



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

**Quarterly
Report
2021**

April - June

This first Quarterly Report of the Securities and Futures Commission for financial year 2021-22 covers the period from 1 April to 30 June 2021.

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Highlights

Regulatory enhancements

Competency framework: We published consultation conclusions on proposals to update the competency framework for intermediaries and individual practitioners. The revised guidelines will take effect on 1 January 2022.

Over-the-counter derivatives: We issued a joint consultation conclusions paper with the Hong Kong Monetary Authority (HKMA) on the annual update to the list of financial services providers under the over-the-counter derivatives clearing regime.

Uncertificated securities market: The Legislative Council passed the Securities and Futures and Companies Legislation (Amendment) Bill, which provides a legal framework to establish a paperless securities market in Hong Kong.

Virtual assets: The Government concluded a consultation on a legislative proposal for the SFC to regulate centralised virtual asset exchanges under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance.

Green and sustainable finance

Steering Group: The Hong Kong Green and Sustainable Finance Cross-Agency Steering Group, co-chaired by the SFC and the HKMA, announced the next steps to advance its collaborative strategy to help transition the financial ecosystem towards carbon neutrality.

Environmental, social and governance (ESG) funds: We published a circular in June with enhanced requirements for disclosures and annual assessments of ESG funds, especially those with a climate-related focus.

Listing regulation

Listing applications: We vetted 120 new listing applications, including five from companies with weighted voting rights structures and 14 from pre-profit biotech companies.

Corporate conduct: As part of our review of corporate disclosures, we issued section 179¹ directions to gather additional information in 28 cases and issued letters detailing our concerns in one case.

Listing-related misconduct: We published a statement with the Stock Exchange of Hong Kong Limited (SEHK) in May on our joint efforts to combat misconduct and improper behaviour in new listings.

¹ 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.

Highlights

Intermediaries

Licensing: As at 30 June 2021, the number of licensees and registrants totalled 47,527, of which 3,174 were licensed corporations (LCs).

Supervision: We conducted 71 on-site inspections of LCs to review their compliance with regulatory requirements.

COVID-19 response: We issued circulars setting out the requirements for senior executives of LCs or their overseas affiliates who apply for exemption from the compulsory quarantine arrangements when they return or travel to Hong Kong. Another circular encouraged LCs to consider vaccination as a critical part of their operational risk management, review their business continuity plans and encourage staff performing critical functions to get vaccinated.

Bank accounts: We reminded LCs to implement effective policies, procedures and internal controls for the operation of their bank accounts to properly safeguard client money, promptly discharge their liabilities and comply with regulatory financial resources requirements.

Products

Product authorisations: We authorised 39 unit trusts and mutual funds (including 17 Hong Kong-domiciled funds), two investment-linked assurance schemes, one real estate investment trust (REIT) and 24 unlisted structured investment products for public offering in Hong Kong.

Exchange-traded funds (ETFs): ETFs were cross-listed on SEHK and the Shanghai Stock Exchange for the first time during the quarter. We also worked with SEHK to enhance the efficiency and liquidity of ETFs in the secondary market.

Grant scheme: We announced the launch of the Government's grant scheme to subsidise the setting up of open-ended fund companies and REITs in Hong Kong.

Enforcement

Disciplinary actions: We disciplined four corporations and three individuals, resulting in total fines of \$5 million.

Market surveillance: We made 2,319 requests for trading and account records triggered by untoward price and turnover movements.

Unregulated virtual asset platforms: We issued a statement to clarify that no entity in the Binance group is licensed or registered to conduct regulated activities in Hong Kong and investors should be extremely careful if they plan to invest in stock tokens offered on unregulated platforms.

Joint SFC-Police operation: As part of a joint operation with us against a syndicate suspected of operating ramp and dump market manipulation schemes and committing fraud, the Police arrested four persons, including three senior executives of a listed company.

Warning against investment scams: To raise public awareness, we conducted an online campaign simulating the experience of being drawn into social media investment scams and organised three community outreach events with the Hong Kong Police's Anti-Deception Coordination Centre. We also issued a circular reminding licensees of their obligation under the Code of Conduct² to notify us of suspected ramp and dump scams.

Regulatory engagement

International: In June, our Chief Executive Officer Mr Ashley Alder chaired a virtual meeting of the Board of the International Organization of Securities Commissions which discussed sustainable finance and operational risks arising from the pandemic.

Mainland China: At our high-level meeting with the China Securities Regulatory Commission, we discussed cross-boundary regulatory cooperation including the supervision of financial institutions and enhancements to mutual market access schemes as well as other market development initiatives.

² The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

Operational Review

Corporates

Listing regulation

Main Board profit requirement

To strengthen Hong Kong's position as an international financial centre, we work with the Stock Exchange of Hong Kong Limited (SEHK) to regularly review listing policies. SEHK published the conclusions to its consultation on increasing the minimum profit requirement for new listings on the Main Board in May. The new profit thresholds will take effect on 1 January 2022.

Misconduct related to new listings

Also in May, we and SEHK published a joint statement on our efforts to combat misconduct and improper behaviour related to new listings through heightened scrutiny of listing applications with red flags which indicate a lack of genuine investor interest. When necessary, we will use our regulatory powers to object to or reject an application.

SEHK's disciplinary powers and sanctions

Following our recommendation, SEHK consulted on proposals to enhance its disciplinary powers and sanctions. The consultation conclusions were published

in May. New rules which came into effect on 3 July 2021 strengthen SEHK's ability to hold directors and other individuals accountable for misconduct and rule breaches.

Listing applications

Our oversight of listing matters includes vetting of listing applications. During the quarter, we vetted 120 new listing applications, including five from companies with a weighted voting rights structure and 14 from pre-profit biotech companies. One company achieved secondary listing on the Main Board under Chapter 19C of the Listing Rules¹.

Exercising our powers under the Securities and Futures (Stock Market Listing) Rules, we issued one requisition letter directly to a listing applicant during the quarter. Amongst our concerns were the credibility of the sponsor's submission and the sufficiency of the independent due diligence performed by the sponsor.

Corporate conduct

We conduct daily reviews of corporate announcements to identify potential misconduct and irregularities. During the quarter, we issued section 179² directions to gather additional information in 28 cases and wrote to listed issuers detailing our concerns in one case. These concerns included, for example, whether a corporate action or transaction is conducted in a manner which is oppressive or unfairly prejudicial to shareholders.

¹ Chapter 19C sets out the additional requirements, modifications or exceptions for companies that have, or are seeking, a secondary listing.

² 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.

Corporates

Listing applications and takeovers activities

	Quarter ended 30.6.2021	Quarter ended 31.3.2021	Change (%)	Quarter ended 30.6.2020	YoY change (%)
Listing applications	120	80	50	82	46.3
Takeovers and share buy-backs transactions	110	122	-9.8	111	-0.9

Intermediaries

Licensing applications

In the quarter, we received 2,695 licence applications¹, including 42 corporate applications, a 19.5% increase from the last quarter and up 60% compared with the same quarter last year.

As at 30 June, the total number of licensees and registrants remained stable at 47,527, of which 3,174 were licensed corporations.

Competency framework

In June, we concluded a consultation on updates to the competency framework for intermediaries and individual practitioners. The industry generally welcomed the proposals which included raising the minimum academic qualification requirements for individuals, broadening the scope of recognised academic qualifications, clarifying the management experience requirements for responsible officers and executive officers and enhancing the competence requirements for individuals advising on matters in relation to the Codes on Takeovers and Mergers and Share Buy-backs.

Post-graduate diplomas and certificates in designated fields will be recognised and we will accept management experience acquired in the financial industry by responsible officer and executive officer applicants. Environmental, social and governance (ESG) will be included as a relevant topic for continuous professional training purposes.

The revised Guidelines on Competence, Guidelines on Continuous Professional Training and Fit and Proper Guidelines will become effective on 1 January 2022.

Licensees and registrants

	As at 30.6.2021	As at 31.3.2021	Change (%)	As at 30.6.2020	YoY change (%)
Licensed corporations	3,174	3,159	0.5	3,109	2.1
Registered institutions	114	115	-0.9	112	1.8
Licensed individuals	44,239	43,904	0.8	43,603	1.5
Total	47,527	47,178	0.7	46,824	1.5

Virtual assets

In May, the Government published consultation conclusions on a legislative proposal for the SFC to regulate centralised virtual asset exchanges under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance. There was broad support for the proposed regime and the Government aims to introduce the amendment bill into the Legislative Council in the next legislative session.

Data standards for order life cycles

In April, we issued a circular to remind securities brokers whose annual trading turnover in SEHK²-listed equities in 2018 or beyond reaches or exceeds 2% of that year's total market trading volume for the first time that they are generally expected to implement system changes and make other arrangements to comply with the data standards for order life cycles within 15 months of that year's calendar end. We also updated the frequently asked questions to provide additional guidance on implementation.

Operation of bank accounts

In June, we issued a circular to remind licensed corporations to implement effective policies, procedures and internal controls for the operation of their bank accounts and set out our expectations regarding their bank account signatory arrangements. These policies and controls will help them properly safeguard client money, promptly discharge their liabilities, ensure the availability of financial resources and comply with the regulatory financial resources requirements.

¹ The figure does not include applications for provisional licences. See the licensing applications table on page 7 for details.

² The Stock Exchange of Hong Kong Limited.

Intermediaries

COVID-19 response

Compulsory quarantine exemption scheme

After arrangements for exemptions from compulsory quarantine were made by the Government, we issued a circular in May setting out that senior executives of licensed corporations or their overseas affiliates who are fully vaccinated and meet eligibility criteria may apply for an exemption when they return or travel to Hong Kong. The circular explained the criteria, application procedures and the consequences of contravening the exemption conditions. We issued another circular in June on updates to the scheme after the Government announced revised quarantine measures.

Business continuity planning

In view of the availability of vaccines under the Government's COVID-19 Vaccination Programme, we issued a circular in June to encourage licensed corporations to consider vaccination as a critical part of operational risk management. Licensed corporations were urged to review their business continuity plans, identify functions which are critical to their business operations and client interests and encourage staff performing these functions to get vaccinated. They were also urged to consider suitable arrangements for critical staff who have not yet been vaccinated, or are unfit for vaccination due to medical conditions, to undergo periodic COVID-19 testing.

Licensing applications

	Quarter ended 30.6.2021	Quarter ended 31.3.2021	Change (%)	Quarter ended 30.6.2020	YoY change (%)
Applications to conduct new regulated activity	5,570	4,648	19.8	3,491	59.6
Applications for SFC licences [^]	1,563	1,359	15	1,043	49.9

[^] Figures do not include applications for provisional licences. During the quarter, we received 1,132 provisional licence applications compared with 639 in the same quarter last year.

Intermediary inspections

	Quarter ended 30.6.2021	Quarter ended 31.3.2021	Change (%)	Quarter ended 30.6.2020	YoY change (%)
On-site inspections conducted [^]	71	76	-6.6	74	-4.1

[^] Including inspections conducted remotely in light of the COVID-19 pandemic.

Products

Authorisations and registrations

During the quarter ended 30 June, we authorised 39 unit trusts and mutual funds (including 17 Hong Kong-domiciled funds), two investment-linked assurance schemes, one real estate investment trust (REIT) and 24 unlisted structured investment products for public offering in Hong Kong.

In May, we authorised the first logistics-focused REIT in Hong Kong, bringing the total number of SFC-authorised REITs to 13 as of 30 June.

We registered and approved 15 open-ended fund companies (OFCs) and their sub-funds, including 10 authorised exchange-traded funds (ETFs), as of 30 June.

Wealth Management Connect

We have been working with the People's Bank of China, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission (CSRC), State Administration of Foreign Exchange, Hong Kong Monetary Authority and the Monetary Authority of Macao on the implementation of the Cross-boundary Wealth Management Connect Pilot Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area.

Mutual Recognition of Funds (MRF)

Mainland China

Under the Mainland-Hong Kong MRF scheme, as of 30 June, we authorised a total of 48 Mainland funds (including two umbrella funds) whilst the CSRC approved 38 Hong Kong funds.

As of 30 June, the cumulative net subscription was about RMB773.49 million for Mainland funds and about RMB16.39 billion for Hong Kong funds. During the quarter, Mainland funds recorded a net subscription of about RMB111.42 million, down from RMB351.67 million in the previous quarter. Hong Kong funds recorded a net subscription of about RMB1.32 billion this quarter, up from RMB648.51 million last quarter.

Thailand

Hong Kong's MRF arrangement with Thailand became effective in June 2021¹. The arrangement allows eligible Hong Kong and Thai public funds to be distributed in each other's market through a streamlined process. The

approval process for local feeder funds investing in MRF-eligible master funds in each other's market will also be expedited. We organised industry briefings to explain the new initiative.

Grant scheme for OFCs and REITs

In May, we announced the launch of the Government's grant scheme to subsidise the setting up of OFCs and REITs. For OFCs successfully incorporated in or re-domiciled to Hong Kong and SFC-authorised REITs successfully listed on the Stock Exchange of Hong Kong Limited (SEHK), the scheme covers 70% of eligible expenses paid to Hong Kong-based service providers, subject to a cap of \$1 million per OFC and \$8 million per REIT.

The scheme will operate for three years and is open for applications on a first-come-first-served basis. We issued a press release to set out the details (including the eligibility criteria and application process) along with frequently asked questions to provide guidance to the industry.

ETFs

We worked with SEHK to enhance the efficiency and liquidity of ETFs in the secondary market. Effective May 2021, the trading tariff and minimum stock settlement fee for fixed income and money market ETFs are waived. In addition, different rates of trading fee exemptions for securities market maker transactions now apply to ETFs and leveraged and inverse products based on their liquidity and investment exposures.

Following the first cross-listings of Hong Kong ETFs on the Shenzhen Stock Exchange (SZSE) in October 2020, we worked with the CSRC to expand the cross-listing scheme to the Shanghai Stock Exchange (SSE). The first ETFs were cross-listed on SEHK and SSE in June. We are also working with the CSRC, SSE, SZSE and SEHK towards the launch of ETF Connect.

ESG funds

In view of the rapid growth of environmental, social and governance (ESG) funds and international regulatory developments, we published a circular² on 29 June with enhanced requirements for disclosures and annual assessments of ESG funds, especially those with a climate-related focus. We hosted industry briefings to explain the requirements.

¹ We signed a memorandum of understanding on MRF with the Securities and Exchange Commission of Thailand in January 2021.

² The circular supersedes a previous version issued on 11 April 2019.

Products

Authorised collective investment schemes

	As at 30.6.2021	As at 31.3.2021	Change (%)	As at 30.6.2020	YoY change (%)
Unit trusts and mutual funds – Hong Kong domiciled	838 ^a	835	0.4	781	7.3
Unit trusts and mutual funds – non-Hong Kong domiciled	1,394	1,382	0.9	1,371	1.7
Investment-linked assurance schemes	300	298	0.7	299	0.3
Pooled retirement funds	33	33	0	33	0
Mandatory provident fund (MPF) schemes	26	27	-3.7	27	-3.7
MPF pooled investment funds	209	212	-1.4	206	1.5
Others	26 ^b	25	4	26	0
Total	2,826	2,812	0.5	2,743	3

a This figure includes 107 approved pooled investment funds (retail APIFs) which MPFs may invest into and may also be offered to the public in Hong Kong.

b Comprising 13 paper gold schemes and 13 REITs.

Authorised unlisted structured investment products

	As at 30.6.2021	As at 31.3.2021	Change (%)	As at 30.6.2020	YoY change (%)
Unlisted structured investment products ^a	146	146	0	152	-3.9

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

Products

SFC-authorized renminbi investment products

As at
30.6.2021

Unlisted products	
Unlisted funds primarily investing in the onshore Mainland securities markets ^a or offshore renminbi bonds, fixed-income instruments or other securities	53
Unlisted funds (non-renminbi denominated) with renminbi share classes	295
Paper gold schemes with renminbi features	1
Recognised Mainland funds under Mainland-Hong Kong MRF arrangement	48
Unlisted structured investment products issued in renminbi ^b	145
Listed products	
ETFs primarily investing in the onshore Mainland securities markets ^a or offshore renminbi bonds, fixed income instruments or other securities	42
ETFs (non-renminbi denominated) with renminbi trading counters	19
Renminbi leveraged and inverse products	2
Renminbi gold ETFs ^c	1
Renminbi REITs	1

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

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

c Only includes gold ETFs denominated in renminbi.

Markets

Supervision of HKEX

We closely monitor the infrastructure-related initiatives and operations of Hong Kong Exchanges and Clearing Limited (HKEX). During the quarter, HKEX upgraded the market data platform for the cash market to enhance its resilience and safeguard market operations in the event of dual server failure. In addition, HKEX improved the data centre infrastructure and facilities for the secondary system for over-the-counter (OTC) clearing.

Uncertificated securities market

In June, the Legislative Council passed the Securities and Futures and Companies Legislation (Amendment) Bill, which provides for a legal framework to establish and implement an uncertificated securities market in Hong Kong. We are working on subsidiary legislation which will cover the technical and operational details of the new regime and the regulation of persons providing securities

registrar services. We aim to consult the public towards the end of the year. We are also working with HKEX and the Federation of Share Registrars Limited on operational issues and other implementation details.

OTC derivatives

Together with the Hong Kong Monetary Authority, we issued a joint consultation conclusions paper in June on the annual update to the list of financial services providers under the OTC derivatives clearing regime.

Automated trading services

As of 30 June, the number of automated trading services (ATS) providers¹ authorised under Part III of the Securities and Futures Ordinance (SFO) was 51, while 24 corporations, including 13 dark pool operators, were licensed under Part V of the SFO to provide ATS.

ATS providers

	As at 30.6.2021	As at 31.3.2021	Change (%)	As at 30.6.2020	YoY change (%)
Under Part III	51	51	0	52	-1.9
Under Part V	24	24	0	23	4.3

¹ Under the SFO, two regimes regulate ATS providers. Typically, those that offer facilities similar to those of a traditional exchange or a clearing house are authorised under Part III of the SFO. Intermediaries which provide dealing services with ATS as an added facility are licensed under Part V of the SFO.

Enforcement

Court proceedings

Following an appeal against the lower court's decision, the Court of Appeal granted compensation orders under section 214¹ of the Securities and Futures Ordinance (SFO) against three former directors² of EganaGoldpfeil (Holdings) Limited, who were ordered to pay \$622 million to the company for its loss of funds resulting from their misconduct and failure to act in the best interest of the company.

We obtained a disqualification order in the Court of First Instance (CFI) under section 214 of the SFO against Lin Supeng, a former director of Anxin-China Holdings Limited, for failures in ascertaining the company's financial position. Lin was disqualified from serving as a director or taking part in the management of any corporation in Hong Kong for eight years.

We obtained final orders from the CFI under section 213³ of the SFO against three boiler room fraudsters⁴ purportedly operating from Hong Kong. The Court appointed administrators to distribute approximately \$4.3 million in six bank accounts frozen by us to 75 investors.

The Eastern Magistrates' Court acquitted Leung Pak Keung, a practising solicitor, of five charges of insider dealing in the shares of CASH Financial Services Group Limited.

The Eastern Magistrates' Court issued a warrant to arrest Zeng Lingxi for her failure to appear in Court to answer two charges of obstructing our search operation. Zeng is allegedly a member of a syndicate operating social media ramp and dump scams involving the manipulation of shares of a Hong Kong listed company.

Market Misconduct Tribunal

The Market Misconduct Tribunal (MMT) fined China Medical & HealthCare Group Limited⁵ and six of its former and current directors⁶ a total of \$4.2 million for failing to disclose inside information as soon as reasonably practicable. Two of the directors were

disqualified from being a listed company director for up to eight months. The company and the six directors were ordered to pay our investigation and legal costs as well as the costs of the MMT proceedings. The MMT also ordered the directors to attend an SFC-approved training programme on directors' duties and corporate governance.

Following a retrial, the MMT found that Cheng Chak Ngok, former executive director, chief financial officer and company secretary of ENN Energy Holdings Limited, had engaged in insider dealing in the shares of China Gas Holdings Limited. Cheng was disqualified from being a director or taking part in the management of a listed company and was banned from dealing in securities in Hong Kong for 54 months. The MMT also ordered disgorgement of the profit of \$2.95 million gained by Cheng from insider dealing and that the MMT reports be referred to the Hong Kong Institute of Certified Public Accountants with a recommendation to take disciplinary action against Cheng.

The MMT banned Charles Yiu Hoi Ying and Marian Wong Nam, two former executives of Asia Telemedia Limited, from dealing in securities in Hong Kong for three years for insider dealing in the company's shares and ordered to disgorge \$4.2 million from them for the losses they had avoided. The MMT also disqualified Yiu from acting as a director or taking part in the management of a listed company for three years. The MMT further recommended that The Hong Kong Institute of Chartered Secretaries⁷ take disciplinary action against Wong.

Disciplinary actions

During the quarter, we disciplined four corporations and three individuals, including two responsible officers and one regulated person, resulting in total fines of \$5 million.

1 Under section 214 of the SFO, the SFC may seek disqualification, compensation and other orders for breaches of duty by current and former directors of listed corporations.

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

3 Section 213 of the SFO empowers the court to make a broad range of orders including injunctive relief and other civil remedies on the application of the SFC.

4 Broadspan Securities, Shepherds Hill Partners, Hong Kong and Rich Futures (HK) Limited.

5 Formerly known as COL Capital Limited

6 Wong Peng Chong, Kong Muk Yin, Chong Sok Un, Zhang Jian, Ma Wah Yan and Lau Siu Ki. Wong was disqualified from being a listed company director for eight months and Kong for six.

7 Now known as The Hong Kong Chartered Governance Institute.

Enforcement

Reprimanded and fined for internal control deficiencies

Company	Breaches	Fine
Deutsche Securities Asia Limited	Issued incorrect statements to prime brokerage clients and delayed reporting the failures to the SFC	\$2.45 million
Ewarton Securities Limited	Failed to diligently supervise an account executive and put in place adequate and effective internal controls to detect and prevent unauthorised activities and ensure client orders were given priority over employee orders	\$1.5 million
Optimas Capital Limited	Failed to ensure that short position reports for a collective investment scheme under its management were accurate and compliant with the requirements under the Securities and Futures (Short Position Reporting) Rules	\$1.05 million

Other regulatory breaches

We revoked the licence of IDS Forex HK Limited after its sole shareholder, Kim Sunghun, was convicted of illegal fundraising and fraud in Korea. We also banned the company's former co-chief executive officers, Chung Wooman and Ki Bonggan, from re-entering the industry for life.

We suspended the licence of Lun Sheung Nim of GEO Securities Limited for 7.2 months for failing to discharge his duties as a responsible officer and a member of the senior management of the firm.

Securities and Futures Appeals Tribunal

The Securities and Futures Appeals Tribunal allowed the application for review by Cai Hongping, former Executive Officer and Managing Director of UBS AG, against our decision to ban him from re-entering the industry for five years for failing to discharge his supervisory duties as the principal in the listing application of China Metal Recycling (Holdings) Limited.

Joint operation with the Police

We conducted a joint operation with the Commercial Crime Bureau of the Hong Kong Police Force in April against a syndicate suspected of operating ramp and dump market manipulation schemes and committing fraud. We searched a Hong Kong listed company's office premises and its senior executives' residences. Four people, including three of the company's senior executives, were arrested by the Police for suspected conspiracy to defraud using bogus transactions to embezzle over \$19 million.

Warning against social media investment scams

In April, we concluded an online campaign which simulated the experience of being drawn into social media investment scams. Web banners featured language commonly used to lure potential victims to join scam-related chat groups and directed viewers to the SFC's webpage warning against these scams. Over 24,000 viewers clicked on the web banners. We also organised three community outreach events with the Police's Anti-Deception Coordination Centre to raise public awareness.

We issued a circular to licensees in June reminding them of their obligation under the Code of Conduct⁸ to notify us of suspected ramp and dump scams.



SFC-Police community outreach event

⁸ The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

Enforcement

Warning of unregulated virtual asset platforms

In July, we issued a statement to clarify that no entity in the Binance group is licensed or registered to conduct regulated activities in Hong Kong. Binance has offered trading services in stock tokens⁹ in a number of jurisdictions. Where stock tokens are “securities”, it may be an offence to offer them to the Hong Kong public without the SFC’s authorisation or registration. The statement urged investors to be extremely careful if they plan to invest in stock tokens offered on unregulated platforms.

Enforcement cooperation with the CSRC

In June, we held the eleventh high-level meeting on enforcement cooperation with the China Securities Regulatory Commission (CSRC) via video conference. We discussed the latest developments including changes and cooperation arrangements for high-priority cases. We reached a consensus on adjustments to our mutual enforcement cooperation mechanism and also exchanged views on information sharing, staff training and the representative action mechanism to protect the collective interests of investors in securities disputes as set out under the Mainland’s new Securities Law.

Market surveillance

Our surveillance of untoward price and turnover movements resulted in 2,319 requests for trading and account records from intermediaries in the quarter. In addition, we published four high shareholding concentration announcements to remind investors to exercise caution when trading shares in companies where a small number of shareholders hold a high concentration of shares.



SFC webpage warning against online investment scams

⁹ Stock tokens are virtual assets which are represented to be backed by depository portfolios of overseas listed stocks. The prices of the tokens closely track the performance of the stocks. In Hong Kong, stock tokens are likely to be “securities” under the SFO and if so, they are subject to the regulatory remit of the SFC.

Enforcement

Enforcement activities

	Quarter ended 30.6.2021	Quarter ended 31.3.2021	Change (%)	Quarter ended 30.6.2020	YoY change (%)
S179 ^a inquiries commenced	15	13	15.4	10	50
S181 ^b inquiries commenced (number of letters sent)	63 (2,319)	55 (1,808)	28.3	55 (2,366)	-2
S182 ^c directions issued	59	49	20.4	30	96.7
Investigations started	62	53	17	33	87.9
Investigations completed	31	37	-16.2	61	-49.2
Individuals and corporations charged in criminal proceedings	2	1	100	2	0
Criminal charges laid	18	17	5.9	3	500
Notices of Proposed Disciplinary Action ^d issued	10	9	11.1	4	150
Notices of Decision ^e issued	7	9	-22.2	12	-41.7
Individuals and corporations subject to ongoing civil proceedings ^f	170	179	-5	155	9.7
Compliance advice letters issued	36	49	-26.5	55	-34.5
Cases with search warrants executed	20	14	42.9	2	900

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 information identifying the ultimate clients, the particulars and instructions relating to the transactions.

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

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

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

f As of the last day of the period.

Regulatory engagement

IOSCO

We are actively involved in international policy making. Mr Ashley Alder, the SFC's Chief Executive Officer (CEO), chairs the Board of the International Organization of Securities Commissions (IOSCO). In June, the IOSCO Board meeting discussed IOSCO's priorities for the year including sustainable finance and operational risks arising from the pandemic. Mr Alder also led a leadership sharing session with the IOSCO Affiliate Members Consultative Committee whose members are mainly self-regulatory organisations, industry bodies, national stock exchanges and investor protection and compensation funds.

During the quarter, we participated in meetings of the IOSCO Financial Stability Engagement Group (FSEG), including its Steering Group. The FSEG leads IOSCO's COVID-19 crisis responses related to financial stability issues.

We are a member of IOSCO's Retail Market Conduct Task Force and are involved in the work of the Follow-Up Group on deepening regulatory and supervisory cooperation, the Fintech Network, the Cyber Task Force and the Data Analytics Group.

We participate in all eight IOSCO policy committees, the Committee on Emerging Risks, the Assessment Committee and the Asia-Pacific Regional Committee. Ms Julia Leung, our Deputy CEO and Executive Director, Intermediaries, is a Vice Chair of the IOSCO Sustainable Finance Task Force and co-leads a workstream on sustainability and asset management. In June, the task force issued a final report on corporate sustainability disclosures and a consultation report on proposed recommendations for sustainability-related regulatory and supervisory expectations in asset management.

Mr Alder co-chaired the CPMI¹-IOSCO Steering Group meetings held in May and June. The group is involved in regulatory policy work for the oversight and supervision of central counterparties and the application of the CPMI-IOSCO Principles for Financial Market Infrastructures to global stablecoin arrangements.

Financial Stability Board

In his role as IOSCO Board Chair, Mr Alder participated in Financial Stability Board (FSB) meetings including of the Steering Committee, Plenary, Standing Committee on Supervisory and Regulatory Cooperation and Steering Committee Group on Non-bank Financial Intermediation. The discussions focused on financial stability, climate-related initiatives, asset management and issues arising from COVID-19.

We are also actively involved in the work of the FSB Standing Committee on Standards Implementation.

Green and sustainable finance

In July, the Hong Kong Green and Sustainable Finance Cross-Agency Steering Group², co-chaired by the SFC and the Hong Kong Monetary Authority (HKMA), announced the next steps to advance its collaborative strategy to bolster Hong Kong's position as a leader in green and sustainable finance and help transition the financial ecosystem towards carbon neutrality. As priorities, the steering group will focus on climate change reporting by corporations and financial institutions, carbon market opportunities and capacity building.

We are a member of the European Commission's International Platform on Sustainable Finance and also actively participate in the work of the Network of Central Banks and Supervisors for Greening the Financial System and the United Nations Sustainable Stock Exchanges Initiative Advisory Group.

Mainland China

In June, we held the ninth high-level meeting with the China Securities Regulatory Commission via video conferencing to discuss cross-boundary regulatory cooperation and market development initiatives, including cooperation in the supervision of financial institutions operating on a cross-boundary basis and enhancements to mutual market access schemes.

¹ Committee on Payments and Market Infrastructures.

² Other members of the steering group include the Financial Services and the Treasury Bureau, Environment Bureau, Hong Kong Exchanges and Clearing Limited, Insurance Authority and Mandatory Provident Fund Schemes Authority.

Regulatory engagement

During the quarter, we worked closely with Mainland authorities to prepare for various initiatives set out in the Greater Bay Area Development Plan, such as Wealth Management Connect and Hong Kong-based financial institutions' business access to the Greater Bay Area. We also cooperated with Mainland authorities to prepare for the implementation of southbound trading under Bond Connect.

Other engagement

Mr Alder participated in interviews and engaged with industry associations and other stakeholders including the Investment Company Institute, International Swaps and Derivatives Association and the Official Monetary and Financial Institutions Forum to discuss recent regulatory issues.

We joined supervisory colleges hosted in May and June by the Federal Reserve Bank of New York and Swiss Financial Market Supervisory Authority to discuss the regulation of global financial institutions in the challenging business environment.

We also had meetings with overseas regulators and bodies, including the Australian Securities and Investments Commission, the US Securities and Exchange Commission, the US Commodity Futures Trading Commission, Abu Dhabi Global Market Financial Services Regulatory Authority, the UK Financial Conduct Authority and the Bank of England, to exchange views on emerging regulatory developments.

Stakeholders

We engage with stakeholders proactively to help them understand our work and provide them with up-to-date regulatory information.

Our senior executives spoke at 28 local and international events including virtual briefings and webinars. Our Chief Executive Officer Mr Ashley Alder delivered keynote addresses at the International Swaps and Derivatives Association Annual General Meeting 2021 in May and the Alternative Investment Management Association APAC Annual Forum 2021 in June.

We released the following publications in the quarter:

- The June issue of the *Takeovers Bulletin* highlighted undesirable conduct by practitioners when consulting the Takeovers Executive.
- Our *Annual Report 2020-21*, released in June, set out our key priorities and reviewed our work and achievements in a challenging year.



We issued 13 circulars providing guidance on a wide range of matters, including disclosure of funds' ESG¹ related features, over-the-counter derivatives trade reporting and business continuity planning in view of Hong Kong's COVID-19 vaccination programme.

Publications and other communications

	Quarter ended 30.6.2021	Quarter ended 31.3.2021	Quarter ended 30.6.2020	YoY change (%)
Press releases	32	33	31	3.2
Policy statements and announcements	1	0	3	-66.7
Consultation papers	1	1	1	0
Consultation conclusions	1	0	3	-66.7
Industry-related publications	1	4	2	-50
Codes and guidelines ^a	0	0	1	-100
Circulars to industry	13	12	21	-38.1
Corporate website average daily page views ^b	27,695	26,305	38,055	-27.2
General enquiries	2,283	1,747	1,953	16.9

a Includes updates to previous versions.

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

¹ Environmental, social and governance.

Corporate Developments

Board

In March, the Financial Secretary appointed Mr Michael Wong Yick-kam as Non-Executive Director (NED) with effect from 1 April, whilst Mr Nicky Lo Kar-chun and Mr Clement Chan Kam-wing were re-appointed as NEDs for two years, effective 24 April and 26 May, respectively.

Regulatory committees

New appointments and reappointments to the following committees¹ took effect from 1 April:

- Academic and Accreditation Advisory Committee
- Committee on Real Estate Investment Trusts
- Public Shareholders Group
- SFC (HKEC Listing) Committee
- Share Registrars' Disciplinary Committee
- Takeovers and Mergers Panel
- Takeovers Appeal Committee

New appointments and reappointments to the SFC Advisory Committee by the Financial Secretary took effect from 1 June for a two-year term.

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

Finance

Our income for the quarter was \$610 million, 33% lower than the previous quarter and 3% lower than the same quarter last year. Average daily turnover in Hong Kong's securities market was \$159 billion, 32% lower than the \$235 billion recorded in the previous quarter. Our expenditure for the quarter was \$467 million, 9% lower than last quarter and 10% lower than the same quarter last year. We recorded a surplus of \$143 million for the quarter.

After setting aside \$3.1 billion for the possible acquisition of office premises, our reserves stood at \$4.6 billion as of 30 June.

Staffing

As of 30 June, we had 923 staff members, down from 925 a year ago.

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

Corporate Developments

Information technology

A new webpage for our biennial Hedge Fund Survey was created in June to collect responses from Hong Kong for the global investment fund leverage survey conducted by the International Organization of Securities Commissions.

During the quarter, we deployed new artificial intelligence-assisted Chinese-language data search technology to assess listing applications and review background information. Additionally, enhancements were completed to expand staff's work mobility and facilitate collaboration.

Finance

(\$ million)	Quarter ended 30.6.2021	Quarter ended 31.3.2021	Quarter ended 30.6.2020	YoY change (%)
Income	610	913	626	-2.6
Expenses including depreciation	467	514	521	-10.4
Surplus	143	399	105	36.2

Activity Data

Table 1 Takeovers activities

	Quarter ended 30.6.2021	Quarter ended 31.3.2021	Change (%)	Quarter ended 30.6.2020	YoY change (%)
Codes on Takeovers and Mergers and Share Buy-backs					
General and partial offers under Code on Takeovers and Mergers	14	10	40	5	180
Privatisations	5	7	-28.6	6	-17
Whitewash waiver applications	8	11	-27.3	8	0
Other applications under Code on Takeovers and Mergers ¹	82	93	-11.8	91	-10
Off-market and general offer share buy-backs	1	1	0	0	N/A
Other applications under Code on Share Buy-backs ¹	0	0	0	1	-100
Total	110	122	-9.8	111	-1
Executive Statements					
Sanctions imposed with parties' agreement ²	0	0	0	2	N/A

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.

Activity Data

Table 2 Breaches noted during on-site inspections¹

	Quarter ended 30.6.2021	Quarter ended 31.3.2021	Change (%)	Quarter ended 30.6.2020 ⁵	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	2	2	0	0	N/A
Failure to safekeep client securities	3	18	-83.3	5	-40
Failure to maintain proper books and records	5	7	-28.6	3	66.7
Failure to safekeep client money	3	17	-82.4	7	-57.1
Unlicensed dealing and other registration issues	3	1	200	0	N/A
Breach of requirements of contract notes/statements of account/receipts	4	13	-69.2	3	33.3
Failure to make filing/notification	0	1	-100	0	0
Breach of margin requirements	1	0	N/A	1	0
Dealing malpractices	0	2	-100	1	-100
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ²	44	93	-52.7	44	0
Breach of Corporate Finance Adviser Code of Conduct	4	1	300	4	0
Breach of Fund Manager Code of Conduct	29	26	11.5	32	-9.4
Breach of regulation of online trading	3	2	50	0	N/A
Non-compliance with anti-money laundering guidelines	62	90	-31.1	23	169.6
Breach of other rules and regulations of the Exchanges ³	2	0	N/A	3	-33.3
Internal control weaknesses ⁴	63	174	-63.8	102	-38.2
Others	17	24	-29.2	14	21.4
Total	245	471	-48	242	1.2

1 Including inspections conducted remotely in light of the COVID-19 pandemic.

2 Commonly related to risk management, record keeping, client agreements, safeguarding of client assets, information for or about clients and reasonable advice.

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

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

5 Figures have been adjusted for the period.

Activity Data

Table 3 Hong Kong-domiciled authorised funds

a) Number of funds by type	As at 30.6.2021	As at 31.3.2021	Change (%)	As at 30.6.2020	YoY change (%)
Bond	163	162	0.6	145	12.4
Equity	190	193	-1.6	188	1.1
Mixed	69	71	-2.8	63	9.5
Money market	35	33	6.1	29	20.7
Fund of funds	88	86	2.3	80	10
Index ¹	145	142	2.1	131	10.7
Guaranteed	1	1	0	3	-66.7
Sub-total	691	688	0.4	639	8.1
Umbrella structures	147	147	0	142	3.5
Total	838	835	0.4	781	7.3

b) Assets under management by type	Total NAV (US\$ million) as at 30.6.2021	Total NAV (US\$ million) as at 31.3.2021	Change (%)	Total NAV (US\$ million) as at 30.6.2020	YoY change (%)
Bond	40,225	39,004	3.1	31,347	28.3
Equity	64,989	61,839	5.1	46,011	41.2
Mixed	20,908	18,881	10.7	15,816	32.2
Money market	8,772	8,424	4.1	7,956	10.3
Fund of funds ²	17,548	16,982	3.3	14,607	20.1
Index ¹	47,856	45,727	4.7	35,769	33.8
Guaranteed	52	52	0	61	-14.8
Total²	200,350	190,909	4.9	151,566³	32.2

Note: Unit trusts and mutual funds authorised under the Code on Unit Trusts and Mutual Funds.

1 Including exchange-traded funds and leveraged and inverse products.

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 30 June 2020.

3 Figures may not add up to total due to rounding.

Activity Data

Table 4 Non-Hong Kong-domiciled authorised funds

a) Number of funds by origin	As at 30.6.2021	As at 31.3.2021	Change (%)	As at 30.6.2020	YoY change (%)
Luxembourg	1,048	1,035	1.3	1,027	2
Ireland	238	238	0	227	4.8
United Kingdom	30	30	0	34	-11.8
Mainland China	50	51	-2	51	-2
Bermuda	1	1	0	1	0
Cayman Islands	22	22	0	26	-15.4
Others	5	5	0	5	0
Total	1,394	1,382	0.9	1,371	1.7

b) Assets under management by origin	Total NAV (US\$ million) as at 30.6.2021	Total NAV (US\$ million) as at 31.3.2021	Change (%)	Total NAV (US\$ million) as at 30.6.2020	YoY change (%)
Luxembourg	1,510,455	1,399,343	7.9	1,052,712	43.5
Ireland ¹	284,664	275,782	3.2	236,818	20.2
United Kingdom	79,819	75,015	6.4	65,015	22.8
Mainland China	28,776	25,234	14	20,439	40.8
Bermuda	132	128	3.1	130	1.5
Cayman Islands ¹	3,947	4,358	-9.4	5,165	-23.6
Others	63,995	61,049	4.8	71,855	-10.9
Total¹	1,971,787²	1,840,909	7.1	1,452,134	35.8

Note: Unit trusts and mutual funds authorised under the Code on Unit Trusts and Mutual Funds.

1 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 30 June 2020.

2 Figures may not add up to total due to rounding.

Activity Data

c) Number of funds by type	As at 30.6.2021	As at 31.3.2021	Change (%)	As at 30.6.2020	YoY change (%)
Bond	351	345	1.7	329	6.7
Equity	751	746	0.7	755	-0.5
Mixed	127	128	-0.8	124	2.4
Money market	16	16	0	16	0
Fund of funds	23	23	0	26	-11.5
Index ¹	43	42	2.4	41	4.9
Hedge	1	1	0	1	0
Sub-total	1,312	1,301	0.8	1,292	1.5
Umbrella structures	82	81	1.2	79	3.8
Total	1,394	1,382	0.9	1,371	1.7

d) Assets under management by type	Total NAV (US\$ million) as at 30.6.2021	Total NAV (US\$ million) as at 31.3.2021	Change (%)	Total NAV (US\$ million) as at 30.6.2020	YoY change (%)
Bond	618,714	609,557	1.5	538,728	14.8
Equity	1,038,058	941,176	10.3	649,708	59.8
Mixed	176,538	161,923	9	137,627	28.3
Money market	11,238	11,375	-1.2	13,889	-19.1
Fund of funds ²	1,262	1,212	4.1	1,012	24.7
Index ¹	125,844	115,538	8.9	111,041	13.3
Hedge	132	128	3.1	130	1.5
Total²	1,971,787³	1,840,909	7.1	1,452,134³	35.8

1 Including exchange-traded funds.

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 30 June 2020.

3 Figures may not add up to total due to rounding.

Activity Data

Table 5 Complaints against intermediaries and market activities

	Quarter ended 30.6.2021	Quarter ended 31.3.2021	Change (%)	Quarter ended 30.6.2020	YoY change (%)
Conduct of licensees	197	199	-1	176	11.9
Conduct of registered institutions	6	5	20	7	-14.3
Listed companies and disclosure of interests	944	373	153.1	1,123	-15.9
Market misconduct ¹	181	237	-23.6	128	41.4
Product disclosure	1	2	-50	74	-98.6
Unlicensed activities	39	30	30	32	21.9
Breach of offers of investments	6	69	-91.3	18	-66.7
Boiler rooms and suspicious websites	118	130	-9.2	156	-24.4
Scams and frauds ²	105	117	-10.3	143	-26.6
Other financial activities not regulated by the SFC ³	56	57	-1.8	82	-31.7
Total	1,653	1,219	35.6	1,939	-14.7

1 Primarily, alleged market manipulation and insider dealing.

2 Such as identity fraud and impersonation.

3 For example, bullion trading and banking services.

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2021 \$'000	30 Jun 2020 \$'000
Income			
Levies		534,124	414,111
Fees and charges		49,757	53,023
Net investment income			
Investment income		32,702	159,703
Less: custody and advisory expenses		(2,984)	(2,020)
Recoveries from the Investor Compensation Fund	6(a)	1,424	1,559
Exchange loss		(5,467)	(243)
Other income		145	143
		609,701	626,276
Expenses			
Staff costs and directors' emoluments	6(b)	359,232	360,440
Depreciation			
Fixed assets		22,739	16,728
Right-of-use assets		35,636	87,805
Other premises expenses		8,195	19,474
Finance costs		2,074	2,482
Other expenses		38,759	34,339
		466,635	521,268
Surplus and total comprehensive income for the quarter		143,066	105,008

The notes on pages 31 to 32 form part of these condensed consolidated financial statements.

Securities and Futures Commission

Condensed consolidated statement of financial position

As at 30 June 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2021 \$'000	Audited At 31 Mar 2021 \$'000
Non-current assets			
Fixed assets		277,094	291,496
Right-of-use assets		942,625	978,261
Deposits for leases		37,729	37,656
Financial assets at amortised costs – debt securities		3,036,653	3,023,857
		4,294,101	4,331,270
Current assets			
Financial assets at amortised costs – debt securities		111,728	107,673
Financial assets at fair value through profit or loss			
Debt securities		433,337	425,610
Pooled funds		1,027,716	1,018,610
Debtors, deposits and prepayments		253,628	336,704
Fixed deposits with banks		2,929,919	2,641,008
Cash at bank and in hand		117,694	65,287
		4,874,022	4,594,892
Current liabilities			
Fees received in advance		7,746	8,198
Creditors and accrued charges		320,058	186,408
Lease liabilities		137,594	137,461
Provisions	3	574	574
		465,972	332,641
Net current assets		4,408,050	4,262,251
Total assets less current liabilities		8,702,151	8,593,521
Non-current liabilities			
Lease liabilities		796,451	830,887
Provisions	3	88,346	88,346
		884,797	919,233
Net assets		7,817,354	7,674,288
Funding and reserves			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,125,000	3,125,000
Accumulated surplus		4,649,514	4,506,448
		7,817,354	7,674,288

The notes on pages 31 to 32 form part of these condensed consolidated financial statements.

Securities and Futures Commission

Condensed consolidated statement of changes in equity

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

	Unaudited			Total \$'000
	Initial funding by Government \$'000	Reserve for property acquisition \$'000	Accumulated surplus \$'000	
Balance at 1 April 2020	42,840	3,000,000	3,652,080	6,694,920
Surplus and total comprehensive income for the quarter	–	–	105,008	105,008
Balance at 30 June 2020	42,840	3,000,000	3,757,088	6,799,928
Balance at 1 April 2021	42,840	3,125,000	4,506,448	7,674,288
Surplus and total comprehensive income for the quarter	–	–	143,066	143,066
Balance at 30 June 2021	42,840	3,125,000	4,649,514	7,817,354

The notes on pages 31 to 32 form part of these condensed consolidated financial statements.

Securities and Futures Commission

Condensed consolidated statement of cash flows

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2021 \$'000	30 Jun 2020 \$'000
Cash flows from operating activities			
Surplus for the quarter		143,066	105,008
Adjustments for:			
Depreciation – Fixed assets		22,739	16,728
Depreciation – Right-of-use assets		35,636	87,805
Finance costs		2,074	2,482
Interest income on deposits for leases		(71)	(71)
Investment income		(32,702)	(159,703)
Exchange loss		5,453	230
Gain on disposal of fixed assets		(8)	–
		176,187	52,479
Decrease in debtors, deposits and prepayments		82,858	189
Decrease in fees received in advance		(452)	(15,847)
Increase in creditors and accrued charges		138,802	154,213
Decrease in provisions for reinstatement		–	(7,237)
Net cash generated from operating activities		397,395	183,797
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		528,863	539,735
Interest received		25,916	37,004
Debt securities at fair value through profit or loss purchased		(135,301)	(72,848)
Debt securities at fair value through profit or loss sold or redeemed		129,423	76,006
Pooled funds sold		1,600	1,094
Debt securities at amortised cost purchased		(50,048)	(8,525)
Debt securities at amortised cost redeemed at maturity		22,530	449,608
Fixed assets purchased		(13,489)	(182,535)
Proceeds from fixed assets disposal		8	–
Net cash generated from investing activities		509,502	839,539
Cash flows from financing activities			
Principal element of lease payments		(34,303)	(48,470)
Interest element of lease payments		(2,074)	(2,482)
Net cash used in financing activities		(36,377)	(50,952)
Net increase in cash and cash equivalents		870,520	972,384
Cash and cash equivalents at the beginning of the quarter		855,099	753,406
Cash and cash equivalents at the end of the quarter	2	1,725,619	1,725,790

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Jun 2021 \$'000	At 30 Jun 2020 \$'000
Fixed deposits with banks	1,607,925	1,669,732
Cash at bank and in hand	117,694	56,058
	1,725,619	1,725,790

The notes on pages 31 to 32 form part of these condensed consolidated financial statements.

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

1. Basis of preparation

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

This interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Securities and Futures Commission (SFC) and its subsidiaries (together, the Group) since the annual financial statements for the year ended 31 March 2021. The interim financial information does not include all of the information required for a full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards.

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2021 included in this report does not constitute the Group's statutory annual financial statements for that financial year but is derived from those financial statements.

The condensed consolidated financial statements of the SFC and its subsidiaries, Investor Compensation Company Limited (ICC) and Investor and Financial Education Council (IFEC), are made up to 30 June 2021. We eliminated all material intra-group balances and transactions in preparing the condensed consolidated financial statements.

We have applied the same accounting policies adopted in the consolidated financial statements for the year ended 31 March 2021 to the interim financial information.

There were no significant changes in the operations of the Group for the quarter ended 30 June 2021.

2. Cash and cash equivalents

	Unaudited At 30 Jun 2021 \$'000	Audited At 31 Mar 2021 \$'000
Cash at bank and in hand	117,694	65,287
Fixed deposits with banks	2,929,919	2,641,008
Amounts shown in the condensed consolidated statement of financial position	3,047,613	2,706,295
Less: Amounts with an original maturity beyond three months	(1,321,994)	(1,851,196)
Cash and cash equivalents in the condensed consolidated statement of cash flows	1,725,619	855,099

3. Provisions

Provisions represent premises reinstatement cost to restore the premises to a condition as stipulated in the relevant lease agreements when the lease expires.

4. 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. The majority of the financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. The exchange gain/loss was mainly driven by the revaluation on financial assets denominated in USD.

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

5. Investments in subsidiaries

The SFC formed the ICC on 11 September 2002 with an issued share capital of \$0.2. On 20 November 2012, the SFC launched the 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 (ICF) established under the Securities and Futures Ordinance (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 30 June 2021, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as at 31 March 2021: \$0.2). The balance is too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

6. Related party transactions

The Group has related party relationships with the ICF, Unified Exchange Compensation Fund, Securities Ordinance (Chapter 333) – Dealers' Deposits Fund and Commodities Trading Ordinance (Chapter 250) – Dealers' Deposits Fund. In addition to the related party transactions disclosed elsewhere in these condensed consolidated financial statements, the Group has the following related party transactions.

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

During the period, \$1,424,000 was recovered from the ICF for the ICC's expenses (2020: \$1,559,000). As at 30 June 2021, the amount due to the ICF from the ICC included in the creditors and accrued charges balance was \$709,000 (as at 31 March 2021: \$242,000).

(b) Remuneration of key management personnel

	Unaudited quarter ended	
	30 Jun 2021 \$'000	30 Jun 2020 \$'000
Directors' fees and salaries, allowances and benefits in kind	8,633	8,554
Retirement scheme contributions	769	769
	9,402	9,323

The total remuneration is included in "staff costs and directors' emoluments" on page 27. Discretionary pay is not included above as the decision to pay is subject to the approval process towards the end of the financial year and therefore is not determined until then.

(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. Fees paid or payable to him for such services amounted to \$80,000 during the period and under normal commercial terms and conditions.

Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present their quarterly report and the unaudited condensed financial statements for the quarter ended 30 June 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 reporting period ended 30 June 2021 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 34 to 39.

Members of the Committee

The members of the Committee during the quarter ended 30 June 2021 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)
Mr Thomas Allan Atkinson
Dr Lin, James C.
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 reporting period or at any time during the quarter.

On behalf of the Committee

Rico Leung
Chairman

10 August 2021

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2021 \$'000	30 Jun 2020 \$'000
Income			
Interest income		1,674	10,173
Exchange loss		(1,498)	(78)
		176	10,095
Expenses			
Investor Compensation Company Limited expenses	2	1,424	1,559
Auditor's remuneration		55	55
		1,479	1,614
(Deficit)/surplus and total comprehensive income for the quarter		(1,303)	8,481

The notes on pages 38 and 39 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of financial position

As at 30 June 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2021 \$'000	Audited At 31 Mar 2021 \$'000
Current assets			
Interest receivable		1,591	2,174
Due from Investor Compensation Company Limited		709	242
Fixed deposits with banks		2,443,439	2,444,671
Cash at bank		581	633
		2,446,320	2,447,720
Current liabilities			
Provision for compensation	4	3,394	3,394
Creditors and accrued charges		177	274
		3,571	3,668
Net current assets		2,442,749	2,444,052
Net assets		2,442,749	2,444,052
Representing:			
Compensation fund		2,442,749	2,444,052

The notes on pages 38 and 39 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of changes in equity

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

	Unaudited			
	Contributions from Unified Exchange Compensation Fund \$'000	Contributions from Commodity Exchange Compensation Fund \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2020	994,718	108,923	1,324,623	2,428,264
Surplus and total comprehensive income for the quarter	–	–	8,481	8,481
Balance at 30 June 2020	994,718	108,923	1,333,104	2,436,745
Balance at 1 April 2021	994,718	108,923	1,340,411	2,444,052
Deficit and total comprehensive income for the quarter	–	–	(1,303)	(1,303)
Balance at 30 June 2021	994,718	108,923	1,339,108	2,442,749

The notes on pages 38 and 39 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of cash flows

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2021 \$'000	30 Jun 2020 \$'000
Cash flows from operating activities			
(Deficit)/surplus for the quarter		(1,303)	8,481
Adjustments for:			
Interest income		(1,674)	(10,173)
Exchange loss		1,498	78
		(1,479)	(1,614)
Increase in amount due from Investor Compensation Company Limited		(467)	(400)
Decrease in creditors and accrued charges		(97)	(91)
Net cash used in operating activities		(2,043)	(2,105)
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		586,930	367,425
Interest received		2,256	11,935
Net cash generated from investing activities		589,186	379,360
Net increase in cash and cash equivalents		587,143	377,255
Cash and cash equivalents at the beginning of the quarter		647,514	1,086,662
Cash and cash equivalents at the end of the quarter	3	1,234,657	1,463,917

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Jun 2021 \$'000	At 30 Jun 2020 \$'000
Fixed deposits with banks	1,234,076	1,463,566
Cash at bank	581	351
	1,234,657	1,463,917

The notes on pages 38 and 39 form part of these condensed financial statements.

Investor Compensation Fund

Notes to the condensed financial statements

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

1. Basis of preparation

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

The interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of the events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2021. The interim financial information does not include all of the information required for a full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards.

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2021 included in this report does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

The Fund has applied the same accounting policies adopted in the financial statements for the year ended 31 March 2021 to the interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2021.

2. Investor Compensation Company Limited expenses

The Securities and Futures Commission (SFC) formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance. The Fund is responsible for funding the establishment and operation of the ICC. For the quarter ended 30 June 2021, the ICC incurred costs of \$1,424,000 for its operation (for the quarter ended 30 June 2020: \$1,559,000) which were reimbursed by the Fund.

3. Cash and cash equivalents

	Unaudited At 30 Jun 2021 \$'000	Audited At 31 Mar 2021 \$'000
Cash at bank	581	633
Fixed deposits with banks	2,443,439	2,444,671
Amounts shown in the condensed statement of financial position	2,444,020	2,445,304
Less: Amounts with an original maturity beyond three months	(1,209,363)	(1,797,790)
Cash and cash equivalents in the condensed statement of cash flows	1,234,657	647,514

Investor Compensation Fund

Notes to the condensed financial statements

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

4. Provision for compensation

Pursuant to Section 3 of the Securities and Futures (Investor Compensation-Compensation Limits) Rules, the maximum compensation limit to claims is \$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.

The provision of compensation as at 30 June 2021 was \$3,394,000, which was related to a number of claims received in respect of a default case (as at 31 March 2021: \$3,394,000). The maximum liability of the Fund to these claims is the lower of \$150,000 per claimant or the amount claimed. The provision was expected to be paid within one year.

5. Related party transactions

The Fund has related party relationships with the SFC, ICC and the Unified Exchange Compensation Fund. There were no related party transactions other than those disclosed in the interim financial information of the Fund for the quarters ended 30 June 2021 and 2020.

6. Contingent liabilities

In addition to the provision for compensation made as described in note 4, there are 12 outstanding claims as at the date of this report (as at 31 March 2021: 10 outstanding claims). The maximum liability in respect of these claims in aggregate is \$1,875,000 (as at 31 March 2021: \$1,575,000). This is determined based on the lower of the maximum compensation limit per claimant (as detailed in note 4) or the amount claimed.

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present their quarterly report and the unaudited condensed financial statements for the quarter ended 30 June 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 30 June 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 reporting period ended 30 June 2021 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 41 to 46.

Members of the Committee

The members of the Committee during the quarter ended 30 June 2021 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)
Mr Thomas Allan Atkinson
Dr Lin, James C.
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 reporting period or at any time during the quarter.

On behalf of the Committee

Rico Leung
Chairman

2 August 2021

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2021 \$'000	30 Jun 2020 \$'000
Income			
Interest income		44	382
Recoveries	2	–	3,626
		44	4,008
Expenses			
Auditor's remuneration		27	27
Surplus and total comprehensive income for the quarter		17	3,981

The notes on pages 45 and 46 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of financial position

As at 30 June 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2021 \$'000	Audited At 31 Mar 2021 \$'000
Current assets			
Interest receivable		20	27
Fixed deposits with banks		97,569	97,518
Cash at bank		122	336
		97,711	97,881
Current liabilities			
Creditors and accrued charges		10,272	10,309
Relinquished trading rights payable to SEHK	4	1,450	1,500
		11,722	11,809
Net current assets		85,989	86,072
Net assets		85,989	86,072
Representing:			
Compensation fund		85,989	86,072

The notes on pages 45 and 46 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

	Unaudited							Total \$'000
	Trading rights deposits from SEHK (note 4) \$'000	Excess transaction levy from SEHK \$'000	Additional contributions from SEHK and the SFC \$'000	Other contributions \$'000	Accumulated surplus \$'000	Contributions to ICF \$'000		
Balance at 1 April 2020	55,450	353,787	630,000	6,502	31,024	(994,718)	82,045	
Net contributions to SEHK	(250)	-	-	-	-	-	(250)	
Surplus and total comprehensive income for the quarter	-	-	-	-	3,981	-	3,981	
Balance at 30 June 2020	55,200	353,787	630,000	6,502	35,005	(994,718)	85,776	
Balance at 1 April 2021	54,750	353,787	630,000	6,502	35,751	(994,718)	86,072	
Net contributions to SEHK	(100)	-	-	-	-	-	(100)	
Surplus and total comprehensive income for the quarter	-	-	-	-	17	-	17	
Balance at 30 June 2021	54,650	353,787	630,000	6,502	35,768	(994,718)	85,989	

The notes on pages 45 and 46 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of cash flows

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2021 \$'000	30 Jun 2020 \$'000
Cash flows from operating activities			
Surplus for the quarter		17	3,981
Adjustment for:			
Interest income		(44)	(382)
		(27)	3,599
Decrease in creditors and accrued charges		(37)	(34)
Decrease in relinquished trading rights payable to SEHK		(50)	(150)
Net cash (used in)/generated from operating activities		(114)	3,415
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		44,949	61,350
Interest received		51	426
Net cash generated from investing activities		45,000	61,776
Cash flows from financing activities			
Net trading rights deposits refunded to SEHK		(100)	(250)
Net cash used in financing activities		(100)	(250)
Net increase in cash and cash equivalents		44,786	64,941
Cash and cash equivalents at the beginning of the quarter		52,905	31,999
Cash and cash equivalents at the end of the quarter	3	97,691	96,940

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Jun 2021 \$'000	At 30 Jun 2020 \$'000
Fixed deposits with banks	97,569	96,606
Cash at bank	122	334
	97,691	96,940

The notes on pages 45 and 46 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

1. Basis of preparation

The Fund has prepared the interim financial information in accordance with the Hong Kong Accounting Standard 34, *Interim Financial Reporting* adopted by the Hong Kong Institute of Certified Public Accountants. As the Fund will eventually cease operation as a result of the Securities and Futures Ordinance which came into effect from 1 April 2003, the Fund has prepared the interim financial information on a non-going concern basis. We expect that the operations of the Fund will be maintained until all claims and recoveries from liquidators in relation to the broker defaults that happened on or before 31 March 2003 have been fully settled.

The interim financial information contains condensed financial statements and selected explanatory notes. The notes include an explanation of the events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the annual financial statements for the year ended 31 March 2021. The interim financial information does not include all of the information required for a full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards.

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2021 included in this report does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

The Fund has applied the same accounting policies adopted in the financial statements for the year ended 31 March 2021 to the interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2021.

2. Recoveries/Equity securities received under subrogation

There was no recovery recorded for the quarter ended 30 June 2021. For the quarter ended 30 June 2020, the Fund recognised as recoveries the payment of \$3,626,000 from the liquidator of C.A. Pacific Securities Ltd. and C.A. Pacific Finance Ltd.

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 recognised in "Recoveries". Dividend income, if any, is also recognised in "Recoveries".

As at 30 June 2021, the equity securities received under subrogation amounted to \$159 (as at 31 March 2021: \$150). The balances as at 30 June 2021 and 31 March 2021 are too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the quarter ended 30 June 2021 (Expressed in Hong Kong dollars)

3. Cash and cash equivalents

	Unaudited At 30 Jun 2021 \$'000	Audited At 31 Mar 2020 \$'000
Cash at bank	122	336
Fixed deposits with banks	97,569	97,518
Amounts shown in the condensed statement of financial position	97,691	97,854
Less: Amounts with an original maturity beyond three months	–	(44,949)
Cash and cash equivalents in the condensed statement of cash flows	97,691	52,905

4. Trading rights deposits from SEHK/Relinquished trading rights payable to SEHK

According to Section 104 of the repealed Securities Ordinance, The Stock Exchange of Hong Kong Limited (SEHK) contributes to the Securities and Futures Commission (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 was relinquished. During the quarter, deposits of \$100,000 in respect of 2 new trading rights were received from SEHK and deposits of \$250,000 in respect of 5 relinquished trading rights were refunded to SEHK. As at 30 June 2021, 29 trading rights totalling \$1,450,000 were relinquished but not yet refunded (as at 31 March 2021: 30 trading rights totalling \$1,500,000 were relinquished but not yet refunded).

The movement of trading rights deposits from SEHK during the quarter was as follows:

	Unaudited quarter ended	
	30 Jun 2021 \$'000	30 Jun 2020 \$'000
Balance brought forward	54,750	55,450
Add: new trading rights issued	100	200
Less: relinquished trading rights refunded	(250)	(600)
Adjustment for: net decrease in relinquished trading rights payable to SEHK	50	150
Balance carried forward	54,650	55,200

5. Related party transactions

The Fund has related party relationships with the Investor Compensation Fund (ICF) and the SFC. There were no related party transactions during the quarters ended 30 June 2021 and 2020.