southbound net buy remained positive.

For Mainland investors, Stock Connect provides a channel to broaden the scope of their investments and reduce risk through portfolio diversification. They have shown strong interest in buying large-cap stocks listed in Hong Kong and southbound inflows to leading technology stocks have been particularly significant.

Annual southbound net buy since the launch of Stock Connect



[^] Shanghai-Hong Kong Stock Connect launched on 17 November 2014.

Investor compensation

During the year, the Investor Compensation Company Limited, a wholly-owned SFC subsidiary, received 39 claims against the Investor Compensation Fund and processed 24 claims.

New derivatives products approved

Following our approval, HKEX launched 40 MSCI index futures and options contracts in July, August and September 2020 and March 2021. Referencing the performance of Asia and other emerging market indices, these contracts expand HKEX's derivatives product range and provide more trading and hedging tools for market participants.

We also approved HKEX's proposals for Hang Seng TECH Index futures and options contracts to meet the market's need for an exposure management tool covering the technology sector and the Mini USD/CNH

futures contract to enhance their currency product suite. The Hang Seng TECH Index futures and options contracts were launched in November 2020 and January 2021 respectively, while the Mini USD/CNH futures contract was launched in April 2021.

Bond Connect

Bond Connect, which facilitates northbound trading into the China Interbank Bond Market, recorded persistently strong growth in 2020. Total trading volume reached RMB4,810 billion, representing an 82.8% increase from 2019. The number of eligible foreign investors admitted for trading was up 46.9% to 2,352 from 1,601 as at end-2019. The Bond Connect Company Limited launched a new ePrime system to facilitate the primary market offering of offshore bonds (including Kungfu bonds and Dimsum bonds) in October 2020 after consulting us.

Investor compensation claims

	2020/21	2019/20	2018/19
Received	39	7	5
Processed	24	4	10
– Compensation payments made	0	0	0
– Rejected	21	0	7
– Withdrawn	3	4	2
– Reconsidered	0	0	1

Net asset value of compensation funds

	As at 31.3.2021 (\$ million)	Change	As at 31.3.2020 (\$ million)	Change	As at 31.3.2019 (\$ million)
Unified Exchange Compensation Fund ^a	86.1	5%	82	3.4%	79.3
Investor Compensation Fund ^b	2,444.1	0.65%	2,428.3	1.5%	2,391.5
Total	2,530.2	0.79%	2,510.3	1.6%	2,470.8

a See pages 145-158 for the financial statements of the Unified Exchange Compensation Fund (UECF). The Investor Compensation Fund (ICF) was established by the Securities and Futures Ordinance on 1 April 2003 to replace the UECF. After settlement of all claims against the UECF and its other liabilities, any remaining balance will be transferred to the ICF.

b See pages 132-144 for the financial statements of the ICF.

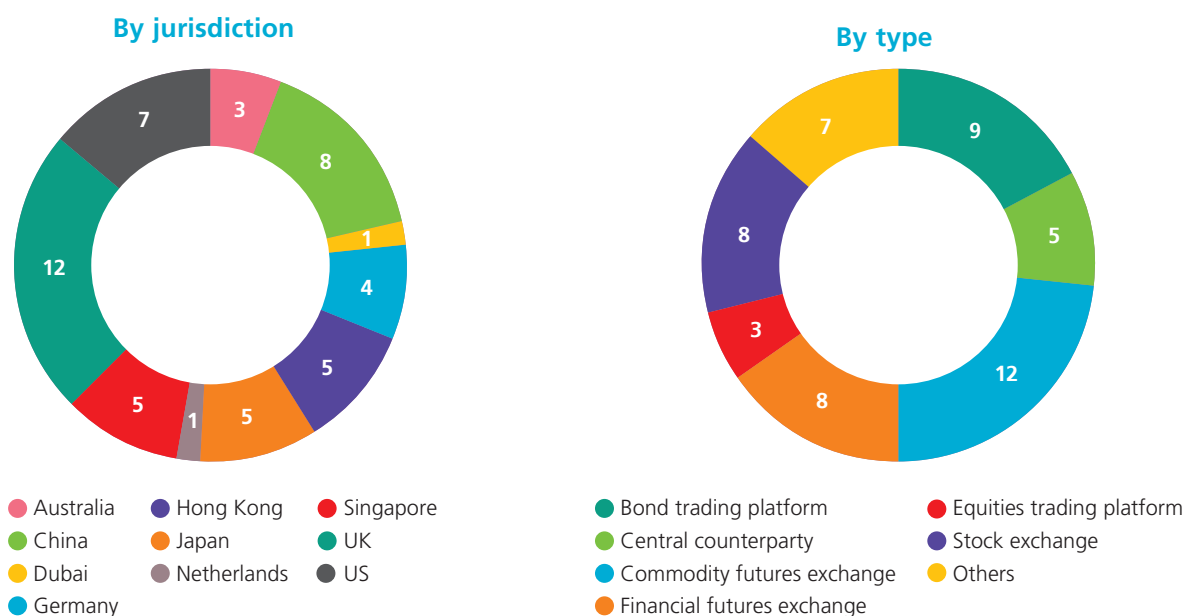
Markets

Automated trading services

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

Trades conducted on authorised trading venues were in products ranging from benchmark index futures and options, commodity futures, bonds, equities and exchange-traded funds offered by overseas exchanges. The average daily trading volume of futures contracts originating from Hong Kong was about 433,000 contracts for the 12 months ended 31 March 2021.

ATS providers under Part III



ATS providers

	As at 31.3.2021	As at 31.3.2020	As at 31.3.2019
Under Part III	51	54	50
Under Part V	24	25	24

Short position reporting

	As at 31.3.2021	As at 31.3.2020	As at 31.3.2019
Market value of short positions as a percentage of total market capitalisation	1.16%	1.24%	1.42%

Enforcement

We take proactive and resolute enforcement actions to protect investors, punish wrongdoers and safeguard the reputation and integrity of our markets. Our strategic focus on high-impact cases helps us address key risks in financial markets and send strong deterrent messages.

Our tools

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

We have broad powers to hold directors and individuals responsible for misconduct committed by the companies they manage.

We can discipline licensed intermediaries through reprimands, fines¹ and suspensions or revocations of licences, and apply to the court for injunctive and remedial orders against wrongdoers in favour of victims.

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

During the year, we commenced 204 investigations and laid 29 criminal charges against nine persons and one corporation and secured convictions against seven persons and two corporations.

We obtained disqualification orders against 26 persons. Civil actions seeking financial redress and other remedial orders against 179 persons and corporations in 36 cases are pending before the court.

Disciplinary action was taken against 13 persons and 18 corporations. In addition, we commenced proceedings before the MMT against one corporation and one person for allegedly overstating the corporation's sales revenue in its listing prospectus. We also issued 231 compliance advice letters to address areas of regulatory concern, raise standards of conduct and promote compliance in the industry.

Our work in figures



[^] The requests were made to intermediaries as a result of our surveillance of untoward price movements and turnover.

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

Enforcement

Market misconduct

Surveillance

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

Our surveillance of untoward price and turnover movements resulted in 8,748 requests for trading and account records from intermediaries. We also received and assessed 288 notifications from intermediaries² regarding suspicious equity and derivative trading.

We posted 12 announcements on our website reminding the investing public to exercise caution

when trading in shares of listed companies where a small number of shareholders hold a high concentration of shares.

Ramp and dump scams

In March 2021, we conducted a joint operation with the Hong Kong Police Force against an active and sophisticated syndicate suspected of operating ramp and dump schemes (see sidebar below). Twelve people, including those believed to be the ringleaders of the syndicate and their associates, were arrested during a joint search of 27 premises across Hong Kong by more than 160 officers of the SFC and the Police.

Before the operation, we issued 16 restriction notices and froze about \$860 million in assets in 63 securities accounts belonging to syndicate members which we believe hold proceeds of the schemes.

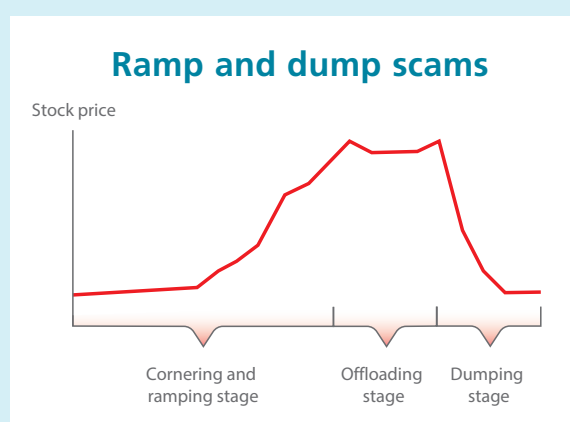
Cracking down on social media investment scams

A top enforcement priority is to curb “ramp and dump” schemes, a kind of market manipulation. In a typical scheme, the scammers choose a thinly-traded, small-cap stock, often with a small group of shareholders holding most of the shares^a, and use different means to “ramp” up the share price.

Investors are then approached on popular social media platforms—sometimes by an attractive member of the opposite sex—and urged to heed the advice of an experienced investment “teacher” or follow what appears to be the social media account of a well-known stock commentator. To gain a person’s confidence, the scammer may claim to have inside information and suggest buying a share whose price does rise as predicted.

After enough unwary investors buy the stock, the scammers “dump” their own shares at an artificially high price, causing the price to collapse. The victims will not be able to contact the fraudsters after the crash and most of the time will not know the true identities of the people who lured them into the trap.

^a With a high shareholding concentration, the share price can fluctuate substantially even with a small number of trades.



An increasing number of retail investors have been lured into these schemes and some suffered significant financial losses. Ramp and dump cases now account for a significant percentage of our market manipulation investigations, which found that members of sophisticated and highly coordinated syndicates may be involved.

Where possible, we take immediate action to freeze securities accounts suspected of being part of these scams. During the year, we froze over \$0.9 billion involving more than 109 accounts.

² Intermediaries are required to report clients’ suspected market misconduct to the SFC.



We cooperated with other law enforcement agencies, including the Hong Kong Police Force under a memorandum of understanding, and conducted joint operations as part of our efforts to tackle ramp and dump schemes and related offences such as money laundering and fraud. We worked closely with the Investor and Financial Education Council and the Police's Anti-Deception Coordination Centre to urge investors

to be extremely careful about unsolicited online investment advice. To explain how the scams operate and provide tips for avoiding them, we published a leaflet and a special edition of our *Enforcement Reporter*. We also talked about how to avoid social media ramp and dump schemes in an interview on Radio Television Hong Kong, a video and live talk on Facebook.



Community event



Video explaining a typical scam

Message from Chairman and CEO

Strategic Priorities

Mission and Mandates

Corporate Governance

Our People

Operational Review

Corporate Developments

Corporate Social Responsibility

Financial Statements

Supplementary Information

Enforcement



Press conference on joint operation with the Police against suspected ramp and dump schemes

Insider dealing and market manipulation

The MMT found that the following individuals engaged in insider dealing:

- Li Yik Shuen was banned from dealing in securities in Hong Kong for two years for insider dealing in the shares of Meadville Holdings Limited in 2009. The MMT also ordered her to disgorge her profit of \$546,817.43 and pay the SFC's investigation and legal costs as well as the costs of the MMT proceedings, and issued a cease and desist order for her not to engage in insider dealing in the future.
- Cheng Chak Ngok, former executive director, chief financial officer and company secretary of ENN Energy Holdings Limited, was found to have engaged in insider dealing in the shares of China Gas Holdings Limited in 2011 after a retrial. The sanctions against Cheng will be determined at a later date.
- Charles Yiu Hoi Ying and Marian Wong Nam, two former executives of Asia Telemedia Limited, were banned from dealing in securities in Hong Kong for three years for insider dealing in the company's shares. The MMT also ordered them to disgorge the losses of \$4.2 million they avoided and pay the

SFC's investigation and legal costs as well as the costs of the MMT proceedings. Yiu was disqualified from being a director or being involved in the management of a listed company for three years. The MMT recommended that The Hong Kong Institute of Chartered Secretaries take disciplinary action against Wong.

The Court of First Instance (CFI) upheld the jail sentences against Au-Yeung Siu Pang, former group finance manager of China CBM Group Company Limited, for insider dealing in the company's shares and allowed them to be served concurrently, shortening Au-Yeung's imprisonment from four to three months.

In the Eastern Magistrates' Court, Chow Chiu Chi, company secretary of China Automation Group Limited, was sentenced to 45 days of imprisonment and fined \$45,000 for insider dealing in the company's shares and Ke Wen Hua was fined \$30,000 for false trading in the shares of Carry Wealth Holdings Limited through six securities accounts under his control.

We also initiated criminal proceedings against five individuals³ for conspiring to carry out false trading in the shares of Ching Lee Holdings Limited in 2016.

³ Sit Yi Ki, Lam Wing Ki, Tam Cheuk Hang, Simon Suen Man and Ho Ming Hin.

Corporate fraud and related misbehaviour

We obtained disqualification and other orders under section 214⁴ of the SFO in the CFI against the following listed company and senior executives of listed companies:

- Three former directors⁵ of EganaGoldpfeil (Holdings) Limited were disqualified for six to nine years for their roles in the company's misapplication of funds.
- Seven former directors⁶ of Long Success International (Holdings) Limited were each disqualified for a period of two to five years for breaching their fiduciary and common law duties to act in the interest of the company or to exercise due and reasonable skill, care and diligence in the course of acting as the company's directors. Proceedings against other former directors of the company are ongoing.
- Two former senior executives⁷ of Far East Holdings International Limited were disqualified for four and three years for conducting the company's business in a manner involving misconduct and resulting in Far East's shareholders not being given all the information as they might reasonably expect.
- Shandong Molong Petroleum Machinery Company Limited was ordered to reconstitute its audit committee and appoint an independent external auditor to review its internal control and financial reporting procedures. Five former senior executives and two officers⁸ of the company were disqualified for seven to nine years for inflating the company's financial position in six results announcements.



We commenced legal proceedings to:

- wind up Combest Holdings Limited, appoint provisional liquidators over the company and disqualify the company's two executive directors⁹ and a suspected shadow director¹⁰ to protect the interests of the company's shareholders, creditors and the investing public, on the basis that those individuals allegedly caused the company and one of its subsidiaries to enter into two overpriced acquisitions and that the company allegedly overstated its revenue during various accounting periods between 2016 and 2019.
- seek disqualification and compensation orders against Zhou Ling, former chairman and executive director of New Ray Medicine International Holding Limited, and Dai Haidong, the company's former chief executive officer and executive director, for allegedly committing corporate misconduct and breaching their duties to the company.
- restore all public shareholders of Tianhe Chemicals Group Limited to the positions before their subscriptions or purchases of the company's shares. We also commenced MMT proceedings against the company and its executive director, Wei Xuan, for allegedly overstating its revenue by over RMB6.7 billion in its listing prospectus.

4 Under section 214, the court may make orders to disqualify a person from being a director or being involved, directly or indirectly, in the management of any corporation for up to 15 years.

5 David Wong Wai Kwong, Peter Lee Ka Yue and Chik Ho Yin.

6 Guo Wanda, Hu Dongguang, Victor Ng, Winfield Ng Kwok Chu, Robert Ng Chau Tung, Tse Ching Leung and Zhang Chi.

7 Duncan Chiu, former managing director and chief executive officer, was disqualified for four years and Michael Lui Hung Kwong, former company secretary and financial controller, was disqualified for three years.

8 Zhang Enrong, Zhang Yunsan, Yang Jin, Guo Huanran, Zhao Hongfeng, Ding Zhishui and Yang Junqiu.

9 Liu Tin Lap and Lee Man To.

10 Ng Kwok Fai.

Enforcement

Intermediary misconduct

During the year, we disciplined 18 corporations, three responsible officers and 10 licensed representatives, resulting in total fines of above \$2.81 billion. Key disciplinary actions included the following.

IPO sponsor failures

During the year, we took enforcement actions against two initial public offering (IPO) sponsor principals for deficiencies in their work:

- Lai Voon Wai, a former responsible officer of CCB International Capital Limited and BOCOM International (Asia) Limited, was banned from re-entering the industry for five years for failing to discharge his supervisory duties as a sponsor principal in two listing applications.
- Fabian Shin Yick, a former responsible officer and chief executive officer of Yi Shun Da Capital Limited, was prohibited from re-entering the industry for 20 months for failing to discharge his duties as a sponsor principal, a responsible officer and a member of the company's senior management in a listing application.

AML-related breaches

- We reprimanded and fined Goldman Sachs (Asia) L.L.C. US\$350 million (\$2.71 billion) for serious lapses and deficiencies in its management supervisory, risk, compliance and anti-money laundering (AML) controls in 1Malaysia Development Berhad's bond offerings (see sidebar on page 73 for details).

- We reprimanded and fined Guotai Junan Securities (Hong Kong) Limited \$25.2 million for multiple internal control failures and regulatory breaches concerning AML, third-party fund transfers, placing activities and the detection and reporting of wash trades.
- We reprimanded and fined Southwest Securities (HK) Brokerage Limited \$5 million for breaching AML and counter-terrorist financing (CFT) regulatory requirements.
- We banned Joanna Chu Lai Wa, former responsible officer, director and head of dealing of Guosen Securities (HK) Brokerage Company, Limited, from re-entering the industry for 12 months for failing to discharge her duties which resulted in the firm's AML and CFT regulatory breaches¹¹.
- We reprimanded and fined Sino-Rich Securities & Futures Limited \$7.2 million for breaching AML and CFT regulatory requirements when handling cash deposits and third-party fund transfers.
- We reprimanded and fined Yardley Securities Limited \$5 million for breaching AML and CFT regulatory requirements when handling third-party fund transfers.

Deficient selling practices

- We reprimanded and fined Mega International Commercial Bank Co., Ltd. \$7 million for internal system and control failures in the sale of collective investment schemes.
- We reprimanded and fined Convoy Asset Management Limited \$6.4 million for internal control failures in soliciting or recommending bonds listed under Chapter 37 of the Listing Rules.

¹¹ We reprimanded and fined Guosen \$15.2 million in February 2019 for breaches of AML regulatory requirements with respect to third-party fund deposits.

Record fine for multiple serious rule breaches

In October 2020, we publicly reprimanded and fined Goldman Sachs (Asia) L.L.C.^a (GSA) US\$350 million, a record for SFC licensees, for multiple failures in its management supervisory, risk, compliance and anti-money laundering controls. These failings contributed to the misappropriation of billions of dollars that 1Malaysia Development Berhad (1MDB)^b raised in three bond offerings in 2012 and 2013 (see table below).

The 1MDB bond offerings were obtained for Goldman Sachs by Tim Leissner, a responsible officer of GSA, who admitted in August 2018 that he had conspired with others to pay bribes and kickbacks to Malaysian and Abu Dhabi officials^c.

Numerous red flags raised questions about the commercial rationale for the bond offering. The amount raised, US\$6.5 billion, far exceeded

1MDB's needs. Goldman Sachs did not critically examine or properly address these concerns before allowing the bond offerings to proceed, enabling Leissner and his co-conspirators to escape scrutiny.

Financial intermediaries involved in international transactions should have robust internal controls in place and take all reasonable steps to protect the integrity of their operations and their clients from fraud and other dishonest acts.

The disciplinary action followed a rigorous and independent investigation conducted by the SFC. Assessed solely with reference to the SFC's own fining framework, the record penalty reflects the gravity of GSA's failures.

1MDB bond offerings

Closing date	Size	Coupon rate	Maturity	Goldman Sachs' revenue
May 2012	US\$1.75 billion	5.99%	10 years	US\$193 million (11% of principal amount)
Oct 2012	US\$1.75 billion	5.75%	10 years	US\$188 million (10.7% of principal amount)
May 2013	US\$3 billion	4.44%	10 years	US\$186 million (6.2% of principal amount)
Total	US\$6.5 billion			US\$567 million (8.7% of principal amount)



US\$2.6 billion
misappropriated by Leissner and his co-conspirators

US\$210 million
(37% of Goldman Sachs' revenue) allocated to GSA



a GSA is licensed under the SFO to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities.

b 1MDB is a strategic investment and development company wholly-owned and controlled by the Government of Malaysia.

c In July 2019, the SFC banned Leissner from re-entering the industry for life.

Enforcement

Other disciplinary actions

Reprimanded and fined for internal control deficiencies

Company	Breaches	Fine	Date
Black Marble Securities Limited	Failed to put in place adequate internal controls and committed breaches of the SFC's Code of Conduct [^]	\$1.8 million	31.3.2021
Fulbright Securities Limited	Failed to detect and prevent short selling and to report short selling incidents to the SFC in a timely manner	\$3.6 million	23.12.2020
Credit Suisse Securities (Hong Kong) Limited	Committed regulatory breaches relating to failures in its electronic trading systems	\$2.1 million	9.11.2020
BOCOM International Securities Limited	Failed to properly handle third-party fund deposits or maintain and implement margin lending and margin call policies	\$19.6 million	20.4.2020

[^] The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

Other regulatory breaches

Company/Name	Breaches	Action	Date
GEO Securities Limited	Committed regulatory breaches relating to the sale of unlisted bonds and breached its licensing conditions	Reprimanded and fined \$6.3 million	23.3.2021
Brilliance Asset Management Limited	Failed to ensure short position reports for collective investment schemes under its management were accurate and compliant with the Securities and Futures (Short Position Reporting) Rules	Reprimanded and fined \$3.15 million	22.2.2021
Yung Lap Hong	Misappropriated \$3.6 million from a customer's bank account	Banned from re-entering the industry for life	4.1.2021
China Everbright Securities (HK) Limited	Pledged clients' securities to banks without valid authorisation from the clients	Reprimanded and fined \$2.5 million	29.9.2020
The Bank of East Asia, Limited	Failed to segregate client securities from proprietary securities	Reprimanded and fined \$4.2 million	17.9.2020
Ts'o Jing	Falsely claimed that clients opening securities accounts had to pay an additional sum, pocketed the money and fabricated receipts	Banned from re-entering the industry for life	26.8.2020
Potomac Capital Limited	Failed to comply with the Securities and Futures (Financial Resources) Rules	Reprimanded and fined \$800,000	8.6.2020
HSBC Investment Funds (Hong Kong) Limited and HSBC Global Asset Management (Hong Kong) Limited	Failed to comply with regulatory requirements for cash management for SFC-authorized funds	Reprimanded and fined \$3.5 million	7.4.2020

Note: See Table 6 in Breakdown of SFC activity data on page 164 for details of the less significant disciplinary actions.

Other notable cases

The Appeal Committee of the Court of Final Appeal (CFA) dismissed the application of Andrew Left of Citron Research for leave to appeal to the CFA against the judgment of the Court of Appeal (CA). In August 2016, the MMT found Left culpable of disclosing false or misleading information inducing transactions¹² in a 2012 report on Evergrande Real Estate Group Limited¹³.

The Eastern Magistrates' Court convicted Lau Tin Yau of providing false and misleading information to the SFC in two licence applications and in his annual licensing return and of failing to notify us of his conviction for a criminal offence and that he was the subject of a related disciplinary action.

The following were convicted by the Eastern Magistrates' Court for unlicensed activities:

Company/Name	Unlicensed activity
Brilliance Capital Management Limited and Law Sai Hung ^a	Holding out as carrying on a business in advising on corporate finance
Simon Chan Ying Ming ^b and Chong Kin Ting ^c	Holding out as carrying on a business in dealing in futures contracts and asset management
Yau Ka Fai	Holding out as carrying on a business in asset management

a Director of Brilliance Capital Management Limited.

b Former officer of Wonderful Wealth Group Limited, which was dissolved in November 2017.

c Former director and shareholder of Wonderful Wealth Group Limited.

We commenced criminal proceedings against Zeng Lingxi for obstructing SFC employees in the execution of a search warrant.

Disclosure of inside information

The MMT found that CMBC Capital Holdings Limited and its six former directors¹⁴ failed to disclose inside information as soon as reasonably practicable and imposed a 15-month disqualification order and a fine of \$1.2 million against the company's former chief executive officer and company secretary Philip Suen Yick Lun. The company's former chairman, Paul Suen Cho Hung, was fined \$900,000. The MMT also ordered the six former directors to attend an SFC-approved training programme on the corporate disclosure regime, directors' duties and corporate governance.

The MMT fined Magic Holdings International Limited and five of its directors¹⁵ a total of \$6.5 million for the late disclosure of L'Oréal S.A.'s proposed acquisition of the company in 2013. The company failed to take all reasonable measures to monitor the confidentiality of the proposed acquisition and the disclosure was delayed for around three months. The five directors were also disqualified for eight to 24 months.

Restriction notices

During the year, we issued restriction notices to 38 brokers prohibiting them from dealing with or processing assets held in client accounts. These assets are related to suspected market manipulation in the shares of eight listed companies, some of which involved social media ramp and dump scams, and suspected corporate misconduct concerning another listed company. One of the brokers, Agg. Asset Management Limited, was prohibited from carrying on regulated activities for which it is licensed.

Use of technology

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

¹² Market misconduct within the meaning of section 277 of the SFO.

¹³ Left's appeal to the CA was dismissed in February 2019 and his application for leave to further appeal to the CFA was dismissed in July 2020.

¹⁴ Philip Suen Yick Lun, Paul Suen Cho Hung, Lau King Hang, Huang Zhencheng, Weng Yixiang and Wong Kwok Tai.

¹⁵ Stephen Tang Siu Kun, She Yu Yuan, Luo Yao Wen, Cheng Wing Hong and Sun Yan.

Enforcement

Enforcement cooperation with the CSRC

During the year, we maintained close enforcement cooperation with the China Securities Regulatory Commission (CSRC) despite disruptions caused by travel restrictions amid the COVID-19 pandemic.

Timely communication and coordination allowed us and the CSRC to fine-tune our enforcement cooperation mechanisms to overcome unforeseeable challenges and enable cooperation to proceed in an orderly manner. Investigatory requests for high-priority cases received prompt attention and assistance. In addition, the CSRC used innovative technologies to gather evidence for our investigations.

We exchanged views with the CSRC on the prevention of money laundering, the use of technology in enforcement work and the impact of the representative action mechanism to protect the collective interests of investors in securities disputes as set out under the Mainland's new Securities Law.

In December 2020, we held the tenth high-level meeting on cross-boundary enforcement cooperation with the CSRC together with a four-party meeting with the Enforcement Bureau of the CSRC, the Commercial Crime Bureau (CCB) of the Hong Kong Police Force and the Securities Crime Investigation Department (SCID) of the Mainland Ministry of Public Security to discuss collaboration in combating cross-boundary securities crime. The four authorities exchanged views on cooperation mechanisms and their respective legal environments.

Tenth Mainland and Hong Kong high-level meeting on enforcement cooperation and four-party meeting



CSRC Enforcement Bureau



SCID of Ministry of Public Security



SFC Enforcement Division



CCB of Hong Kong Police

2 December 2020

Enforcement activities

	2020/21	2019/20	2018/19
S179 ^a inquiries commenced	42	31	26
S181 ^b inquiries commenced (number of letters sent)	246 (8,748)	231 (8,767)	294 (9,074)
S182 ^c directions issued	189	187	231
Investigations started	204	197	238
Investigations completed	196	182	243
Individuals/corporations charged in criminal proceedings	10	7	5
Criminal charges laid ^d	29	10	42
Notices of Proposed Disciplinary Action ^e issued	27	35	22
Notices of Decisions ^f issued	35	46	34
Individuals/corporations subject to ongoing civil proceedings	179	158	101
Compliance advice letters issued	231	218	234
Cases with search warrants executed	28	17	30

a Section 179 of the SFO gives the SFC the power to compel the production of records and documents from persons related to a listed company in relation to fraud or other misconduct.

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

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

d The SFC brought a total of 29 criminal charges against nine individuals and one corporation.

e 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.

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

Note: Also see Table 7 in Breakdown of SFC activity data on page 165 for more details.

Regulatory engagement

We actively participate in global policymaking through our involvement in international standard-setting bodies and we collaborate closely with local, Mainland and overseas authorities on regulatory and market development initiatives.

International

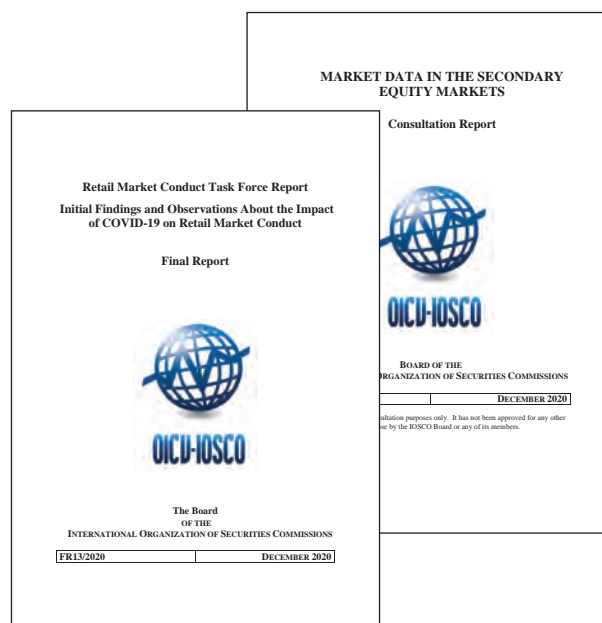
IOSCO

Our Chief Executive Officer (CEO) Mr Ashley Alder was reappointed as Chair of the Board of the International Organization of Securities Commissions¹ (IOSCO) in June 2020. During the COVID-19 pandemic, Mr Alder chaired regular calls and virtual meetings with the IOSCO Board to identify and address issues arising from the crisis and to share information about regulatory developments in capital markets.

We work closely with the IOSCO Secretariat and members to develop policy initiatives, facilitate collaboration between IOSCO and the Financial Stability Board (FSB), and promote interaction amongst members from emerging and developed economies. At the February 2021 Board meeting, IOSCO agreed to new priorities including financial stability and the systemic risks of non-bank financial intermediation activities as well as misconduct, fraud and the impact of COVID-19 on operational risks.

We participate in the IOSCO Financial Stability Engagement Group and its Steering Group to coordinate IOSCO's role in addressing financial stability risks with the FSB and providing technical analyses on issues arising from the pandemic.

Mr Alder co-chairs the CPMI²-IOSCO Steering Group, which coordinates regulatory policy work for the oversight and supervision of financial market infrastructures, and we also participate in its Policy Standing Group and Implementation Monitoring Standing Group.



The SFC actively contributes to IOSCO publications

In March 2021, Mr Alder took part in the EU-Asia-Pacific Forum on Financial Regulation. Senior representatives from the European Commission (EC), European Securities and Markets Authority and Asia-Pacific regulators exchanged views on sustainable finance and cross-border regulatory developments.

We participate in all eight IOSCO policy committees as well as the Committee on Emerging Risks, Assessment Committee and the Asia-Pacific Regional Committee (APRC).

- The SFC leads the APRC's working group on sustainable finance which aims to drive more consistent regulation in areas related to environmental, social and governance such as climate-related disclosures. Other APRC initiatives include enhancing regional supervisory cooperation and addressing cross-border regulation and market

¹ IOSCO is responsible for developing, implementing and promoting adherence to internationally recognised standards for securities regulation.
² The Committee on Payments and Market Infrastructures.

fragmentation. Our Chairman Mr Tim Lui and Ms Julia Leung, our Deputy CEO and Executive Director of Intermediaries, participated in an APRC meeting in November 2020.

- Ms Julia Leung serves as Vice-Chair of the IOSCO Sustainable Finance Task Force and co-leads a workstream on sustainability-related disclosures for asset management.
- We are a member of the Retail Market Conduct Task Force which published an interim report in December 2020 on its preliminary findings and suggested measures which IOSCO members can take in response to the challenges presented by the COVID-19 epidemic. We also participate in the Follow-Up Group to deepen regulatory and supervisory cooperation, the Fintech Network, the Cyber Task Force and the Data Analytics Group.
- We are also a member of the Committee on Regulation of Secondary Markets, which published a consultation report in December 2020 on access to market data.
- Ms Christina Choi, Executive Director of Investment Products, serves as Vice-Chair of the Committee on Investment Management. We lead the committee's exchange-traded fund (ETF) workgroup and co-lead a joint workgroup which explores conduct-related issues in the leveraged loans and collateralised loan obligations markets. Within the committee's Financial Stability Engagement Group, we are a member of the core expert group examining the liquidity of open-ended funds.
- We act as Vice-Chair of the Committee on Enforcement and the Exchange of Information which helps strengthen global securities law enforcement cooperation.

- We participate in IOSCO's cross-committee outsourcing project which in May 2020 consulted on proposed updates to the Principles for Outsourcing in light of the increased risks associated with recent developments in markets and technology.

FSB

In his role as IOSCO Board Chair, Mr Alder participated in FSB meetings during the year, including those of the Steering Committee, Plenary, Standing Committee on Supervisory and Regulatory Cooperation and Steering Committee Group on Non-bank Financial Intermediation to discuss financial stability and the implications of COVID-19 for asset management and sustainable finance.

We participate in the FSB Standing Committee on Standards Implementation, which oversees peer reviews and also evaluates reforms and monitors their implementation. We are a member of the FSB Regional Consultative Group for Asia. Its current policy focus is on the implications of the pandemic, the progress of benchmark transitions, financial stability and vulnerabilities affecting the region.

We are also a member of the FSB Cross-Border Crisis Management Group for Financial Market Infrastructures, which monitors and promotes the implementation of resolution regimes.

Mr Alder moderated an industry discussion on the impact of COVID-19 on the global financial system at the FSB Stakeholder Outreach Meeting in September 2020.

Regulatory engagement



The SFC-CSRC high-level meeting was held virtually in December 2020

Mainland China

To strengthen Hong Kong's unique position as the international financial centre connecting the Mainland and global financial markets, we proactively advance mutual cooperation initiatives with Mainland authorities and hold regular discussions with the China Securities Regulatory Commission (CSRC) to enhance cross-boundary regulatory and enforcement cooperation.

At the seventh and eighth biannual SFC-CSRC high-level meetings held virtually in June and December 2020, we discussed the potential risks arising from the pandemic and our regulatory responses, ways to reinforce Hong Kong's status as an international financial centre, cross-boundary market development and regulatory cooperation initiatives.

We maintain close, regular working-level communication with the CSRC through virtual conferences to exchange views on regulatory arrangements. These include the financial reporting of A+H share companies and the supervision of financial institutions. We explored ways to enhance Mainland-

Hong Kong mutual market access schemes, including expanding the number of eligible stocks under Stock Connect³, streamlining ETF cross-listing and enhancing the Mutual Recognition of Funds scheme. In addition, we engaged with Mainland exchanges and clearing houses to discuss their operations in Hong Kong and the further opening-up of the Mainland capital market.

We support the HKSAR⁴ Government in strengthening cooperative relationships with Mainland authorities to develop Hong Kong's financial services industry and gain greater access to the Mainland markets. To deepen financial integration within the Guangdong-Hong Kong-Macao Greater Bay Area, we are working closely with the Hong Kong Monetary Authority (HKMA) and other authorities to prepare for the launch of the Cross-boundary Wealth Management Connect Pilot Scheme. In January 2021, we entered into a memorandum of understanding (MoU) on the scheme with the People's Bank of China, China Banking and Insurance Regulatory Commission, CSRC, State Administration of Foreign Exchange, HKMA and the Monetary Authority of Macao.

Other engagement

To keep abreast of regulatory developments, we held virtual meetings and calls to discuss emerging regulatory developments with overseas regulators and other authorities, including the EC, Australian Securities and Investments Commission, New Zealand Financial Markets Authority, the Monetary Authority of Singapore (MAS), the US Securities and Exchange Commission and Commodity Futures Trading Commission, Autorité des marchés financiers of France, the UK Financial Conduct Authority and Japan's Financial Services Agency.

³ These include stocks listed on the Shanghai Stock Exchange STAR Market and Hong Kong-listed pre-revenue biotech stocks.

⁴ Hong Kong Special Administrative Region.

Regulatory engagement



(From left) Chairman Mr Tim Lui and CEO Mr Ashley Alder at an MoU signing ceremony with the Financial Reporting Council

We hosted the 12th Bilateral Regulatory Meeting between us and the Taiwan Financial Supervisory Commission in November 2020 to exchange views on regulators' use of technology, COVID-19 challenges and regulatory responses.

In November 2020, we signed an MoU with the MAS to deepen our cooperation in the oversight of central counterparties which provide clearing services in both Hong Kong and Singapore.

Locally, we entered into an MoU with the Competition Commission in April 2020 to enhance cooperation and the exchange of information. Following the introduction of a direct regulatory regime for insurance intermediaries, we signed an MoU with the Insurance Authority in September 2020 which covers information sharing, case referrals and joint inspections and investigations.

In February 2021, we concluded a new MoU with the Financial Reporting Council to strengthen the regulation of capital markets and foster closer cooperation in case referrals, joint investigations and information exchange.

Requests for regulatory cooperation

	2020/21		2019/20		2018/19	
	Received	Made	Received	Made	Received	Made
Enforcement-related requests for assistance	110	108	103	95	113	99
Licensing-related requests for assistance	128	3	143	18	121	597

Message from Chairman and CEO

Strategic Priorities

Mission and Mandates

Corporate Governance

Our People

Operational Review

Corporate Developments

Corporate Social Responsibility

Financial Statements

Supplementary Information

Stakeholders

We proactively engage with a broad range of stakeholders to promote a wider understanding of our work and provide up-to-date regulatory information.

Industry

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

The annual SFC Compliance Forum¹ was held in October 2020 and attracted 1,200 industry participants. We provided training to an industry association in the same month to share key observations from our cybersecurity thematic review and provide additional guidance for securities brokers.

We co-organised Hong Kong FinTech Week, where our senior management discussed our regulatory approach to virtual assets, in November 2020.

In November and December 2020, we organised three webinars to introduce new licensing-related features on WINGS², our online submission platform, with over 1,000 participants and two anti-money laundering webinars for 1,400 management and compliance personnel from licensed corporations³.

During the year, our senior executives took part in 60 speaking engagements on a wide range of topics within our remit, including listing regulation, asset management and climate finance. We supported 10 seminars or events organised by industry bodies.

Our Chief Executive Officer Mr Ashley Alder took part in a panel discussion on the impact of COVID-19 organised by the Asia Securities Industry & Financial Markets Association (ASIFMA) in May 2020 and presented a keynote address at the 7th EU-Asia Financial Services Dialogue event co-hosted by ASIFMA in March 2021.

When proposing rules under the Securities and Futures Ordinance, we consistently exceed statutory requirements for public consultation. We consult the public on proposed non-statutory codes and guidelines, as well as amendments to them. We issue consultation papers to detail our proposals and hold both formal and informal discussions to hear stakeholders' views as part of our consultation process.

After completing our analysis, we issue a consultation conclusions paper summarising the main comments received and setting out our conclusions. A total of eight consultation papers and six consultation conclusions were published in the year.



1 See Intermediaries on pages 46-53.

2 Web-based INteGrated Service.

3 See Intermediaries for more details.

Communicating on social media

Social media is now a big part of everyday life for many people in Hong Kong. In September 2020, we launched our official Facebook page as an additional platform to communicate with the public.

The page features the latest regulatory developments and updates, including highlights of publications and executive speeches and warnings to investors about market risks and unlicensed activity. We also share investor alerts and other content from the Investor and Financial Education Council, an SFC subsidiary.

To help us reach the local audience, our Facebook posts are in Chinese accompanied by eye-catching visuals. The page allows for instant and direct engagement, such as when we livestreamed our joint press conference with the Police in March 2021^a.

We also maintain an official SFC LinkedIn page featuring regular updates in English to keep the financial industry and other professionals informed of the latest developments of interest to them.



^a See the sidebar on ramp and dump schemes in Enforcement on pages 67-77.

Our publications aim to update the industry on our regulatory work, topical issues and other developments. This year, we issued 12 thematic publications, including newsletters, market reviews and surveys.

To help the industry better understand our regulatory requirements, we issue circulars and frequently-asked questions which we post on the SFC website. During the year, we published 65 circulars on various topics, including SFC-authorized real estate investment trusts, over-the-counter derivatives reporting, and the findings of our inspections of firms' anti-money laundering and counter-financing of terrorism measures.

We respond verbally or in writing to enquiries from the industry on topics related to our rules and regulations, including licensing, listings and takeovers matters, product authorisation and short position reporting. Designated e-mail addresses are provided to help us handle enquiries on specific topics more efficiently. The SFC Fintech Contact Point promotes communication

with businesses involved in the development and application of financial technology in the conduct of regulated activities in Hong Kong. We received 77 Fintech-related enquiries during the year.

Government

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

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

Stakeholders

Regulatory counterparts

We maintain close contact with local, Mainland and overseas regulatory counterparts. During the year, we signed five memoranda of understanding (MoU) with other authorities and held 49 MoU meetings.

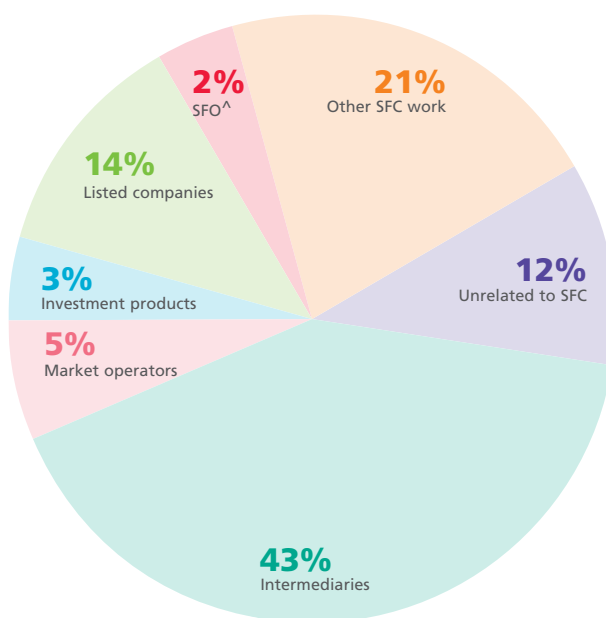
We are active in international regulatory cooperation and participate in both the International Organization of Securities Commissions and the Financial Stability Board⁴.

The public

We address public concerns and enquiries regarding the securities and futures markets. This year, we received 6,969 general enquiries by phone or in writing. We handled 6,384 complaints during the year.

Complaints against intermediaries and market activities are first reviewed by our Complaints Control Committee, which comprises senior executives from across the organisation, and are allocated to responsible divisions for assessment where appropriate.

General enquiries



^ Securities and Futures Ordinance.

Publications and other communications

	2020/21	2019/20	2018/19
Press releases	132	123	128
Policy statements and announcements	8	8	3
Consultation papers	8	4	5
Consultation conclusions	6	4	11
Industry-related publications	12	15	15
Codes and guidelines ^a	6	5	14
Circulars to industry	65	73	90
Corporate website average daily page views ^b	33,834	42,816	64,947
General enquiries	6,969	6,037	6,709

a Includes updates to previous versions.

b The average number of webpages browsed per day during the reporting period.

⁴ See Regulatory engagement on pages 78-81.

Our senior executives gave media interviews to foster public understanding of Hong Kong's financial regulatory framework and our role in it. Mr Alder participated in a virtual dialogue with Bloomberg in June 2020 to share his views on the regulatory response to COVID-19. We issued 132 press releases to inform the public of the latest regulatory actions and other SFC news.

We also published eight policy statements and announcements explaining our regulatory approach to specific issues.

We released our *Annual Report 2019-20* and quarterly reports to help stakeholders understand our work. Our reporting efforts were recognised with a Gold Award in the Hong Kong Management Association's Best Annual Reports Awards 2020 and a Gold Award, public sector category, in the Hong Kong Institute of Certified Public Accountants' Best Corporate Governance Awards 2020.



Mr Jimmy Tong, Director, Enforcement, at a Radio Television Hong Kong interview

On our corporate website, which we redesigned during the year, the public can easily obtain up-to-date information about our work and regulations.

Complaints against intermediaries and market activities

	2020/21	2019/20	2018/19
Conduct of licensees	802	583	453
Conduct of registered institutions	20	27	16
Listing-related matters and disclosure of interests	2,856	2,065	3,485
Market misconduct ^a	922	478	364
Product disclosure	85	14	8
Unlicensed activities	108	176	164
Breach of offers of investments	142	98	30
Boiler rooms and suspicious websites	600	486	378
Scams and frauds ^b	554	276	285
Other financial activities not regulated by SFC ^c	295	288	851
Total	6,384	4,491	6,034

a Primarily, alleged market manipulation and insider dealing.

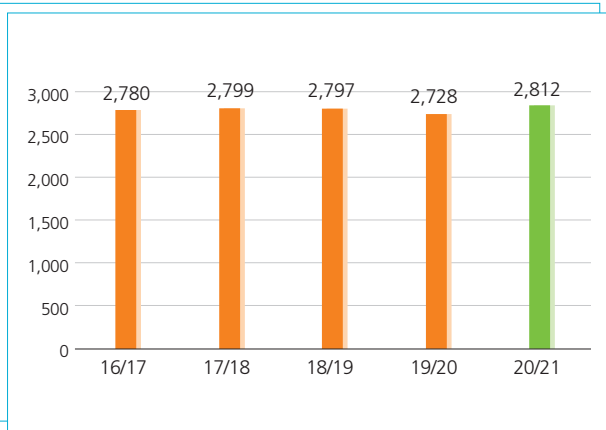
b Such as identity fraud and impersonation.

c For example, bullion trading and banking services.

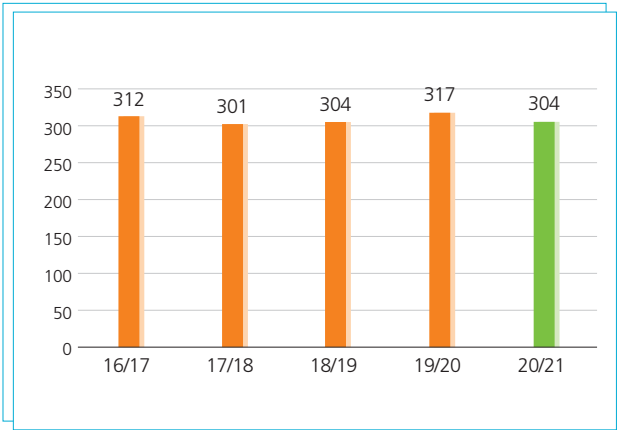
SFC activity data

These charts are intended to show some top-line data at a glance. See Breakdown of SFC activity data on pages 159-166 for more details.

Authorised collective investment schemes

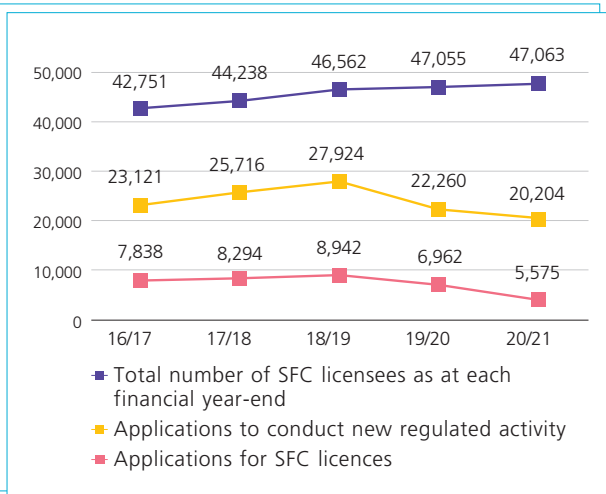


On-site inspections of intermediaries

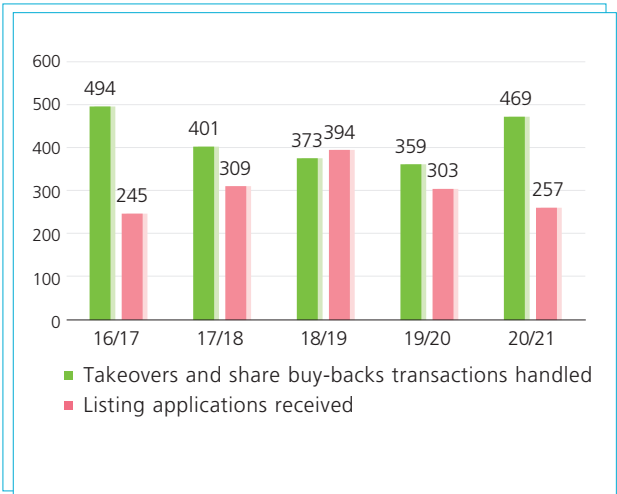


Note: Figures represent a snapshot view as at each financial year-end.

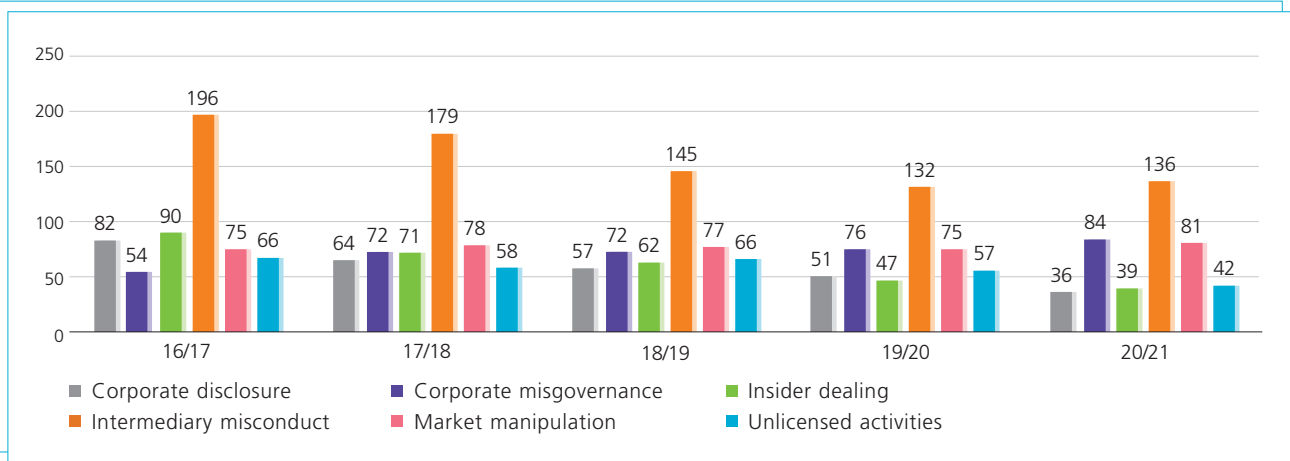
Licensing



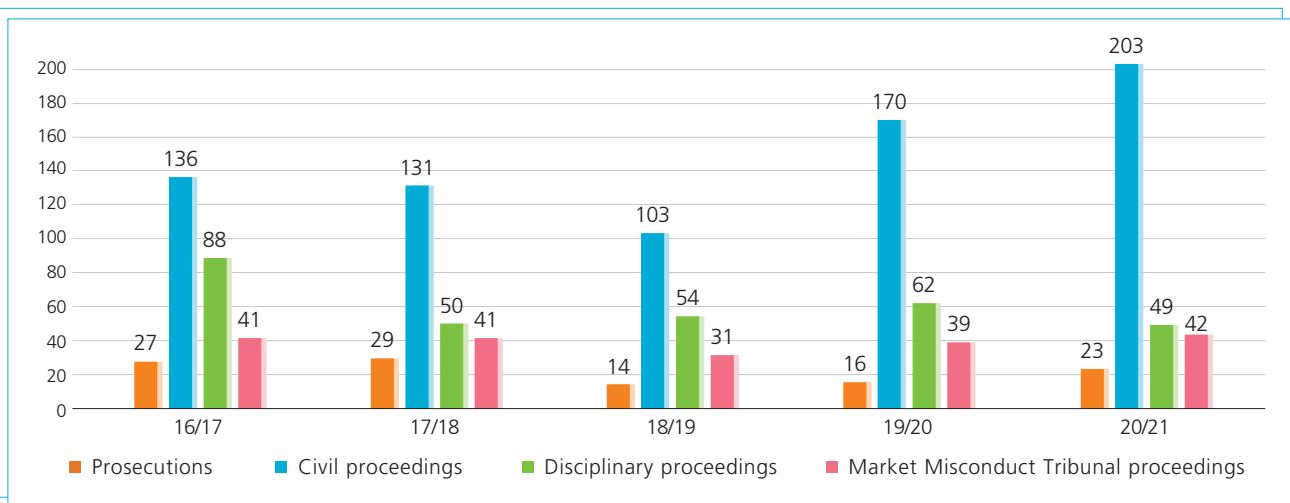
Takeovers and listing applications



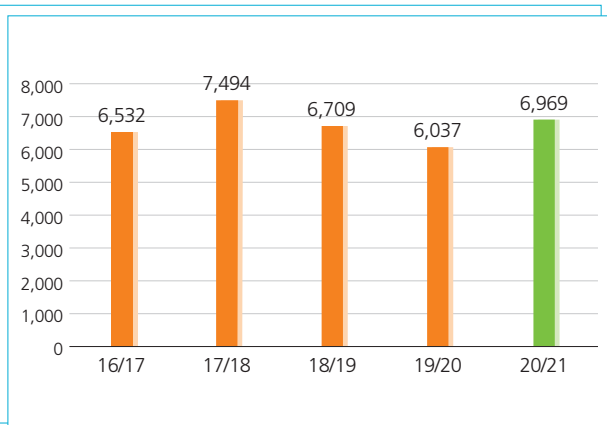
Investigations



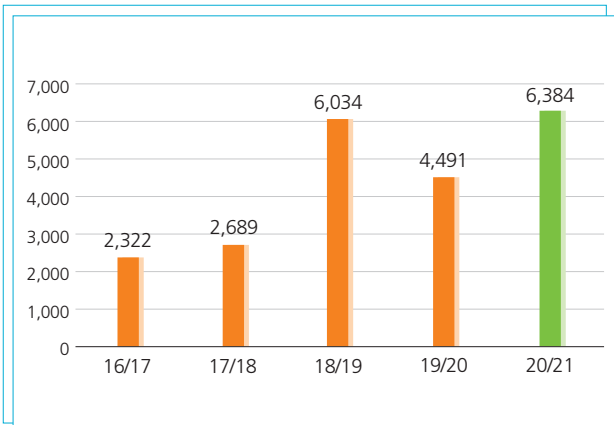
Persons/corporations subject to enforcement action



General enquiries



Complaints against intermediaries and market activities



Corporate Developments

Caring for the health and wellbeing of our staff is more important than ever. We foster a positive and supportive workplace culture to help make our workforce more productive and engaged. To ensure our regulatory effectiveness, we use our resources prudently and regularly upgrade our systems and technology infrastructure to keep in step with market developments.

People

We are committed to making the SFC an employer of choice. For the eighth consecutive year, the Employees Retraining Board (ERB) recognised our efforts to promote staff learning and development with an “ERB Manpower Developer” award.

Professional development

Our Chief Executive Officer (CEO) communicates important organisational matters and regulatory developments and addresses questions from staff at regular CEO sharing sessions, which were conducted virtually this year due to the pandemic. We also arrange internal Commission Connection sessions to update our staff on new policy initiatives.

We strive to provide staff with career development opportunities and we continued to fine tune our merit-based human resources policies to better align our people and culture with the SFC’s regulatory objectives.

Recognising the benefits of broader professional exposure, we offer short-term internal secondments for staff through a cross-divisional exchange programme. External secondment opportunities are also offered including with the Financial Services and the Treasury Bureau, the Financial Services Development Council and the China Securities Regulatory Commission (CSRC). This year, two CSRC counterparts were seconded to us under the SFC-CSRC memorandum of understanding.

Locally, we held joint training workshops with participants from the Hong Kong Police Force, Immigration Department and Hong Kong Monetary Authority. We also invited local and overseas regulators and industry professionals to share their views with us on a wide range of topics including financial products, trading strategies and the latest developments in overseas markets.

During the year, our employees spent an average of 18.8 hours on structured learning courses, which included workshops, seminars and training programmes.

A total of 55 summer, winter and full-year interns were placed across our various divisions this year.

Engaged workforce

We strive to cultivate a supportive culture and a positive working environment as our core values.

To raise staff awareness of the importance of mental health and holistic wellbeing, we organised webinars and provided reference materials to help them navigate the new normal both at work and at home (see sidebar on page 100).

To keep our operations sufficiently resourced at all times while safeguarding the health and wellbeing of our staff, we temporarily introduced a split-team arrangement for staff to work remotely on a rotating basis during the pandemic. This arrangement was based on employee feedback and operational needs.



Internal sharing session

The SFC Women’s Network helps to advance women’s professional development and leadership. We were the first statutory body in Hong Kong to set up a women’s group for staff.

Training

	2020/21	2019/20	2018/19
Percentage of employees who participated in internal training [^]	94%	93%	99%
Average hours of internal training per employee [^]	18.8	24.3	30.6

[^] Including lectures, workshops, seminars, webinars and e-learning.

Employee statistics

	As at 31.3.2021		As at 31.3.2020		As at 31.3.2019	
	Actual	Budget	Actual	Budget	Actual	Budget
Professional	743	805	736	805	727	779
Support	190	183	185	183	183	186
Total	933	988	921	988	910	965

	As at 31.3.2021	As at 31.3.2020	As at 31.3.2019
Male	315	312	303
Female	618	609	607
Average years of service	9.3	8.8	8.3
Female staff at Senior Manager grade or above	60%	60%	60%

Corporate Developments

Quality workplace

In July 2020, we relocated our office from Central to Quarry Bay, significantly reducing our rental expenses. The new office provides an open layout which allows us to make more efficient use of space and provide a greener working environment (see sidebar below).

Our recommended work practices and other measures help staff maintain social distancing in the workplace in conformity with the Government's anti-pandemic measures. Face masks are provided to staff in the office and the workplace is disinfected frequently.

A new home for the SFC

We relocated our office from Central to Quarry Bay in July 2020. The move brings all of our operations under one roof and provides facilities to meet our projected future operational needs.

An open and flexible office layout accommodates more seating capacity, allowing us to use space efficiently and furnish more rooms for meetings, interviews and team projects. State-of-the-art conference rooms and multi-function rooms are equipped with the latest audio-visual systems and greater network capacity to host web conferences and webinars.



Height-adjustable desks have been installed at all workstations to safeguard the health of staff and improve productivity. An air quality treatment system helps ensure a healthy working environment and wellness rooms afford privacy for relaxation and lactation.

To be environmentally-friendly, the office layout allows more sunlight into the open area. Sensors automatically turn off lights or dim them when sufficient daylight is available or no one is in the room. Bins for recycling paper, plastic, metal and glass are conveniently placed around the office.

To reduce wastage, some furniture and fixtures from our old office were sold to staff, with the proceeds donated to our Commission Volunteers Group^a, or donated to charities to be reused.

^a The Commission Volunteering Group, one of the SFC's corporate social responsibility working groups, organises volunteering opportunities for staff.

Communications

We communicate with the industry and the public through multiple channels¹, including senior executives' speaking engagements, consultations, industry briefings, circulars, publications, annual and quarterly reports and press releases. We address public complaints and enquiries about Hong Kong's securities and futures markets.

Our corporate website (www.sfc.hk), which provides up-to-date information about the SFC, was redesigned during the year to provide a better user experience.

We formulate and execute media strategies to enhance public understanding of our work by proactively engaging the media and explaining our policies, initiatives and regulatory actions. During the year, we set up a new communications team to pursue a more proactive external communication strategy. In addition, we introduced an official SFC Facebook page featuring updates on topics of interest to the general public.

Dual awards for public service

Two of our staff members were recognised in the 2020 Ombudsman's Awards for Officers of Public Organisations for their outstanding work in handling public complaints.

Karen Tang, Senior Manager of Intermediaries Supervision, received the award for her efforts to drive procedural changes which help us assess complaints against licensed corporations more consistently and efficiently. Tang joined the SFC in 2003 with a background as a professional accountant and auditor.

Maintaining a positive attitude and staying impartial are critical to ensure that both complainants and firms are treated fairly, Tang says. In the past, some complaints provided information which led her to uncover fraud, and helping the victims of those schemes has been especially rewarding.



Karen Tang, Senior Manager, Intermediaries Supervision

The other winner, Raymond Kwok, Manager of Complaints Team, Corporate Affairs, is very pleased to receive the award as recognition for his professionalism and dedication to serving the public. Handling complaints in the first instance on a daily basis, the most important thing for Kwok is to stay calm and professional.

Kwok is a chartered financial analyst and financial risk manager who worked for an asset management company before joining the SFC eight years ago. This background is an advantage in his work, he says, but he makes sure to use simple and direct language and avoid technical terms when explaining market operations to less informed members of the public.



Raymond Kwok, Manager, Complaints, Corporate Affairs

1 See Stakeholders on pages 82-85.

Corporate Developments

Legal support

Our Legal Services Division handles criminal cases and manages civil litigation and Market Misconduct Tribunal (MMT) cases initiated by the SFC. It also defends judicial reviews and other cases brought against the SFC.

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

Technology

Our information technology strategy focuses on digitalisation, information sharing and risk-detection capabilities.

To prepare for the introduction of a fully-digitalised licensing process, we previewed new electronic functions on our online submission platform, WINGS², including electronic signatures, web-based licensing forms with auto-fill and skip logic features and pre-set validation rules. These functions provide greater convenience for the industry and allow us to better integrate our front-loaded, risk-based approach into our licensing work. In addition, the scope of digital submissions accepted on the platform was broadened to cover more non-licensing matters.

We deployed artificial intelligence technology in new areas to allow us to detect risks more efficiently. We also launched a project to detect conflicts of interest by extracting and analysing information from initial public offering prospectuses about the roles of companies and individuals. Our market surveillance system was enhanced to detect more types of risks as well as to identify abnormal trading movements and other potential issues, including during the pre-opening session.



Internally, we expanded our remote access capacity to enable all staff to work from home if necessary during the pandemic. We also relocated our computing centre to a secured off-site location to provide more reliable around-the-clock service and flexible remote working arrangements. Our document management and search system was enhanced to boost productivity and efficiency.

Finance

As a publicly-funded organisation, we follow a disciplined approach to drawing up our budget. We appoint external investment managers to manage our reserves according to investment guidelines approved by the Financial Secretary. An independent external firm conducts an internal audit to assess the effectiveness of our controls and identify the key risks of our business processes each year³. This year, we also engaged an independent external firm to review our governance framework and procurement and expense management processes in more detail.

Funding

We are operationally independent of the Government and are funded mainly by transaction levies and fees from market participants. The current levy rate is 0.0027% for securities transactions, which is significantly lower than the initial rate of 0.0125% in 1989. We have not revised our fees and charges since 1994. We have offered full waivers for annual licensing fees seven times since 2009⁴ and a 50% discount was provided for 2019-2020. A full waiver was granted for 2020-2021 and extended for another year beginning 1 April 2021.

² Web-based INteGrated Service.

³ See Corporate Governance on pages 13-33.

⁴ The previous waivers covered 2009-10, 2012-14, 2014-16, 2016-18, 2018-19 and 2020-21.

Income

Total income for the year was \$3,008 million, up 89% from \$1,591 million last year. Owing to the higher securities market turnover in the current year, our levy income increased 59% from last year to \$2,276 million. Our income from fees and charges increased 11% from \$163 million to \$181 million. Our investment income increased as a result of the performance of our pooled fund investments.

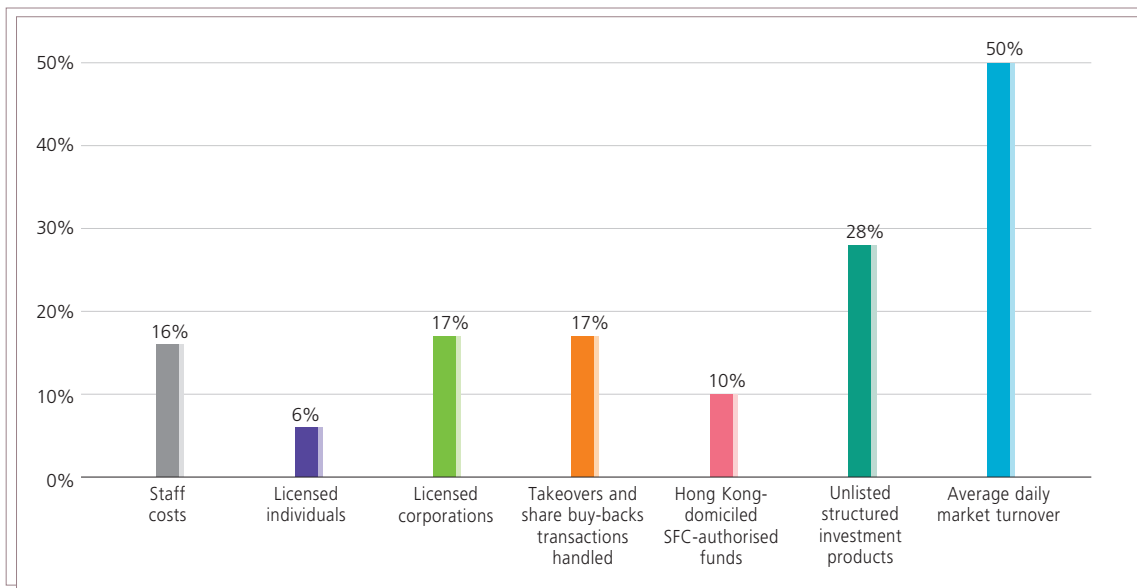
Expenditure

The costs of our operations totalled \$2,029 million, \$268 million below our original budget of \$2,297 million.

Over the past three years, our staff costs increased 16% while our regulatory work increased in both volume and complexity. The ratio of average expenses to income for the past three years was 92%. In the same period, the average increases in expenses and income were 5% and 22%, respectively.

Owing to the increase in income, we recorded a surplus of \$979 million for the year, compared to a deficit of \$375 million last year. As of 31 March 2021, our reserves stood at \$7.6 billion, of which \$3.1 billion was set aside for possible future acquisition of office premises.

Three-year change in staff costs and market statistics (2017/18-2020/21)



Finance

(\$ million)	2020/21	2019/20	2018/19
Income	3,008	1,591	1,759
Expenses including depreciation	2,029	1,966	1,854
Surplus/(Deficit)	979	(375)	(95)

Corporate Developments

Income breakdown

	2020/21	2019/20	2018/19
Levies	75.7%	90%	84.3%
Fees and charges	6%	10.2%	7.2%
Net investment income and others [^]	18.3%	-0.2%	8.5%

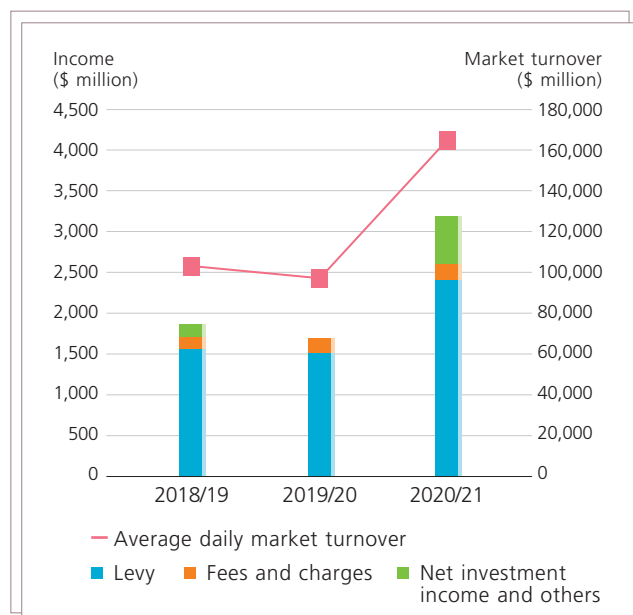
[^] Net investment income and others included foreign exchange gain or loss.

Expenditure breakdown

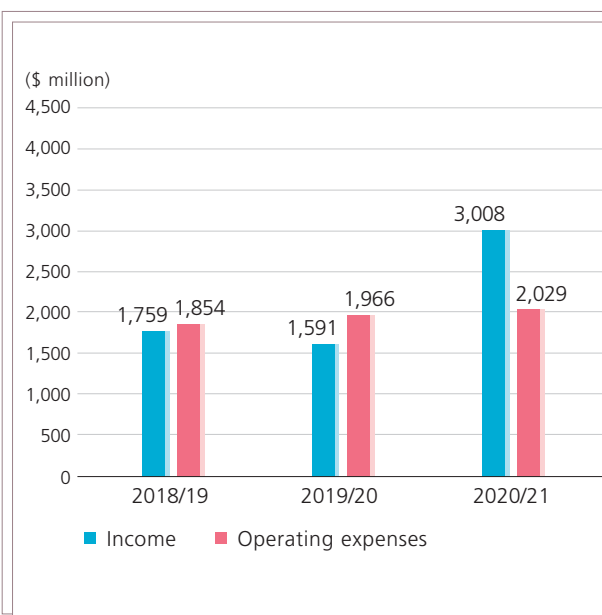
	2020/21	2019/20	2018/19
Staff costs	73.2%	72.2%	73.1%
Premises and related expenses [^]	2.5%	2.3%	13.3%
Other expenses	8.7%	12.1%	11.7%
Depreciation [^]	15.6%	13.4%	1.9%

[^] Operating lease expenses were recorded as depreciation from 2019/20 onwards due to a change in accounting policy.

Income vs market turnover (2018/19-2020/21)



Income and operating expenses (2018/19-2020/21)



Corporate Social Responsibility

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

Governance

As a regulator in an international financial centre, we are committed to acting as a socially responsible organisation and incorporating corporate social responsibility (CSR) principles into our daily operational decisions and practices.

Reporting directly to the SFC's Executive Committee, the CSR Committee plans and coordinates our CSR efforts. It is chaired by the Chief Financial Officer and Senior Director of Corporate Affairs and its members include representatives from different units across the organisation.

The committee is responsible for:

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

The CSR Committee has three working groups: the Commission Volunteers Group, Green Working Group and Wellness Group. Each is charged with planning and implementing initiatives under a specific theme.



Donation to Neighbourhood Advice-Action Council



Red packet recycling

Corporate Social Responsibility

CSR working groups and themes

	Focus	2020/21	2021/22
Commission Volunteers Group 	Community	Spread love and joy	Make a difference
Green Working Group 	Environment	Go the extra mile for a green lifestyle	Build a greener SFC
Wellness Group 	People	Better health, better self	Stay healthy, stay happy

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

Our CSR efforts were recognised by the Hong Kong Council of Social Service which has named us a "Caring Organisation" since 2006 and awarded us the "15 Consecutive Years Logo" this year.



Marketplace support

As a regulator of Hong Kong's financial markets, we adopt measures to enhance industry-wide operational efficiency and minimise resource consumption for both the SFC and industry participants. We also promote environmentally responsible practices.

Sustainable finance

Supporting Hong Kong's development as a regional green and sustainable finance hub is a key priority for the SFC. We drive and coordinate efforts locally and internationally, including through the Green and Sustainable Finance Cross-Agency Steering Group we

co-chair with the Hong Kong Monetary Authority. We collaborate with stakeholders to promote sustainable finance initiatives and investor awareness of them.¹

Industry-wide operational efficiency

To reduce the industry's compliance burden and paper consumption, we ceased to issue printed licences² to licensed individuals in 2015. Details of licensed individuals are now only available on our online Public Register of Licensed Persons and Registered Institutions. Extending the mandatory online submission of annual returns and notifications to cover all intermediaries starting April 2019 also saves paper.

From October 2020 onwards, documents on display under the Takeovers Code are required to be submitted electronically on WINGS³, a one-stop platform for making electronic submissions to the SFC. To increase efficiency and be more environmentally friendly, submissions using a recordable CD or DVD are no longer required. In addition, an online system is available to streamline the submission and posting of Rule 22⁴ dealing disclosures.

In December 2020, new functions were introduced to WINGS to facilitate more straight-through processing and pave the way for a fully-digitalised licensing process which we plan to launch later this year⁵.

¹ See Green and sustainable finance on pages 60-62.

² We continue to issue printed licences for licensed corporations and certificates of registration for registered institutions, and these must be exhibited prominently at their places of business.

³ Web-based INteGrated Service.

⁴ Required disclosures during an offer period under the Takeovers Code.

⁵ See Intermediaries on pages 46-53.

Professional competence and financial literacy

Our continuous professional training (CPT) requirements⁶ help to enhance the competence of licensees. This year, our executives delivered 35 hours of CPT-eligible training.

We also fund the Investor and Financial Education Council which is dedicated to improving financial literacy in Hong Kong.

Community

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

This year, despite the impact of COVID-19 and social distancing measures, 20 staff spent a total of 40 hours volunteering to help the underprivileged and elderly during this difficult time.

Our staff also support community services through donations and participating in fundraising events. During the year, we raised a total of \$47,739 through three Community Chest events: Love Teeth Day, Dress Casual Day and Skip Lunch Day.

Donating used items to charities enables us to help people in need and reduce waste. This year, we gave a large quantity of electrical appliances and office furniture a second life by donating them to the Crossroads Foundation and the New Sight Eye Care following our office relocation.

Volunteering events

Month	Activity	Purpose	Outcome
May 2020	Donate to support Food Angel	To provide for the everyday needs of the less privileged during critical times	Over 100 packs of rice and other food items and protective supplies were donated
June 2020	Office furniture donation	To give away items made available due to office relocation to those in need	Office chairs, refrigerators and microwave ovens donated to Crossroads Foundation and New Sight Eye Care
October 2020 – March 2021	Phone call support to the elderly	To provide emotional support and care to the elderly during the pandemic	20 volunteers had weekly phone chats with the elderly over one-month periods
December 2020	Support to Neighbourhood Advice-Action Council	To offer care and help to the underprivileged during challenging times	Staff collected more than 100 boxes of face masks and other protective supplies for donation

Contributions

	2020/2021	2019/20	2018/19
Number of staff participating in volunteering activities	20	74	120
Total volunteering hours	40	263	465
Funds raised for community causes	\$47,739	\$82,246	\$150,787

⁶ Under the SFC's Guidelines on Continuous Professional Training, licensees are required to complete a minimum of five CPT hours per calendar year for each type of regulated activity.

Corporate Social Responsibility

Environment

We strive to manage our consumption and minimise our carbon footprint. An internal protocol, *A Guide to Working "Green" at the SFC*, sets out guidance for staff to protect the environment at the workplace.

Energy-conserving features were introduced in our new office including motion and daylight sensor lighting. The office layout was designed to allow more natural sunlight. Recycling bins are conveniently available at multiple locations across the office.

To reduce paper consumption, we use electronic processes for internal procedures. Meeting materials are shared on tablet computers and paperless diaries are available.

Other green practices adopted in our workplace to use resources more efficiently include:

- reducing electricity usage at our data centres;
- automatically turning off desktop computers every weekend; and
- setting black and white printing as the default for all staff.



No Air Con Night poster

We organise activities for our staff and their family members to raise environmental awareness. This year, we arranged online workshops on making eco-enzyme cleaners and promoting an eco-friendly lifestyle during the pandemic. We recycled used red packets in support of Greeners Action's campaign and encouraged staff's participation in Green Sense's No Air Con Night.

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

- No Shark Fins Policy: We have in place an organisation-wide policy pledging not to serve shark fins at any SFC event.
- Earth Hour 2021: We took part in this annual energy conservation event for the eleventh year. We encouraged staff to switch off lights for one hour and made a pledge as a corporate supporter.

Consumption and recycling

	2020/21	2019/20	2018/19
Consumption			
Paper (pieces/head)	7,321	8,712	9,977
Electricity (kWh)	3,055,590	4,188,211	4,095,518
Recycling			
Paper (kg)	66,464	35,897	31,251
Toner and printer ink cartridges	897	949	1,151

Workplace

We attach high importance to staff’s wellbeing and strive to maintain both their physical and mental health.

Height adjustable desks are installed at all regular workstations for improved ergonomics. To cater to the needs of working mothers, well-equipped wellness rooms are designed specifically for lactation.

We also organised activities to encourage healthier lifestyles and promote health awareness during the year:

- online class on stretching exercises and meditation techniques;
- webinar on keeping fit with smart eating habits;
- talk to help better understand attention-deficit/hyperactivity disorder; and
- optical health talk.

We are a founding member of the City Mental Health Alliance Hong Kong (CMHA HK). Through our active participation in its activities, we are dedicated to creating positive mental health for our staff and the wider community and promoting best practices for corporate policies.

We have been participating in the CMHA HK Mental Health in the Workplace Surveys to help better address and support mental health and wellbeing in the business community.

Recognising the challenges arising from the COVID-19 pandemic, we stepped up our mental wellbeing strategy to provide more support for our staff and their families (see sidebar on page 100 for details).



Support to Food Angel



Online eco-enzyme workshop

More accessible mental care

The COVID-19 pandemic presents challenges for managing mental health issues. These issues may be subtle, making them hard to identify. As part of our commitment to providing a healthy working environment, we offered our employees as well as their immediate family members 24-hour confidential and professional counselling support services through a more comprehensive Employee Assistance Programme.



CEO Mr Ashley Alder at the Mental Health Philanthropy Symposium

We also provided additional resources to our staff to raise their awareness of mental health. As aids to navigate the pandemic's new normal both at work and at home, we organised webinars on physical and emotional wellbeing and provided more reference materials on

a dedicated mental health section of our intranet. An e-newsletter was published to mark the World Mental Health Day which gave staff access to virtual events lined up by the World Health Organization featuring speakers and artists from different countries.

This year, we supported the Mental Health Philanthropy Symposium hosted by Mind Hong Kong to raise awareness of the need for resources to support local mental health charities.

Securities and Futures Commission

Independent auditor's report To the Securities and Futures Commission

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

Opinion

What we have audited

The consolidated financial statements of Securities and Futures Commission (the SFC) and its subsidiaries (the Group) set out on pages 105 to 131, which comprise:

- the consolidated statement of financial position as at 31 March 2021;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

Basis for opinion

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

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

Independence

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

Key audit matters

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

The key audit matter identified in our audit is the valuation of investments.

Valuation of investments

The aggregate carrying value of the Group's investment portfolio was HK\$4,576 million, which represented 51% of consolidated total assets as at 31 March 2021.

The investment portfolio comprise of i) debt securities and pooled funds (equity instruments) with a total value of HK\$1,444 million which is carried at fair value through profit or loss and ii) debt investments with a total value of HK\$3,132 million which were accounted for at amortised cost.

The Group's debt and equity instruments at fair value through profit or loss are categorised under the Level 1 and 2 in the fair value hierarchy and valued based on market prices or valuation models using market observable inputs.

We identified valuation of investments as a key audit matter because of the size of these items in the financial statements, the impact of changes in valuation on the profit and loss and the management judgments and assumptions used in assessing expected credit losses (ECL) associated with the financial instruments carried at amortised cost.

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

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

Key audit matters (continued)

How our audit addressed the Key audit matter

The audit procedures we performed in connection with the valuation of investments included:

- For Level 1 and Level 2 financial instruments, we compared the fair values applied by the Group with publicly available market data on a sample basis. For investments in the pooled funds, we performed a look-through analysis to understand the underlying investments and the basis of valuation for a sample of these investments.
- For Level 2 financial instruments, we involved our internal valuation specialists to carry out independent valuations by developing valuation models, identifying and obtaining relevant inputs from publicly available market data and comparing the results against fair values recorded by the Group on a sample basis.
- We assessed the appropriateness of the ECL methodologies and assumptions associated with the financial instruments carried at amortised cost. The methodologies and assumptions include economic indicators selected by management, economic scenarios and probability weightings applied by management. We assessed the reasonableness of the economic indicators and performed sensitivity analysis to understand the impact of changes in economic indicators, scenarios and weightings on the ECL result. We examined data inputs to the ECL calculation on a selected sample, including historical data and data at the measurement date, to assess their accuracy and completeness.

Based on the procedures we performed, we found that the valuation of investments are supported by available evidence and the models, key parameters, significant judgements and assumptions adopted by management were considered acceptable. We found that management's estimates and judgements made in determining the ECL for financial instruments carried at amortised cost to be acceptable.

Notes 3(h), 9, 10 and 21(f)(i) to the consolidated financial statements sets out the Group's accounting policies relating to this matter, detailed breakdown of these investments and the respective fair value hierarchy disclosures.

Other information

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

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

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

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Peter Po-ting Li.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 1 June 2021

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Income			
Levies	2(a)	2,276,152	1,430,678
Fees and charges	2(b)	181,444	162,847
Net Investment income			
Investment income	5	538,489	48,233
Less: custody and advisory expenses		(10,563)	(7,857)
Recoveries from the Investor Compensation Fund		6,011	5,989
Exchange gain/(loss)		14,458	(49,510)
Other income	6	1,752	528
		3,007,743	1,590,908
Expenses			
Staff costs and directors' emoluments	7	1,485,446	1,419,420
Depreciation			
Fixed assets	11	85,216	44,015
Right-of-use assets	12	230,232	218,796
Other premises expenses		51,592	45,456
Finance costs	12	9,154	3,487
Other expenses	8	166,735	235,036
		2,028,375	1,966,210
Surplus/(loss) and total comprehensive income for the year		979,368	(375,302)

The notes on pages 110 to 131 form part of these financial statements.

Consolidated statement of financial position

As at 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Non-current assets			
Fixed assets	11	291,496	135,712
Right-of-use assets	12	978,261	324,040
Deposits for leases		37,656	33,767
Financial assets at amortised costs – debt securities	9	3,023,857	1,600,123
		4,331,270	2,093,642
Current assets			
Financial assets at amortised costs – debt securities	9	107,673	984,239
Financial assets at fair value through profit or loss			
Debt securities	10	425,610	419,469
Pooled funds	10	1,018,610	648,510
Debtors, deposits and prepayments	17	336,704	265,200
Fixed deposits with banks	13	2,641,008	2,832,302
Cash at bank and in hand	13	65,287	51,871
		4,594,892	5,201,591
Current liabilities			
Fees received in advance		8,198	47,097
Creditors and accrued charges	15	186,408	167,043
Lease liabilities	12	137,461	96,115
Provisions	16	574	66,532
		332,641	376,787
Net current assets		4,262,251	4,824,804
Total assets less current liabilities		8,593,521	6,918,446

Consolidated statement of financial position (continued)

As at 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Non-current liabilities			
Lease liabilities	12	830,887	203,558
Provisions	16	88,346	19,968
		919,233	223,526
Net assets			
		7,674,288	6,694,920
Funding and reserves			
Initial funding by Government	18	42,840	42,840
Reserve for property acquisition	23	3,125,000	3,000,000
Accumulated surplus		4,506,448	3,652,080
		7,674,288	6,694,920

Approved and authorised for issue by the SFC on 1 June 2021 and signed on its behalf by

Tim Lui
Chairman

Ashley Alder
Chief Executive Officer

The notes on pages 110 to 131 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

	Initial funding by Government \$'000	Reserve for property acquisition \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2019	42,840	3,000,000	4,027,382	7,070,222
Loss and total comprehensive income for the year	–	–	(375,302)	(375,302)
Balance at 31 March 2020 and 1 April 2020	42,840	3,000,000	3,652,080	6,694,920
Surplus and total comprehensive income for the year	–	–	979,368	979,368
Transfer to reserve for property acquisition	–	125,000	(125,000)	–
Balance at 31 March 2021	42,840	3,125,000	4,506,448	7,674,288

The notes on pages 110 to 131 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Cash flows from operating activities			
Surplus/(loss) for the year		979,368	(375,302)
Adjustments for:			
Depreciation – Fixed assets		85,216	44,015
Depreciation – Right-of-use assets		230,232	218,796
Reversal of reinstatement provision		(21,976)	–
Finance costs		9,154	3,487
Interest income on deposits for leases		(284)	(16)
Investment income		(538,489)	(48,233)
Exchange (gain)/loss		(14,574)	49,680
Loss on disposal of fixed assets		4,889	3
		733,536	(107,570)
(Increase)/decrease in right-of-use assets		(50)	303
Increase in deposits for leases		(5,143)	(33,751)
Increase in debtors, deposits and prepayments		(79,297)	(55,713)
(Decrease)/increase in fees received in advance		(38,899)	38,247
Decrease in creditors and accrued charges		(3,223)	(22,135)
Decrease in provisions for reinstatement		(44,556)	–
Net cash generated from/(used in) operating activities		562,368	(180,619)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		280,413	1,298,674
Interest received		119,761	161,139
Debt securities at fair value through profit or loss purchased		(199,107)	(544,263)
Debt securities at fair value through profit or loss sold or redeemed		192,697	934,628
Pooled funds sold		80,978	154,595
Debt securities at amortised cost purchased		(1,542,688)	(1,642,784)
Debt securities at amortised cost redeemed at maturity		984,463	573,495
Fixed assets purchased		(218,840)	(84,895)
Proceeds from fixed assets disposal		2	–
Net cash (used in)/generated from investing activities		(302,321)	850,589
Cash flows from financing activities			
Principal element of lease payments		(149,200)	(202,734)
Interest element of lease payments		(9,154)	(3,487)
Net cash used in financing activities		(158,354)	(206,221)
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		753,406	289,657
Cash and cash equivalents at the end of the year	13	855,099	753,406

Analysis of the balance of cash and cash equivalents

	2021 \$'000	2020 \$'000
Fixed deposits with banks	789,812	701,535
Cash at bank and in hand	65,287	51,871
	855,099	753,406

The notes on pages 110 to 131 form part of these financial statements.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

1. Status and principal activities

The Securities and Futures Commission (SFC) is governed by Part II of the Hong Kong Securities and Futures Ordinance (SFO). Under the SFO, the SFC has a duty to ensure an efficient, fair and transparent market and to promote public confidence and investor awareness in Hong Kong's securities, futures and related financial markets. In performing its duty, the SFC is required to act in the interest of the public and ensure that improper and illegal market activities are properly investigated. The registered office and principal place of business of the SFC is 54/F, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong.

2. Income

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

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

The SFC also generates investment income from fixed deposits and investments in debt securities and pooled funds.

3. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. Significant accounting policies adopted by the SFC and its subsidiaries (together, the Group or We) are set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. None of these new and revised HKFRSs have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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

Notes to the consolidated financial statements

For the year ended 31 March 2021 (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 as the measurement basis except that financial assets at fair value through profit or loss are stated at their fair value (see note 3(h)). The accounting policies have been applied consistently by the Group entities.

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

Critical accounting estimates and judgements are those items that will have a significant effect on the Group's reported results and financial position.

The classification of debt securities requires judgement. In making this judgement, we evaluate business model and the contractual cash flows characteristics of these securities. The measurement of fair value for financial instruments is determined by using either publicly available market data or valuation models. We use our judgement to select the appropriate method for fair value measurement (see note 3(h)).

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

(c) Basis of consolidation

Subsidiaries are entities controlled by the SFC. The SFC controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. When assessing whether the SFC has power, only substantive rights are considered.

Inter-company transactions and balances between group companies are eliminated.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

(d) Recognition of income

We recognise income in the statement of profit or loss and other comprehensive income when or as it satisfies a performance obligation by transferring promised services to the customers in an amount to which the Group expects to be entitled in exchange for these services. We record our income as follows:

(i) Levies

We recognise levies from SEHK and HKFE as income over time on an accrual basis.

(ii) Fees and charges

We recognise annual fees as income on a straight-line basis over the periods to which they relate as the services are performed over time. We record other fees and charges as income once the service is performed. We record other fees and charges received in advance as a liability.

For interest income, we record interest income as it accrues using the effective interest method. It comprises (a) interest earned on bank deposits and debt securities; and (b) the amortisation of premiums or discounts on purchases of debt securities measured at amortised cost.

For net gain/loss on financial assets, the change in fair value or disposal of financial assets are recognised in profit or loss as they arise.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(e) Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Lease liabilities included fixed lease payments less any lease incentives receivable, variable lease payment based on an index or a rate, amounts expected to be payable under residual value guarantees and payments of penalties for terminating the lease. The lease liabilities are initially measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at the lease commencement date. The lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss using the incremental borrowing rate on the remaining balance of the lease liabilities for each period. The lease liabilities are reduced by an amount equal to the lease payments made less the finance costs charged for that period.

The right-of-use assets are measured at the amount equal to the initial measurement of the lease liability, adjusted for any prepaid lease payments, lease incentives received, any initial direct costs or reinstatement provisions relating to that lease. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

(f) Employee benefits

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

(g) Fixed assets and depreciation

We state fixed assets at historical cost less accumulated depreciation and any impairment losses (see note 3(o)). Historical cost includes expenditure that is directly attributable to the acquisition of the items. We charge depreciation to the statement of profit or loss and other comprehensive income using the straight-line method over the estimated useful lives from the point at which the asset is ready for use as follows:

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

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

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

We review the assets' residual values and useful lives and adjust, if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(h) Financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss; and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual term of the cash flows.

For assets measured at fair value, gains and losses will be recorded in profit or loss.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on settlement-date, the date on which the assets are delivered to the Group. From this date, we record in our books any gains and losses arising from changes in fair value of the financial assets held at fair value through profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, we measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Investments in debt securities and pooled funds are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Amortised cost:

Investments in debt securities that are held for the collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in investment income using the effective interest rate method. Any gain or loss arising from derecognition is recognised directly in the statement of profit or loss and other comprehensive income. Impairment losses are presented as a separate line item in the statement of profit or loss and other comprehensive income.

FVPL:

Changes on fair value of investments in debt securities and pooled funds that are subsequently measured at FVPL are recognised in the statement of profit or loss and other comprehensive income and presented net within other gains/losses in the period in which they arise.

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. The fair value is determined based on the Group's share of the net assets of the pooled funds as determined by the custodian.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(h) Financial assets (cont'd)

(iv) Impairment

We assess on a forward looking basis the expected credit losses associated with our financial instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(i) Related parties

For the purpose of these financial statements, we consider that the following are related parties of the Group:

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

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

(j) Translation of foreign currencies

We translate foreign currency transactions during the year into Hong Kong dollars at the exchange rates ruling at the transaction dates. We translate monetary assets and liabilities denominated in foreign currencies into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. We recognise exchange gains and losses on translation in the statement of profit or loss and other comprehensive income.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(k) Debtors, deposits and other receivables

We state debtors, deposits and other receivables initially at their fair value and thereafter at amortised cost less impairment losses. We hold the balance with the objective of collecting the contractual cash flows and therefore measure them subsequently at amortised cost using the effective interest method. See note 3(h)(iv) for further information about the Group's accounting policy for impairment.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, fixed deposits with banks and other financial institutions with original maturities of three months or less that are readily convertible to known amounts of cash.

(m) 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 material, in which case they are stated at cost.

(n) Separate financial statements

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

(o) Impairment of non-financial assets

We review the carrying amounts of the Group's assets at the end of each reporting period to determine whether there is any objective evidence of impairment. If any such evidence exists, we estimate the asset's recoverable amount, which is the higher of its net selling price and value in use. We recognise in the statement of profit or loss and other comprehensive income the difference between the asset's carrying amount and the recoverable amount as an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount.

We reverse an impairment loss in respect of an asset in a subsequent period if the circumstances and events that are objectively linked to the write down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. We reverse an impairment loss only to the extent that the asset's carrying amount does not exceed the carrying amount that we should have determined, net of depreciation and amortisation, if we had not recognised any impairment loss.

(p) Provisions and contingent liabilities

We recognise a provision in the statement of financial position when the Group has a legal or constructive obligation 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.

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 2021 (Expressed in Hong Kong dollars)

5. Investment income

	2021 \$'000	2020 \$'000
Interest income from bank deposits	25,513	86,295
Interest income from financial assets at FVPL – debt securities	7,923	15,468
Interest income from debt securities at amortised cost	58,634	38,573
Net gain/(loss) on financial assets at FVPL – pooled funds	447,985	(112,043)
Net (loss)/gain on financial assets at FVPL – debt securities	(1,566)	19,940
	538,489	48,233

6. Other income

	2021 \$'000	2020 \$'000
Investigation costs awarded	1,349	163
Sale of SFC publications	114	138
Others	289	227
	1,752	528

7. Staff costs and directors' emoluments

	2021 \$'000	2020 \$'000
Salaries and allowances	1,345,042	1,289,531
Retirement benefits	91,299	85,187
Medical and life insurance	44,692	39,343
Staff functions	1,058	1,924
Recruitment	2,379	1,833
Registration and membership fees	976	1,602
	1,485,446	1,419,420

The total number of staff as at 31 March 2021 was 959 (933 for the SFC, 23 for the Investor and Financial Education Council and 3 for the Investor Compensation Company Limited) (as at 31 March 2020: the total number of staff was 947 comprising 921 for the SFC, 23 for the Investor and Financial Education Council and 3 for the Investor Compensation Company Limited).

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

7. Staff costs and directors' emoluments (cont'd)

Directors' emoluments included in the above comprised:

	Directors' fee \$'000	Salaries, allowances and benefits in kind \$'000	Discretionary pay \$'000	Retirement scheme contributions ¹ \$'000	2021 Total \$'000	2020 Total \$'000
Chief Executive Officer						
Ashley Alder, SBS, JP	-	7,146	2,144	715	10,005	10,243
Executive Directors						
Julia Leung Fung-yee, SBS	-	5,150	1,545	515	7,210	7,210
Thomas Atkinson	-	4,635	1,112	463	6,210	6,195
Christina Choi Fung-yee	-	4,473	1,163	447	6,083	5,959
Brian Ho Yin-tung	-	4,962	1,290	496	6,748	6,699
Rico Leung Chung-yin (appointed 28 August 2019 ²)	-	4,397	1,143	440	5,980	3,526
Keith Lui Kei-kwong (retired 27 August 2019 ³)	-	-	-	-	-	3,406
	-	30,763	8,397	3,076	42,236	43,238
Non-executive Chairman						
Tim Lui Tim-leung, SBS, JP	1,255	-	-	-	1,255	1,255
Non-executive Directors						
Albert Au Siu-cheung, BBS (retired 25 May 2019 ⁴)	-	-	-	-	-	48
Agnes Chan Sui-kuen	314	-	-	-	314	314
Clement Chan Kam-wing, MH, JP (appointed 26 May 2019)	314	-	-	-	314	267
Edward Cheng Wai-sun, GBS, JP	314	-	-	-	314	314
Victor Dawes, SC (appointed 1 August 2020)	209	-	-	-	209	-
Lester Garson Huang, SBS, JP	314	-	-	-	314	314
Dr James C Lin	314	-	-	-	314	314
Nicky Lo Kar-chun, SBS, JP (appointed 24 April 2019)	314	-	-	-	314	294
Mary Ma Xuezheng (retired 23 April 2019 ⁵)	-	-	-	-	-	18
Dr William Wong Ming-fung, SC, JP (retired 31 July 2020 ⁶)	105	-	-	-	105	314
	3,453	-	-	-	3,453	3,452
Total directors' emoluments	3,453	30,763	8,397	3,076	45,689	46,690

¹ This represents net contribution expenses accrued during the year ended 31 March 2021 in accordance with the accounting policy set out in note 3(f) on page 112. The future payment of contributions is subject to completion of a vesting period, which is based on total years of service with the SFC. The amount vested as at 31 March 2021 was \$2,521,000 (as at 31 March 2020: \$2,365,000).

² Mr Rico Leung's emoluments in prior year covered the period from 28 August 2019, when his appointment took effect, to 31 March 2020.

³ Retired having completed appointment period.

⁴ Retired having completed appointment period of four years.

⁵ Retired having completed appointment period of five and a half years.

⁶ Retired having completed appointment period of six years.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

7. Staff costs and directors' emoluments (cont'd)

The aggregate of the emoluments of the five highest paid individuals, representing the emoluments of the Chief Executive Officer and four senior management, was \$36,403,000 (2020: \$36,433,000) with the breakdown as follows:

	2021 \$'000	2020 \$'000
Salaries and allowances	26,387	26,244
Discretionary pay	7,377	7,565
Retirement scheme contributions	2,639	2,624
	36,403	36,433

Their emoluments are within the following bands:

	2021 No. of individuals	2020 No. of individuals
\$6,000,001 to \$6,500,000	2	2
\$6,500,001 to \$7,000,000	1	1
\$7,000,001 to \$7,500,000	1	1
\$10,000,001 to \$10,500,000	1	1

Employee benefits

We provide retirement benefits to our staff through a defined contribution scheme under the Occupational Retirement Schemes Ordinance (ORSO Scheme) and a Mandatory Provident Fund Scheme (MPF Scheme). Prior to the inception of the MPF Scheme, all general grade staff were included in the Group's ORSO Scheme. Following the introduction of the MPF Scheme in December 2000, new general grade staff have since been covered under the MPF Scheme while executive staff have been allowed to opt for either the Group's ORSO Scheme or the MPF Scheme.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

7. Staff costs and directors' emoluments (cont'd)

Employee benefits (cont'd)

(a) ORSO Scheme

(i) General grade staff

For general grade staff, we make monthly contributions which are a percentage of the fixed pay, subject to a vesting scale with the benefit fully vested upon completion of 10 years' service. We reinvest forfeited contributions for general grade staff who leave the Group prior to qualifying for 100% disbursement of the contributions into the total pool of contributions that will be shared by the existing members in the scheme at the end of the scheme year. The amount so reinvested during the year was nil (2020: nil).

(ii) Executive staff

For executive staff, we make monthly contributions which are a percentage of the fixed pay. We use forfeited contributions in respect of executive staff who leave the Group prior to qualifying for 100% disbursement of the contributions to offset the Group's future contributions. The amount so forfeited during the year was \$3,323,000 (2020: \$4,410,000) and the amount so forfeited available at the end of the reporting period was \$658,000 (2020: \$20,000).

This scheme has obtained an exemption under Section 5 of the MPF Schemes Ordinance.

(b) MPF Scheme

We have participated in a master trust MPF Scheme since December 2000 and made contributions to the MPF Scheme in accordance with the statutory requirements of the MPF Schemes Ordinance.

8. Other expenses

	2021 \$'000	2020 \$'000
Learning and development	2,426	3,480
Legal and professional services and others	47,805	99,025
Information and systems services	88,050	78,266
Auditor's remuneration	932	946
Funding for the International Financial Reporting Standards Foundation	(394)	394
General office and insurance	9,481	9,440
Investor and other education programme costs to the Investor and Financial Education Council	33,423	33,491
Overseas travelling, regulatory meeting expenses and others	2,099	9,991
Loss on disposal of fixed assets	4,889	3
Reversal of reinstatement provision	(21,976)	–
	166,735	235,036

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

9. Financial assets at amortised cost – debt securities

	2021 \$'000	2020 \$'000
(a) Amortised costs		
Listed – outside Hong Kong	1,653,827	1,704,233
Listed – in Hong Kong	1,360,340	802,589
Unlisted	117,363	77,540
	3,131,530	2,584,362
(b) Fair values		
Listed – outside Hong Kong	1,676,171	1,699,709
Listed – in Hong Kong	1,362,707	804,711
Unlisted	120,556	77,285
	3,159,434	2,581,705
(c) Maturity profile		
Within one year	107,673	984,239
After one year but within two years	185,288	74,491
After two years but within five years	1,677,369	970,343
After five years	1,161,200	555,289
	3,131,530	2,584,362

The weighted average yield to maturity of the debt securities was 1.6% p.a. as at 31 March 2021 (2020: 2.4% p.a.).

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

10. Financial assets at fair value through profit or loss

	2021 \$'000	2020 \$'000
(a) Debt securities		
(i) Listing status		
Listed – outside Hong Kong	287,787	413,300
Listed – in Hong Kong	12,414	–
Unlisted	125,409	6,169
	425,610	419,469
(ii) Maturity profile		
Within one year	34,269	21,739
After one year but within two years	54,087	58,909
After two years but within five years	189,244	226,748
After five years	148,010	112,073
	425,610	419,469

The weighted average effective interest rate of debt securities on 31 March 2021 was 1.7% p.a. (2020: 2.1% p.a.)

	2021 \$'000	2020 \$'000
(b) Pooled funds – unlisted	1,018,610	648,510

The pooled funds comprise mainly listed equity securities.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

11. Fixed assets

	Furniture, fixtures and leasehold improvements \$'000	Office equipment \$'000	Computer application systems \$'000	Personal computer and software \$'000	Motor vehicles \$'000	Total \$'000
Cost						
At 1 April 2020	155,166	11,024	308,570	159,253	2,735	636,748
Additions	154,076	19,148	41,551	30,230	886	245,891
Disposals	(123,459)	(7,968)	(139)	(9,098)	–	(140,664)
At 31 March 2021	185,783	22,204	349,982	180,385	3,621	741,975
Accumulated depreciation						
At 1 April 2020	121,596	10,183	234,506	132,110	2,641	501,036
Charge for the year	30,638	2,960	29,375	21,941	302	85,216
Written back on disposals	(118,970)	(7,567)	(139)	(9,097)	–	(135,773)
At 31 March 2021	33,264	5,576	263,742	144,954	2,943	450,479
Net book value						
At 31 March 2021	152,519	16,628	86,240	35,431	678	291,496
Cost						
At 1 April 2019	127,970	10,998	270,272	144,716	2,735	556,691
Additions	27,212	59	38,588	19,036	–	84,895
Disposals	(16)	(33)	(290)	(4,499)	–	(4,838)
At 31 March 2020	155,166	11,024	308,570	159,253	2,735	636,748
Accumulated depreciation						
At 1 April 2019	118,720	9,731	209,194	121,651	2,560	461,856
Charge for the year	2,892	485	25,602	14,955	81	44,015
Written back on disposals	(16)	(33)	(290)	(4,496)	–	(4,835)
At 31 March 2020	121,596	10,183	234,506	132,110	2,641	501,036
Net book value						
At 31 March 2020	33,570	841	74,064	27,143	94	135,712

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

12. Leases

As of 31 March 2021, the Group had right-of-use assets and lease liabilities as follows:

	2021 \$'000	2020 \$'000
Right-of-use assets		
Premises	974,557	324,040
Office equipment	3,704	–
	978,261	324,040
Lease liabilities		
Current	137,461	96,115
Non-current	830,887	203,558
	968,348	299,673

- (i) During the year, the Group entered new leases for premises and office equipment and recognised additional right-of-use assets of \$884,453,000 (2020: \$239,030,000).
- (ii) For the year ended 31 March 2021, the Group recognised depreciation expense for the right-of-use assets for premises of \$229,546,000 (2020: \$218,796,000) and office equipment of \$686,000 (2020: nil). The interest expense on lease liabilities was \$9,154,000 (2020: \$3,487,000). The total cash outflow for leases during the year was \$158,354,000 (2020: \$206,221,000).

13. Bank deposits and cash at bank

The effective interest rate on bank deposits as at 31 March 2021 ranged from 0.07% p.a. to 0.68% p.a. (2020: 1.1% p.a. to 3.0% p.a.). These balances matured within one year as at both 31 March 2021 and 31 March 2020.

Reconciliation to cash and cash equivalents:

	2021 \$'000	2020 \$'000
Cash at bank and in hand	65,287	51,871
Fixed deposits with banks	2,641,008	2,832,302
Amounts shown in the consolidated statement of financial position	2,706,295	2,884,173
Less: Amounts with an original maturity beyond three months	(1,851,196)	(2,130,767)
Cash and cash equivalents in the consolidated statement of cash flows	855,099	753,406

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

14. Investments in subsidiaries

The SFC formed Investor Compensation Company Limited (ICC) on 11 September 2002 with an issued share capital of \$0.2. On 20 November 2012, the SFC launched the Investor and Financial Education Council (IFEC) as a company limited by guarantee and not having a share capital. Both companies are wholly owned subsidiaries of the SFC and are incorporated in Hong Kong.

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

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

As at 31 March 2021, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (2020: \$0.2). The balance is too small to appear on the statement of financial position which is expressed in thousands of dollars.

15. Creditors and accrued charges

Creditors and accrued charges mainly include accruals and payables to creditors relating to operating expenses. Payables are usually due within one year. Due to the short-term nature of the balance, the carrying amount is considered to be the same as their fair value.

We do not provide an ageing analysis of creditors as there was no material overdue creditor balance as at 31 March 2021 and 2020.

16. Provisions

Provisions represent reinstatement cost to restore the premises to a condition as stipulated in the relevant lease agreements when the lease expires.

17. Debtors, deposits and prepayments

Debtors, deposits and prepayments include \$294,199,000 of receivables (2020: \$230,320,000) which are usually due within 30 days. Due to the short-term nature of the balance, the carrying amount is considered to be the same as their fair value.

We do not provide an ageing analysis of debtors as there was no material overdue debtor balance as at 31 March 2021 and 2020.

18. 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.

19. Capital commitment

Capital commitments for fixed assets contracted for at the end of the year but not yet incurred amounted to \$84,468,000 (2020: \$142,962,000).

20. Related party transactions

We have related party relationships with the Unified Exchange Compensation Fund (UECF), the Investor Compensation Fund (ICF), Securities Ordinance (Chapter 333) – Dealers' Deposits Fund (SDD), Commodities Trading Ordinance (Chapter 250) – Dealers' Deposits Fund (CDD) and Securities Ordinance (Chapter 333) – Securities Margin Financiers' Security Fund (SMF). In addition to the related parties relationship disclosed in note 22 in these financial statements, we have the following significant related party transactions and balances.

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

During the year, \$6,011,000 was recovered from the ICF for the ICC's expenses (2020: \$5,989,000). As at 31 March 2021, the amount due to the ICF from the ICC was \$242,000 (2020: \$138,000).

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

20. Related party transactions (cont'd)

(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) Legal services provided by a Non-executive Director

Prior to the appointment of a Non-executive Director (NED), the Group engaged him to provide legal services in respect of a number of matters. The NED continued to provide services in respect of matters commenced prior to his appointment. Since the appointment date, fees paid or payable to him for such services amounted to \$1,211,000 during the year and under normal commercial terms and conditions.

21. Financial risk management and fair values

Financial instruments of the Group mainly comprise debt securities and units in pooled funds. The underlying investments of the pooled funds mainly comprise equity securities.

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

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

(a) Credit risk

The Financial Secretary has approved our investment policy which, subject to other control limits, allows the Group to invest in dated securities rated A or above and bank deposits with licensed banks rated P-1 by Moody's or A-1 or above by S&P. Investment in pooled funds authorised as collective investment schemes under Section 104 of the SFO up to 15% of the total value of funds under management is permitted. The policy also limits the exposure to 10% for each organisation and 20% for each country, except for the holdings of US Treasuries. During the year, the Group complied with the above investment policy in order to manage its credit risk, and as a result, was not exposed to significant credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

(b) Interest rate risk

The Group's interest bearing assets mainly comprise 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 debt securities by imposing different levels of concentration and maturity limits to the investments. The effective interest rates and maturity profile of the Group's interest bearing assets are disclosed in the respective notes to the financial statements.

As at 31 March 2021, 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 \$26,824,000 (2020: \$34,369,000). As at 31 March 2021, the average duration of the Group's investment portfolio was 4.14 years (2020: 1.39 years). It is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's gains on revaluation of mark to market debt securities and the accumulated surplus by approximately \$16,856,000 (2020: \$15,806,000).

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

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

(b) Interest rate risk (cont'd)

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 2020.

(c) Liquidity risk

The Group'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. See note 23 for funding requirements.

Balances due within one year equal their carrying balances, as the impact of discounting is not significant, except for lease liabilities. As of 31 March 2021, the contractual undiscounted cash flows for financial liabilities were as follows:

	Carrying amount \$'000	Contractual undiscounted cash flows				
		Total \$'000	Within one year \$'000	After one year but within two years \$'000	After two years but within five years \$'000	After five years \$'000
<u>2021</u>						
Creditors and accrued charges	186,408	186,408	186,408	–	–	–
Lease liabilities	968,348	999,284	145,317	121,925	434,212	297,830
	1,154,756	1,185,692	331,725	121,925	434,212	297,830
<u>2020</u>						
Creditors and accrued charges	167,043	167,043	167,043	–	–	–
Lease liabilities	299,673	313,591	99,449	30,968	118,695	64,479
	466,716	480,634	266,492	30,968	118,695	64,479

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

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

(d) Foreign exchange risk

The Group's investment guidelines for our investment portfolio only allow investments in assets denominated in Hong Kong dollars (HKD), US dollars (USD) and renminbi. Exposure to renminbi should not exceed 5% of the investment portfolio. The majority of the financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. For the years ended 31 March 2021 and 2020, the exchange gain/loss was mainly driven by the revaluation on financial assets denominated in USD.

As at 31 March 2021, the Group had financial assets denominated in USD of \$4,887,901,000 (2020: \$3,785,308,000). The USD/HKD exchange rate was 7.7745 (2020: 7.7509). Movement in USD/HKD exchange rate within the upper and lower bounds of the Convertibility Zone, holding all other variables constant, would increase and decrease the Group's surplus and accumulated surplus by approximately \$47,499,000 and \$15,372,000 respectively (2020: increase and decrease by approximately \$48,397,000 and \$440,000 respectively).

(e) Market risk

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

The Group's investment guidelines allow the Group to invest in non-fixed income investment instruments up to 15% of the total value of funds under management. During the year, the Group complied with the above investment policy in order to manage its market risk. The Group invests in units of pooled funds, which mainly comprised listed equity securities, the performance of which is measured against the results of benchmark indices, MSCI AC Asia ex Japan and MSCI World (Net Dividends), including their returns and volatilities. Based on the weighted average movement of these benchmark indices in the corresponding period, it is estimated that a general increase/decrease of such benchmark indices of 21.5% (2020: 21.6%) would increase/decrease the Group's investment income and the accumulated surplus by approximately \$214,104,000 (2020: \$139,938,000).

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

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

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

(f) Fair value measurement

(i) Financial assets measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, ie, unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using only Level 2 inputs, ie, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<u>2021</u>				
Debt securities				
– Listed	–	300,201	–	300,201
– Unlisted	–	125,409	–	125,409
Pooled funds – unlisted	1,018,610	–	–	1,018,610
	1,018,610	425,610	–	1,444,220
<u>2020</u>				
Debt securities				
– Listed	–	413,300	–	413,300
– Unlisted	–	6,169	–	6,169
Pooled funds – unlisted	648,510	–	–	648,510
	648,510	419,469	–	1,067,979

The fair value of the investment in the unlisted pooled funds is determined based on the net asset values of the pooled funds which is publicly available in the active market. The majority of the underlying assets of the pooled funds are listed securities.

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

During the year, there were no significant transfers between financial instruments in Level 1 and 2, and no transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

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

(f) Fair value measurement (cont'd)

(ii) Fair value of financial assets carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 March 2021 and 2020 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	Carrying amount \$'000	Fair value			
		Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<u>2021</u>					
Financial assets at amortised costs					
– debt securities	3,131,530	3,159,434	–	3,159,434	–
<u>2020</u>					
Financial assets at amortised costs					
– debt securities	2,584,362	2,581,705	970,893	1,610,812	–

The following summarises the major methods and assumptions used in estimating the fair values of these financial instruments.

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

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

22. Sponsored unconsolidated structured entities

The SFC considers the ICF, UECF, SDD, CDD and SMF as unconsolidated structured entities sponsored by the SFC where no interests are held by the SFC.

Pursuant to Section 236 of the SFO, the SFC has established and maintained the ICF to compensate investors who suffer a loss due to the default of an intermediary in relation to the trading of products on Hong Kong Exchanges and Clearing Limited. The SFC is primarily responsible for the administration and management of the ICF in accordance with Section 238 of the SFO, but has transferred some functions to the ICC under Section 80 of the SFO. According to Section 237(2) (b) of the SFO, the SFC may, with the consent in writing of the Financial Secretary, pay into the ICF from its reserves such amount of money as it considers appropriate. As at 31 March 2021, the ICF's maximum liability in respect of claims received was \$4,969,000 (2020: \$2,204,000) and the net asset value was \$2.4 billion (2020: \$2.4 billion).

The SFC is also responsible for the administration and management of the UECF, SDD, CDD and SMF under respective provisions in the repealed Securities Ordinance and Commodities Trading Ordinance. These funds provide compensation to investors who suffer a loss due to the default of an intermediary occurring before 1 April 2003 when the SFO came into effect. As at 31 March 2021, the UECF's maximum liability in respect of claims received was \$10,245,000 (2020: \$10,245,000) and the net asset value was \$86,072,000 (2020: \$82,045,000). There were no outstanding claims against the SDD, CDD and SMF as at 31 March 2021. Claims for any defaults occurring after 31 March 2003 should be made against the ICF.

During the year, the SFC did not provide financial or other support to these unconsolidated structured entities that it was not contractually required to provide (2020: nil). The related party relationships with these entities are disclosed in note 20 of these financial statements.

23. Funding and reserve management

The SFC manages its funding requirements from its income and accumulated surplus. Apart from the initial funding by the Government as disclosed in note 18, the SFC is eligible to receive an appropriation from the Government in each financial year. Since the financial year ended 31 March 1994, the SFC has requested the Government not to make an appropriation to it. There were no externally imposed capital requirements to which the SFC is subject to.

The SFC has earmarked \$3.125 billion (2020: \$3 billion) from its accumulated surplus to set up a reserve for the possible future acquisition of office premises. The SFC's investment holdings and available cash balances will be used to support this reserve.

Notes to the consolidated financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

24. Statement of financial position of the SFC

	2021 \$'000	2020 \$'000
Non-current assets		
Fixed assets	291,289	135,658
Right-of-use assets	978,183	324,040
Deposits for leases	37,656	33,767
Financial assets at amortised costs – debt securities	3,023,857	1,600,123
	4,330,985	2,093,588
Current assets		
Financial assets at amortised costs – debt securities	107,673	984,239
Financial assets at fair value through profit or loss		
Debt securities	425,610	419,469
Pooled funds	1,018,610	648,510
Debtors, deposits and prepayments	344,809	274,141
Fixed deposits with banks	2,641,008	2,832,302
Cash at bank and in hand	42,179	29,836
	4,579,889	5,188,497
Current liabilities		
Fees received in advance	8,198	47,097
Creditors and accrued charges	171,198	153,895
Lease liabilities	137,443	96,115
Provisions	574	66,532
	317,413	363,639
Net current assets	4,262,476	4,824,858
Total assets less current liabilities	8,593,461	6,918,446
Non-current liabilities		
Lease liabilities	830,827	203,558
Provisions	88,346	19,968
	919,173	223,526
Net assets	7,674,288	6,694,920
Funding and reserves		
Initial funding by Government	42,840	42,840
Reserve for property acquisition	3,125,000	3,000,000
Accumulated surplus	4,506,448	3,652,080
	7,674,288	6,694,920

Approved and authorised for issue by the SFC on 1 June 2021 and signed on its behalf by

Tim Lui
Chairman

Ashley Alder
Chief Executive Officer

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 2021.

Establishment of the Investor Compensation Fund

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

Financial statements

The financial performance of the Fund for the financial year ended 31 March 2021 and the financial position of the Fund as at that date are set out in the financial statements on pages 135 to 144.

Members of the Committee

The members of the Committee during the year ended 31 March 2021 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)

Mr Thomas Allan Atkinson

Dr Lin, James C.

(appointed on 1 August 2020)

Dr William Wong Ming Fung, SC, JP

(retired on 31 July 2020)

Mr Kok Ka Keung Kenneth

Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member of the Fund had a material interest, subsisted at the end of the financial year or at any time during the financial year.

Auditor

PricewaterhouseCoopers (PwC) retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PwC as auditor of the Fund is to be proposed at the forthcoming Committee meeting.

By order of the Committee

Rico Leung
Chairman

27 May 2021

Independent auditor's report To the Securities and Futures Commission

Opinion

What we have audited

The financial statements of Investor Compensation Fund (the Fund) established under Part XII of the Securities and Futures Ordinance set out on pages 135 to 144, which comprise:

- the statement of financial position as at 31 March 2021;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2021, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

Basis for opinion

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

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

Independence

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

Other information

The directors of the Securities and Futures Commission (SFC) are responsible for the other information. The other information comprises all of the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

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

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

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

Responsibilities of directors of the SFC for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the SFC.

- Conclude on the appropriateness of the directors of the SFC's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors of the SFC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 May 2021

Statement of profit or loss and other comprehensive income

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Income			
Interest income		21,279	59,928
Exchange gain/(loss)		4,100	(17,001)
		25,379	42,927
Expenses			
Investor Compensation Company Limited expenses	6	6,011	5,989
Auditor's remuneration		186	179
Compensation expenses	8	3,394	–
		9,591	6,168
Surplus and total comprehensive income for the year		15,788	36,759

The notes on pages 139 to 144 form part of these financial statements.

Investor Compensation Fund

Statement of financial position

As at 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Current assets			
Interest receivable		2,174	7,185
Due from Investor Compensation Company Limited		242	138
Fixed deposits with banks	7	2,444,671	2,420,558
Cash at bank	7	633	651
		2,447,720	2,428,532
Current liabilities			
Provision for compensation	8	3,394	–
Creditors and accrued charges		274	268
		3,668	268
Net current assets		2,444,052	2,428,264
Net assets		2,444,052	2,428,264
Representing:			
Compensation fund		2,444,052	2,428,264

Approved and authorised for issue by the Securities and Futures Commission on 27 May 2021 and signed on its behalf by

Tim Lui
Chairman of the SFC

Ashley Alder
Chief Executive Officer of the SFC

The notes on pages 139 to 144 form part of these financial statements.

Statement of changes in equity

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

	Contributions from Unified Exchange Compensation Fund (note 9) \$'000	Contributions from Commodity Exchange Compensation Fund (note 9) \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2019	994,718	108,923	1,287,864	2,391,505
Surplus and total comprehensive income for the year	–	–	36,759	36,759
Balance at 31 March 2020 and 1 April 2020	994,718	108,923	1,324,623	2,428,264
Surplus and total comprehensive income for the year	–	–	15,788	15,788
Balance at 31 March 2021	994,718	108,923	1,340,411	2,444,052

The notes on pages 139 to 144 form part of these financial statements.

Investor Compensation Fund

Statement of cash flows

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Cash flows from operating activities			
Surplus for the year		15,788	36,759
Adjustments for:			
Interest income		(21,279)	(59,928)
Exchange (gain)/loss		(4,100)	17,001
		9,591	(6,168)
Increase in amount due from Investor Compensation Company Limited		(104)	(84)
Increase in provision for compensation		3,394	–
Increase/(decrease) in creditors and accrued charges		6	(34)
Net cash used in operating activities		(6,295)	(6,286)
Cash flows from investing activities			
(Increase)/decrease in fixed deposits other than cash and cash equivalents		(459,146)	981,929
Interest received		26,293	78,075
Net cash (used in)/generated from investing activities		(432,853)	1,060,004
Net (decrease)/increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		1,086,662	32,944
Cash and cash equivalents at the end of the year	7	647,514	1,086,662

Analysis of the balance of cash and cash equivalents

	2021 \$'000	2020 \$'000
Fixed deposits with banks	646,881	1,086,011
Cash at bank	633	651
	647,514	1,086,662

The notes on pages 139 to 144 form part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

1. Purpose, limitation and principal activity

The Securities and Futures Ordinance (SFO) provides for the establishment of the Investor Compensation Fund (the Fund) to compensate investors who suffer a loss due to the default of an intermediary in relation to trading of products on Hong Kong Exchanges and Clearing Limited. The defaulting intermediary must be licensed by or registered with the Securities and Futures Commission (SFC) for dealing in securities, futures contracts or securities margin financing. For defaults occurring on or after 1 January 2020, the Fund also covers investors' losses in relation to securities traded on a stock market operated by the Shanghai Stock Exchange or the Shenzhen Stock Exchange and in respect of which an order for sale or purchase is permitted to be routed through the northbound link of a Stock Connect arrangement (Stock Connect Securities).

The SFC is primarily responsible for the administration and management of the Fund in accordance with Section 238 of the SFO, but has transferred some functions to the Investor Compensation Company Limited (ICC) under Section 80 of the SFO. The ICC is thus responsible for receipt, determination and payment of valid claims against the Fund in respect of defaults of intermediaries occurring on or after 1 April 2003. Upon making payment to a claimant, the SFC is subrogated to the claimant's right against the defaulter.

Pursuant to Section 244 of the SFO, the Chief Executive in Council may make rules for the maximum amount of compensation that may be paid to a person making claim for compensation. For defaults occurring on or after 1 January 2020, the maximum compensation limit is raised from \$150,000 to \$500,000 per claimant for a single default.

If amounts owed to claimants against the Fund exceed the Fund's net assets, the SFC would apportion compensation payments to claimants as provided in the Securities and Futures (Investor Compensation – Claims) Rules. The SFC would pay unpaid claim amounts when funds become available in the Fund.

2. Money constituting the Fund

The Fund mainly consists of the amounts paid from the two compensation funds, the Unified Exchange Compensation Fund (UECF) and the Commodity Exchange Compensation Fund (CECF) (wound up on 26 May 2006). The SFC will also pay into the Fund any remaining balance in the Securities Dealers' Deposits Fund, the Commodities Dealers' Deposits Fund and the Securities Margin Financiers' Security Fund after repaying the dealers' deposits and any money due to the registered dealers in accordance with Section 76 (11) of Schedule 10 of the SFO though it is not likely that these payments will be made within the coming year.

Other sources of money for the Fund include the levies chargeable on securities traded on The Stock Exchange of Hong Kong Limited (SEHK) (excluding orders routed through the southbound link of the Stock Connect arrangement), futures contracts traded on Hong Kong Futures Exchange Limited (HKFE) and Stock Connect Securities (see also note 5), and returns earned on any investment of the Fund.

3. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. A summary of the significant accounting policies adopted by the Fund is set out below.

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(a) Statement of compliance (cont'd)

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund. None of these developments have had a material effect on how the Fund's results and financial position for the current or prior periods have been prepared or presented. The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(b) Basis of preparation

We have prepared these financial statements using the historical cost basis as the measurement basis.

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

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

(c) Recognition of income

We recognise income in the statement of profit or loss and other comprehensive income provided it is probable that the economic benefits will flow to the Fund and we can measure reliably the revenue and costs. We record interest income as it accrues using the effective interest method.

(d) Translation of foreign currencies

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

(e) Impairment of financial assets

The Fund assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and fixed deposits with banks with original maturities of three months or less that are readily convertible to known amounts of cash.

(g) Other receivables

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

(h) Provisions for compensation

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

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(h) Provisions for compensation (cont'd)

The maximum liability of the Fund to claims is set at \$150,000 per claimant for each default case occurring on or before 31 December 2019 and \$500,000 per claimant for each default case occurring on or after 1 January 2020.

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

(i) Creditors and accrued charges

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

(j) Provisions and contingent liabilities

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

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

(k) Related parties

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

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

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(k) Related parties (cont'd)

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

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Fund.

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

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. Levy from SEHK and HKFE

From 1 April 2003, the Fund received a levy chargeable on securities traded on SEHK and futures contracts traded on HKFE 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 reinstatement 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 2019 which came into effect on 1 January 2020, the Fund is entitled to a levy chargeable on securities traded on SEHK (excluding orders routed through the southbound link of the Stock Connect arrangement), futures contracts traded on HKFE and Stock Connect Securities. In addition, the trigger levels for levy suspension and reinstatement were raised to \$3 billion and \$2 billion respectively.

Pursuant to the Gazette on 11 November 2005, no person is required to pay any levy to the Fund in respect of a sale and purchase transaction of securities and futures contract with effect from 19 December 2005. The changes in trigger levels do not affect the levy suspension in effect.

6. ICC expenses

The SFC formed the ICC in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the SFO. The Fund is responsible for funding the establishment and operation of the ICC. For the year ended 31 March 2021, the ICC incurred costs of \$6,011,000 for its operations (2020: \$5,989,000) which were reimbursed by the Fund.

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

7. Fixed deposits with banks and cash at bank

The effective interest rates on bank deposits at 31 March 2021 ranged from 0.07% p.a. to 1.98% p.a. (2020: 0.93% p.a. to 2.86% p.a.). The balances of deposits at both 31 March 2021 and 31 March 2020 mature within one year.

Reconciliation to cash and cash equivalents

	2021 \$'000	2020 \$'000
Cash at bank	633	651
Fixed deposits with banks	2,444,671	2,420,558
Amounts shown in the statement of financial position	2,445,304	2,421,209
Less: Amounts with an original maturity of beyond three months	(1,797,790)	(1,334,547)
Cash and cash equivalents in the statement of cash flows	647,514	1,086,662

8. Provision for compensation

	\$'000
Balance as at 1 April 2019, 31 March 2020 and 1 April 2020	–
Add: Compensation expenses during the year ended 31 March 2021	3,394
Balance as at 31 March 2021	3,394

As at 31 March 2021, the provision for compensation relates to a number of claims received in respect of a default case (2020: nil). The maximum liability of the Fund to these claims is \$150,000 per claimant. The provision was expected to be paid within one year.

9. 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 2021, the SFC had \$994,718,000 (2020: \$994,718,000) and \$108,923,000 (2020: \$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.

10. Related party transactions

The Fund has related party relationships with the SFC, the ICC and the UECF. There were no significant related party transactions other than those disclosed in the financial statements of the Fund for the years ended 31 March 2021 and 2020 (refer to notes 6 and 9).

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

11. Financial risk management

The Fund's interest bearing assets mainly comprise fixed deposits at banks which mature or re-price in the short term, as a result of which the Fund is exposed to limited interest rate risk. At 31 March 2021, it was estimated that a general increase/decrease of 100 basis points in the interest rates, with all other variables held constant, would increase/decrease the Fund's surplus and accumulated surplus by approximately \$24,447,000 (2020: \$24,206,000). The exposure to credit, liquidity and foreign currency risks arises in the normal course of the Fund's operation.

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 by Moody's or A-1 or above by S&P. 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. All financial liabilities are due within one year or payable on demand.

The Fund's policy allows the Fund to have US dollars (USD) and renminbi foreign exchange exposures. As at 31 March 2021, the Fund had exposure to USD only. As Hong Kong dollars (HKD) are pegged with USD, the Fund was exposed to limited foreign exchange risk at the end of the reporting period. For the years ended 31 March 2021 and 2020, the Fund's exchange gain/loss was mainly driven by the revaluation on financial assets denominated in USD.

As at 31 March 2021, the Fund had financial assets denominated in USD of \$1,353,810,000 (2020: \$1,339,501,000). The USD/HKD exchange rate was 7.7745 (2020: 7.7509). Movement in USD/HKD exchange rate within the upper and lower bounds of the Convertibility Zone, holding all other variables constant, would increase and decrease the Fund's surplus and accumulated surplus by approximately \$13,156,000 and \$4,258,000 respectively (2020: increase and decrease by approximately \$17,126,000 and \$156,000 respectively).

12. Contingent liabilities

In addition to the provision for compensation made as described in note 8, there are 10 outstanding claims as at the date of this report (at 31 March 2020: 15 outstanding claims). The maximum liability in respect of these claims in aggregate is \$1,575,000 (at 31 March 2020: \$2,204,000). This is determined based on the lower of the maximum compensation limit per claimant (as detailed in note 3(h)) or the amount claimed.

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their annual report together with the audited financial statements for the year ended 31 March 2021.

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 2021, the Fund transferred \$994,718,000 to the ICF. After the settlement of all claims against the Fund and its other liabilities, the Securities and Futures Commission (SFC) will eventually transfer the remaining balance of the Fund to the ICF.

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

Financial statements

The financial performance of the Fund for the financial year ended 31 March 2021 and the financial position of the Fund as at that date are set out in the financial statements on pages 148 to 158.

Members of the Committee

The members of the Committee during the year ended 31 March 2021 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)	
Mr Thomas Allan Atkinson	
Dr Lin, James C.	(appointed on 1 August 2020)
Dr William Wong Ming Fung, SC, JP	(retired on 31 July 2020)
Mr Yiu Ka Yan Wilfred	
Ms Kwok Hom Siu Sally	

Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member of the Fund had a material interest, subsisted at the end of the financial year or at any time during the financial year.

Auditor

PricewaterhouseCoopers (PwC) retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PwC as auditor of the Fund is to be proposed at the forthcoming Committee meeting.

By order of the Committee

Rico Leung
Chairman

14 May 2021

Independent auditor's report To the Securities and Futures Commission

Opinion

What we have audited

The financial statements of Unified Exchange Compensation Fund (the Fund) established under Section 99 of the repealed Hong Kong Securities Ordinance set out on pages 148 to 158, which comprise:

- the statement of financial position as at 31 March 2021;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2021, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

Basis for opinion

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

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

Independence

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

Emphasis of matter

We draw attention to the fact that the Fund is in the process of terminating its business and operations and is no longer considered to be a going concern. Details about the basis of preparation of the financial statements are set out in the significant accounting policies note 3(b) to the financial statements. Our opinion is not modified in respect of this matter.

Other information

The directors of the Securities and Futures Commission (SFC) are responsible for the other information. The other information comprises all of the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

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

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

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

Responsibilities of directors of the SFC for the financial statements

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

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

Responsibilities of directors of the SFC for the financial statements (continued)

In preparing the financial statements, the directors of the SFC are responsible for assessing the Fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The directors of the SFC consider that the Fund is no longer operating on a going concern basis and have prepared the financial statements on the basis as set out in note 3 thereto.

Auditor’s responsibilities for the audit of the financial statements

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

As part of an audit in accordance with HKSA’s, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the SFC.
- Conclude on the appropriateness of the directors of the SFC’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors of the SFC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 14 May 2021

Unified Exchange Compensation Fund

Statement of profit or loss and other comprehensive income

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Income			
Interest income		744	1,846
Recoveries	4	4,069	(1)
		4,813	1,845
Expenses			
Auditor's remuneration		86	82
		86	82
Surplus and total comprehensive income for the year		4,727	1,763

The notes on pages 152 to 158 form part of these financial statements.

Statement of financial position

As at 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Current assets			
Interest receivable		27	243
Accounts receivable		–	9
Fixed deposits with banks	6	97,518	92,879
Cash at bank	6	336	470
		97,881	93,601
Current liabilities			
Creditors and accrued charges	7	10,309	10,306
Relinquished trading rights payable to SEHK	8	1,500	1,250
		11,809	11,556
Net current assets		86,072	82,045
Net assets		86,072	82,045
Representing:			
Compensation fund		86,072	82,045

Approved and authorised for issue by the Securities Compensation Fund Committee on behalf of the Securities and Futures Commission on 14 May 2021 and signed on its behalf by

Rico Leung

Chairman

Wilfred Yiu

Committee Member

The notes on pages 152 to 158 form part of these financial statements.

Unified Exchange Compensation Fund

Statement of changes in equity

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

	Trading rights deposits from SEHK (note 8) \$'000	Excess transaction levy from SEHK (note 9) \$'000	Additional contributions from SEHK and the SFC (note 10) \$'000	Other contributions (note 11) \$'000	Accumulated surplus \$'000	Contributions to the ICF (note 12) \$'000	Total \$'000
Balance at 1 April 2019	54,500	353,787	630,000	6,502	29,261	(994,718)	79,332
Net contributions from SEHK	950	–	–	–	–	–	950
Surplus and total comprehensive income for the year	–	–	–	–	1,763	–	1,763
Balance at 31 March 2020 and 1 April 2020	55,450	353,787	630,000	6,502	31,024	(994,718)	82,045
Net contributions to SEHK	(700)	–	–	–	–	–	(700)
Surplus and total comprehensive income for the year	–	–	–	–	4,727	–	4,727
Balance at 31 March 2021	54,750	353,787	630,000	6,502	35,751	(994,718)	86,072

The notes on pages 152 to 158 form part of these financial statements.

Statement of cash flows

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Cash flows from operating activities			
Surplus for the year		4,727	1,763
Adjustments for:			
Interest income		(744)	(1,846)
Recoveries		–	1
		3,983	(82)
Decrease in accounts receivable		9	–
Increase/(decrease) in creditors and accrued charges		3	(19)
Increase in relinquished trading rights payable to SEHK		250	450
Net cash generated from operating activities		4,245	349
Cash flows from investing activities			
Decrease/(increase) in fixed deposits other than cash and cash equivalents		16,401	(61,350)
Interest received		960	1,790
Net cash generated from/(used in) investing activities		17,361	(59,560)
Cash flows from financing activities			
Net trading rights deposits (refunded to)/received from SEHK		(700)	950
Net cash (used in)/generated from financing activities		(700)	950
Net increase/(decrease) in cash and cash equivalents			
		20,906	(58,261)
Cash and cash equivalents at the beginning of the year		31,999	90,260
Cash and cash equivalents at the end of the year	6	52,905	31,999

Analysis of the balance of cash and cash equivalents

	2021 \$'000	2020 \$'000
Fixed deposits with banks	52,569	31,529
Cash at bank	336	470
	52,905	31,999

The notes on pages 152 to 158 form part of these financial statements.

Unified Exchange Compensation Fund

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

1. Purpose, limitation and principal activity

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

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

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

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

After the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. After the settlement of all claims against the Fund and its other liabilities, the SFC will eventually transfer the remaining balance of the Fund into the ICF. Claims for any defaults occurring after 31

March 2003 should be made against the ICF. If the sum of money in the Fund is not sufficient to meet its liabilities, the SFC shall pay into the Fund from the ICF the appropriate sum of money according to Section 242 of the SFO.

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

2. Money constituting the Fund

Before 1 April 2003, SEHK was required to keep deposited with the SFC \$50,000 for each SEHK trading right under the repealed Securities Ordinance. When the SFC makes compensation payments out of the deposits, it may require SEHK to replenish the net amount paid after the SFC has exhausted its subrogated rights against the defaulter. The SFC pays SEHK the investment return earned on any remaining deposits net of the Fund expenses. During the year, the SFC did not make any such payment as the total of the compensation payments exceeded the deposits received from SEHK (2020: nil).

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

Other sources of money for the Fund include: recoveries detailed in note 4; replenishments from SEHK detailed in note 15; other contributions detailed in note 11; and excess transaction levy received before the SFO became effective from 1 April 2003 detailed in note 9.

The Fund defines "capital" as including all elements of the Fund, as disclosed in the statement of changes in equity, less contributions to the ICF (note 12) and less contributions from SEHK (trading rights deposits from SEHK detailed in note 8).

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. Significant accounting policies adopted by the Fund are set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund. None of these developments have had a material effect on how the Fund's results and financial position for the current or prior periods have been prepared or presented. The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(b) Basis of preparation

Under the SFO, the Fund will continue in operation until all claims against it and all its liabilities have been settled. As the Fund will eventually cease operation, we have prepared these financial statements on a non-going concern basis. We expect that the operations of the Fund will be maintained until all claims and recoveries from liquidators in relation to the broker defaults that happened on or before 31 March 2003 have been fully settled. We have not provided for potential future claims and recoveries as these cannot be reliably estimated. We have also not provided in the financial statements for all expenses expected to be incurred subsequent to the end of the reporting period and up to the date operations will cease and these are estimated to be immaterial.

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

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

(c) Recognition of income

(i) Interest income

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

(ii) Recoveries

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

At the end of each reporting period, the fair value of the equity securities received under subrogation is remeasured, with any resultant gain or loss being included in "Recoveries" in statement of profit or loss and other comprehensive income. Dividend income, if any, is also included in "Recoveries".

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(c) Recognition of income (cont'd)

(iii) Replenishments from SEHK

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

(d) Impairment of financial assets

The Fund assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and fixed deposits with banks with original maturities of three months or less that are readily convertible to known amounts of cash.

(f) Creditors and accrued charges

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

(g) Provisions and contingent liabilities

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

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, we disclose the obligation as a contingent liability, unless the probability of an outflow of economic benefits is remote. We also disclose possible obligations,

whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events as contingent liabilities unless the probability of an outflow of economic benefits is remote.

(h) Related parties

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

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

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

3. Significant accounting policies (cont'd)

(h) Related parties (cont'd)

- (b) An entity is related to the Fund if any of the following conditions applies: (cont'd)
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Fund.

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

6. Fixed deposits with banks and cash at bank

The effective interest rates on bank deposits at 31 March 2021 ranged from 0.08% p.a. to 0.40% p.a. (2020: 1.06% p.a. to 2.33% p.a.). The balances of deposits at both 31 March 2021 and 31 March 2020 mature within one year.

Reconciliation to cash and cash equivalents

	2021 \$'000	2020 \$'000
Cash at bank	336	470
Fixed deposits with banks	97,518	92,879
Amounts shown in the statement of financial position	97,854	93,349
Less: Amounts with an original maturity of beyond three months	(44,949)	(61,350)
Cash and cash equivalents in the statement of cash flows	52,905	31,999

4. Recoveries/Equity securities received under subrogation

The Fund received \$4,069,000 from certain liquidators which was recognised as recoveries for the year ended 31 March 2021 (2020: nil).

As at 31 March 2021, the equity securities received under subrogation amounted to \$150 (as at 31 March 2020: \$142). The balances as at 31 March 2021 and 31 March 2020 are too small to appear on the statement of financial position which is expressed in thousands of dollars.

5. Taxation

The interest and profits on investments earned by the Fund are not subject to Hong Kong Profits Tax under Section 14 of the Inland Revenue Ordinance.

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

7. Creditors and accrued charges

Creditors and accrued charges comprised mainly compensation payments re-established for those cheque payments that were not cleared for more than six months from the cheque issuing date and accrued auditor's remuneration. They are due on demand or within one year and are unsecured.

8. Trading rights deposits from SEHK/Relinquished trading rights payable to SEHK

According to Section 104 of the repealed Securities Ordinance, SEHK contributes to the SFC in respect of each trading right at the rate of \$50,000. In the absence of claims or other provisions as set out in Section 106 of the repealed Securities Ordinance, the SFC must refund to SEHK the deposit within six months after the trading right is relinquished. During the year, deposits of \$350,000 in respect of 7 new trading rights were received from SEHK and deposits of \$800,000 in respect of 16 relinquished trading rights were refunded to SEHK. As at 31 March 2021, 30 trading rights totalling \$1,500,000 were relinquished but not yet refunded (2020: 25 trading rights totalling \$1,250,000 were relinquished but not yet refunded).

The movement of trading rights deposits from SEHK during the year was as follows:

	2021 \$'000	2020 \$'000
Balance brought forward	55,450	54,500
Add: new trading rights issued	350	2,000
Less: relinquished trading rights refunded	(800)	(600)
Adjustment for: increase in relinquished trading rights payable to SEHK	(250)	(450)
Balance carried forward	54,750	55,450

9. Excess transaction levy from SEHK

SEHK paid these amounts to the Fund from 1992 to 1994 under an agreement with the SFC and the Financial Secretary concerning SEHK's budget and its receipt of transaction levy. A portion of this balance was contributed to the ICF. Note 12 sets out more details on the contributions made to the ICF.

10. Additional contributions from SEHK and the SFC

Following the revisions of the compensation rules and compensation limit in 1998, the SFC and SEHK had injected \$330 million and \$300 million respectively to the Fund during the years from 1998 to 2001. A portion of this balance was contributed to the ICF. Note 12 sets out more details on the contributions made to the ICF.

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

11. Other contributions

In October 1993, a member of SEHK made a special contribution of \$3,500,000 to the Fund in recognition of the SFC's concerns about its misconduct in handling its client trading activities. In November 2000, the former Financial Services Bureau of the HKSAR Government transferred \$3,002,000 to the Fund under the provisions of the Exchanges (Special Levy) Ordinance. A portion of this balance was contributed to the ICF. Note 12 sets out more details on the contributions made to the ICF.

12. Contributions to Investor Compensation Fund

When the SFO and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Under Section 74(2) of Schedule 10 of the SFO, the SFC may after 1 April 2003 pay into the ICF, which came into operation after 1 April 2003, such sum of money from the Fund as it considers appropriate. Total contributions paid into the ICF from the Fund up to 31 March 2021 amounted to \$994,718,000 (2020: \$994,718,000), no further contributions have been made to the ICF since 1 April 2005.

13. Related party transactions

The Fund has related party relationships with the ICF and the SFC. There were no related party transactions during the years ended 31 March 2021 and 2020.

14. Financial risk management

The Fund's interest bearing assets mainly comprise fixed deposits at banks which mature or re-price in the short term, as a result of which the Fund is exposed to limited interest rate risk. At 31 March 2021, it was estimated that a general increase/decrease of 100 basis points in the interest rates, with all other variables held constant, would increase/decrease the Fund's surplus and accumulated surplus by approximately \$975,000 (2020: \$929,000). The exposure to credit and liquidity risks arises in the normal course of the Fund's operation. The Fund is not exposed to any foreign exchange risk as all transactions and balances are denominated in Hong Kong dollars.

The Fund's credit risk is primarily attributable to amounts at bank. Management's policy is that bank balances are placed only with licensed banks rated P-1 by Moody's or A-1 or above by S&P. 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.

Unified Exchange Compensation Fund

Notes to the financial statements

For the year ended 31 March 2021 (Expressed in Hong Kong dollars)

15. Replenishments from SEHK

Under Section 107 of the repealed Securities Ordinance, the SFC may require SEHK to replenish the Fund with an amount that is equal to that paid in connection with the satisfaction of the claim (limited to \$8,000,000 per each defaulted case) after the SFC has exhausted all relevant rights of action and other legal remedies against the defaulter.

Up to 31 March 2021, SEHK replenished \$16,361,000 to the Fund. In compliance with Section 107 of the repealed Securities Ordinance, if no further recoveries were to be collected, the SFC may require SEHK to further replenish \$70,776,000 to the Fund as follows:

	2021 \$'000	2020 \$'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	(29,986)	(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	70,776	70,816

Under Section 74(3) of Schedule 10 of the SFO, the SFC, having allowed sufficient funds to meet claims, may reimburse SEHK for the deposits paid by SEHK into the Fund for each trading right. The reimbursement of these SEHK deposits may be set off against further replenishments required from SEHK.

Replenishments from SEHK are not recognised in the statement of financial position given that the Fund is not aware of any need to request replenishment from SEHK in the near future.

Breakdown of SFC activity data

Table 1 Takeovers activities

	2020/21	2019/20	2018/19
Codes on Takeovers and Mergers and Share Buy-backs			
General and partial offers under Code on Takeovers and Mergers	38	41	55
Privatisations	31	15	6
Whitewash waiver applications	33	13	21
Other applications under Code on Takeovers and Mergers ¹	361	281	275
Off-market and general offer share buy-backs	5	7	9
Other applications under Code on Share Buy-backs ¹	1	2	7
Total	469	359	373
Executive Statements			
Sanctions imposed with parties' agreement ²	4	3	2
Takeovers and Mergers Panel			
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	0	0	1
Hearings before the Panel (disciplinary and non-disciplinary)	0	2	0
Statements issued by the Panel ³	0	2	0

1 Including stand-alone applications and those made during the course of a Code-related transaction.

2 Pursuant to section 12.3 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

3 Pursuant to section 16.1 of the Introduction to the Codes on Takeovers and Mergers and Share Buy-backs.

Breakdown of SFC activity data

Table 2 Breaches noted during on-site inspections

	2020/21	2019/20	2018/19
Failure to comply with Securities and Futures (Financial Resources) Rules	4	9	9
Failure to safekeep client securities	28	31	32
Failure to maintain proper books and records	20	19	13
Failure to safekeep client money	35	42	28
Unlicensed dealing and other registration issues	9	14	17
Breach of licensing conditions	1	3	5
Breach of requirements of contract notes/statements of account/receipts	28	33	31
Failure to make filing/notification	3	5	1
Breach of margin requirements	3	5	8
Dealing malpractices	4	5	3
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ¹	262	273	275
Breach of Corporate Finance Adviser Code of Conduct	6	7	8
Breach of Fund Manager Code of Conduct	142	79	67
Breach of regulation of online trading	3	7	3
Non-compliance with anti-money laundering guidelines	208	331	201
Breach of other rules and regulations of the Exchanges ²	3	11	12
Internal control weaknesses ³	515	451	443
Others	76	164	80
Total	1,350	1,489	1,236

1 Commonly related to risk management, client agreements, safeguarding of client assets and information for or about clients.

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

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

Table 3 Hong Kong domiciled authorised funds

By type	As at 31.3.2021		As at 31.3.2020	
	Number	Total NAV (US\$ million)	Number	Total NAV (US\$ million)
Bond	162 (23.5%)	39,004 (20.4%)	136 (21.9%)	28,245 (20.9%)
Equity	193 (28.1%)	61,839 (32.4%)	185 (29.8%)	39,238 (29.1%)
Mixed ¹	71 (10.3%)	18,881 (9.9%)	61 (9.8%)	14,629 (10.8%)
Money market	33 (4.8%)	8,424 (4.4%)	28 (4.5%)	7,331 (5.4%)
Fund of funds ²	86 (12.5%)	16,982 (8.9%)	78 (12.6%)	13,166 (9.8%)
Index ³	142 (20.6%)	45,727 (24%)	129 (20.8%)	32,168 (23.9%)
Guaranteed	1 (0.1%)	52 (0%)	3 (0.5%)	59 (0%)
Sub-total ²	688 (100%) ⁴	190,909 (100%)	620 (100%) ⁴	134,835 ⁴ (100%) ⁴
Umbrella structures	147		142	
Total	835		762	

Note: Unit trusts and mutual funds authorised under the Code on Unit Trusts and Mutual Funds.

1 Presented as "Diversified" previously.

2 Beginning with the quarter ended 31 December 2020, the NAV of feeder funds whose master funds are authorised by the SFC has been excluded from the total NAV in the "Fund of funds" category to better reflect the total assets under management. For comparison purposes, similar adjustments have been made to the total NAV figures as at 31 March 2020.

3 Including exchange-traded funds and leveraged and inverse products.

4 Figures do not add up to total due to rounding.

Breakdown of SFC activity data

Table 4 Non-Hong Kong domiciled authorised funds

a) By origin	As at 31.3.2021					As at 31.3.2020					
	Umbrella funds	Sub-funds	Single funds	Total		Total NAV (US\$ million)		Total		Total NAV (US\$ million)	
Luxembourg	47	987	1	1,035	(74.9%)	1,399,343	(76%)	1,032	(75.2%)	884,452 ¹	(72.1%)
Ireland ²	26	210	2	238	(17.2%)	275,782	(15%)	222	(16.2%)	204,098	(16.6%)
United Kingdom	3	9	18	30	(2.2%)	75,015	(4.1%)	37	(2.7%)	60,602	(4.9%)
Mainland China	2	2	47	51	(3.7%)	25,234	(1.4%)	50	(3.6%)	18,496	(1.5%)
Bermuda	-	-	1	1	(0.1%)	128	(0%)	1	(0.1%)	142	(0%)
Cayman Islands ²	3	15	4	22	(1.6%)	4,358	(0.2%)	26	(1.9%)	4,685	(0.4%)
Others	-	-	5	5	(0.4%)	61,049	(3.3%)	5	(0.4%)	54,638	(4.5%)
Total²	81	1,223	78	1,382	(100%)³	1,840,909	(100%)	1,373	(100%)³	1,227,114^{1,3}	(100%)

1 These figures differ from those disclosed in the *Annual Report 2019-20* due to a revised figure reported after the report was published.

2 Beginning with the quarter ended 31 December 2020, the NAV of feeder funds whose master funds are authorised by the SFC has been excluded from the total NAV in the "Fund of funds" category to better reflect the total assets under management. For comparison purposes, similar adjustments have been made to the total NAV figures as at 31 March 2020.

3 Figures do not add up to total due to rounding.

b) By type	As at 31.3.2021		As at 31.3.2020	
	Number	Total NAV (US\$ million)	Number	Total NAV (US\$ million)
Bond	345 (26.5%)	609,557 (33.1%)	329 (25.4%)	469,281 (38.2%)
Equity	746 (57.3%)	941,176 (51.1%)	760 (58.7%)	532,133 ⁴ (43.4%)
Mixed ¹	128 (9.8%)	161,923 (8.8%)	123 (9.5%)	123,753 (10.1%)
Money market	16 (1.2%)	11,375 (0.6%)	15 (1.2%)	13,877 (1.1%)
Fund of funds ²	23 (1.8%)	1,212 (0.1%)	26 (2%)	891 (0.1%)
Index ³	42 (3.2%)	115,538 (6.3%)	41 (3.2%)	87,036 (7.1%)
Hedge	1 (0.1%)	128 (0%)	1 (0.1%)	142 (0%)
Sub-total ²	1,301 (100%) ⁵	1,840,909 (100%)	1,295 (100%) ⁵	1,227,114 ^{4,5} (100%)
Umbrella structures	81		78	
Total²	1,382		1,373	

Note: Unit trusts and mutual funds authorised under the Code on Unit Trusts and Mutual Funds.

1 Presented as "Diversified" previously.

2 Beginning with the quarter ended 31 December 2020, the NAV of feeder funds whose master funds are authorised by the SFC has been excluded from the total NAV in the "Fund of funds" category to better reflect the total assets under management. For comparison purposes, similar adjustments have been made to the total NAV figures as at 31 March 2020.

3 Including exchange-traded funds.

4 These figures differ from those disclosed in the *Annual Report 2019-20* due to a revised figure reported after the report was published.

5 Figures do not add up to total due to rounding.

Table 5 Successful prosecutions

Defendant	Date of conviction	Fine/Penalty	Investigation costs awarded
Insider dealing			
CHOW Chiu Chi	17.12.2020	\$45,000 and 45-day imprisonment	\$37,029
Market manipulation			
KE Wen Hua	11.9.2020	\$30,000	\$65,420
Provision of false/misleading representation to the SFC			
LAU Tin Yau	3.9.2020	\$36,000	\$28,248
Unlicensed activities			
YAU Ka Fai	29.4.2020	240-hour community service	–
CHAN Ying Ming Simon	9.7.2020	\$20,000	\$35,431
Brilliance Capital Management Limited	24.7.2020	\$15,000	\$62,196
LAW Sai Hung	24.7.2020	\$15,000	–
Disclosure of Interests			
Snow Lake Capital (HK) Limited	4.3.2021	\$24,000	\$13,571

Note: Cases with fines below \$10,000 are not shown in this table.

Breakdown of SFC activity data

Table 6 Other public disciplinary actions

Name	Date	Breaches	Action
CHAN Shun King	25.11.2020	Conducted unauthorised transactions in client accounts	Banned from re-entering the industry for 24 months
PANG Hon Pan	25.11.2020	Breached staff trading policy and made a wilful misrepresentation to the Securities and Futures Appeals Tribunal	Banned from re-entering the industry for 21 months
Sandra CHEUNG Wing Yi	29.10.2020	Maintained an external securities trading account and conducted personal trades in the account without approval by the firm	Suspended for 12 months
MUNG Wai Sun	21.9.2020	Conducted unauthorised transactions in a client account	Suspended for nine months
Masy LO Mee Chi	31.8.2020	Fabricated a signature in connection with the purchase of a fund	Banned from re-entering the industry for eight months
CHAN Yiu Ting	12.8.2020	Conducted unauthorised transactions in a client account	Banned from re-entering the industry for 18 months
LAI Wing Fat	7.7.2020	Conducted unauthorised transactions in client accounts	Banned from re-entering the industry for 20 months
KWOK Chau Mo	28.5.2020	Breached the firm's trading policies	Banned from re-entering the industry for nine months

Table 7 Other enforcement activities

	2020/21	2019/20	2018/19
S179 ¹ inquiries commenced	42	31	26
S181 ² inquiries commenced (number of letters sent)	246 (8,748)	231 (8,767)	294 (9,074)
S182 ³ directions issued	189	187	231
Rule 8 directions ⁴ issued	0	1	4
Show cause letters ⁴ issued	0	0	2
Cases with search warrants executed	28	17	30
Compliance advice letters issued	231	218	234
Criminal, Civil and Market Misconduct Tribunal (MMT) proceedings			
(a) Insider dealing			
Individuals/corporations summonsed (summons laid)	1 (1)	1 (2)	1 (5)
Individuals/corporations involved in ongoing civil proceedings	11	11	11
Individuals/corporations involved in ongoing MMT proceedings	3	7	5
(b) Market manipulation			
Individuals/corporations summonsed (summons laid)	6 (6)	1 (3)	0 (0)
Individuals/corporations involved in ongoing civil proceedings	18	18	0
(c) Others			
Individuals/corporations summonsed (summons laid)	3 (21)	5 (5)	4 (37)
Individuals/corporations involved in ongoing civil proceedings	150	129	90
Individuals/corporations involved in ongoing MMT proceedings	20	27	25
Disciplinary enquiry			
Notices of Proposed Disciplinary Action ⁵ issued	27	35	22
Notices of Decision ⁶ issued (including S201 ⁷ agreement)	35	46	34
SFAT hearings			
Applications to SFAT	6	3	4
Applications/hearings completed	4	2	5

1 Section 179 of the Securities and Futures Ordinance (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.

4 A Rule 8 direction is issued by the SFC pursuant to Section 8 of the Securities and Futures (Stock Market Listing) Rules, directing the Stock Exchange of Hong Kong Limited (SEHK) to suspend trading in the shares of a listed company on grounds that the market is misinformed, disorderly or unfair. A show cause letter is sent by the SFC to inform a listed company that it is minded to exercise its power under the aforesaid Rules to direct SEHK to suspend trading in the shares of the company, in the absence of a satisfactory explanation.

5 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.

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

7 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 8 Statistical information and financial position of the Hong Kong securities industry¹

	As at 31.12.2020	As at 31.12.2019	As at 31.12.2018
Securities dealers and securities margin financiers	1,391	1,379	1,312
Active cash clients ²	1,737,281	1,423,007	1,410,319
Active margin clients ²	1,470,396	601,842	463,970
Active clients	3,207,677	2,024,849	1,874,289
Balance sheet	(\$ million)	(\$ million)	(\$ million)
Cash in hand and at bank ³	640,379	505,627	515,715
Amounts receivable from margin clients ⁴	201,916	165,919	180,800
Amounts receivable from clients and other dealers arising from dealing in securities	333,878	186,361	158,495
Proprietary positions	212,763	133,663	89,096
Other assets	423,539	331,341	282,426
Total assets	1,812,475	1,322,911	1,226,532
Amounts payable to clients and other dealers arising from dealing in securities	877,314	580,610	531,638
Total borrowings from financial institutions	156,267	119,934	111,396
Short positions held for own account	78,572	47,175	38,285
Other liabilities	234,265	159,784	148,483
Total shareholders' funds	466,057	415,408	396,730
Total liabilities and shareholders' funds	1,812,475	1,322,911	1,226,532
	12 months to 31.12.2020 (\$ million)	12 months to 31.12.2019 (\$ million)	12 months to 31.12.2018 (\$ million)
Profit and loss			
Total value of transactions ⁵	129,651,195	85,831,384	89,678,389
Net securities commission income	28,374	19,901	24,197
Gross interest income	19,493	23,172	22,471
Other income ⁶	150,159	118,809	114,637
Total operating income	198,026	161,882	161,305
Total overheads and interest expense	167,122	149,920	137,757
Total operating profit	30,904	11,962	23,548
Net profit on proprietary trading	16,649	13,201	14,783
Net profit for the period	47,553	25,163	38,331

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 which carries out its principal business activities outside Hong Kong and operates in Hong Kong as a branch office were excluded.

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 which totalled \$437,280 million (31.12.2019: \$288,016 million).

4 As at 31.12.2020, the average collateral coverage was 4.6 times (as at 31.12.2019: 3.9 times). This figure represents the number of times the aggregate market value of securities collateral deposited by margin clients covers the total amount of margin loans due from these clients on a given date on an industry-wide basis.

5 The total value of transactions includes trading in equities, bonds and other securities in Hong Kong and overseas.

6 Comprises fund management fee income, corporate finance income, inter-company management fee income and others.

Committees, panels and tribunal

A number of committees and panels have been set up to advise the SFC on various matters and perform other functions as set out in their terms of reference. Their responsibilities and members are listed in this section. For information on the board committees and Executive Committee, see Corporate Governance on pages 13-33.

SFC Committees

Advisory Committee

Advises the SFC on any matter of policy regarding the performance of its functions.

Chairman	
LUI Tim Leung Tim, SBS, JP	
Members	
ALDER Ashley Ian, SBS, JP	LEUNG Chung Yin Rico
Prof CHAN Ka-lok	PUN Wing-nin Winnie
CHAN Lap-tak Jeffrey	Dr TAN Yue-heng, JP
CHAN Yuk Sing Freeman	WONG Wai-man June
DING Chen	YIEN Yu-yu Catherine
GRAHAM David	YIM Lok-kui
HO Yin Tung Brian	YIN Ke
KUNG Yeung Ann Yun-Chi	
Number of meetings: 3	Average attendance rate: 89%

Academic and Accreditation Advisory Committee

Approves industry-based courses and examinations for the purpose of meeting the licensing competence requirements, endorses applications from professional bodies and tertiary institutions as recognised institutions for providing continuous professional training (CPT), advises the SFC on areas to study in the context of enhancing Hong Kong's position as an international financial centre and provides input for the development of industry-related courses and training programmes.

During the year, the Committee met once to consider a number of matters, including the proposed enhanced competency framework for intermediaries and individual practitioners, the pragmatic measures on examination and CPT compliance that were introduced under COVID-19, updates on examination and training services provided by Hong Kong Securities and Investment Institute, and the approval of two applications to be a recognised institution for providing CPT.

Chairperson	
LEUNG Fung Yee Julia, SBS	
Members	
Dr CHAN Fung Cheung Wilson	LO Wai Shun Wilson
Dr CHAN Wing Ho Alex	PAN San Kong Terry
Prof CHENG Wui Wing Joseph	PONG Po Lam Paul
CHEUNG Wai Kwok Gary	WONG Wing Fai Joseph
Prof LEUNG Siu Fai	
Secretary	
MAN Hoi Yee Holly	
Number of meetings: 1	Average attendance rate: 100%

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.

Chairperson

CHOI Fung Yee Christina

Members

CHAN Duen Grace
Dr CHAN Ho Wah Terence
CHAN Wing Hing Barry
CHIANG Sui Fook Lilian
HO Edmund
HO Yin Tung Brian
Prof HUI Chi Man, MH

Secretary

LAU Tin Mei

KWOK Lam Kwong Larry, SBS, JP
LAU Chun Kong, JP
LAU Ka Shi Betsy, BBS
NG Yiu Fai (Curtis NG)
WONG Chi Ming Sally
WU Thomas Jefferson, JP
YEONG Wei Ming Alexandra

Number of meetings: 1

Average attendance rate: 93%

Disciplinary Chair Committee

Members are nominated by the Nominations Committee on the basis that they are duly experienced and legally qualified persons. Their role is to act as Chairman of the Takeovers and Mergers Panel in disciplinary proceedings under the Codes on Takeovers and Mergers and Share Buy-backs or of the Takeovers Appeal Committee on a case-by-case basis.

Members

DAWES Victor, SC
JAT Sew Tong, SC, JP
LAM Douglas Tak Yip, SC

SHIEH Wing Tai Paul, SC
WONG Man Kit Anson, SC

Fintech Advisory Group

Aims to broaden the SFC's understanding of the opportunities, risks and regulatory implications of the latest Fintech trends and developments.

During the year, the Group met twice to discuss a range of topics, such as recent trends in digitisation, adoption of blockchain in the financial industry and regulation of virtual assets.

Chairperson

LEUNG Fung Yee Julia, SBS

Ex-officio member

CHIU Ka Lai Clara

Members

ARSLANIAN Henri	LI Shu Pui (from 1.3.2021)
CHENG Andrew (to 28.2.2021)	MA Henry
JOHNSTONE Syren (to 28.2.2021)	MCCORMACK Urszula (to 28.2.2021)
KIEW-SMITH Christopher (from 1.3.2021)	Prof POON Jack (from 1.3.2021)
LEI Kelvin (from 1.3.2021)	Dr SPIEGL Florian Matthaeus
LEWIS Antony	TAN Jessica
Prof LIN Chen (from 1.3.2021)	

Number of meetings: 2

Average attendance rate: 93.8%

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

LEUNG Chung Yin Rico

Members

ATKINSON Thomas Allan	Dr LIN James C (from 1.8.2020)
Dr WONG Ming Fung William, SC, JP (to 31.7.2020)	KOK Ka Keung (Kenneth KOK)

Number of meetings: 1

Average attendance rate: 100%

Committees, panels and tribunal

Investor Compensation Company Limited Claims Committee

Reviews and determines investors' claims for compensation from the Investor Compensation Fund. During the year, the Claims Committee determined matters (including claims) by written resolution rather than by convening meetings.

Chairman

Dr WONG Ming Fung William, SC, JP (to 31.7.2020)
Dr LIN James C (from 1.8.2020)

Members

CHAN Lui (Clara Chan)	MONG Yee Wai (Lavina Mong)
Kwok Hom Siu (Sally Kwok)	MUKADAM Thrity Homi
LEE Jor Hung (Dannis Lee)	TSO Pui Sze (Teresa Tso)
LEUNG Chung Yin Rico	TSUI Kam Yip (Alison Tsui) (from 1.2.2021)
LO Dak Wai Alexandra, JP (to 31.1.2021)	WAN Chi Yiu, Andrew

Number of meetings: N/A

Average attendance rate: N/A

Nominations Committee

Nominates members of the Takeovers and Mergers Panel, the Takeovers Appeal Committee and the Disciplinary Chair Committee.

During the year, the Committee met once to consider the appointment and reappointment of members to the above-mentioned panel and committees.

Chairman (ex-officio member)

ALDER Ashley Ian, SBS, JP

Members

LUI Tim Leung Tim, SBS, JP	DAWES Victor, SC (from 11.8.2020)
Ex-officio members	
CLARK Stephen Edward	HO Yin Tung Brian
Alternate members to CLARK Stephen Edward	
CHAN Yuk Sing Freeman	MAGUIRE John Martin
KO Teresa Yuk Yin, JP	SCHWILLE Mark Andrew
LAM Chor Lai, Celia	WEBB David Michael

Number of meetings: 1

Average attendance rate: 100%

Products Advisory Committee

The SFC may consult the Committee on a wide range of matters relating to the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products, the SFC Code on MPF Products and the Code on Pooled Retirement Funds, overall market environment, industry practices and novel product features.

During the year, the Committee held a meeting to discuss the latest enhancements and developments on environmental, social and governance (ESG) funds and the open-ended fund companies regime.

Chairman

CHOI Fung Yee Christina

Members

ABRAT Katherine Anna	MILLS Guy Raymond Adam (to 28.4.2020)
CHAN Duen Grace	MONCREIFFE Edward Charles Lawrence (from 22.5.2020)
CHAN Siu Ping Chordio	NOYES Keith Samuel
CHOW Kin Hung (Nelson CHOW) (from 30.9.2020)	PAN San Kong Terry
FUNG Ka Shing Bernard	PANG Wai Sau Queenie
HUI Mei Ying (Carol HUI)	SHEN Hua
KENNEDY Glenn Ronald	SHIPMAN Mark Graham
KIM Suyi	SMITH Paul Henry
LAU Karen Ga-Yun (to 23.12.2020)	TAM Sau Ngor Vera
LEE Chi Kee Trevor	TSUI Wai Yu (Fion TSUI) (from 19.3.2021)
LEE Kam Wing, Bruno (to 14.9.2020)	TZATZAKIS Costa (Con TZATZAKIS)
LIU Yun Bonn (Bonn LIU)	WONG Pui Ling Pauline
LYU Hong (Sandra LU)	YEE Gar Bo Gabriella
Dr MAK Sui Choi Billy	YEONG Wei Ming Alexandra
Dr MALDONADO-CODINA Guillermo Eduardo (Bill MALDONADO) (to 19.3.2021)	

Secretary

POON Wing Yee Loreen

Number of meetings: 1

Average attendance rate: 92%

Committees, panels and tribunal

Public Shareholders Group

Advises on issues relating to shareholders' rights and interests.

During the year, the Group met four times and discussed various policy subjects, such as the financial reporting requirements and general meeting arrangements in light of the COVID-19 pandemic, the return of US-listed Greater China issuers to the Hong Kong market and the proposed Code of Conduct for bookbuilding and placing activities and the "sponsor coupling" proposal.

Chairman	
HO Yin Tung Brian	
Members	
BENNETT Prudence Ann	TYE Philip Andrew
GILL Amar Singh	WANG Fang
HO Chi On John	WEI Zhen
MO Yuen Man Anita	WONG Chi Ming Sally
PARK Yoo Kyung	WONG David (Nicholas)
SCHLABBERS Manuel	WONG Yu Tsang Alex
Number of meetings: 4	Average attendance rate: 90.5%

Securities Compensation Fund Committee

Administers the Unified Exchange Compensation Fund and regulates its procedures in accordance with Part X of the repealed Securities Ordinance which, under section 74 of Schedule 10 to the SFO, continues to apply to and in relation to any claim for compensation from the Fund made before 1 April 2003.

During the year, the Committee met once to consider the Fund's financial statements and to deal with other administrative matters.

Chairman	
LEUNG Chung Yin Rico	
Members	
ATKINSON Thomas Allan	YIU Ka Yan Wilfred
Dr LIN, James C. (from 1.8.2020)	KWOK Hom Siu (Sally KWOK)
Dr WONG Ming Fung William, SC, JP (to 31.7.2020)	
Number of meetings: 1	Average attendance rate: 100%

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 Limited (SEHK) when actual or potential conflicts of interest arise between Hong Kong Exchanges and Clearing Limited (HKEX) and the proper performance of SEHK's listing functions. In such cases, the relevant SEHK functions may be undertaken by the SFC.

There were no circumstances which called for a meeting of the Committee during the year.

Chairman

Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting.

Members

ALDER Ashley Ian, SBS, JP	LEUNG Fung Yee Julia, SBS
ATKINSON Thomas Allan	PHADNIS Dhananjay Shrikrishna
CHAN Yuk Sing Freeman	TYE Philip Andrew
CHOI Fung Yee Christina	WONG David (Nicholas)
EMSLEY Matthew Calvert	YOUNG Andrew John
LEUNG Chung Yin Rico	

Number of meetings: 0

Average attendance rate: NA

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.

There were no circumstances which called for a meeting of the Committee during the year.

Chairman

Members present in each Committee meeting will elect a Chairman among themselves at the beginning of that meeting.

Members

CHAN Kam Wing Clement, MH, JP	Dr LIN James C
CHAN Sui Kuen Agnes	LO Kar Chun Nicky, SBS, JP
CHENG Wai Sun Edward, GBS, JP	LUI Tim Leung Tim, SBS, JP
DAWES Victor, SC (from 1.8.2020)	Dr WONG Ming Fung William, SC, JP (to 31.7.2020)
HUANG Lester Garson, SBS, JP	

Number of meetings: 0

Average attendance rate: NA

Committees, panels and tribunal

Share Registrars' Disciplinary Committee

Hears and determines disciplinary matters relating to share registrars in the first instance.

There was no circumstance which called for a meeting of the Committee during the year.

Chairman	
NORMAN David Michael	
Deputy Chairman	
CHAN Henry	
Members	
CHUI Ming Wai (Vivian CHUI) FOOTMAN Michael Henry Charles LAM Hui Yip (Clement LAM) LEE Virginia Yuen Man	LO Dak Wai Alexandra, JP (to 31.1.2021) TSAI Wing Chung Philip, BBS, JP WONG Man Yee (Fanny WONG)
Number of meetings: 0	Average attendance rate: N/A

Share Registrars' Disciplinary Appeals Committee

Hears and determines appeals from the Share Registrars' Disciplinary Committee. Each appeal is heard by members of the Share Registrars' Disciplinary Committee who did not preside or participate in the case's disciplinary hearing.

There were no circumstances which called for a meeting of the Committee during the year.

Takeovers and Mergers Panel

Hears disciplinary matters in the first instance and reviews rulings by the Takeovers Executive¹ at the request of any party dissatisfied with such a ruling. Considers novel, important or difficult cases referred to it by the Executive. Reviews, upon request by the SFC, the provisions of the Codes on Takeovers and Mergers and Share Buy-backs (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.

There were no circumstances which called for a meeting of the Panel during the year.

Chairman

CLARK Stephen Edward

Deputy Chairpersons

CHAN Yuk Sing Freeman
KO Teresa Yuk Yin, JP
LAM Chor Lai, Celia

MAGUIRE John Martin
SCHWILLE Mark Andrew
WEBB David Michael

Members

BIDLAKE Alexandra
BROWN Melissa
CHAN Che Chung (Conrad CHAN)
CHARLTON Julia Frances
CHENG Wai Sun, Edward, GBS, JP
Chow Koon Ying (Paul CHOW) (to 22.2.2021)
IP Koon Wing Ernest
LEE Kam Hung Lawrence, BBS, JP
LEUNG Po Wah, Pauline
LIU Yun Bonn (Bonn LIU)
LLOYD Victoria Sally Tina
NORMAN David Michael
NORRIS Nicholas Andrew
PARK Yoo Kyung

SABINE Martin Nevil
SHAH Asit Sudhir
STEINERT Timothy A.
TYE Philip Andrew
VAS CHAU Lai Kun Judy
WINTER Richard David
WOLHARDT Julian Juul
WONG Richard
WONG Wai Ming
WONG Yu Tsang, Alex
WOO Ka Biu, Jackson
YU Ka Po Benita
YUEN Ka Fai (Frank YUEN)

Number of policy meeting: 0
Number of non-disciplinary hearings: 0
Number of disciplinary hearings: 0

Average attendance rate: N/A
Average attendance rate: N/A
Average attendance rate: N/A

¹ The Takeovers Executive refers to the Executive Director of the Corporate Finance Division of the SFC or his delegate.

Committees, panels and tribunal

Takeovers Appeal Committee

Reviews disciplinary rulings of the Takeovers and Mergers Panel at the request of an aggrieved party for the sole purpose of determining whether any sanction imposed by the Panel is unfair or excessive.

There were no circumstances which called for a meeting of the Committee during the year.

Members

BIDLAKE Alexandra	NORRIS Nicholas Andrew
BROWN Melissa	PARK Yoo Kyung
CHAN Che Chung (Conrad CHAN)	SABINE Martin Nevil
CHAN Yuk Sing Freeman	SCHWILLE Mark Andrew
CHARLTON Julia Frances	SHAH Asit Sudhir
CHENG Wai Sun, Edward, GBS, JP	STEINERT Timothy A.
Chow Koon Ying (Paul CHOW) (to 22.2.2021)	TYE Philip Andrew
CLARK Stephen Edward	VAS CHAU Lai Kun Judy
IP Koon Wing Ernest	WEBB David Michael
KO Teresa Yuk Yin, JP	WINTER Richard David
LAM Chor Lai, Celia	WOLHARDT Julian Juul
LEE Kam Hung Lawrence, BBS, JP	WONG Richard
LEUNG Po Wah, Pauline	WONG Wai Ming
LIU Yun Bonn (Bonn LIU)	WONG Yu Tsang, Alex
LLOYD Victoria Sally Tina	WOO Ka Biu Jackson
MAGUIRE John Martin	YU Ka Po Benita
NORMAN David Michael	YUEN Ka Fai (Frank YUEN)

Number of meetings: 0

Average attendance rate: N/A

Independent Panels and Tribunal

Leveraged Foreign Exchange Trading Arbitration Panel

Resolves disputes in accordance with the Securities and Futures (Leveraged Foreign Exchange Trading) (Arbitration) Rules.

The panel received no new cases during the year and none were carried over from the previous year.

Chairman

LAM Yuk Kun Lawrence (to 16.07.2020)
LEE Pui Shan Rosita (from 17.7.2020)

Deputy Chairman

CHAN Siu-ping Chordio (from 17.7.2020)

Members

CHEUNG Tai Keung Jack (to 16.07.2020)	LEUNG Bon-yuen, Eviana (from 17.7.2020)
FUNG Kit-ming, Veronica (from 17.7.2020)	LEUNG Tak-lap

Process Review Panel for the Securities and Futures Commission

Reviews and advises the SFC upon the adequacy of the SFC's internal procedures and operational guidelines governing the action taken and decisions made by the SFC and its staff in the performance of its regulatory functions, including those related to the handling of complaints, licensing applications, inspection of intermediaries, investment products authorisation, exercise of investigation and disciplinary action, and corporate finance transactions (including the administration of listing rules).

Chairman

LEE Kam Hung Lawrence, BBS, JP

Members

CHAN Lap-tak Jeffrey	KWAN Wing-han Margaret
CHAN Lena	KWOK Tun-ho Chester
CHAU Suet-fung Dilys	LAI Hin-wing Henry
CHING Kim-wai Kerry (from 1.11.2020)	Dr MAK Sui-choi Billy
CHUA Suk-lin Ivy	TSANG Sui-cheong Frederick
CHUI Yik-chiu Vincent	YUEN Shuk-kam Nicole (to 31.10.2020)
DING Chen (to 31.10.2020)	ZEE Helen (from 1.11.2020)

Ex-officio members

CHEUNG Kam-Wai Christina, JP (to 28.2.2021)	LUI Tim Leung Tim, SBS, JP
YUNG Lap-yan (from 1.3.2021)	

Committees, panels and tribunal

Securities and Futures Appeals Tribunal

Reviews a range of specified decisions made under the SFO by the SFC, the Monetary Authority or a recognised investor compensation company, and hears and determines any question or issue arising out of or in connection with any review.

Chairmen

HARTMANN Michael John, GBS
KWOK Hing-wai Kenneth, SBS, SC, JP

TALLENTIRE Garry
LUNN Michael Victor, GBS

Members

CHAN Chun-hung Vincent
Prof CHAN Koon-hung
CHAN Lap-tak Jeffrey
CHAN Mei-bo Mabel
CHENG Wai-sum Yvonne
CHING Kim-wai Kerry
DATWANI Mohan
HUI Ming-ming Cindi
KONG Chi-how Johnson
LAI Hin-wing Henry
LAM Chi-yuen Nelson
LEUNG Ming-hym Peter
Prof LEUNG Siu-fai

MAK Kwong-fai
Dr MAK Sui-choi Billy
MUH Yi-tong Anthony
NG Joo-yeow Gerry
SHIH Edith
TSANG Chi-wai Roy
TSANG Kam-yin Wendy
WONG Hin-wing Simon
WONG Kwok-ching Jamee
YAU Yu-xin Amelia
YUEN Miu-ling Wendy
ZEE Helen

Glossary and abbreviations

Automated trading services (ATS)

Electronic facilities, outside of those provided by a recognised exchange company or clearing house, through which participants may trade, clear and settle securities, futures contracts and over-the-counter derivatives.

Circuit breaker

A mechanism which halts trading when triggered by significant price movements. It may be imposed on individual stocks or the market as a whole.

Dark pool

An electronic system which allows crossing or matching of orders anonymously outside traditional exchanges without any pre-trade transparency. Also known as alternative liquidity pool or alternative trading system.

Exchange participant

A company with rights to trade on or through the Stock Exchange of Hong Kong Limited or Hong Kong Futures Exchange Limited.

Financial Action Task Force (FATF)

An inter-governmental body established to set standards and promote measures to combat money laundering, terrorist financing and related threats to the integrity of the international financial system.

Financial Stability Board (FSB)

An international body which promotes global financial stability through recommendations for, and the implementation and monitoring of, policy initiatives and international standards.

GEM

A stock market operated by Hong Kong Exchanges and Clearing Limited to provide fund-raising opportunities for small to mid-sized companies which may not meet the Main Board listing requirements. Formerly known as the Growth Enterprise Market.

International Organization of Securities Commissions (IOSCO)

A body of securities regulators worldwide which develops, implements and promotes adherence to internationally recognised standards for securities regulation.

Investment-linked assurance scheme (ILAS)

A life insurance policy with investment elements which provides both insurance protection and investment options, usually through funds.

Leveraged and inverse products

Products structured as exchange-traded funds for public offering in Hong Kong. Leveraged products aim to deliver a daily return equivalent to a multiple of the underlying index return while inverse products aim to deliver the opposite of the daily return of the underlying index.

Mandatory general offer

A general offer to buy the remaining shares in a company when a person or a group of persons acting together acquires 30% or more of the company's voting rights, or if the person or group already holds between 30% and 50% of the voting rights, when that holding increases by more than 2% in any 12-month period.

Market Misconduct Tribunal (MMT)

An independent full-time body established under the Securities and Futures Ordinance which imposes civil sanctions against those it determines to be guilty of market misconduct.

Occupational retirement scheme

A voluntary scheme set up by employers in Hong Kong to provide retirement benefits for their employees.

Glossary and abbreviations

Open-ended fund companies (OFC)

Collective investment schemes structured in corporate form with limited liability and variable share capital.

Over-the-counter (OTC) derivatives

Financial instruments which are usually traded directly between dealers and principals rather than via an exchange and whose values are derived from those of underlying assets.

Pooled retirement fund

A collective investment scheme which enables multiple occupational retirement schemes to gain exposure to underlying investment portfolios.

Ramp and dump scheme

A form of stock market manipulation. Fraudsters “ramp” up the price of a stock and use social media to lure unwary investors to buy at an artificially high price. The fraudsters then sell or “dump” the stock to take profits causing the price to collapse.

Real estate investment trust (REIT)

A collective investment scheme constituted as a trust which invests primarily in real estate with the aim to provide returns derived from rental income.

Securities and Exchange Commission of Thailand

The authority that regulates the securities market in Thailand.

Securities and Futures Appeals Tribunal (SFAT)

A body established under the Securities and Futures Ordinance to review specified decisions made by the SFC, the Hong Kong Monetary Authority or a recognised investor compensation company.

Securities and Futures Ordinance (SFO)

Together with subsidiary legislation, the law in Hong Kong relating to financial products, the securities and futures market and industry, as well as to their regulation and other matters including investor protection.

Undertakings for the Collective Investment in Transferable Securities (UCITS)

A single European regulatory framework which allows funds to be distributed publicly to investors across the European Union (EU). UCITS funds are also distributed outside the EU.

Unit trust

A collective investment scheme constituted in trust form.

Virtual assets

Digital representations of value, also known as cryptocurrencies, crypto-assets or digital tokens.

Whitewash waiver

A waiver of a party's obligation to make a mandatory offer to other shareholders under the Takeovers Code.

**Contact
information**

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Auditor

PricewaterhouseCoopers

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