



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

Quarterly Report

October - December 2021

This third Quarterly Report of the Securities and Futures Commission for financial year 2021-22 covers the period from 1 October to 31 December 2021.

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Highlights

Regulatory enhancements

Capital market transactions: We released consultation conclusions on conduct requirements for capital market transactions in Hong Kong to clarify the roles of intermediaries and set out the standards expected of them in bookbuilding, pricing, allocation and placing activities.

Pooled retirement funds: We concluded a consultation on amendments to the Code on Pooled Retirement Funds to strengthen investor protection and ensure our regulations for these funds are up-to-date and fit for purpose.

Investment-linked assurance schemes (ILAS): We issued a circular to provide enhanced guidance and requirements for ILAS product design to achieve better investor outcomes.

Virtual assets: In January 2022, we and the Hong Kong Monetary Authority (HKMA) issued a joint circular to provide guidance for intermediaries who wish to distribute virtual asset-related products and engage in virtual asset dealing and advisory services.

Listing regulation

Listing applications: We vetted 40 new listing applications, including two from companies with weighted voting rights structures and one from a pre-profit biotech company.

Corporate conduct: As part of our review of corporate disclosures, we issued section 179¹ directions to gather additional information in 14 cases and wrote to a listed company detailing our concerns in one case.

Special purpose acquisition companies (SPACs): After the Stock Exchange of Hong Kong Limited (SEHK) introduced Listing Rules amendments to implement a new regulatory regime for SPACs, we issued a new practice note in December to provide guidance on the formal application process for waiving the application of Rule 26.1² of the Takeovers Code for de-SPAC transactions.

Review of SEHK's work: We published a report on our review of SEHK's performance in its regulation of listing matters during 2019 and 2020.

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.

² In a de-SPAC transaction, the application of Rule 26.1 of the Takeovers Code, which would result in the owners of the de-SPAC target obtaining 30% or more of the voting rights in a successor company, should normally be waived.

Highlights

Intermediaries

Licensing: As at 31 December, the total number of licensees and registrants slightly increased by 1% to 48,657, of which 3,210 were licensed corporations.

Supervision: We conducted 61 on-site inspections of licensed corporations to review their compliance with regulatory requirements.

Operational resilience: Our October circular and report set out regulatory standards and measures for preventing and responding to disruptions and managing the risks of remote working.

Product survey: We and the HKMA published the report of our first joint annual survey on the sale of non-exchange traded investment products.

Spread charges: We shared key observations from a thematic review³ of intermediaries' spread charges and related practices as well as their disclosure of transaction-related information.

Licensing e-platform: We launched the next generation, fully-digitalised licensing platform on WINGS⁴ in January 2022, providing a one-stop, comprehensive licensing service for users to prepare and submit licensing forms, track the progress of applications and pay licensing fees.

Products

Product authorisations and registrations: We authorised 45 unit trusts and mutual funds (including 27 Hong Kong-domiciled funds), four mandatory provident fund pooled investment funds and 48 unlisted structured investment products for public offering in Hong Kong. We registered 21 new open-ended fund companies.

Fund flows: Hong Kong-domiciled SFC-authorized funds reported overall net inflows of US\$15.6 billion for the 12 months ended 31 December 2021.

Equity-linked investments: We authorised the first retail unlisted equity-linked investments linked to stocks listed on US exchanges.

Derivatives products: We approved the MSCI China (USD) Index and MSCI China Net Total Return (USD) Index futures contracts to replace the MSCI China Free (USD) Index and MSCI China Free Net Total Return (USD) Index futures contracts in light of MSCI's plans to terminate the MSCI China Free Indexes in 2022.

Wealth Management Connect: The Cross-boundary Wealth Management Connect (WMC) Pilot Scheme was launched on 19 October with 19 banks in Hong Kong initially eligible to provide WMC services.

ETF Connect: In December, the Mainland and Hong Kong exchanges and clearing houses jointly announced their agreement on arrangements to include eligible exchange-traded funds (ETFs) in Stock Connect.

³ The thematic review was carried out concurrently by us and the HKMA in 2020-21.

⁴ WINGS is a web-based platform for SFC electronic forms and online submission services launched in January 2019.

Highlights

Enforcement

Disciplinary actions: We disciplined five licensed corporations and nine individuals during the quarter, resulting in total fines of over \$23 million.

Market surveillance: We made 1,284 requests for trading and account records triggered by untoward price and turnover movements.

Joint operations: We conducted a simultaneous joint operation with the Hong Kong Police Force, the Monetary Authority of Singapore and the Singapore Police Force against an active and sophisticated syndicate suspected of operating cross-border ramp-and-dump manipulation schemes in Hong Kong and Singapore.

Cooperation with the CSRC: We held the 12th regular high-level meeting on enforcement cooperation with the China Securities Regulatory Commission (CSRC) to exchange views and discuss ways to strengthen cooperation.

Regulatory engagement

International: In November, our Chief Executive Officer Mr Ashley Alder chaired a meeting of the Board of the International Organization of Securities Commissions (IOSCO) which discussed sustainable finance, including the establishment of the International Sustainability Standards Board (ISSB), conduct in corporate bond markets and IOSCO priorities for 2022. He also spoke at the 26th UN Climate Change Conference of the Parties about sustainability disclosure and the significance of establishing the ISSB.

Green and sustainable finance: At a December meeting, the Hong Kong Green and Sustainable Finance Cross-Agency Steering Group, co-chaired by the SFC and the HKMA, discussed carbon market development, climate-related disclosure, taxonomies, capacity building and climate-related data needs and gaps.

Stakeholders

Regulatory forum: We hosted the fourth SFC Regulatory Forum where senior regulators and industry leaders shared insights on Hong Kong's future development as China's international financial centre and other regulatory and topical issues.

Operational Review

Corporates

Special purpose acquisition companies (SPACs)¹

We worked closely with the Stock Exchange of Hong Kong Limited (SEHK) to formulate a SPACs framework for Hong Kong. In December, SEHK published consultation conclusions on proposals for a regulatory regime which provides appropriate investor protection along with the flexibility and incentives needed for the development of a high-quality SPAC market. Listing Rules amendments to implement the new regime took effect on 1 January 2022.

We introduced a new Practice Note 23 in December to provide guidance on the formal application process for waiving the application of Rule 26.1² of the Takeovers Code for de-SPAC transactions.

Listings of overseas issuers

We work closely with SEHK to reform the listing regime for overseas issuers in Hong Kong. In November, SEHK published consultation conclusions on enhancements to the listing regime for overseas issuers which aim

to broaden investment opportunities for investors in Hong Kong and maintain high standards of shareholder protection. The Listing Rules amendments took effect on 1 January 2022, except for those subject to transitional arrangements.

Review of SEHK's work

In December, we published a report on our review of SEHK's performance in its regulation of listing matters during 2019 and 2020. The review covered SEHK's hearings for non-disciplinary matters under the new review regime, its monitoring of newly-listed issuers' disclosures of the use of initial public offering (IPO) proceeds and its handling of reverse takeover transactions under amended rules.

Share schemes

Following the observations in our 2019 review of SEHK's listing function, SEHK reviewed the Listing Rules and consulted the market in October on proposals to improve the disclosure of share schemes and provide more flexibility to issuers to grant new share options and share awards whilst protecting shareholders from excessive dilution. The consultation period ended on 31 December.

¹ A SPAC raises funds through a listing for the purpose of acquiring a business (a de-SPAC target) at a later stage (a de-SPAC transaction) within a pre-defined time period.

² In a de-SPAC transaction, the application of Rule 26.1 of the Takeovers Code, which would result in the owners of the de-SPAC target obtaining 30% or more of the voting rights in a successor company, should normally be waived.

Corporates

Listing applications

Our oversight of listing matters includes the vetting of listing applications. During the quarter, we vetted 40 new listing applications, including two from companies with weighted voting rights structures and one from a pre-profit biotech company. One company achieved a secondary listing on the Main Board under Chapter 19C of the Listing Rules³ in December.

Exercising our powers under the Securities and Futures (Stock Market Listing) Rules, we issued a letter of mindedness to impose conditions on a listing application in line with our approach set out in the May 2021 joint SFC-SEHK statement on IPO-related misconduct. We also

issued a requisition letter directly to a listing applicant out of several concerns, including whether the financial information presented in the applicant's draft prospectus was representative of its financial performance.

Corporate conduct

We conduct daily reviews of corporate announcements to identify potential misconduct and irregularities. During the quarter, we issued section 179⁴ directions to gather additional information in 14 cases and wrote to a listed company 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.

Listing applications and takeovers activities

| | Quarter ended 31.12.2021 | Nine months ended 31.12.2021 | Nine months ended 31.12.2020 | YoY change (%) |
|--|-----------------------------|---------------------------------|---------------------------------|----------------|
| Listing applications | 40 | 238 | 177 | 34.5 |
| Takeovers and share buy-backs transactions | 117 | 319 | 347 | -8.1 |

³ Chapter 19C sets out the additional requirements, modifications or exceptions for companies which have, or are seeking, a secondary listing.

⁴ 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.

Intermediaries

Licence applications

In the quarter, we received 1,742 licence applications¹, including 62 corporate applications, a 21% decrease from the last quarter but up 31% compared with the same quarter last year.

As at 31 December, the total number of licensees and registrants slightly increased by 1% to 48,657, of which 3,210 were licensed corporations.

Fully digitalised licensing platform

We launched the next generation, fully-digitalised licensing platform on WINGS² in January 2022, providing a one-stop, comprehensive licensing service for users and new electronic forms for applications and submissions, which will now be required. Paper forms for corporate applications will still be accepted until 31 March 2022. A companion mobile application, WINGS Mobile App, offers key features of the website version. To help the industry understand the new features, a video, user guides and online demo clips are available on the SFC website.

Conduct standards in capital market transactions

In October, we released consultation conclusions on conduct requirements for capital market transactions in Hong Kong to clarify the roles of intermediaries and set out the standards expected of them in bookbuilding, pricing, allocation and placing activities. The new requirements will become effective on 5 August 2022.

Operational resilience

To help intermediaries maintain operational resilience amidst the COVID-19 pandemic and other disruptions, we issued a circular and report in October to set out regulatory standards and measures for preventing and responding to disruptions and managing the risks of remote working.

SFC-HKMA joint product survey

Also in October, we and the Hong Kong Monetary Authority (HKMA) published the report of our first joint annual survey on the sale of non-exchange traded investment products. A total of 308 licensed corporations and 64 registered institutions reported selling investment products with an aggregate transaction amount of \$5,700 billion during 2020, with the participation of over 700,000 investors. Structured products (\$2,764 billion) accounted for the largest share of the aggregate transaction amount, followed by collective investment schemes (\$1,425 billion) and debt securities (\$1,058 billion). The survey findings help us better understand market trends, identify risks and coordinate responses to address areas of common concern.

Spread charges

In another October circular, we shared key observations from a thematic review of intermediaries' spread charges and related practices as well as their disclosure of transaction-related information. We also set out our expected standards of conduct. The thematic review was carried out concurrently by us and the HKMA in 2020-21.

Virtual assets

In January 2022, the SFC and HKMA published a joint circular to provide guidance for intermediaries which wish to distribute virtual asset-related products and engage in virtual asset dealing and advisory services.

Scheme for quarantine-free travel to the Mainland

To assist the Government's proposed scheme for quarantine-free travel to the Mainland, we set out in a December circular the eligibility criteria and pre-registration procedures for executives of licensed corporations to participate in the scheme.

¹ The figure does not include applications for provisional licences. See the table on licensing applications on page 8 for details.

² WINGS is a web-based platform for SFC electronic forms and online submission services launched in January 2019.

Intermediaries

Licencees and registrants

| | As at 31.12.2021 | As at 31.3.2021 | Change (%) | As at 31.12.2020 | YoY change (%) |
|-------------------------|---------------------|--------------------|---------------|---------------------|----------------------|
| Licensed corporations | 3,210 | 3,159 | 1.6 | 3,122 | 2.8 |
| Registered institutions | 111 | 115 | -3.5 | 112 | -0.9 |
| Licensed individuals | 45,336 | 43,904 | 3.3 | 43,983 | 3.1 |
| Total | 48,657 | 47,178 | 3.1 | 47,217 | 3 |

Licensing applications

| | Quarter ended 31.12.2021 | Nine months ended 31.12.2021 | Nine months ended 31.12.2020 | YoY change (%) |
|--|--------------------------------|------------------------------------|------------------------------------|----------------------|
| Applications to conduct new regulated activity | 6,066 | 19,338 | 13,303 | 45.4 |
| Applications for SFC licences [^] | 1,742 | 5,502 | 3,914 | 40.6 |

[^] Figures do not include applications for provisional licences. During the quarter, we received 1,219 provisional licence applications compared with 880 in the same quarter last year.

Intermediary inspections

| | Quarter ended 31.12.2021 | Quarter ended 30.9.2021 | Change (%) | Quarter ended 31.12.2020 | YoY change (%) |
|--|--------------------------------|-------------------------------|---------------|--------------------------------|----------------------|
| On-site inspections conducted [^] | 61 | 66 | -7.6 | 74 | -17.6 |

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

Products

Authorisations

During the quarter ended 31 December, we authorised 45 unit trusts and mutual funds (including 27 Hong Kong-domiciled funds), four mandatory provident fund (MPF) pooled investment funds and 48 unlisted structured investment products for public offering in Hong Kong.

OFC registrations

As of 31 December, we registered 48 open-ended fund companies (OFCs), of which 21¹ were new OFCs registered during the quarter.

Retail unlisted equity-linked investments (ELIs)

During the quarter, we authorised the first retail ELIs linked to stocks listed on US exchanges. We also published frequently asked questions to provide guidance to the industry on the acceptability and use of these stocks as reference assets for SFC-authorised unlisted structured investment products.

Hong Kong-domiciled funds

Despite volatility in the local equity market, the assets under management of Hong Kong-domiciled funds increased year-on-year by 3.9% to US\$192 billion as at the end of the quarter and recorded net fund inflows of about US\$15.6 billion for the 12 months ended 31 December. During the same period, the number of firms licensed for Type 9 regulated activity increased 5.4% to 1,979.

Wealth Management Connect (WMC)

The Cross-boundary WMC Pilot Scheme was launched on 19 October with 19 banks in Hong Kong initially eligible to provide WMC services. Since the pilot scheme was announced in June 2020, we worked closely with the People's Bank of China, Hong Kong Monetary Authority (HKMA) and other authorities and provided input on the scheme's design and operations, including the product scope and conduct-related matters. We also worked with the Investor and Financial Education Council on investor education materials. We provided input to the frequently asked questions on WMC enhancements published by HKMA in December to clarify that lists of eligible products may be provided upon investor request and explain the permissible promotional activities.

ETF Connect

In December, the Mainland and Hong Kong exchanges and clearing houses jointly announced their agreement on arrangements to include eligible exchange-traded funds (ETFs) in Stock Connect. We are working closely with the China Securities Regulatory Commission (CSRC), Hong Kong Exchanges and Clearing Limited, Mainland stock exchanges and other stakeholders on the details, including the business and technical preparations, which are expected to take about six months to complete.

Mutual Recognition of Funds (MRF)

Under the Mainland-Hong Kong MRF scheme, as of 31 December, we authorised a total of 47 Mainland funds (including two umbrella funds) whilst the CSRC approved 38 Hong Kong funds.

As of 31 December, the cumulative net subscription was about RMB1 billion for Mainland funds and about RMB14.3 billion for Hong Kong funds. During the quarter, Mainland funds recorded a net subscription of about RMB83.3 million, down from RMB172.31 million in the previous quarter. Hong Kong funds recorded a net redemption of about RMB1.61 billion this quarter, up from a net redemption of about RMB 539.11 million last quarter.

Investment-linked assurance schemes (ILAS)

To achieve better investor outcomes, we issued a circular in November to provide enhanced guidance and requirements for ILAS product design. A transition period of 18 months was provided for existing ILAS products to comply with the enhanced requirements. We also enhanced our ILAS authorisation process to reduce the approval time for simpler and more standard applications and held a workshop to brief the industry on the new product requirements and authorisation process.

¹ This figure includes 20 OFCs which are not authorised under section 104 of the Securities and Futures Ordinance (SFO) and hence may not be offered to the public in Hong Kong unless an exemption under the SFO applies.

Products

Pooled retirement funds (PRFs)²

In October, we released consultation conclusions on proposed amendments to the Code on Pooled Retirement Funds (PRF Code) to strengthen investor protection and ensure our regulations governing PRFs are up-to-date and fit for purpose. Key amendments include enhancing

requirements for the operation of PRFs and clarifying the obligations of key operators. The amendments took effect on 1 December. A 12-month transitional period will generally be provided for existing PRFs and their underlying investment portfolios and key operators.

Authorised collective investment schemes

| | As at 31.12.2021 | As at 31.3.2021 | Change (%) | As at 31.12.2020 | YoY change (%) |
|--|---------------------|--------------------|---------------|---------------------|----------------------|
| Unit trusts and mutual funds – Hong Kong-domiciled | 865 ^a | 835 | 3.6 | 810 | 6.8 |
| Unit trusts and mutual funds – non-Hong Kong-domiciled | 1,375 | 1,382 | -0.5 | 1,384 | -0.7 |
| ILAS | 300 | 298 | 0.7 | 300 | 0 |
| Pooled retirement funds | 32 | 33 | -3 | 33 | -3 |
| MPF schemes | 26 | 27 | -3.7 | 27 | -3.7 |
| MPF pooled investment funds | 217 | 212 | 2.4 | 210 | 3.3 |
| Others | 24 ^b | 25 | -4 | 25 | -4 |
| Total | 2,839 | 2,812 | 1 | 2,789 | 1.8 |

a This figure includes 110 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 11 real estate investment trusts (REITs).

Registered OFCs

| | As at 31.12.2021 | As at 31.3.2021 | Change (%) | As at 31.12.2020 | YoY change (%) |
|------|---------------------|--------------------|---------------|---------------------|----------------------|
| OFCs | 48 [^] | 13 | 269.2 | 8 | 500 |

[^] This figure includes 41 OFCs which are not authorised under section 104 of the SFO and hence may not be offered to the public in Hong Kong unless an exemption under the SFO applies.

Authorised unlisted structured investment products

| | As at 31.12.2021 | As at 31.3.2021 | Change (%) | As at 31.12.2020 | YoY change (%) |
|--|---------------------|--------------------|---------------|---------------------|----------------------|
| Unlisted structured investment products [^] | 176 | 146 | 20.5 | 145 | 21.4 |

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

² Pooled retirement funds are only available to occupational retirement schemes in Hong Kong as defined under the Occupational Retirement Schemes Ordinance.

Products

SFC-authorized renminbi investment products

| | As at 31.12.2021 |
|---|---------------------|
| 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 | 330 |
| Paper gold schemes with renminbi features | 1 |
| Recognised Mainland funds under Mainland-Hong Kong MRF arrangement | 47 |
| Unlisted structured investment products issued in renminbi ^b | 175 |
| Listed products | |
| ETFs primarily investing in the onshore Mainland securities markets ^a or offshore renminbi bonds, fixed-income instruments or other securities | 51 |
| ETFs (non-renminbi denominated) with renminbi trading counters | 10 |
| 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 scheme, 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

Derivatives products

In November, we approved the MSCI China (USD) Index and MSCI China Net Total Return (USD) Index futures contracts to replace the MSCI China Free (USD) Index and MSCI China Free Net Total Return (USD) Index futures contracts in light of MSCI's plans to terminate the MSCI China Free Indexes in 2022.

OTC derivatives

In December, we issued a joint consultation with the Hong Kong Monetary Authority on adding eight new calculation periods under the Clearing Rules¹ for the over-the-counter (OTC) derivatives regulatory regime.

OTC Clear

We approved proposals by OTC Clear to adopt the 2021 Interest Rate Derivatives Definitions published by the International Swaps and Derivatives Association and update certain maturities for the London Interbank Offered Rate interest rate benchmarks.

ATS providers

| | As at 31.12.2021 | As at 31.3.2021 | Change (%) | As at 31.12.2020 | YoY change (%) |
|----------------|---------------------|--------------------|---------------|---------------------|----------------------|
| Under Part III | 53 | 51 | 3.9 | 52 | 1.9 |
| Under Part V | 25 | 24 | 4.2 | 24 | 4.2 |

Investor identification

In October, the SFC and Hong Kong Exchanges and Clearing Limited co-hosted two industry webinars to introduce the Hong Kong investor identification regime and over-the-counter securities transactions reporting regime. Frequently asked questions about the regimes were published to provide further guidance. We also worked with the Investor and Financial Education Council to promote investors' awareness and understanding of the regimes.

Automated trading services

As of 31 December, the number of automated trading services (ATS) providers² authorised under Part III of the Securities and Futures Ordinance (SFO) was 53, whilst 25 corporations, including 13 dark pool operators, were licensed under Part V of the SFO to provide ATS.

1 The Securities and Futures (OTC Derivative Transactions – Clearing and Record Keeping Obligations and Designation of Central Counterparties) Rules.

2 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

The Court of First Instance (CFI) found that Yik Fong Fong, Wei Juan and Huang Yi engaged in insider dealing in the shares of TeleEye Holdings Limited. In February 2022, the CFI ordered that illicit profits of \$12,949,875 made by Wei and Huang, who are associates of Yik, be paid to 63 affected investors.

The CFI dismissed the appeal of Law Sai Hung, a director of Brilliance Capital Management Limited, against his conviction of unlicensed activities.

The Eastern Magistrates' Court convicted Wai Chun Holdings Group Limited and its director, Lam Ching Kui, of failing to make timely disclosures of the acquisition of their interests in Chinese Strategic Holdings Limited, contravening Part XV of the Securities and Futures Ordinance (SFO). They were fined and ordered to pay the SFC's investigation costs.

Disciplinary actions

We disciplined five licensed corporations and nine individuals during the quarter, resulting in total fines¹ of over \$23 million.

Sponsor failures

| Company/Name | Breaches | Action |
|----------------------------|--|--|
| Ample Capital Limited | Failed to discharge its duties as the sponsor in the listing application of COCCI International Limited | Reprimanded and fined \$5.5 million |
| Howard Tang Ho Wai | Failed to discharge his duties as a sponsor principal and a responsible officer of Ample Capital Limited | Suspended for 17 months |
| Yi Shun Da Capital Limited | Failed to discharge its duties as the sponsor in the listing application of Imperial Sierra Group Holdings Limited | Reprimanded and fined \$3 million ² |

Anti-money laundering regulatory breaches

| Company/Name | Breaches | Action |
|--|---|-------------------------------------|
| Grand International Futures Co., Limited | Failed to comply with anti-money laundering, counter-terrorist financing and other regulatory requirements | Reprimanded and fined \$8 million |
| Liang Benyou | Failed to discharge his duties as a responsible officer and a member of senior management of Grand International Futures Co., Limited | Suspended for eight months |
| Mason Securities Limited ³ | Failed to ensure proper certification of client identities for account opening and put in place controls to identify third-party deposits | Reprimanded and fined \$3.6 million |

Internal control failures

| Company/Name | Breaches | Action |
|------------------------------|--|-------------------------------------|
| Fulbright Securities Limited | Internal control failures relating to its placing activities and recording of client order instructions | Reprimanded and fined \$3.3 million |
| Eric Liu Chi Ming | Failed to discharge his duties as a responsible officer, director, deputy general manager and manager-in-charge (overall management oversight and key business line) of Fulbright Securities Limited | Suspended for six months |

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

² Affirmed by the Securities and Futures Appeals Tribunal in October 2021.

³ Formerly known as GuocoCapital Limited.

Enforcement

Other regulatory breaches and criminal convictions

| Name | Breaches/Convictions | Action |
|-----------------------------|---|--|
| Ma Kwok Ho and Gee King Yip | Regulatory breaches relating to their trading practices | Banned from re-entering the industry for two years and 16 months, respectively |
| Wang Yu Ching | Misrepresented academic qualifications to her former employers | Banned from re-entering the industry for 10 years |
| Poon Chun Hing | Misappropriated client funds for his personal use | Banned from re-entering the industry for life |
| Chu Chun Wai | Failed to discharge his duties as a responsible officer and a member of the senior management of Zhonghui International Futures Company Limited | Banned from re-entering the industry for seven months |
| Lau Tin Yau | Convictions under the Prevention of Bribery Ordinance in May 2018 and the SFO in September 2020 | Banned from re-entering the industry for life |

Restriction notices

During the quarter, we issued a restriction notice to HF Asset Management Limited, prohibiting it from carrying on any business which constitutes SFC-licensed regulated activities because of doubts over the firm's fitness and properness. We also issued restriction notices to two other brokers⁴, prohibiting them from dealing with or processing certain assets held in 17 trading accounts related to a suspected social media ramp-and-dump scam. Our investigations are ongoing.

Joint operations

We conducted a simultaneous joint operation in December with the Hong Kong Police Force, the Monetary Authority of Singapore and the Singapore Police Force against an active and sophisticated syndicate suspected of operating cross-border ramp-and-dump manipulation schemes in Hong Kong and Singapore. During the operation, more than 190 officers from the four organisations searched 33 premises in Hong Kong and Singapore and arrested 10 persons.

Following our joint operation with the Independent Commission Against Corruption (ICAC) in 2017, four people, including two former executive directors of Convoy Global Holdings Limited, were charged by the ICAC and convicted of conspiracy to defraud at the District Court in October. The defendants were jailed

between four and seven months. The two former executive directors were also disqualified from being company directors for two to three years.

Enforcement cooperation with the CSRC

In November, we held our fifth joint enforcement training with the China Securities Regulatory Commission (CSRC). Conducted virtually for the first time, the training session took place over three consecutive days and was attended by around 550 enforcement officers from both regulators. It focused on ways to crack down on serious securities market violations in both markets and shared case studies of how the CSRC and the SFC collaborated with local enforcement agencies in their jurisdictions.

In December, we held the 12th regular high-level meeting on enforcement cooperation with the CSRC, also in a virtual format. We discussed ways to strengthen our ongoing enforcement cooperation during the pandemic to further safeguard the sound development of the Hong Kong and Mainland capital markets and protect investors' interests. These included enhancing and optimising the cooperation mechanism for collecting and handling evidence, refining the arrangements for providing assistance in urgent, major cross-boundary cases and strengthening exchanges amongst officers from both regulators.

⁴ Emperor Securities Limited and Get Nice Securities Limited.

Enforcement

Market surveillance

Our surveillance of untoward price and turnover movements resulted in 1,284 requests for trading and account records from intermediaries in the quarter.

We published three 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.



Enforcement activities

| | Quarter ended 31.12.2021 | Nine months ended 31.12.2021 | Nine months ended 31.12.2020 | YoY change (%) |
|--|-----------------------------|---------------------------------|---------------------------------|----------------|
| S179 ^a inquiries commenced | 13 | 45 | 29 | 55.2 |
| S181 ^b inquiries commenced (number of letters sent) | 43 (1,284) | 172 (6,336) | 191 (6,940) | -8.7 |
| S182 ^c directions issued | 47 | 173 | 140 | 23.6 |
| Investigations started | 48 | 178 | 151 | 17.9 |
| Investigations completed | 26 | 91 | 159 | -42.8 |
| Individuals and corporations charged in criminal proceedings | 2 | 4 | 9 | -55.6 |
| Criminal charges laid | 10 | 28 | 12 | 133.3 |
| Notices of Proposed Disciplinary Action ^d issued | 7 | 32 | 18 | 77.8 |
| Notices of Decision ^e issued | 18 | 33 | 26 | 26.9 |
| Individuals and corporations subject to ongoing civil proceedings ^f | 173 | 173 | 161 | 7.5 |
| Compliance advice letters issued | 36 | 129 | 182 | -29.1 |
| Cases with search warrants executed | 11 | 36 | 14 | 157.1 |

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 which 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 active 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 November, Mr Alder chaired the Presidents Committee meeting of all IOSCO members where he presented his views on IOSCO's priorities and strategy. He also chaired an IOSCO Board meeting which discussed sustainable finance, including the establishment of the International Sustainability Standards Board (ISSB), conduct in corporate bond markets and IOSCO priorities for 2022.

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 and other responses related to financial stability issues.

Ms Julia Leung, our Deputy CEO and Executive Director, Intermediaries, is a Vice Chair of the IOSCO Sustainable Finance Task Force (STF) and co-leads a workstream on sustainability practices, policies, procedures and disclosure in asset management. The STF published two reports in November setting out regulatory expectations for asset managers and ESG¹ rating and data providers. We participated in the task force's Technical Expert Group which engaged with the IFRS Foundation to develop a climate-related disclosures prototype, published in November, which will be considered by the new ISSB with a view to developing a global baseline for corporate sustainability reporting standards.

We participate in all eight IOSCO policy committees, the Committee on Emerging Risks, the Assessment Committee and the Asia-Pacific Regional Committee (APRC). At the APRC meeting in November, we presented the newly-published STF recommendations for asset managers. We also took part in a December Assessment Committee meeting which discussed the status of the Financial Sector Assessment Program (FSAP)².

Mr Alder co-chairs the CPMI³-IOSCO Steering Group, which is involved in the 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 participates in Financial Stability Board (FSB) meetings including those of the Steering Committee, Plenary, Standing Committee on Supervisory and Regulatory Cooperation and Steering Committee Group on Non-bank Financial Intermediation. During the quarter, 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

During the period, our senior executives spoke to local and international audiences about the development of green and sustainable finance.

Our Chairman Mr Tim Lui discussed Hong Kong's unique position to emerge as the regional green finance hub in keynote speeches delivered in November at a summit co-hosted by the World Green Organisation and the United Nations Economic and Social Commission for Asia and the Pacific and an industry conference on ESG technology and data.

In November, Mr Alder attended the 26th UN Climate Change Conference of the Parties in Glasgow, Scotland where he spoke about sustainability disclosure and the significance of the establishment of the ISSB and also gave a keynote speech at the UK Government's Green Horizon Summit on pathways to achieving net zero targets. Locally, he delivered a keynote address at the Eco Expo Asia and the Hong Kong Green Finance Association Annual Forum and joined the discussions at the HKEX Green Summit 2021.

Ms Julia Leung, Vice Chair of the IOSCO STF, highlighted the implications of the task force's work on asset managers at the Managed Funds Association's global summit in November.

1 Environmental, Social and Governance.

2 Jointly conducted by the International Monetary Fund and the World Bank, the FSAP provides a framework to help authorities identify financial system vulnerabilities and develop policy responses.

3 Committee on Payments and Market Infrastructures.

Regulatory engagement

At a December meeting, the Hong Kong Green and Sustainable Finance Cross-Agency Steering Group⁴, co-chaired by the SFC and the Hong Kong Monetary Authority, discussed carbon market development, climate-related disclosure, taxonomies⁵, capacity building and climate-related data needs and gaps. The steering group completed a preliminary assessment of carbon market opportunities for Hong Kong and will explore ways for it to grow into a regional carbon trading centre, including the development of a global, high-quality voluntary carbon market. As part of this effort, the steering group will work with other authorities on carbon market opportunities under the Guangdong-Hong Kong-Macao Greater Bay Area cooperation framework.

Mainland China

During the quarter, we worked closely with the Mainland authorities to broaden mutual market access initiatives and held regular discussions with the China Securities Regulatory Commission (CSRC) to enhance cross-boundary regulatory cooperation.

In December, the Mainland and Hong Kong exchanges and clearing houses reached an agreement on arrangements for including eligible exchange traded funds in Stock Connect in accordance with an earlier joint announcement by the SFC and CSRC.

Other regulatory engagement

In December, we held the 13th Bilateral Regulatory Meeting with the Taiwan Financial Supervisory Commission to exchange views on regulatory reforms in the two markets, sustainable finance and enforcement cooperation in tackling online investment scams on social media platforms.

⁴ 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.

⁵ Taxonomies provide a common reference point for the definition of investments which are considered to be environmentally sustainable.

Stakeholders

We engage with a wide range of stakeholders to provide them with up-to-date regulatory information and help them understand our work.

At the fourth SFC Regulatory Forum in November, senior regulators and industry leaders shared insights on Hong Kong's future development as China's international financial centre and other regulatory and topical issues. More than 1,100 senior representatives from the financial industry, listed companies, professional services firms and industry associations attended the full-day event in person and online.

We co-organised Hong Kong Fintech Week 2021, held in November, where our Deputy Chief Executive Officer and Executive Director of Intermediaries Ms Julia Leung spoke on regulation and the development of financial technology.

During the quarter, our senior executives spoke at 40 local and international events including the 26th UN Climate Change Conference of the Parties, UN Climate Finance and Sustainable Investing Conference, Green Horizons Summit, Eco Expo Asia 2021 and Hong Kong Green Finance Association Annual Forum as well as events organised by the Investment Company Institute, Hong Kong Securities and Investment Institute, Institute of International Finance, the US Treasury and the UN Principles for Responsible Investment. We also supported 11 industry events. In interviews with Bloomberg and CNBC, our Chief Executive Officer Mr Ashley Alder discussed green and sustainable finance including the importance of creating global standards around company sustainability reporting.

We hosted webinars for the industry to provide an update on major regulatory developments related to anti-money laundering and counter-terrorist financing, introduce the Hong Kong investor identification regime and over-the-counter securities transactions reporting regime and provide guidance on the implementation of the regulatory requirements for the management and disclosure of climate-related risks by fund managers.

We released the following publications in the quarter:

- *SFC-HKMA¹ Joint Survey on the Sale of Non-exchange Traded Investment Products 2020* reported the findings of the regulators' first joint survey of these selling activities by licensed corporations and registered institutions².
- *Report on Operational Resilience and Remote Working Arrangements* set out regulatory standards to promote the operational resilience of intermediaries and discussed measures to manage the major risks of remote working arrangements such as working from home².
- *Report on the Securities and Futures Commission's Annual Review of the Exchange's Performance in its Regulation of Listing Matters* summarised the SFC's findings and recommendations of its latest review of the Stock Exchange of Hong Kong Limited³.



SFC Regulatory Forum 2021

¹ Hong Kong Monetary Authority.

² See Intermediaries on page 7.

³ See Corporates on page 5.

Stakeholders

- The December issue of the *Takeovers Bulletin* discussed the interpretation of the Takeovers Code for schemes of arrangement and the application of the Codes on Takeovers, Mergers and Share Buy-backs to a grandfathered Greater China issuer.

We published 29 circulars providing guidance on a range of matters including the distribution of insurance-linked securities and related products, the implementation of the enhanced competency framework for licensees, the findings of a concurrent SFC-HKMA thematic review of spread charges and other practices and updates on anti-money laundering and counter-terrorist financing.

Publications and other communications

| | Quarter ended 31.12.2021 | Nine months ended 31.12.2021 | Nine months ended 31.12.2020 | YoY change (%) |
|---|-----------------------------|---------------------------------|---------------------------------|----------------|
| Press releases | 36 | 89 | 99 | -10.1 |
| Policy statements and announcements | 0 | 3 | 8 | -62.5 |
| Consultation papers | 1 | 2 | 7 | -71.4 |
| Consultation conclusions | 2 | 6 | 6 | 0 |
| Industry-related publications | 4 | 9 | 8 | 12.5 |
| Codes and guidelines ^a | 1 | 1 | 6 | -83.3 |
| Circulars to industry | 29 | 54 | 53 | 1.9 |
| Corporate website average daily page views ^b | 28,231 | 27,870 | 36,298 | -23.2 |
| General enquiries | 644 | 3,678 | 5,334 | -31 |

a Includes updates to previous versions.

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

Corporate Developments

Board

In October, the Chief Executive of the Hong Kong Special Administrative Region (HKSAR) reappointed Mr Tim Lui as SFC Chairman for another three-year term, effective 20 October 2021.

The Financial Secretary of the HKSAR appointed Mr Johnson Kong and Mr Dieter Yih as Non-Executive Directors (NEDs) for two-year terms with effect from 15 November 2021. Mr Lester Huang and Mr Clement Chan stepped down as NEDs.

Finance

Our income for the quarter was \$535 million, 13% lower than the previous quarter and 27% lower than the same quarter last year. Average daily turnover in Hong Kong's securities market was \$134 billion, 21% lower than the \$170 billion recorded in the previous quarter. Our expenditure for the quarter was \$461 million, slightly lower than last quarter and the same quarter last year. We recorded a surplus of \$74 million for the quarter.

After setting aside \$3.1 billion for the possible acquisition of office premises, our reserves stood at \$4.9 billion as of 31 December.

Staffing

As of 31 December, we had 921 staff members, down from 929 a year ago.

Information technology

During the quarter, we finalised preparations for the launch of a new licensing platform on WINGS¹. Introduced in January 2022, the platform fully digitalises our licensing process, providing greater convenience for the industry, and uses data analytics to help facilitate our front-loaded, risk-based approach to licensing matters.

To help us keep abreast of current market trends, we launched a questionnaire on WINGS about asset management activities relating to private funds and managed accounts. We also enhanced our internal workflow system to increase operational efficiency when authorising investment-linked assurance schemes.

Finance

| (\$ million) | Quarter ended 31.12.2021 | Nine months ended 31.12.2021 | Nine months ended 31.12.2020 | YoY change (%) |
|---------------------------------|-----------------------------|---------------------------------|---------------------------------|-------------------|
| Income | 535 | 1,763 | 2,094 | -15.8 |
| Expenses including depreciation | 461 | 1,391 | 1,514 | -8.1 |
| Surplus | 74 | 372 | 580 | -35.9 |

¹ WINGS is a web-based platform for SFC electronic forms and online submission services launched in January 2019.

Activity Data

Table 1 Takeovers activities

| | Quarter ended 31.12.2021 | Nine months ended 31.12.2021 | Nine months ended 31.12.2020 | YoY change (%) |
|---|-----------------------------|---------------------------------|---------------------------------|----------------|
| Codes on Takeovers and Mergers and Share Buy-backs | | | | |
| General and partial offers under Code on Takeovers and Mergers | 12 | 35 | 28 | 25 |
| Privatisations | 5 | 17 | 24 | -29.2 |
| Whitewash waiver applications | 9 | 20 | 22 | -9.1 |
| Other applications under Code on Takeovers and Mergers ¹ | 89 | 242 | 268 | -9.7 |
| Off-market and general offer share buy-backs | 2 | 4 | 4 | 0 |
| Other applications under Code on Share Buy-backs ¹ | 0 | 1 | 1 | 0 |
| Total | 117 | 319 | 347 | -8.1 |
| Executive Statements | | | | |
| Sanctions imposed with parties' agreement ² | 0 | 1 | 4 | -75 |
| Takeovers and Mergers Panel | | | | |
| Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs | 0 | 1 | 0 | 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 31.12.2021 | Nine months ended 31.12.2021 ⁵ | Nine months ended 31.12.2020 ⁵ | YoY change (%) |
|---|-----------------------------|--|--|----------------|
| Failure to comply with Securities and Futures (Financial Resources) Rules | 2 | 6 | 2 | 200 |
| Failure to safekeep client securities | 7 | 19 | 10 | 90 |
| Failure to maintain proper books and records | 6 | 17 | 13 | 30.8 |
| Failure to safekeep client money | 11 | 29 | 18 | 61.1 |
| Unlicensed dealing and other registration issues | 3 | 10 | 8 | 25 |
| Breach of licensing conditions | 0 | 0 | 1 | -100 |
| Breach of requirements of contract notes/statements of account/receipts | 18 | 39 | 15 | 160 |
| Failure to make filing/notification | 0 | 1 | 2 | -50 |
| Breach of margin requirements | 0 | 4 | 3 | 33.3 |
| Marketing malpractices | 0 | 3 | 0 | N/A |
| Dealing malpractices | 0 | 3 | 2 | 50 |
| Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission ² | 70 | 186 | 169 | 10.1 |
| Breach of Corporate Finance Adviser Code of Conduct | 2 | 6 | 5 | 20 |
| Breach of Fund Manager Code of Conduct | 42 | 98 | 116 | -15.5 |
| Breach of regulation of on-line trading | 2 | 8 | 1 | 700 |
| Non-compliance with anti-money laundering guidelines | 93 | 238 | 118 | 101.7 |
| Breach of other rules and regulations of the Exchanges ³ | 3 | 5 | 3 | 66.7 |
| Internal control weaknesses ⁴ | 113 | 317 | 341 | -7 |
| Others | 24 | 62 | 52 | 19.2 |
| Total | 396 | 1,051 | 879 | 19.6 |

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 and 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, 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 31.12.2021 | As at 31.3.2021 | Change (%) | As at 31.12.2020 | YoY change (%) |
|----------------------------|---------------------|--------------------|---------------|---------------------|----------------------|
| Bond ¹ | 175 | 165 | 6.1 | 154 | 13.6 |
| Equity ¹ | 198 | 201 | -1.5 | 198 | 0 |
| Mixed ¹ | 110 | 109 | 0.9 | 104 | 5.8 |
| Money market | 36 | 33 | 9.1 | 30 | 20 |
| Feeder funds ² | 41 | 37 | 10.8 | 39 | 5.1 |
| Index ³ | 158 | 142 | 11.3 | 140 | 12.9 |
| Guaranteed | 1 | 1 | 0 | 1 | 0 |
| Sub-total | 719 | 688 | 4.5 | 666 | 8 |
| Umbrella structures | 146 | 147 | -0.7 | 144 | 1.4 |
| Total | 865 | 835 | 3.6 | 810 | 6.8 |

| b) Assets under management by type | Total NAV (US\$ million) as at 31.12.2021 | Total NAV (US\$ million) as at 31.3.2021 | Change (%) | Total NAV (US\$ million) as at 31.12.2020 | YoY change (%) |
|------------------------------------|--|---|---------------|--|----------------------|
| Bond ¹ | 35,752 | 39,395 | -9.2 | 38,131 | -6.2 |
| Equity ¹ | 61,930 | 64,255 | -3.6 | 60,350 | 2.6 |
| Mixed ¹ | 35,435 | 33,030 | 7.3 | 31,250 | 13.4 |
| Money market | 9,232 | 8,424 | 9.6 | 8,438 | 9.4 |
| Feeder funds ² | 26 | 28 | -7.1 | 30 | -13.3 |
| Index ³ | 49,267 | 45,727 | 7.7 | 46,233 | 6.6 |
| Guaranteed | 45 | 52 | -13.5 | 55 | -18.2 |
| Total⁴ | 191,688 | 190,909 | 0.4 | 184,486 | 3.9 |

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

1 From 31 December 2021, funds of funds (excluding feeder funds) have been re-categorised into other types of funds based on the underlying exposure of their investment strategies. For comparison purposes, similar adjustments have been made to the number of funds and the total NAV figure of certain fund types as at 31 December 2020 and 31 March 2021, respectively.

2 From 31 December 2021, feeder funds have been separated from the previous "Fund of funds" category. For comparison purposes, similar adjustments have been made to the number and the total NAV figure for feeder funds as at 31 December 2020 and 31 March 2021, respectively. In addition, the NAV of feeder funds whose master funds are authorised by the SFC has been excluded from the total NAV figures in the "Feeder funds" category to better reflect the total assets under management.

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

4 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 31.12.2021 | As at 31.3.2021 | Change (%) | As at 31.12.2020 | YoY change (%) |
|------------------------------|---------------------|--------------------|---------------|---------------------|----------------------|
| Luxembourg | 1,029 | 1,035 | -0.6 | 1,034 | -0.5 |
| Ireland | 240 | 238 | 0.8 | 237 | 1.3 |
| United Kingdom | 29 | 30 | -3.3 | 34 | -14.7 |
| Mainland China | 49 | 51 | -3.9 | 51 | -3.9 |
| Bermuda | 1 | 1 | 0 | 1 | 0 |
| Cayman Islands | 22 | 22 | 0 | 22 | 0 |
| Others | 5 | 5 | 0 | 5 | 0 |
| Total | 1,375 | 1,382 | -0.5 | 1,384 | -0.7 |

| b) Assets under management by origin | Total NAV (US\$ million) as at 31.12.2021 | Total NAV (US\$ million) as at 31.3.2021 | Change (%) | Total NAV (US\$ million) as at 31.12.2020 | YoY change (%) |
|--------------------------------------|--|---|---------------|--|----------------------|
| Luxembourg | 1,475,025 | 1,399,343 | 5.4 | 1,345,312 | 9.6 |
| Ireland | 279,445 | 275,782 | 1.3 | 279,016 | 0.2 |
| United Kingdom | 80,360 | 75,015 | 7.1 | 78,866 | 1.9 |
| Mainland China | 32,355 | 25,234 | 28.2 | 26,450 | 22.3 |
| Bermuda | 118 | 128 | -7.8 | 128 | -7.8 |
| Cayman Islands | 2,717 | 4,358 | -37.7 | 5,041 | -46.1 |
| Others | 62,103 | 61,049 | 1.7 | 76,062 | -18.4 |
| Total¹ | 1,932,124 | 1,840,909 | 5 | 1,810,875 | 6.7 |

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

¹ Figures may not add up to total due to rounding.

Activity Data

| c) Number of funds by type | As at 31.12.2021 | As at 31.3.2021 | Change (%) | As at 31.12.2020 | YoY change (%) |
|----------------------------|---------------------|--------------------|---------------|---------------------|----------------------|
| Bond ¹ | 356 | 348 | 2.3 | 347 | 2.6 |
| Equity ¹ | 759 | 754 | 0.7 | 758 | 0.1 |
| Mixed ¹ | 136 | 137 | -0.7 | 136 | 0 |
| Money market | 15 | 16 | -6.3 | 16 | -6.3 |
| Feeder funds ² | 3 | 3 | 0 | 3 | 0 |
| Index ³ | 25 | 42 | -40.5 | 42 | -40.5 |
| Hedge | 1 | 1 | 0 | 1 | 0 |
| Sub-total | 1,295 | 1,301 | -0.5 | 1,303 | -0.6 |
| Umbrella structures | 80 | 81 | -1.2 | 81 | -1.2 |
| Total | 1,375 | 1,382 | -0.5 | 1,384 | -0.7 |

| d) Assets under management by type | Total NAV (US\$ million) as at 31.12.2021 | Total NAV (US\$ million) as at 31.3.2021 | Change (%) | Total NAV (US\$ million) as at 31.12.2020 | YoY change (%) |
|------------------------------------|--|---|---------------|--|----------------------|
| Bond ¹ | 592,934 | 609,603 | -2.7 | 632,817 | -6.3 |
| Equity ¹ | 1,037,029 | 941,707 | 10.1 | 875,767 | 18.4 |
| Mixed ¹ | 189,951 | 162,558 | 16.9 | 160,863 | 18.1 |
| Money market | 8,202 | 11,375 | -27.9 | 11,974 | -31.5 |
| Feeder funds ² | 0 | 0 | 0 | 0 | 0 |
| Index ³ | 103,890 | 115,538 | -10.1 | 129,325 | -19.7 |
| Hedge | 118 | 128 | -7.8 | 128 | -7.8 |
| Total⁴ | 1,932,124 | 1,840,909 | 5 | 1,810,875 | 6.7 |

1 From 31 December 2021, funds of funds (excluding feeder funds) have been re-categorised into other types of funds based on the underlying exposure of their investment strategies. For comparison purposes, similar adjustments have been made to the number of funds and the total NAV figure of certain fund types as at 31 December 2020 and 31 March 2021, respectively.

2 From 31 December 2021, feeder funds have been separated from the previous "Fund of funds" category. For comparison purposes, similar adjustments have been made to the number and the total NAV figure for feeder funds as at 31 December 2020 and 31 March 2021, respectively. In addition, the NAV of feeder funds whose master funds are authorised by the SFC has been excluded from the total NAV figures in the "Feeder funds" category to better reflect the total assets under management.

3 Including exchange-traded funds.

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

Activity Data

Table 5 Complaints against intermediaries and market activities

| | Quarter ended 31.12.2021 | Nine months ended 31.12.2021 | Nine months ended 31.12.2020 | YoY change (%) |
|--|--------------------------------|---------------------------------------|---------------------------------------|----------------------|
| Conduct of licensees | 147 | 493 | 603 | -18.2 |
| Conduct of registered institutions | 13 | 23 | 15 | 53.3 |
| Listed companies and disclosure of interests | 308 | 1,558 | 2,483 | -37.3 |
| Market misconduct ¹ | 119 | 449 | 685 | -34.5 |
| Product disclosure | 13 | 17 | 83 | -79.5 |
| Unlicensed activities | 23 | 88 | 78 | 12.8 |
| Breach of offers of investments | 8 | 22 | 73 | -69.9 |
| Boiler rooms and suspicious websites | 102 | 316 | 470 | -32.8 |
| Scams and frauds ² | 40 | 235 | 437 | -46.2 |
| Other financial activities not regulated by the SFC ³ | 44 | 168 | 238 | -29.4 |
| Total | 817 | 3,369 | 5,165 | -34.8 |

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 nine months ended 31 December 2021 (Expressed in Hong Kong dollars)

| | Note | Unaudited Nine months ended | | Unaudited Three months ended | |
|--|------|--------------------------------|-----------------------|---------------------------------|-----------------------|
| | | 31 Dec 2021 \$'000 | 31 Dec 2020 \$'000 | 31 Dec 2021 \$'000 | 31 Dec 2020 \$'000 |
| Income | | | | | |
| Levies | | 1,619,185 | 1,479,250 | 465,262 | 514,290 |
| Fees and charges | | 124,743 | 146,211 | 33,383 | 37,707 |
| Net investment (loss)/income | | | | | |
| Investment income | | 8,418 | 469,525 | 29,294 | 182,685 |
| Less: custody and advisory expenses | | (8,810) | (7,585) | (2,899) | (3,084) |
| Recoveries from the Investor Compensation Fund | 6(a) | 4,258 | 4,593 | 1,406 | 1,587 |
| Exchange gain | | 13,560 | 1,504 | 7,256 | 2,128 |
| Other income | | 1,425 | 1,091 | 1,198 | 862 |
| | | 1,762,779 | 2,094,589 | 534,900 | 736,175 |
| Expenses | | | | | |
| Staff costs and directors' emoluments | 6(b) | 1,060,078 | 1,104,907 | 352,404 | 358,404 |
| Depreciation | | | | | |
| Fixed assets | | 70,580 | 62,026 | 25,151 | 22,481 |
| Right-of-use assets | | 107,566 | 194,596 | 36,295 | 35,616 |
| Other premises expenses | | 25,062 | 43,205 | 8,533 | 8,367 |
| Finance costs | | 6,001 | 7,008 | 1,927 | 2,220 |
| Other expenses | | 121,247 | 102,521 | 36,267 | 39,889 |
| | | 1,390,534 | 1,514,263 | 460,577 | 466,977 |
| Surplus and total comprehensive income for the period | | 372,245 | 580,326 | 74,323 | 269,198 |

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 31 December 2021 (Expressed in Hong Kong dollars)

| | Note | Unaudited At 31 Dec 2021 \$'000 | Audited At 31 Mar 2021 \$'000 |
|---|------|---------------------------------------|-------------------------------------|
| Non-current assets | | | |
| Fixed assets | | 257,739 | 291,496 |
| Right-of-use assets | | 883,029 | 978,261 |
| Deposits for leases | | 38,043 | 37,656 |
| Financial assets at amortised costs – debt securities | | 2,975,169 | 3,023,857 |
| | | 4,153,980 | 4,331,270 |
| Current assets | | | |
| Financial assets at amortised costs – debt securities | | 213,068 | 107,673 |
| Financial assets at fair value through profit or loss | | | |
| Debt securities | | 430,710 | 425,610 |
| Pooled funds | | 972,624 | 1,018,610 |
| Debtors, deposits and prepayments | | 248,205 | 336,704 |
| Fixed deposits with banks | | 3,247,386 | 2,641,008 |
| Cash held for Grant Scheme | 3 | 76,552 | – |
| Cash at bank and in hand | | 47,401 | 65,287 |
| | | 5,235,946 | 4,594,892 |
| Current liabilities | | | |
| Fees received in advance | | 7,327 | 8,198 |
| Creditors and accrued charges | | 370,227 | 186,408 |
| Lease liabilities | | 141,996 | 137,461 |
| Provisions for reinstatement cost | | – | 574 |
| | | 519,550 | 332,641 |
| Net current assets | | 4,716,396 | 4,262,251 |
| Total assets less current liabilities | | 8,870,376 | 8,593,521 |
| Non-current liabilities | | | |
| Lease liabilities | | 734,923 | 830,887 |
| Provisions for reinstatement cost | | 88,920 | 88,346 |
| | | 823,843 | 919,233 |
| Net assets | | 8,046,533 | 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 | | 4,878,693 | 4,506,448 |
| | | 8,046,533 | 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 nine months ended 31 December 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 | – | – | 580,326 | 580,326 |
| Balance at 31 December 2020 | 42,840 | 3,000,000 | 4,232,406 | 7,275,246 |
| Balance at 1 April 2021 | 42,840 | 3,125,000 | 4,506,448 | 7,674,288 |
| Surplus and total comprehensive income for the period | – | – | 372,245 | 372,245 |
| Balance at 31 December 2021 | 42,840 | 3,125,000 | 4,878,693 | 8,046,533 |

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 nine months ended 31 December 2021 (Expressed in Hong Kong dollars)

| | Note | Unaudited nine months ended | |
|--|------|-----------------------------|-----------------------|
| | | 31 Dec 2021 \$'000 | 31 Dec 2020 \$'000 |
| Cash flows from operating activities | | | |
| Surplus for the period | | 372,245 | 580,326 |
| Adjustments for: | | | |
| Depreciation – Fixed assets | | 70,580 | 62,026 |
| Depreciation – Right-of-use assets | | 107,566 | 194,596 |
| Provisions for reinstatement cost | | – | (12,197) |
| Finance costs | | 6,001 | 7,008 |
| Interest income on deposits for leases | | (214) | (212) |
| Investment income | | (8,418) | (469,525) |
| Exchange gain | | (13,599) | (1,616) |
| (Gain)/loss on disposal of fixed assets | | (58) | 4,889 |
| | | 534,103 | 365,295 |
| Increase in right-of-use assets | | (1) | (50) |
| Decrease/(increase) in debtors, deposits and prepayments | | 88,734 | (23,043) |
| Increase in cash held for Grant Scheme | | (76,552) | – |
| Decrease in fees received in advance | | (871) | (38,296) |
| Increase in creditors and accrued charges | | 207,822 | 111,569 |
| Decrease in provisions for reinstatement cost | | – | (37,940) |
| Net cash generated from operating activities | | 753,235 | 377,535 |
| Cash flows from investing activities | | | |
| (Increase)/decrease in fixed deposits other than cash and cash equivalents | | (801,116) | 353,378 |
| Interest received | | 77,212 | 91,111 |
| Debt securities at fair value through profit or loss purchased | | (411,358) | (150,699) |
| Debt securities at fair value through profit or loss sold or redeemed | | 403,936 | 146,429 |
| Pooled funds sold | | 4,700 | 3,485 |
| Debt securities at amortised cost purchased | | (92,016) | (1,512,389) |
| Debt securities at amortised cost redeemed at maturity | | 22,530 | 860,401 |
| Fixed assets purchased | | (60,826) | (194,037) |
| Proceeds from fixed assets disposal | | 58 | 2 |
| Net cash used in investing activities | | (856,880) | (402,319) |
| Cash flows from financing activities | | | |
| Principal element of lease payments | | (103,762) | (114,971) |
| Interest element of lease payments | | (6,001) | (7,008) |
| Net cash used in financing activities | | (109,763) | (121,979) |
| Net decrease in cash and cash equivalents | | (213,408) | (146,763) |
| Cash and cash equivalents at the beginning of the nine-month period | | 855,099 | 753,406 |
| Cash and cash equivalents at the end of the nine-month period | 2 | 641,691 | 606,643 |

Analysis of the balance of cash and cash equivalents

| | Unaudited | |
|---------------------------|--------------------------|--------------------------|
| | At 31 Dec 2021 \$'000 | At 31 Dec 2020 \$'000 |
| Fixed deposits with banks | 594,290 | 570,199 |
| Cash at bank and in hand | 47,401 | 36,444 |
| | 641,691 | 606,643 |

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 nine months ended 31 December 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 31 December 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 nine months ended 31 December 2021.

2. Cash and cash equivalents

| | Unaudited At 31 Dec 2021 \$'000 | Audited At 31 Mar 2021 \$'000 |
|---|---------------------------------------|-------------------------------------|
| Cash at bank and in hand | 47,401 | 65,287 |
| Fixed deposits with banks | 3,247,386 | 2,641,008 |
| Amounts shown in the condensed consolidated statement of financial position | 3,294,787 | 2,706,295 |
| Less: Amounts with an original maturity beyond three months | (2,653,096) | (1,851,196) |
| Cash and cash equivalents in the condensed consolidated statement of cash flows | 641,691 | 855,099 |

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 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 is solely restricted for the use of such subsidies and is 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 or 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 31 December 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 nine months ended 31 December 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, \$4,258,000 was recovered from the ICF for the ICC’s expenses (31 December 2020: \$4,593,000). As at 31 December 2021, the amount due to the ICF from the ICC included in the creditors and accrued charges balance was \$276,000 (as at 31 March 2021: \$242,000).

(b) Remuneration of key management personnel

| | Unaudited Nine months ended | |
|---|--------------------------------|-----------------------|
| | 31 Dec 2021 \$’000 | 31 Dec 2020 \$’000 |
| Directors’ fees and salaries, allowances and benefits in kind | 24,095 | 25,662 |
| Retirement scheme contributions | 2,136 | 2,307 |
| | 26,231 | 27,969 |

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 (31 December 2020: \$786,000) for the period under normal commercial terms and conditions.

Securities and Futures Commission

Notes to the condensed consolidated financial statements

For the nine months ended 31 December 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 31 December 2021 (Unaudited)</u> | | | | |
| Debt securities | – | 430,710 | – | 430,710 |
| Pooled funds | 972,624 | – | – | 972,624 |
| | 972,624 | 430,710 | – | 1,403,334 |
| <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 nine months ended 31 December 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 31 December 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 | | | |
|---|------------------------------|-----------------|-------------------|-------------------|-------------------|
| | | Total \$'000 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 |
| <u>As at 31 December 2021 (Unaudited)</u> | | | | | |
| Financial assets at amortised costs | | | | | |
| – debt securities | 3,188,237 | 3,204,247 | – | 3,204,247 | – |
| <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.

Investor Compensation Fund

Report of the Investor Compensation Fund Committee

The members of the Investor Compensation Fund Committee (the Committee) present this report and the unaudited condensed financial statements for the nine months ended 31 December 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 31 December 2021 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 36 to 41.

Members of the Committee

The members of the Committee during the nine months ended 31 December 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

(retired on 31 December 2021)

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 nine months.

On behalf of the Committee

Rico Leung

Chairman

21 February 2022

Investor Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2021 (Expressed in Hong Kong dollars)

| | Note | Unaudited Nine months ended | | Unaudited Three months ended | |
|--|------|--------------------------------|-----------------------|---------------------------------|-----------------------|
| | | 31 Dec 2021 \$'000 | 31 Dec 2020 \$'000 | 31 Dec 2021 \$'000 | 31 Dec 2020 \$'000 |
| Income | | | | | |
| Interest income | | 4,544 | 18,893 | 1,512 | 3,414 |
| Exchange gain | | 3,812 | 513 | 2,032 | 670 |
| Recoveries | | 119 | – | 119 | – |
| | | 8,475 | 19,406 | 3,663 | 4,084 |
| Expenses | | | | | |
| Investor Compensation Company Limited expenses | 2 | 4,258 | 4,593 | 1,406 | 1,587 |
| Auditor's remuneration | | 148 | 148 | 38 | 38 |
| | | 4,406 | 4,741 | 1,444 | 1,625 |
| Surplus and total comprehensive income for the period | | 4,069 | 14,665 | 2,219 | 2,459 |

The notes on pages 40 and 41 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of financial position

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

| | Note | Unaudited At 31 Dec 2021 \$'000 | Audited At 31 Mar 2021 \$'000 |
|--|------|---------------------------------------|-------------------------------------|
| Current assets | | | |
| Interest receivable | | 1,234 | 2,174 |
| Due from Investor Compensation Company Limited | | 276 | 242 |
| Fixed deposits with banks | | 2,449,655 | 2,444,671 |
| Cash at bank | | 586 | 633 |
| | | 2,451,751 | 2,447,720 |
| Current liabilities | | | |
| Provision for compensation | 4 | 3,394 | 3,394 |
| Creditors and accrued charges | | 236 | 274 |
| | | 3,630 | 3,668 |
| Net current assets | | 2,448,121 | 2,444,052 |
| Net assets | | 2,448,121 | 2,444,052 |
| Representing: | | | |
| Compensation fund | | 2,448,121 | 2,444,052 |

The notes on pages 40 and 41 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of changes in equity

For the nine months ended 31 December 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 period | – | – | 14,665 | 14,665 |
| Balance at 31 December 2020 | 994,718 | 108,923 | 1,339,288 | 2,442,929 |
| Balance at 1 April 2021 | 994,718 | 108,923 | 1,340,411 | 2,444,052 |
| Surplus and total comprehensive income for the period | – | – | 4,069 | 4,069 |
| Balance at 31 December 2021 | 994,718 | 108,923 | 1,344,480 | 2,448,121 |

The notes on pages 40 and 41 form part of these condensed financial statements.

Investor Compensation Fund

Condensed statement of cash flows

For the nine months ended 31 December 2021 (Expressed in Hong Kong dollars)

| | Note | Unaudited Nine months ended | |
|--|------|--------------------------------|-----------------------|
| | | 31 Dec 2021 \$'000 | 31 Dec 2020 \$'000 |
| Cash flows from operating activities | | | |
| Surplus for the period | | 4,069 | 14,665 |
| Adjustments for: | | | |
| Interest income | | (4,544) | (18,893) |
| Exchange gain | | (3,812) | (513) |
| | | (4,287) | (4,741) |
| Increase in amount due from Investor Compensation Company Limited | | (34) | (38) |
| Decrease in creditors and accrued charges | | (38) | (32) |
| Net cash used in operating activities | | (4,359) | (4,811) |
| Cash flows from investing activities | | | |
| Increase in fixed deposits other than cash and cash equivalents | | (175,646) | (60,655) |
| Interest received | | 5,485 | 23,244 |
| Net cash used in investing activities | | (170,161) | (37,411) |
| Net decrease in cash and cash equivalents | | (174,520) | (42,222) |
| Cash and cash equivalents at the beginning of the nine-month period | | 647,514 | 1,086,662 |
| Cash and cash equivalents at the end of the nine-month period | 3 | 472,994 | 1,044,440 |

Analysis of the balance of cash and cash equivalents

| | Unaudited | |
|---------------------------|--------------------------|--------------------------|
| | At 31 Dec 2021 \$'000 | At 31 Dec 2020 \$'000 |
| Fixed deposits with banks | 472,408 | 1,044,078 |
| Cash at bank | 586 | 362 |
| | 472,994 | 1,044,440 |

The notes on pages 40 and 41 form part of these condensed financial statements.

Investor Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 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 nine months ended 31 December 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 nine months ended 31 December 2021, the ICC incurred costs of \$4,258,000 for its operation (for the nine months ended 31 December 2020: \$4,593,000) which were reimbursed by the Fund.

3. Cash and cash equivalents

| | Unaudited At 31 Dec 2021 \$'000 | Audited At 31 Mar 2021 \$'000 |
|--|---------------------------------------|-------------------------------------|
| Cash at bank | 586 | 633 |
| Fixed deposits with banks | 2,449,655 | 2,444,671 |
| Amounts shown in the condensed statement of financial position | 2,450,241 | 2,445,304 |
| Less: Amounts with an original maturity beyond three months | (1,977,247) | (1,797,790) |
| Cash and cash equivalents in the condensed statement of cash flows | 472,994 | 647,514 |

Investor Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 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 31 December 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 nine months ended 31 December 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 (10 outstanding claims as at the date of the report of 31 March 2021). The maximum liability in respect of these claims in aggregate is \$1,875,000 (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.

7. Exchange risk

The Fund's policy only allows investments in assets denominated in Hong Kong dollars (HKD), US dollars (USD) and renminbi. As at 31 December 2021 and 31 March 2021, all financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. For the nine months ended 31 December 2021 and 2020, the Fund's exchange gain was mainly driven by the revaluation on financial assets denominated in USD.

Unified Exchange Compensation Fund

Report of the Securities Compensation Fund Committee

The members of the Securities Compensation Fund Committee (the Committee) present this report and the unaudited condensed financial statements for the nine months ended 31 December 2021.

Establishment of the Unified Exchange Compensation Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund). However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Up to 31 December 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 31 December 2021 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 43 to 48.

Members of the Committee

The members of the Committee during the nine months ended 31 December 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 nine months.

On behalf of the Committee

Rico Leung
Chairman

9 February 2022

Unified Exchange Compensation Fund

Condensed statement of profit or loss and other comprehensive income

For the nine months ended 31 December 2021 (Expressed in Hong Kong dollars)

| | Note | Unaudited Nine months ended | | Unaudited Three months ended | |
|--|------|--------------------------------|-----------------------|---------------------------------|-----------------------|
| | | 31 Dec 2021 \$'000 | 31 Dec 2020 \$'000 | 31 Dec 2021 \$'000 | 31 Dec 2020 \$'000 |
| Income | | | | | |
| Interest income | | 123 | 680 | 43 | 109 |
| Recoveries | 2 | – | 3,845 | – | 219 |
| | | 123 | 4,525 | 43 | 328 |
| Expense | | | | | |
| Auditor's remuneration | | 70 | 70 | 16 | 16 |
| Surplus and total comprehensive income for the period | | 53 | 4,455 | 27 | 312 |

The notes on pages 47 and 48 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of financial position

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

| | Note | Unaudited At 31 Dec 2021 \$'000 | Audited At 31 Mar 2021 \$'000 |
|---|------|---------------------------------------|-------------------------------------|
| Current assets | | | |
| Interest receivable | | 18 | 27 |
| Fixed deposits with banks | | 97,620 | 97,518 |
| Cash at bank | | 330 | 336 |
| | | 97,968 | 97,881 |
| Current liabilities | | | |
| Creditors and accrued charges | | 10,293 | 10,309 |
| Relinquished trading rights payable to SEHK | 4 | 1,750 | 1,500 |
| | | 12,043 | 11,809 |
| Net current assets | | 85,925 | 86,072 |
| Net assets | | 85,925 | 86,072 |
| Representing: | | | |
| Compensation fund | | 85,925 | 86,072 |

The notes on pages 47 and 48 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of changes in equity

For the nine months ended 31 December 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 the 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 | (500) | - | - | - | - | - | (500) | |
| Surplus and total comprehensive income for the period | - | - | - | - | 4,455 | - | 4,455 | |
| Balance at 31 December 2020 | 54,950 | 353,787 | 630,000 | 6,502 | 35,479 | (994,718) | 86,000 | |
| Balance at 1 April 2021 | 54,750 | 353,787 | 630,000 | 6,502 | 35,751 | (994,718) | 86,072 | |
| Net contributions to SEHK | (200) | - | - | - | - | - | (200) | |
| Surplus and total comprehensive income for the period | - | - | - | - | 53 | - | 53 | |
| Balance at 31 December 2021 | 54,550 | 353,787 | 630,000 | 6,502 | 35,804 | (994,718) | 85,925 | |

The notes on pages 47 and 48 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Condensed statement of cash flows

For the nine months ended 31 December 2021 (Expressed in Hong Kong dollars)

| | Note | Unaudited Nine months ended | |
|--|------|--------------------------------|-----------------------|
| | | 31 Dec 2021 \$'000 | 31 Dec 2020 \$'000 |
| Cash flows from operating activities | | | |
| Surplus for the period | | 53 | 4,455 |
| Adjustment for: | | | |
| Interest income | | (123) | (680) |
| | | (70) | 3,775 |
| Decrease in creditors and accrued charges | | (16) | (13) |
| Increase in relinquished trading rights payable to SEHK | | 250 | 50 |
| Net cash generated from operating activities | | 164 | 3,812 |
| Cash flows from investing activities | | | |
| Decrease in fixed deposits other than cash and cash equivalents | | 15,570 | 8,134 |
| Interest received | | 132 | 868 |
| Net cash generated from investing activities | | 15,702 | 9,002 |
| Cash flows from financing activities | | | |
| Net trading rights deposits refunded to SEHK | | (200) | (500) |
| Net cash used in financing activities | | (200) | (500) |
| Net increase in cash and cash equivalents | | 15,666 | 12,314 |
| Cash and cash equivalents at the beginning of the nine-month period | | 52,905 | 31,999 |
| Cash and cash equivalents at the end of the nine-month period | 3 | 68,571 | 44,313 |

Analysis of the balance of cash and cash equivalents

| | Unaudited | |
|---------------------------|--------------------------|--------------------------|
| | At 31 Dec 2021 \$'000 | At 31 Dec 2020 \$'000 |
| Fixed deposits with banks | 68,241 | 44,209 |
| Cash at bank | 330 | 104 |
| | 68,571 | 44,313 |

The notes on pages 47 and 48 form part of these condensed financial statements.

Unified Exchange Compensation Fund

Notes to the condensed financial statements

For the nine months ended 31 December 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 nine months ended 31 December 2021.

2. Recoveries/Equity securities received under subrogation

There was no recovery recorded for the nine months ended 31 December 2021. For the nine months ended 31 December 2020, the Fund received \$3,845,000 from certain liquidators which was recognised as recoveries.

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 31 December 2021, the equity securities received under subrogation amounted to \$107 (as at 31 March 2021: \$150). The balances as at 31 December 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 nine months ended 31 December 2021 (Expressed in Hong Kong dollars)

3. Cash and cash equivalents

| | Unaudited At 31 Dec 2021 \$'000 | Audited At 31 Mar 2021 \$'000 |
|--|---------------------------------------|-------------------------------------|
| Cash at bank | 330 | 336 |
| Fixed deposits with banks | 97,620 | 97,518 |
| Amounts shown in the condensed statement of financial position | 97,950 | 97,854 |
| Less: Amounts with an original maturity beyond three months | (29,379) | (44,949) |
| Cash and cash equivalents in the condensed statement of cash flows | 68,571 | 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 nine-month period, deposits of \$850,000 in respect of 17 new trading rights were received from SEHK and deposits of \$800,000 in respect of 16 relinquished trading rights were refunded to SEHK. As at 31 December 2021, 35 trading rights totalling \$1,750,000 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 period was as follows:

| | Unaudited Nine months ended | |
|---|--------------------------------|-----------------------|
| | 31 Dec 2021 \$'000 | 31 Dec 2020 \$'000 |
| Balance at the beginning of the nine-month period | 54,750 | 55,450 |
| Add: new trading rights issued | 850 | 350 |
| Less: relinquished trading rights refunded | (800) | (800) |
| Adjustment for: net increase in relinquished trading rights payable to SEHK | (250) | (50) |
| Balance at the end of the nine-month period | 54,550 | 54,950 |

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 nine months ended 31 December 2021 and 2020.