

Securities and Futures Commission

Report on review of interim financial information To the Securities and Futures Commission

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

Introduction

We have reviewed the interim financial information set out on pages 27 to 34, which comprises the condensed consolidated statement of financial position of the Securities and Futures Commission (the SFC) and its subsidiaries (together, the Group) as at 30 September 2021 and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the SFC are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 November 2021

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the three months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2021 \$'000	30 Sep 2020 \$'000
Income		
Levies	619,799	550,849
Fees and charges	41,603	55,481
Net investment (loss)/income		
Investment (loss)/income	(53,578)	127,137
Less: custody and advisory expenses	(2,927)	(2,481)
Recoveries from the Investor Compensation Fund	1,428	1,447
Exchange gain/(loss)	11,771	(381)
Other income	82	86
	618,178	732,138
Expenses		
Staff costs and directors' emoluments	348,442	386,063
Depreciation		
Fixed assets	22,690	22,817
Right-of-use assets	35,635	71,175
Other premises expenses	8,334	15,364
Finance costs	2,000	2,306
Other expenses	46,221	28,293
	463,322	526,018
Surplus and total comprehensive income for the quarter	154,856	206,120

This condensed consolidated statement of profit or loss and other comprehensive income for the three months ended 30 September 2021 is for information only.

Securities and Futures Commission

Condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2021 \$'000	30 Sep 2020 \$'000
Income			
Levies		1,153,923	964,960
Fees and charges		91,360	108,504
Net investment (loss)/income			
Investment (loss)/income		(20,876)	286,840
Less: custody and advisory expenses		(5,911)	(4,501)
Recoveries from the Investor Compensation Fund	6(a)	2,852	3,006
Exchange gain/(loss)		6,304	(624)
Other income		227	229
		1,227,879	1,358,414
Expenses			
Staff costs and directors' emoluments	6(b)	707,674	746,503
Depreciation			
Fixed assets		45,429	39,545
Right-of-use assets		71,271	158,980
Other premises expenses		16,529	34,838
Finance costs		4,074	4,788
Other expenses		84,980	62,632
		929,957	1,047,286
Surplus and total comprehensive income for the period		297,922	311,128

The notes on pages 31 to 34 form part of these condensed consolidated financial statements.

Securities and Futures Commission

Condensed consolidated statement of financial position

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

	Note	Unaudited At 30 Sep 2021 \$'000	Audited At 31 Mar 2021 \$'000
Non-current assets			
Fixed assets		261,292	291,496
Right-of-use assets		906,990	978,261
Deposits for leases		37,800	37,656
Financial assets at amortised costs – debt securities		3,025,065	3,023,857
		4,231,147	4,331,270
Current assets			
Financial assets at amortised costs – debt securities		142,290	107,673
Financial assets at fair value through profit or loss			
Debt securities		424,765	425,610
Pooled funds		958,111	1,018,610
Debtors, deposits and prepayments		291,948	336,704
Fixed deposits with banks		3,118,415	2,641,008
Cash held for Grant Scheme	3	81,513	–
Cash at bank and in hand		48,632	65,287
		5,065,674	4,594,892
Current liabilities			
Fees received in advance		7,377	8,198
Creditors and accrued charges		328,645	186,408
Lease liabilities		137,726	137,461
Provisions for reinstatement cost		574	574
		474,322	332,641
Net current assets		4,591,352	4,262,251
Total assets less current liabilities		8,822,499	8,593,521
Non-current liabilities			
Lease liabilities		761,943	830,887
Provisions for reinstatement cost		88,346	88,346
		850,289	919,233
Net assets		7,972,210	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		4,804,370	4,506,448
		7,972,210	7,674,288

The notes on pages 31 to 34 form part of these condensed consolidated financial statements.

Securities and Futures Commission

Condensed consolidated statement of changes in equity

For the six months ended 30 September 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 period	–	–	311,128	311,128
Balance at 30 September 2020	42,840	3,000,000	3,963,208	7,006,048
Balance at 1 April 2021	42,840	3,125,000	4,506,448	7,674,288
Surplus and total comprehensive income for the period	–	–	297,922	297,922
Balance at 30 September 2021	42,840	3,125,000	4,804,370	7,972,210

The notes on pages 31 to 34 form part of these condensed consolidated financial statements.

Securities and Futures Commission

Condensed consolidated statement of cash flows

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 Sep 2021 \$'000	30 Sep 2020 \$'000
Cash flows from operating activities			
Surplus for the period		297,922	311,128
Adjustments for:			
Depreciation – Fixed assets		45,429	39,545
Depreciation – Right-of-use assets		71,271	158,980
Provisions for reinstatement cost		–	(12,196)
Finance costs		4,074	4,788
Interest income on deposits for leases		(143)	(141)
Investment loss/(income)		20,876	(286,840)
Exchange (gain)/loss		(6,338)	476
(Gain)/loss on disposal of fixed assets		(58)	4,889
		433,033	220,629
Increase in right-of-use assets		–	(40)
Decrease/(increase) in debtors, deposits and prepayments		44,601	(13,431)
Increase in cash held for Grant Scheme		(81,513)	–
Decrease in fees received in advance		(821)	(30,613)
Increase in creditors and accrued charges		150,859	68,714
Decrease in provisions for reinstatement		–	(28,426)
Net cash generated from operating activities		546,159	216,833
Cash flows from investing activities			
Decrease in fixed deposits other than cash and cash equivalents		193,875	911,731
Interest received		51,612	67,363
Debt securities at fair value through profit or loss purchased		(344,879)	(122,672)
Debt securities at fair value through profit or loss sold or redeemed		346,978	116,259
Pooled funds sold		3,190	2,183
Debt securities at amortised cost purchased		(68,643)	(793,213)
Debt securities at amortised cost redeemed at maturity		22,530	604,613
Fixed assets purchased		(23,847)	(131,389)
Proceeds from fixed assets disposal		58	1
Net cash generated from investing activities		180,874	654,876
Cash flows from financing activities			
Principal element of lease payments		(68,679)	(80,833)
Interest element of lease payments		(4,074)	(4,788)
Net cash used in financing activities		(72,753)	(85,621)
Net increase in cash and cash equivalents		654,280	786,088
Cash and cash equivalents at the beginning of the six-month period		855,099	753,406
Cash and cash equivalents at the end of the six-month period	2	1,509,379	1,539,494

Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Sep 2021 \$'000	At 30 Sep 2020 \$'000
Fixed deposits with banks	1,460,747	1,417,264
Cash at bank and in hand	48,632	122,230
	1,509,379	1,539,494

The notes on pages 31 to 34 form part of these condensed consolidated financial statements.

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the six months ended 30 September 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 (HKFRS).

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 September 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 six months ended 30 September 2021.

2. Cash and cash equivalents

	Unaudited At 30 Sep 2021 \$'000	Audited At 31 Mar 2021 \$'000
Cash at bank and in hand	48,632	65,287
Fixed deposits with banks	3,118,415	2,641,008
Amounts shown in the condensed consolidated statement of financial position	3,167,047	2,706,295
Less: Amounts with an original maturity beyond three months	(1,657,668)	(1,851,196)
Cash and cash equivalents in the condensed consolidated statement of cash flows	1,509,379	855,099

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

3. Cash held for Grant Scheme

A Grant Scheme for Open-ended Fund Companies and Real Estate Investment Trusts (the Grant Scheme) was established on 10 May 2021. The Grant Scheme is administered by the SFC and funded by the Government of the Hong Kong Special Administrative Region (the Government) to provide subsidies for qualified open-ended fund companies and real estate investment trusts to set up in Hong Kong. The cash held for the Grant Scheme are solely restricted for the use of such subsidies and are therefore not available for general use by any of the entities within the Group. The unused balance will be reimbursed to the Government upon the end of the Grant Scheme. The corresponding amount due to the Government is included in the creditors and accrued charges.

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.

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 September 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).

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2021 (Expressed in Hong Kong 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 parties transactions disclosed in 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, \$2,852,000 was recovered from the ICF for the ICC’s expenses (30 September 2020: \$3,006,000). As at 30 September 2021, the amount due to the ICF from the ICC included in the creditors and accrued charges balance was \$486,000 (as at 31 March 2021: \$242,000).

(b) Remuneration of key management personnel

	Unaudited Six months ended	
	30 Sep 2021 \$’000	30 Sep 2020 \$’000
Directors’ fees and salaries, allowances and benefits in kind	16,742	17,109
Retirement scheme contributions	1,491	1,538
	18,233	18,647

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 had continued to provide services in respect of matters that commenced prior to his appointment on 1 August 2020. Fees paid or payable to him for such services amounted to \$242,000 (30 September 2020: nil) for the period under normal commercial terms and conditions.

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2021 (Expressed in Hong Kong dollars)

7. Fair value measurement

(a) 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*, which is consistent with the hierarchy adopted in the consolidated financial statements for the year ended 31 March 2021.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<u>As at 30 September 2021 (Unaudited)</u>				
Debt securities	–	424,765	–	424,765
Pooled funds	958,111	–	–	958,111
	958,111	424,765	–	1,382,876
<u>As at 31 March 2021 (Audited)</u>				
Debt securities	–	425,610	–	425,610
Pooled funds	1,018,610	–	–	1,018,610
	1,018,610	425,610	–	1,444,220

During the six months ended 30 September 2021 and year ended 31 March 2021, 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.

(b) 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 30 September and 31 March 2021 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			Level 3 \$'000
		Total \$'000	Level 1 \$'000	Level 2 \$'000	
<u>As at 30 September 2021 (Unaudited)</u>					
Financial assets at amortised costs					
– debt securities	3,167,355	3,208,851	–	3,208,851	–
<u>As at 31 March 2021 (Audited)</u>					
Financial assets at amortised costs					
– debt securities	3,131,530	3,159,434	–	3,159,434	–

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 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.