

# 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
<b>Income</b>					
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
<b>Expenses</b>					
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
<b>Surplus and total comprehensive income for the period</b>		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
<b>Non-current assets</b>			
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
<b>Current assets</b>			
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
<b>Current liabilities</b>			
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
<b>Net current assets</b>		4,716,396	4,262,251
<b>Total assets less current liabilities</b>		8,870,376	8,593,521
<b>Non-current liabilities</b>			
Lease liabilities		734,923	830,887
Provisions for reinstatement cost		88,920	88,346
		823,843	919,233
<b>Net assets</b>		8,046,533	7,674,288
<b>Funding and reserves</b>			
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	<b>42,840</b>	<b>3,125,000</b>	<b>4,506,448</b>	<b>7,674,288</b>
Surplus and total comprehensive income for the period	–	–	<b>372,245</b>	<b>372,245</b>
Balance at 31 December 2021	<b>42,840</b>	<b>3,125,000</b>	<b>4,878,693</b>	<b>8,046,533</b>

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
<b>Cash flows from operating activities</b>			
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
<b>Cash flows from investing activities</b>			
(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)
<b>Cash flows from financing activities</b>			
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)
<b>Net decrease in cash and cash equivalents</b>		<b>(213,408)</b>	<b>(146,763)</b>
Cash and cash equivalents at the beginning of the nine-month period		855,099	753,406
<b>Cash and cash equivalents at the end of the nine-month period</b>	2	<b>641,691</b>	<b>606,643</b>

#### 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.