



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

# Quarterly Report

## April - June 2022

This first Quarterly Report of the Securities and Futures Commission for financial year 2022-23 covers the period from 1 April to 30 June 2022.

# Contents

<b>2</b>	<b>Highlights</b>
<b>4</b>	<b>Operational Review</b>
4	Corporates
5	Intermediaries
7	Products
10	Markets
11	Enforcement
14	Regulatory Engagement
16	Stakeholders
<b>17</b>	<b>Corporate Developments</b>
<b>19</b>	<b>Activity Data</b>
<b>25</b>	<b>Financial Statements</b>
25	Securities and Futures Commission
33	Investor Compensation Fund
40	Unified Exchange Compensation Fund

# Highlights

## Regulatory enhancements

**Enforcement:** We launched a consultation on proposals to amend the Securities and Futures Ordinance (SFO) to facilitate more effective enforcement actions, including expanding the basis for us to apply to the court for remedial and other orders against a regulated person following a disciplinary decision.

**Position limit regime:** We launched a consultation on proposed changes to the position limit regime for listed futures and options contracts, which include setting out how the statutory prescribed limits and reporting requirements should be applied to unit trusts and sub-funds under an umbrella fund.

**OTC derivatives:** We concluded a joint consultation with the Hong Kong Monetary Authority (HKMA) on the addition of eight new calculation periods under the Clearing Rules for the over-the-counter (OTC) derivatives regulatory regime.

## Listing regulation

**Listing applications:** We vetted 69 new listing applications, including six from pre-profit biotech companies.

**Corporate conduct:** As part of our review of corporate disclosures, we issued section 179<sup>1</sup> directions to gather additional information in 13 cases and wrote to a listed company detailing our concerns in one case.

**Takeovers:** We publicly criticised Gao Yunhong and Feng Xuelian for breaching the no frustrating action rules under the Takeovers Code during an offer for Steering Holdings Limited.

## Intermediaries

**Licensing:** As at 30 June, the total number of licensees and registrants remained stable at 48,533, of which 3,261 were licensed corporations.

**Supervision:** We conducted 60 on-site inspections of licensed corporations to review their compliance with regulatory requirements. We held a supervisory memorandum of understanding meeting with the China Securities Regulatory Commission (CSRC) to discuss cross-boundary cooperation and supervision of Hong Kong subsidiaries of Mainland securities firms.

**Digitalised licensing platform:** The online submission of corporate licence applications, notifications and regulatory filings through our fully-digitalised licensing platform, WINGS<sup>2</sup>, became mandatory on 1 April.

<sup>1</sup> 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.  
<sup>2</sup> Web-based INteGrated Service.

## Highlights

**Virtual asset trading platforms:** In April, we granted approval-in-principle to the second virtual asset trading platform operator in Hong Kong. Formal licence will be granted subject to the operator's submission of the required information.

**Non-fungible tokens:** We issued a statement warning investors of the risks associated with investing in non-fungible tokens and reminding the industry that these tokens may be subject to the SFC's regulation where they cross the boundary between a collectible and a financial asset.

## Products

**Product authorisations and registrations:** We authorised 35 unit trusts and mutual funds (including 17 Hong Kong-domiciled funds) and 47 unlisted structured investment products for public offering in Hong Kong. We registered 16 new open-ended fund companies.

**Fund flows:** Hong Kong-domiciled SFC-authorised funds reported overall net inflows of US\$0.5 billion during the quarter.

**ETF Connect<sup>3</sup>:** Launched on 4 July, eligible exchange-traded funds (ETFs) are now included for trading in Stock Connect, following a joint announcement by the SFC and the CSRC in June.

**Asset and Wealth Management Activities Survey<sup>4</sup>:** Hong Kong's asset and wealth management business recorded a 2% year-on-year increase in assets under management to \$35,546 billion as at the end of 2021 and net fund inflows during the year reached \$2,152 billion, up 6% from 2020.

## Enforcement

**Disciplinary actions:** We disciplined two licensed corporations and two individuals during the quarter, resulting in total fines of \$7 million.

**Market surveillance:** We made 1,392 requests for trading and account records triggered by untoward price and turnover movements.

**Cooperation with the CSRC:** We held a working meeting on enforcement cooperation with the CSRC to discuss ways to strengthen cooperation and enforcement efficiency.

## Regulatory engagement

**International:** In June, 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, fintech and financial stability issues.

**Mainland:** At our eleventh high-level meeting with the CSRC, we discussed major risks and challenges encountered by Hong Kong's capital markets, cross-boundary regulatory cooperation on enforcement, intermediary supervision and asset management as well as market development initiatives including enhancements to mutual market access schemes.

**Green and sustainable finance:** In June, the Hong Kong Green and Sustainable Finance Cross-Agency Steering Group, co-chaired by the SFC and the HKMA, discussed the progress of the potential implementation of the International Sustainability Standards Board's climate-related disclosure standards, carbon market opportunities and taxonomies, and also announced the launch of three public repositories<sup>5</sup>.

**Takeovers:** We and the Securities Commission Malaysia jointly hosted the Asia Pacific Takeovers Regulators Conference 2022 where more than 50 takeovers regulators discussed recent developments and their experience in regulating takeovers activities in the region.

<sup>3</sup> Post-reporting period.

<sup>4</sup> Post-reporting period.

<sup>5</sup> The public repositories contain information about green and sustainable finance training, internship opportunities and data sources which helps support climate-change data analysis and capacity building.

# Operational Review

## Corporates

### Listing applications

Our oversight of listing matters includes vetting of listing applications. During the quarter, we vetted 69 new listing applications, including six from pre-profit biotech companies. Two companies listed overseas achieved dual-primary listings on the Main Board.

### Corporate conduct

We conduct daily reviews of corporate announcements to identify potential misconduct and irregularities. During the quarter, we issued section 179<sup>1</sup> directions to gather additional information in 13 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.

### Takeovers matter

In April, we publicly criticised Gao Yunhong and Feng Xuelian for breaching the no frustrating action rules during an offer for Steering Holdings Limited. As directors of Steering, they were substantially involved in the disposal of some of the company's listed securities which constituted a disclosable transaction under the Listing Rules and a frustrating action subject to the Takeovers Code. There was a breach of the Takeovers Code when neither the approval of Steering's shareholders was obtained nor was a waiver of the requirement to obtain shareholders' approval sought from the Executive<sup>2</sup>.

### Listing applications and takeovers activities

	Quarter ended 30.6.2022	Quarter ended 31.3.2022	Change (%)	Quarter ended 30.6.2021	YoY change (%)
Listing applications	69	68	1.5	120	-42.5
Takeovers and share buy-backs transactions	79	66	19.7	110	-28.2

<sup>1</sup> 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.

<sup>2</sup> The Executive refers to the Executive Director of the SFC's Corporate Finance Division or a delegate of the Executive Director.



# Intermediaries

## Licence applications

In the quarter, we received 1,517 licence applications<sup>1</sup> (including 43 corporate applications), down 2.9% year-on-year but up 17% from the last quarter.

As at 30 June, the number of licensees and registrants remained stable at 48,533, of which 3,261 were licensed corporations.

## Mandatory e-submissions via WINGS

To move to a paperless licensing process, online submissions of corporate licence applications, notifications and regulatory filings via WINGS<sup>2</sup> became mandatory on 1 April. This followed a three-month transition period after the launch of the fully digitalised licensing platform on 3 January. As of the end of June, more than 70,000 applications and other submissions were filed through WINGS. We noted that industry participants have become familiar with the use of the platform and efficiency gains have been realised.

## Virtual assets

In April, we granted approval-in-principle to Hash Blockchain Limited — the second virtual asset trading platform operator in Hong Kong. Formal licence will be granted subject to the company's completion and submission of outstanding required items.

In June, the Government gazetted the Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Bill 2022, which seeks to introduce a new licensing regime for centralised virtual asset exchanges trading non-security tokens in Hong Kong to be regulated by the SFC.

In a June statement, we warned investors of the risks associated with non-fungible tokens (NFTs) and reminded the industry that where NFTs cross the boundary between a collectible and a financial asset, they may be subject to our regulation.

## Supervision

During the quarter, we conducted 60 on-site inspections of licensed corporations to review their compliance with regulatory requirements. We held a supervisory memorandum of understanding meeting with the China Securities Regulatory Commission to discuss cross-boundary cooperation and supervision of Hong Kong subsidiaries of Mainland securities firms.

## Conduct standards in capital market transactions

In May, we published a set of frequently asked questions to provide further guidance for intermediaries to comply with the new conduct requirements for bookbuilding and placing activities under paragraphs 17.1A and 21 of the Code of Conduct<sup>3</sup>, including transitional arrangements related to the "Sponsor Coupling" requirement and clarifications of our conduct expectations for debt offerings. The new requirements came into effect on 5 August.

## Licence holders insurance scheme

An industry working group, which operates with secretariat support from the SFC and comprises representatives from broker associations and brokerages, agreed to appoint a scheme administrator to arrange two master policies<sup>4</sup> of insurance covering licensed corporations which are SEHK<sup>5</sup> or HKFE<sup>6</sup> participants for the year from 1 April 2022 to 31 March 2023. In May, we issued a circular regarding the arrangements for the insurance scheme.

<sup>1</sup> The figure does not include applications for provisional licences. See the table on licensing applications on page 6 for details.

<sup>2</sup> Web-based INteGrated Service.

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

<sup>4</sup> Under each master policy of insurance, an insured participant will be indemnified for financial losses owing to fidelity risks relating to its activities of dealing in securities, futures contracts or both, subject to an indemnity limit of \$15 million per regulated activity per year and a deductible amount of \$3 million per claim or loss.

<sup>5</sup> The Stock Exchange of Hong Kong Limited.

<sup>6</sup> Hong Kong Futures Exchange Limited.

## Intermediaries

### Licencees and registrants

	As at 30.6.2022	As at 31.3.2022	Change (%)	As at 30.6.2021	YoY change (%)
Licensed corporations	3,261	3,231	0.9	3,174	2.7
Registered institutions	111	111	0	114	-2.6
Licensed individuals	45,161	45,059	0.2	44,239	2.1
<b>Total</b>	<b>48,533</b>	<b>48,401</b>	<b>0.3</b>	<b>47,527</b>	<b>2.1</b>

### Licensing applications

	Quarter ended 30.6.2022	Quarter ended 31.3.2022	Change (%)	Quarter ended 30.6.2021	YoY change (%)
Applications to conduct new regulated activity	5,927	4,997	18.6	5,570	6.4
Applications for SFC licences <sup>^</sup>	1,517	1,294	17.2	1,563	-2.9

<sup>^</sup> Figures do not include applications for provisional licences. During the quarter, we received 1,025 provisional licence applications compared with 1,132 in the same quarter last year.

### Intermediary inspections

	Quarter ended 30.6.2022	Quarter ended 31.3.2022	Change (%)	Quarter ended 30.6.2021	YoY change (%)
On-site inspections conducted <sup>^</sup>	60	64	-6.3	71	-15.5

<sup>^</sup> Including inspections conducted remotely in light of the COVID-19 pandemic.

# Products

## Authorisations

During the quarter ended 30 June, we authorised 35 unit trusts and mutual funds (including 17 Hong Kong-domiciled funds) and 47 unlisted structured investment products for public offering in Hong Kong.

## OFC registrations

As of 30 June, there were 78 registered open-ended fund companies (OFCs), of which 16<sup>1</sup> were new OFCs registered during the quarter.

## Hong Kong-domiciled funds

As at 30 June, the assets under management (AUM) of Hong Kong-domiciled funds decreased by 5% from the previous quarter to US\$169.7 billion. Net fund inflows of about US\$0.5 billion were recorded during the quarter and the number of firms licensed for Type 9 regulated activity (asset management) increased 1.8% to 2,039 in the same period.

## ETF Connect<sup>2</sup>

ETF Connect launched on 4 July following our joint announcement with the China Securities Regulatory Commission (CSRC) in June. Under the scheme, four Hong Kong exchange-traded funds (ETFs) are currently eligible for southbound trading and 83 Mainland ETFs (including 53 from the Shanghai Stock Exchange and 30 from the Shenzhen Stock Exchange) are eligible for northbound trading.

## Mutual Recognition of Funds (MRF)

Under the Mainland-Hong Kong MRF scheme, as of 30 June, we authorised a total of 47 Mainland funds (including two umbrella funds) whilst the CSRC approved 38 Hong Kong funds.

As of 30 June, the cumulative net subscription was about RMB1.04 billion for Mainland funds and about RMB11.27 billion for Hong Kong funds. During the quarter, Mainland funds recorded a net redemption of about RMB44.71 million, compared to a net subscription of about RMB54.39 million in the previous quarter. Hong Kong funds recorded a net redemption of about RMB915.48 million this quarter, down from a net redemption of about RMB2.05 billion in the last quarter.

## Asset and Wealth Management Activities Survey<sup>3</sup>

The *Asset and Wealth Management Activities Survey* for 2021, released in July, showed that Hong Kong's asset and wealth management business recorded a 2% year-on-year increase in AUM to \$35,546 billion as at the end of 2021. Net fund inflows during the year reached \$2,152 billion, up 6% from 2020.

## Investment-linked assurance schemes (ILAS)

Following the introduction of enhanced guidance on ILAS product design in November 2021, we have been working closely with the industry and other stakeholders on its implementation. During the quarter, we authorised the first Protection Linked Plan under the new guidance.

## Depositories of SFC-authorised funds

A further consultation on proposed amendments to subsidiary legislation and SFC codes and guidelines to implement the new Type 13 regulated activity for depositories of SFC-authorised funds closed on 30 April. The comments were mainly technical in nature. We will continue to engage the industry and work with the Hong Kong Monetary Authority to finalise the proposals.

1 This figure includes 15 private OFCs.

2 Post-reporting period.

3 Post-reporting period.



## Products

### Authorised collective investment schemes

	As at 30.6.2022	As at 31.3.2022	Change (%)	As at 30.6.2021	YoY change (%)
Unit trusts and mutual funds – Hong Kong-domiciled	868 <sup>a</sup>	866	0.2	838	3.6
Unit trusts and mutual funds – non-Hong Kong-domiciled	1,382	1,381	0.1	1,394	-0.9
ILAS	300	300	0	300	0
Pooled retirement funds	32	32	0	33	-3
Mandatory provident fund (MPF) schemes	26	26	0	26	0
MPF pooled investment funds	219	219	0	209	4.8
Others	25 <sup>b</sup>	25	0	26	-3.8
<b>Total</b>	<b>2,852</b>	<b>2,849</b>	<b>0.1</b>	<b>2,826</b>	<b>0.9</b>

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 14 paper gold schemes and 11 real estate investment trusts (REITs).

### Registered OFCs

	As at 30.6.2022	As at 31.3.2022	Change (%)	As at 30.6.2021	YoY change (%)
OFCs	78 <sup>^</sup>	62	25.8	15	420

<sup>^</sup> This figure includes 68 private OFCs.

### Authorised unlisted structured investment products

	As at 30.6.2022	As at 31.3.2022	Change (%)	As at 30.6.2021	YoY change (%)
Unlisted structured investment products <sup>^</sup>	228	187	21.9	146	56.2

<sup>^</sup> On a "one product per key facts statement" basis, including equity-linked investments and deposits.

## Products

### SFC-authorized renminbi (RMB) investment products

	As at 30.6.2022
<b>Unlisted products</b>	
Unlisted funds primarily investing in onshore Mainland securities markets <sup>a</sup> or offshore RMB bonds, fixed-income instruments or other securities	55
Unlisted funds (non-RMB denominated) with RMB share classes	346
Paper gold schemes with RMB features	1
Recognised Mainland funds under Mainland-Hong Kong MRF arrangement	47
Unlisted structured investment products issued in RMB <sup>b</sup>	227
<b>Listed products</b>	
ETFs primarily investing in onshore Mainland securities markets <sup>a</sup> or offshore RMB bonds, fixed-income instruments or other securities	50
ETFs (non-RMB denominated) with RMB trading counters	11
RMB leveraged and inverse products	2
RMB gold ETFs <sup>c</sup>	1
RMB REITs	1

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

<sup>b</sup> The number is on a "one product per key facts statement" basis.

<sup>c</sup> Only includes gold ETFs denominated in RMB.

# Markets

## Supervision of HKEX

### Holiday trading on derivatives market

Holiday trading on the derivatives market commenced in May. On the first two holiday trading days<sup>1</sup>, nine types of MSCI contracts were traded including the MSCI China A 50 Connect Index futures contract and the market operated smoothly.

### New risk models of cash market

Following our approval, Hong Kong Exchanges and Clearing Limited (HKEX) implemented new risk models for the cash market in June. The new risk models strengthen the resilience of the clearing house by sizing the initial margin and default fund requirements for HKEX clearing participants more precisely based on a wide range of stress scenarios and ensure better alignment with international standards.

### Position limit regime

In April, we launched a two-month consultation on proposed changes to the position limit regime for listed futures and options contracts. A key proposal is to set out how the statutory prescribed limits and reporting requirements should be applied to unit trusts and sub-funds under an umbrella fund. Other proposed changes include reportable positions in contracts traded on holiday trading days and the inclusion of a broader range of contracts which may be authorised by the SFC for excess positions.

## OTC derivatives

In April, we concluded a joint consultation with the Hong Kong Monetary Authority (HKMA) on the addition of eight new calculation periods under the Clearing Rules for the over-the-counter (OTC) derivatives regulatory regime. Subject to the legislative process, the new calculation periods would come into effect on 1 March 2023. For the enhancements to the OTC derivatives reporting templates which will take effect in December 2022, we worked with the HKMA to update the supplementary reporting instructions and publish the data fields in the Government Gazette in June.

## Investor identification

We have been preparing for the late 2022 launch of the investor identification regime at the trading level for the securities market in Hong Kong. Frequently asked questions were published on the websites of the SFC and HKEX to provide further guidance. A test<sup>2</sup> has been arranged for intermediaries to assess system readiness for implementation. In addition, we have been promoting investors' awareness and understanding of the regime through the Investor and Financial Education Council on social media and through other channels.

## Automated trading services

As of 30 June, the number of automated trading services (ATS) providers<sup>3</sup> authorised under Part III of the Securities and Futures Ordinance (SFO) was 50, whilst 26 corporations, including 13 dark pool operators, were licensed under Part V of the SFO to provide ATS.

## ATS providers

	As at 30.6.2022	As at 31.3.2022	Change (%)	As at 30.6.2021	YoY change (%)
Under Part III	50	53	-5.7	51	-2
Under Part V	26	25	4	24	8.3

<sup>1</sup> 9 May and 3 June.

<sup>2</sup> The test assessed intermediaries' ability to connect to HKEX's systems for conducting activities under the new regime.

<sup>3</sup> 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) granted orders under section 213<sup>1</sup> of the Securities and Futures Ordinance (SFO) against fraudsters<sup>2</sup> of a global pyramid and ponzi scheme to compensate their victims. The Court appointed administrators to receive and distribute to aggrieved investors the proceeds from the scheme totalling \$2.8 million in two bank accounts frozen by the SFC.

The CFI also granted orders under section 213 of the SFO against Maxim Capital Limited and Maxim Trader to pay aggrieved investors in relation to certain

investment schemes they operated. The Court appointed administrators to receive, administer and distribute a total sum of approximately \$23.5 million in an account frozen by the SFC to the investors on a pro rata basis. The Court also ordered Maxim Capital Limited and Maxim Trader, while unlicensed, not to hold themselves out as carrying on a business in regulated activities.

## Disciplinary actions

We disciplined two corporations and two individuals during the quarter, resulting in total fines<sup>3</sup> of \$7 million.

## Anti-money laundering and counter-terrorist financing regulatory breaches

Company/Name	Breaches	Action
China Everbright Securities (HK) Limited	Failed to implement adequate and effective systems and controls to guard against and mitigate the risk of money laundering and terrorist financing associated with third party deposits	Reprimanded and fined \$3.8 million

## Other regulatory breaches

Company/Name	Breaches	Action
CES Capital International (Hong Kong) Co., Limited	Failed to discharge its duties as an investment manager of two funds	Reprimanded and fined \$3.2 million
Ho Pak Hay	Misappropriated and misused clients' funds	Banned from re-entering the industry for life
Poon Choi Yung	Effectuated transactions in clients' accounts without their authorisation and failed to take reasonable steps to establish clients' financial situations and investment experience during account opening	Banned from re-entering the industry for 20 months

<sup>1</sup> Section 213 of the SFO empowers the court to make a broad range of orders including injunctive relief and other civil remedies on the application of the SFC.

<sup>2</sup> DFRF Enterprises LLC, DFRF Enterprises, LLC, and Daniel Fernandes Rojo Filho.

<sup>3</sup> Fines paid by intermediaries in disciplinary actions go into the general revenue of the Government.

## Enforcement

### Public consultation on law amendments

In June, we began a two-month public consultation on proposals to amend the SFO to facilitate more effective enforcement actions. The proposed amendments would broaden the scope of some SFO provisions to expand the basis for the SFC to apply for remedial and other orders against a regulated person under section 213. The amendments would also clarify that the professional investor exemption in section 103(3)(k) applies to unauthorised advertisements of investment products issued only to professional investors. Other amendments would expand the insider dealing provisions to cover insider dealing in overseas-listed securities or their derivatives conducted in Hong Kong as well as insider dealing in Hong Kong-listed securities or their derivatives perpetrated outside Hong Kong.

### Enforcement cooperation with the CSRC

In June, we held a meeting with the China Securities Regulatory Commission (CSRC) via video conference where we discussed our enforcement cooperation efforts during 2022.

We also agreed on follow-up arrangements for emerging issues related to cross-boundary enforcement cooperation issues. We shared with the CSRC our experience of conducting video interviews since the pandemic and exchanged views on other topics such as arranging training programmes for enforcement officers.

We and the CSRC have maintained close and smooth enforcement collaboration and will continue to enhance communication and expand enforcement cooperation.

We will also seek to address operational issues and work together to tackle cross-boundary securities misconduct and support the healthy, long-term development of the capital markets in the two jurisdictions.

### Market surveillance

Our surveillance of untoward price and turnover movements resulted in 1,392 requests for trading and account records from intermediaries in the quarter. In addition, 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.



Virtual meeting on enforcement cooperation with the CSRC (right)

## Enforcement

### Enforcement activities

	Quarter ended 30.6.2022	Quarter ended 31.3.2022	Change (%)	Quarter ended 30.6.2021	YoY change (%)
S179 <sup>a</sup> inquiries commenced	5	12	-58.3	15	-66.7
S181 <sup>b</sup> inquiries commenced (number of letters sent)	40 (1,392)	31 (972)	43.2	63 (2,319)	-40
S182 <sup>c</sup> directions issued	24	41	-41.5	59	-59.3
Investigations started	24	42	-42.9	62	-61.3
Investigations completed	44	40	10	31	41.9
Individuals and corporations charged in criminal proceedings	3	0	N/A	2	50
Criminal charges laid	47	0	N/A	18	161.1
Notices of Proposed Disciplinary Action <sup>d</sup> issued	6	5	20	10	-40
Notices of Decision <sup>e</sup> issued	6	10	-40	7	-14.3
Individuals and corporations subject to ongoing civil proceedings <sup>f</sup>	169	168	0.6	170	-0.6
Compliance advice letters issued	23	33	-30.3	36	-36.1
Cases with search warrants executed	11	1	1,000	20	-45

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

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

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

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

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

f As of the last day of the period.



# Regulatory Engagement

## IOSCO

We play an active role in international policymaking. Our Chief Executive Officer (CEO) Mr Ashley Alder chairs the Board of the International Organization of Securities Commissions (IOSCO). In June, Mr Alder chaired an IOSCO Board meeting which discussed sustainable finance, fintech and financial stability issues. In addition, he co-chairs the CPMI<sup>1</sup>-IOSCO Steering Group, which is involved in the regulatory policy work for the oversight and supervision of central counterparties.

At City Week 2022, Mr Alder participated in a panel discussion on the evolving agenda of international standard-setters. He highlighted the importance of international cooperation in light of innovations in the financial services sector and an increase in cross-border activities. He also shared his views on sustainable finance and the commodity markets.

We participate in all eight IOSCO policy committees and the Asia-Pacific Regional Committee (APRC). During the quarter, we participated in meetings of the Committee on Emerging Risks, Assessment Committee, Fintech Task Force and the IOSCO Financial Stability Engagement Group, which leads IOSCO's responses to COVID-19 and other financial stability issues.

Our senior executives play leading roles in IOSCO policy committees and task forces, including the IOSCO Sustainable Finance Task Force (STF), the Committee on Investment Management, and the Committee on Enforcement and the Exchange of Information.

## Financial Stability Board (FSB)

In his role as IOSCO Board Chair, Mr Alder participated in FSB meetings during the quarter, including those of the Plenary, Steering Committee, Standing Committee on Supervisory and Regulatory Cooperation and the Steering Committee Group on Non-bank Financial Intermediation, where the discussions focused on financial stability, sustainable finance, crypto assets and issues arising from COVID-19. We are also actively involved in the work of the Standing Committee on Standards Implementation and the FSB-IOSCO joint workstream on the analysis of systemic risks using data from trade repositories.

## Green and sustainable finance

During the quarter, we participated in workstreams under the IOSCO STF which are evaluating the International Sustainability Standards Board's (ISSB) exposure drafts on general requirements for the disclosure of sustainability-related financial information and climate-related disclosures, published in March, and are considering assurance and digital reporting of sustainability information. We are working closely with the Stock Exchange of Hong Kong Limited to develop a climate reporting framework for listed issuers in Hong Kong that aims to align with the global baseline being developed by the ISSB, taking into account issuers' capabilities and readiness.

In June, the Green and Sustainable Finance Cross-Agency Steering Group<sup>2</sup>, co-chaired by us and the Hong Kong Monetary Authority (HKMA), discussed the progress of the potential implementation of the ISSB's climate-related disclosure standards, carbon market opportunities and taxonomies. The steering group also announced the launch of three public repositories which contain useful information about green and sustainable finance training, internship opportunities and data sources to support capacity building and climate-change data analyses.

Together with the HKMA, we are creating a freely accessible greenhouse gas emissions estimation tool with clearly-disclosed methodologies for companies to use as an alternative source of information. We are also involved in other initiatives to build capacity and enhance Hong Kong's talent pool for green and sustainable finance.

At the PRI China Conference in May and the IFRS Foundation Conference in June, Mr Alder highlighted the significance of the ISSB in delivering a global baseline for corporate sustainability disclosures and emphasised the importance of jurisdictional interoperability and assurance to ensure that investors can receive comparable, reliable and decision-useful information.

<sup>1</sup> Committee on Payments and Market Infrastructures.

<sup>2</sup> Established in May 2020, the steering group also comprises the Environment and Ecology Bureau, Financial Services and the Treasury Bureau, Hong Kong Exchanges and Clearing Limited, Insurance Authority and the Mandatory Provident Fund Schemes Authority.

## Regulatory Engagement

### Mainland China

In June, we held our eleventh high-level meeting with the China Securities Regulatory Commission (CSRC) to discuss cross-boundary regulatory cooperation and market development initiatives. These included major risks and challenges encountered by Hong Kong's capital markets, enhancements to mutual market access schemes and the progress of cooperation on cross-boundary enforcement, supervision of intermediaries and asset management initiatives.

During the quarter, we worked closely with the CSRC and the Mainland and Hong Kong stock exchanges and clearing houses to prepare for the inclusion of eligible exchange-traded funds (ETFs) under the Stock Connect scheme. We have agreed with the CSRC on the arrangements for cross-boundary regulatory cooperation and investor education, and will enhance enforcement cooperation to combat cross-boundary illegal activities and market misconduct. Together with the CSRC, we jointly announced the launch of ETF Connect in June and trading commenced on 4 July.

We also held regular meetings with the CSRC during the quarter, including a meeting with the CSRC Vice Chairman Li Chao in May and a regular meeting with the CSRC's Fund and Intermediary Supervision Department in June to discuss the financial status, risk management and compliance issues of the Hong Kong subsidiaries of Mainland securities companies, supervisory cooperation between the two regulators and a forthcoming joint online training for industry participants.

During the quarter, we worked closely with the Mainland authorities to discuss a number of initiatives set out in the Guangdong-Hong Kong-Macao Greater Bay Area development plan, including enhancements to the Cross-boundary Wealth Management Connect pilot scheme.

### Other regulatory engagement

In June, we and the Securities Commission Malaysia jointly hosted the Asia Pacific Takeovers Regulators Conference 2022. Held virtually for the first time since the onset of the pandemic, the conference brought together more than 50 securities regulators from Australia, Bangladesh, Cambodia, Hong Kong, Laos, Malaysia, New Zealand, the Philippines, Singapore, South Africa and Thailand, to discuss recent developments in regulating takeovers activities in the region.

As part of our efforts to supervise global and Mainland financial institutions, we maintain close collaboration with Mainland and overseas regulators to share information and engage in supervisory cooperation. In view of the heightened financial risk and challenges facing global systemically important financial institutions, we conducted a series of dialogues with home regulators. For instance, we participated in supervisory colleges convened by the Swiss Financial Market Supervisory Authority in June and conducted bilateral meetings with the CSRC to exchange supervisory information about the performance and conduct of licensed firms whose parent companies are regulated by the CSRC.

# Stakeholders

We proactively engage with stakeholders to provide them with regulatory updates and explain our work.

Our senior executives participated in 26 local and international events during the quarter. Chief Executive Officer (CEO) Mr Ashley Alder delivered keynote addresses at the PRI China Conference and the IFRS Foundation Conference and participated in a Bloomberg Policy Series dialogue. Deputy CEO and Executive Director of Intermediaries Ms Julia Leung was the keynote speaker at the ASIFMA Compliance Asia Conference. Other executives spoke at industry events to provide regulatory updates on a variety of topics including corporate governance, listing regulation, virtual assets and enforcement trends.

In May, we presented at an online seminar organised by the Hong Kong Securities Association to provide training to its members on our fully digitalised licensing and submission functions on WINGS<sup>1</sup> and enhanced competency framework as well as the risks of business email compromise and the licence holders insurance scheme. Over 380 members of the association attended the training.

We released the following publications in the quarter:

- Our *Annual Report 2020-21*, published in June, set out our key priorities and summarised our work in the past year.
- The June issue of the *Takeovers Bulletin* reminded practitioners of the requirements for ancillary documents provided as part of a Takeovers Code transaction.

We also issued 11 circulars providing guidance on a wide range of matters, including conduct requirements for bookbuilding and placing activities and mandatory system testing for the Hong Kong investor identification regime.

## Publications and other communications

	Quarter ended 30.6.2022	Quarter ended 31.3.2022	Quarter ended 30.6.2021	YoY Change (%)
Press releases	21	22	32	-34.4
Policy statements and announcements	2	0	1	100
Consultation papers	3	1	1	200
Consultation conclusions	2	2	1	100
Industry-related publications	1	4	1	0
Codes and guidelines <sup>a</sup>	4	4	0	N/A
Circulars to industry	11	31	13	-15.4
Corporate website average daily page views <sup>b</sup>	49,061	45,125	27,695	77.1
General enquiries	873	920	2,283	-61.8

a Includes updates to previous versions.

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

<sup>1</sup> Web-based INTeGrated Service.

# Corporate Developments

## Board

Mr Thomas Atkinson stepped down as Executive Director on 2 May.<sup>1</sup>

## Regulatory committees

New appointments and reappointments to the following committees<sup>2</sup> took effect from 1 April:

- Academic and Accreditation Advisory Committee
- Disciplinary Chair Committee
- Investor Compensation Fund Committee
- Nominations Committee
- Products Advisory Committee
- Public Shareholders Group
- Securities Compensation Fund Committee
- SFC (HKEC Listing) Committee
- Takeovers and Mergers Panel
- Takeovers Appeal Committee

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

## Finance

Our income for the quarter was \$399 million, 18% lower than the previous quarter and 35% lower than the same quarter last year. Average daily turnover in Hong Kong's securities market was \$127 billion, 15% lower than the \$150 billion recorded in the previous quarter. Our expenditure for the quarter was \$494 million, 4% lower than last quarter and 6% higher than the same quarter last year. We recorded a loss of \$95 million for the quarter.

After setting aside \$3.3 billion for the possible acquisition of office premises, our reserves stood at \$4.7 billion as of 30 June.

## Staffing

As of 30 June, we had 923 staff members, the same number as a year earlier.

<sup>1</sup> After the reporting period, we announced in July that our Chief Executive Officer, Mr Ashley Alder, will be leaving the SFC in late 2022. Ms Christina Choi Fung-yee and Mr Rico Leung Chung-yin were reappointed as Executive Directors for three years, effective 1 August and 28 August, respectively. Mr Victor Dawes, SC and Dr James C Lin were reappointed as Non-Executive Directors for two years, effective 1 August.

<sup>2</sup> Each of these committees is set up under the Securities and Futures Ordinance and specialises in particular regulatory areas.

## Corporate Developments

### Information technology

We introduced a new platform during the quarter which makes our market monitoring more effective by using algorithms to identify suspicious fund flows.

To strengthen our information security, we put in place a new backup solution to protect our data and resume our operations in a more timely and reliable manner in the event of a ransomware attack.

To help assess intermediaries' readiness to comply with the requirements under the investor identification regime, broker and client information for transactions can now be submitted via the electronic communication platform of Hong Kong Exchanges and Clearing Limited. A working group will evaluate the industry's readiness and confirm the regime's commencement date later this year.

### Finance

(\$ million)	Quarter ended 30.6.2022	Quarter ended 31.3.2022	Quarter ended 30.6.2021	YoY Change (%)
Income	399	484	610	-34.6
Expenses including depreciation	494	515	467	5.8
(Loss)/surplus	(95)	(31)	143	N/A

# Activity Data

**Table 1 Takeovers activities**

	Quarter ended 30.6.2022	Quarter ended 31.3.2022	Change (%)	Quarter ended 30.6.2021	YoY change (%)
<b>Codes on Takeovers and Mergers and Share Buy-backs</b>					
General and partial offers under Code on Takeovers and Mergers	7	10	-30	14	-50
Privatisations	0	4	-100	5	-100
Whitewash waiver applications	4	2	100	8	-50
Other applications under Code on Takeovers and Mergers <sup>1</sup>	64	49	30.6	82	-22
Off-market and general offer share buy-backs	3	1	200	1	200
Other applications under Code on Share Buy-backs <sup>1</sup>	1	0	N/A	0	N/A
<b>Total</b>	<b>79</b>	<b>66</b>	<b>19.7</b>	<b>110</b>	<b>-28.2</b>
<b>Executive Statements</b>					
Sanctions imposed with parties' agreement <sup>2</sup>	1	2	-50	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 inspections<sup>1</sup>**

	Quarter ended 30.6.2022	Quarter ended 31.3.2022 <sup>5</sup>	Change (%)	Quarter ended 30.6.2021 <sup>5</sup>	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	2	4	-50	2	0
Failure to safekeep client securities	4	4	0	4	0
Failure to maintain proper books and records	2	3	-33.3	5	-60
Failure to safekeep client money	7	5	40	5	40
Unlicensed dealing and other registration issues	5	2	150	3	66.7
Breach of licensing conditions	2	0	N/A	0	N/A
Breach of requirements of contract notes/statements of account/receipts	13	14	-7.1	4	225
Breach of margin requirements	1	2	-50	1	0
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission <sup>2</sup>	44	79	-44.3	45	-2.2
Breach of Corporate Finance Adviser Code of Conduct	2	5	-60	4	-50
Breach of Fund Manager Code of Conduct	33	37	-10.8	31	6.5
Breach of regulation of online trading	4	3	33.3	5	-20
Non-compliance with anti-money laundering guidelines	53	62	-14.5	64	-17.2
Breach of other rules and regulations of the Exchanges <sup>3</sup>	1	3	-66.7	3	-66.7
Internal control weaknesses <sup>4</sup>	108	107	0.9	71	52.1
Others	29	31	-6.5	16	81.3
<b>Total</b>	<b>310</b>	<b>361</b>	<b>-14.1</b>	<b>263</b>	<b>17.9</b>

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 and adequacy of audit trail for internal control purposes, among other weaknesses.

5 Figures have been adjusted for the period.

## Activity Data

**Table 3 Hong Kong-domiciled authorised funds**

a) Number of funds by type	As at 30.6.2022	As at 31.3.2022	Change (%)	As at 30.6.2021	YoY change (%)
Bond <sup>1</sup>	167	174	-4	166	0.6
Equity <sup>1</sup>	201	199	1	198	1.5
Mixed <sup>1</sup>	110	110	0	108	1.9
Money market	40	37	8.1	35	14.3
Feeder funds <sup>2</sup>	46	41	12.2	38	21.1
Index <sup>3</sup>	163	161	1.2	145	12.4
Guaranteed	1	1	0	1	0
Sub-total	728	723	0.7	691	5.4
Umbrella structures	140	143	-2.1	147	-4.8
<b>Total</b>	<b>868</b>	<b>866</b>	<b>0.2</b>	<b>838</b>	<b>3.6</b>

b) Assets under management by type	Total NAV (US\$ million) as at 30.6.2022	Total NAV (US\$ million) as at 31.3.2022	Change (%)	Total NAV (US\$ million) as at 30.6.2021	YoY change (%)
Bond <sup>1</sup>	27,073	30,925	-12.5	40,614	-33.3
Equity <sup>1</sup>	50,380	55,601	-9.4	67,448	-25.3
Mixed <sup>1</sup>	30,039	33,402	-10.1	35,578	-15.6
Money market	9,826	9,548	2.9	8,772	12
Feeder funds <sup>2</sup>	22	23	-4.3	30	-26.7
Index <sup>3</sup>	52,289	49,102	6.5	47,856	9.3
Guaranteed	37	41	-9.8	52	-28.8
<b>Total<sup>4</sup></b>	<b>169,666</b>	<b>178,642</b>	<b>-5</b>	<b>200,350</b>	<b>-15.3</b>

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

- 1 From 31 December 2021 onwards, fund 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 30 June 2021.
- 2 From 31 December 2021 onwards, feeder funds have been separated from the "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 30 June 2021. 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 asset 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 30.6.2022	As at 31.3.2022	Change (%)	As at 30.6.2021	YoY change (%)
Luxembourg	1,034	1,033	0.1	1,048	-1.3
Ireland	242	242	0	238	1.7
United Kingdom	29	29	0	30	-3.3
Mainland China	49	49	0	50	-2
Bermuda	1	1	0	1	0
Cayman Islands	22	22	0	22	0
Others	5	5	0	5	0
<b>Total</b>	<b>1,382</b>	<b>1,381</b>	<b>0.1</b>	<b>1,394</b>	<b>-0.9</b>

b) Assets under management by origin	Total NAV (US\$ million) as at 30.6.2022	Total NAV (US\$ million) as at 31.3.2022	Change (%)	Total NAV (US\$ million) as at 30.6.2021	YoY change (%)
Luxembourg	1,094,097	1,319,312	-17.1	1,510,455	-27.6
Ireland	215,075	249,259	-13.7	284,664	-24.4
United Kingdom	64,051	75,548	-15.2	79,819	-19.8
Mainland China	26,953	27,853	-3.2	28,776	-6.3
Bermuda	143	135	5.9	132	8.3
Cayman Islands	1,733	2,048	-15.4	3,947	-56.1
Others	65,960	73,155	-9.8	63,995	3.1
<b>Total<sup>1</sup></b>	<b>1,468,013</b>	<b>1,747,310</b>	<b>-16</b>	<b>1,971,787</b>	<b>-25.5</b>

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 30.6.2022	As at 31.3.2022	Change (%)	As at 30.6.2021	YoY change (%)
Bond <sup>1</sup>	358	358	0	354	1.1
Equity <sup>1</sup>	756	757	-0.1	759	-0.4
Mixed <sup>1</sup>	144	142	1.4	136	5.9
Money market	12	14	-14.3	16	-25
Feeder funds <sup>2</sup>	3	3	0	3	0
Index <sup>3</sup>	25	25	0	43	-41.9
Hedge	1	1	0	1	0
Sub-total	1,299	1,300	-0.1	1,312	-1
Umbrella structures	83	81	2.5	82	1.2
<b>Total</b>	<b>1,382</b>	<b>1,381</b>	<b>0.1</b>	<b>1,394</b>	<b>-0.9</b>

d) Assets under management by type	Total NAV (US\$ million) as at 30.6.2022	Total NAV (US\$ million) as at 31.3.2022	Change (%)	Total NAV (US\$ million) as at 30.6.2021	YoY change (%)
Bond <sup>1</sup>	440,563	523,431	-15.8	618,761	-28.8
Equity <sup>1</sup>	757,703	918,428	-17.5	1,038,616	-27
Mixed <sup>1</sup>	159,381	182,033	-12.4	177,196	-10.1
Money market	8,626	9,039	-4.6	11,238	-23.2
Feeder funds <sup>2</sup>	0	0	0	0	0
Index <sup>3</sup>	101,597	114,244	-11.1	125,844	-19.3
Hedge	143	135	5.9	132	8.3
<b>Total<sup>4</sup></b>	<b>1,468,013</b>	<b>1,747,310</b>	<b>-16</b>	<b>1,971,787</b>	<b>-25.5</b>

1 From 31 December 2021 onwards, fund 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 30 June 2021.

2 From 31 December 2021 onwards, feeder funds have been separated from the "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 30 June 2021. 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 asset 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 30.6.2022	Quarter ended 31.3.2022	Change (%)	Quarter ended 30.6.2021	YoY change (%)
Conduct of licensees	215	232	-7.3	197	9.1
Conduct of registered institutions	15	4	275	6	150
Listed companies and disclosure of interests	188	203	-7.4	944	-80.1
Market misconduct <sup>1</sup>	74	63	17.5	181	-59.1
Product disclosure	2	0	N/A	1	100
Unlicensed activities	19	8	137.5	39	-51.3
Breach of offers of investments	7	28	-75	6	16.7
Boiler rooms and suspicious websites	58	58	0	118	-50.8
Scams and frauds <sup>2</sup>	165	35	371.4	105	57.1
Other financial activities not regulated by the SFC <sup>3</sup>	94	41	129.3	56	67.9
<b>Total</b>	<b>837</b>	<b>672</b>	<b>24.6</b>	<b>1,653</b>	<b>-49.4</b>

1 Primarily, alleged market manipulation and insider dealing.

2 Such as identity fraud and impersonation.

3 For example, bullion trading and banking services.

# Securities and Futures Commission

## Condensed consolidated statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2022 \$'000	30 Jun 2021 \$'000
<b>Income</b>			
Levies		441,998	534,124
Fees and charges		25,409	49,757
Net investment (loss)/income			
Investment (loss)/income		(77,922)	32,702
Less: custody and advisory expenses		(2,576)	(2,984)
Recoveries from the Investor Compensation Fund	6(a)	1,484	1,424
Exchange gain/(loss)		9,440	(5,467)
Other income		1,371	145
		399,204	609,701
<b>Expenses</b>			
Staff costs and directors' emoluments	6(b)	378,558	359,232
Depreciation			
Fixed assets		26,996	22,739
Right-of-use assets		36,522	35,636
Other premises expenses		8,707	8,195
Finance costs		1,781	2,074
Other expenses		41,450	38,759
		494,014	466,635
<b>(Loss)/surplus and total comprehensive income for the quarter</b>		<b>(94,810)</b>	143,066

The notes on pages 29 to 32 form part of these condensed consolidated financial statements.



# Securities and Futures Commission

## Condensed consolidated statement of financial position

As at 30 June 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2022 \$'000	Audited At 31 Mar 2022 \$'000
<b>Non-current assets</b>			
Fixed assets		257,460	263,235
Right-of-use assets		809,986	846,508
Deposits for leases		37,392	38,118
Financial assets at amortised costs – debt securities		3,023,842	3,007,591
		4,128,680	4,155,452
<b>Current assets</b>			
Financial assets at amortised costs – debt securities		202,141	184,105
Financial assets at fair value through profit or loss			
Debt securities		401,965	403,442
Pooled funds		801,626	891,958
Debtors, deposits and prepayments		261,557	310,861
Fixed deposits with banks		3,164,624	3,015,832
Cash held for Grant Scheme	3	150,702	69,296
Cash at bank and in hand		75,833	157,790
		5,058,448	5,033,284
<b>Current liabilities</b>			
Fees received in advance		7,652	7,689
Creditors and accrued charges		364,302	235,589
Lease liabilities		119,570	119,326
Provisions for reinstatement cost		873	–
		492,397	362,604
<b>Net current assets</b>		4,566,051	4,670,680
<b>Total assets less current liabilities</b>		8,694,731	8,826,132
<b>Non-current liabilities</b>			
Lease liabilities		686,471	722,189
Provisions for reinstatement cost		88,047	88,920
		774,518	811,109
<b>Net assets</b>		7,920,213	8,015,023
<b>Funding and reserves</b>			
Initial funding by Government		42,840	42,840
Reserve for property acquisition		3,250,000	3,250,000
Accumulated surplus		4,627,373	4,722,183
		7,920,213	8,015,023

The notes on pages 29 to 32 form part of these condensed consolidated financial statements.

## Securities and Futures Commission

### Condensed consolidated statement of changes in equity

For the quarter ended 30 June 2022 (Expressed in Hong Kong dollars)

	Unaudited			
	Initial funding by Government \$'000	Reserve for property acquisition \$'000	Accumulated surplus \$'000	Total \$'000
Balance at 1 April 2021	42,840	3,125,000	4,506,448	7,674,288
Surplus and total comprehensive income for the quarter	–	–	143,066	143,066
Balance at 30 June 2021	42,840	3,125,000	4,649,514	7,817,354
Balance at 1 April 2022	<b>42,840</b>	<b>3,250,000</b>	<b>4,722,183</b>	<b>8,015,023</b>
Loss and total comprehensive income for the quarter	–	–	(94,810)	(94,810)
Balance at 30 June 2022	<b>42,840</b>	<b>3,250,000</b>	<b>4,627,373</b>	<b>7,920,213</b>

The notes on pages 29 to 32 form part of these condensed consolidated financial statements.

## Securities and Futures Commission

### Condensed consolidated statement of cash flows

For the quarter ended 30 June 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2022 \$'000	30 Jun 2021 \$'000
<b>Cash flows from operating activities</b>			
(Loss)/surplus for the quarter		(94,810)	143,066
Adjustments for:			
Depreciation – Fixed assets		26,996	22,739
Depreciation – Right-of-use assets		36,522	35,636
Finance costs		1,781	2,074
Interest income on deposits for leases		(72)	(71)
Investment loss/(income)		77,922	(32,702)
Exchange (gain)/loss		(9,456)	5,453
Gain on disposal of fixed assets		(3)	(8)
		38,880	176,187
Decrease in debtors, deposits and prepayments		53,750	82,858
Increase in cash held for Grant Scheme		(81,406)	–
Decrease in fees received in advance		(37)	(452)
Increase in creditors and accrued charges		128,303	138,802
Net cash generated from operating activities		139,490	397,395
<b>Cash flows from investing activities</b>			
(Increase)/decrease in fixed deposits other than cash and cash equivalents		(703,619)	528,863
Interest received		28,085	25,916
Debt securities at fair value through profit or loss purchased		(78,901)	(135,301)
Debt securities at fair value through profit or loss sold or redeemed		69,569	129,423
Pooled funds sold		1,385	1,600
Debt securities at amortised cost purchased		(66,743)	(50,048)
Debt securities at amortised cost redeemed at maturity		31,423	22,530
Fixed assets purchased		(20,817)	(13,489)
Proceeds from fixed assets disposal		9	8
Net cash (used in)/generated from investing activities		(739,609)	509,502
<b>Cash flows from financing activities</b>			
Principal element of lease payments		(35,474)	(34,303)
Interest element of lease payments		(1,781)	(2,074)
Net cash used in financing activities		(37,255)	(36,377)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(637,374)</b>	<b>870,520</b>
Cash and cash equivalents at the beginning of the quarter		973,151	855,099
<b>Cash and cash equivalents at the end of the quarter</b>	2	<b>335,777</b>	<b>1,725,619</b>

#### Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Jun 2022 \$'000	At 30 Jun 2021 \$'000
Fixed deposits with banks	259,944	1,607,925
Cash at bank and in hand	75,833	117,694
	335,777	1,725,619

The notes on pages 29 to 32 form part of these condensed consolidated financial statements.

# Securities and Futures Commission

## Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2022 (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 2022. 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 2022 included in this report does not constitute the Group's statutory annual financial statements for that financial year but is derived from those financial statements.

The condensed consolidated financial statements of the SFC and its subsidiaries, Investor Compensation Company Limited (ICC) and Investor and Financial Education Council (IFEC), are made up to 30 June 2022. 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 2022 to the interim financial information.

There were no significant changes in the operations of the Group for the quarter ended 30 June 2022.

### 2. Cash and cash equivalents

	Unaudited At 30 Jun 2022 \$'000	Audited At 31 Mar 2022 \$'000
Cash at bank and in hand	75,833	157,790
Fixed deposits with banks	3,164,624	3,015,832
Amounts shown in the condensed consolidated statement of financial position	3,240,457	3,173,622
Less: Amounts with an original maturity beyond three months	(2,904,680)	(2,200,471)
Cash and cash equivalents in the condensed consolidated statement of cash flows	335,777	973,151

# Securities and Futures Commission

## Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2022 (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/loss was mainly driven by the revaluation on financial assets denominated in USD.

### 5. Investments in subsidiaries

The SFC formed the ICC on 11 September 2002 with an issued share capital of \$0.2. On 20 November 2012, the SFC launched the IFEC as a company limited by guarantee and not having a share capital. Both companies are wholly owned subsidiaries of the SFC and are incorporated in Hong Kong.

The objective of the ICC is to facilitate the administration and management of the Investor Compensation Fund (ICF) established under the Securities and Futures Ordinance (SFO).

The objective of the IFEC is to improve the financial knowledge and capability of the general public and to assist them in making informed financial decisions.

As at 30 June 2022, the investments in subsidiaries, which are stated at cost less any impairment losses, amounted to \$0.2 (as at 31 March 2022: \$0.2).

## Securities and Futures Commission

### Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2022 (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 party 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, \$1,484,000 was recovered from the ICF for the ICC’s expenses (30 June 2021: \$1,424,000). As at 30 June 2022, the amount due to the ICF from the ICC included in the creditors and accrued charges balance was \$387,000 (as at 31 March 2022: \$106,000).

##### (b) Remuneration of key management personnel

	Unaudited quarter ended	
	30 Jun 2022 \$'000	30 Jun 2021 \$'000
Directors’ fees and salaries, allowances and benefits in kind	6,703	8,633
Retirement scheme contributions	576	769
	7,279	9,402

The total remuneration is included in “staff costs and directors’ emoluments” on page 25. Directors’ emoluments are for services in connection with management of the affairs of the SFC. 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 \$88,000 (30 June 2021: \$80,000) for the period under normal commercial terms and conditions.

# Securities and Futures Commission

## Notes to the condensed consolidated financial statements

For the quarter ended 30 June 2022 (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 2022.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<u>At 30 June 2022 (Unaudited)</u>				
Debt securities	–	401,965	–	401,965
Pooled funds	801,626	–	–	801,626
	801,626	401,965	–	1,203,591
<u>At 31 March 2022 (Audited)</u>				
Debt securities	–	403,442	–	403,442
Pooled funds	891,958	–	–	891,958
	891,958	403,442	–	1,295,400

During the quarter ended 30 June 2022 and year ended 31 March 2022, there were no significant transfers between financial instruments in Level 1 and 2, and no transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

#### (b) Fair value of financial assets carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2022 and 31 March 2022 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>At 30 June 2022 (Unaudited)</u>					
Financial assets at amortised costs					
– debt securities	3,225,983	3,020,399	–	3,020,399	–
<u>At 31 March 2022 (Audited)</u>					
Financial assets at amortised costs					
– debt securities	3,191,696	3,057,436	–	3,057,436	–

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 their quarterly report and the unaudited condensed financial statements for the quarter ended 30 June 2022.

## Establishment of the Investor Compensation Fund

Part XII of the Securities and Futures Ordinance (Chapter 571) established the Investor Compensation Fund (the Fund) on 1 April 2003.

## Financial statements

The financial performance of the Fund for the reporting period ended 30 June 2022 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 34 to 39.

## Members of the Committee

The members of the Committee during the quarter ended 30 June 2022 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)

Dr Lin, James C.

Ms Kwok Hom Siu Sally

Mr Wan Chi Yiu, Andrew

## Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member of the Fund had a material interest, subsisted at the end of the reporting period or at any time during the quarter.

On behalf of the Committee

**Rico Leung**

Chairman

8 August 2022



## Investor Compensation Fund

### Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2022 \$'000	30 Jun 2021 \$'000
<b>Income</b>			
Interest income		6,283	1,674
Exchange gain/(loss)		2,718	(1,498)
		9,001	176
<b>Expenses</b>			
Investor Compensation Company Limited expenses	2	1,484	1,424
Auditor's remuneration		55	55
		1,539	1,479
<b>Surplus/(deficit) and total comprehensive income for the quarter</b>		<b>7,462</b>	<b>(1,303)</b>

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

## Investor Compensation Fund

### Condensed statement of financial position

As at 30 June 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2022 \$'000	Audited At 31 Mar 2022 \$'000
<b>Current assets</b>			
Interest receivable		5,460	1,689
Due from Investor Compensation Company Limited		387	106
Fixed deposits with banks		2,459,794	2,455,431
Cash at bank		296	1,346
		<b>2,465,937</b>	2,458,572
<b>Current liabilities</b>			
Provision for compensation	4	3,394	3,394
Creditors and accrued charges		177	274
		<b>3,571</b>	3,668
<b>Net current assets</b>		<b>2,462,366</b>	2,454,904
<b>Net assets</b>		<b>2,462,366</b>	2,454,904
Representing:			
<b>Compensation fund</b>		<b>2,462,366</b>	2,454,904

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

## Investor Compensation Fund

### Condensed statement of changes in equity

For the quarter ended 30 June 2022 (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 2021	994,718	108,923	1,340,411	2,444,052
Deficit and total comprehensive income for the quarter	–	–	(1,303)	(1,303)
Balance at 30 June 2021	994,718	108,923	1,339,108	2,442,749
Balance at 1 April 2022	<b>994,718</b>	<b>108,923</b>	<b>1,351,263</b>	<b>2,454,904</b>
Surplus and total comprehensive income for the quarter	–	–	<b>7,462</b>	<b>7,462</b>
Balance at 30 June 2022	<b>994,718</b>	<b>108,923</b>	<b>1,358,725</b>	<b>2,462,366</b>

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

## Investor Compensation Fund

### Condensed statement of cash flows

For the quarter ended 30 June 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2022 \$'000	30 Jun 2021 \$'000
<b>Cash flows from operating activities</b>			
Surplus/(deficit) for the quarter		7,462	(1,303)
Adjustments for:			
Interest income		(6,283)	(1,674)
Exchange (gain)/loss		(2,718)	1,498
		(1,539)	(1,479)
Increase in amount due from Investor Compensation Company Limited		(281)	(467)
Decrease in creditors and accrued charges		(97)	(97)
Net cash used in operating activities		(1,917)	(2,043)
<b>Cash flows from investing activities</b>			
(Increase)/decrease in fixed deposits other than cash and cash equivalents		(152,804)	586,930
Interest received		2,515	2,256
Net cash (used in)/generated from investing activities		(150,289)	589,186
<b>Net (decrease)/increase in cash and cash equivalents</b>		(152,206)	587,143
Cash and cash equivalents at the beginning of the quarter		451,903	647,514
<b>Cash and cash equivalents at the end of the quarter</b>	3	299,697	1,234,657

### Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Jun 2022 \$'000	At 30 Jun 2021 \$'000
Fixed deposits with banks	299,401	1,234,076
Cash at bank	296	581
	299,697	1,234,657

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

# Investor Compensation Fund

## Notes to the condensed financial statements

For the quarter ended 30 June 2022 (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 2022. 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 2022 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 2022 to the interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2022.

### 2. Investor Compensation Company Limited expenses

The Securities and Futures Commission (SFC) formed the Investor Compensation Company Limited (ICC) in September 2002 to perform functions on behalf of the Fund in relation to the compensation to investors and other functions under Part III and Part XII of the Securities and Futures Ordinance. The Fund is responsible for funding the establishment and operation of the ICC. For the quarter ended 30 June 2022, the ICC incurred costs of \$1,484,000 for its operation (for the quarter ended 30 June 2021: \$1,424,000) which were reimbursed by the Fund.

### 3. Cash and cash equivalents

	Unaudited At 30 Jun 2022 \$'000	Audited At 31 Mar 2022 \$'000
Cash at bank	296	1,346
Fixed deposits with banks	2,459,794	2,455,431
Amounts shown in the condensed statement of financial position	2,460,090	2,456,777
Less: Amounts with an original maturity beyond three months	(2,160,393)	(2,004,874)
Cash and cash equivalents in the condensed statement of cash flows	299,697	451,903

# Investor Compensation Fund

## Notes to the condensed financial statements

For the quarter ended 30 June 2022 (Expressed in Hong Kong dollars)

### 4. Provision for compensation

Pursuant to Section 3 of the Securities and Futures (Investor Compensation-Compensation Limits) Rules, the maximum compensation limit to claims is \$150,000 per claimant for each default case occurring on or before 31 December 2019 and \$500,000 per claimant for each default case occurring on or after 1 January 2020.

The provision of compensation as at 30 June 2022 was \$3,394,000, which related to a number of claims received in respect of a default case (as at 31 March 2022: \$3,394,000). The maximum liability of the Fund to these claims is the lower of \$150,000 per claimant or the amount claimed. The provision was expected to be paid within one year.

### 5. Related party transactions

The Fund has related party relationships with the SFC, ICC and the Unified Exchange Compensation Fund. There were no related party transactions other than those disclosed in the interim financial information of the Fund for the quarters ended 30 June 2022 and 2021.

### 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 (11 outstanding claims as at the date of the report of 31 March 2022). The maximum liability in respect of these claims in aggregate is \$1,963,000 (31 March 2022: \$1,780,000). 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 30 June 2022 and 31 March 2022, all financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. For the quarters ended 30 June 2022 and 2021, the Fund's exchange gain/(loss) 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 their quarterly report and the unaudited condensed financial statements for the quarter ended 30 June 2022.

## Establishment of the Unified Exchange Compensation Fund

Part X of the repealed Securities Ordinance (Chapter 333) established the Unified Exchange Compensation Fund (the Fund). However, when the Securities and Futures Ordinance (SFO) and its subsidiary legislation came into effect from 1 April 2003, a new single Investor Compensation Fund (ICF) was formed to ultimately replace the Fund and the Commodity Exchange Compensation Fund. Up to 30 June 2022, the Fund transferred \$994,718,000 to the ICF. After the settlement of all claims against the Fund and its other liabilities, the Securities and Futures Commission (SFC) will eventually transfer the remaining balance of the Fund to the ICF.

Part X of the repealed Securities Ordinance remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the SFO.

## Financial statements

The financial performance of the Fund for the reporting period ended 30 June 2022 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 41 to 46.

## Members of the Committee

The members of the Committee during the quarter ended 30 June 2022 and up to the date of this report were:

Mr Leung Chung Yin, Rico (Chairman)  
Dr Lin, James C.  
Mr Yiu Ka Yan Wilfred  
Ms Kwok Hom Siu Sally  
Mr Wan Chi Yiu Andrew

## Interests in contracts

No contract of significance to which the Fund was a party and in which a Committee member of the Fund had a material interest, subsisted at the end of the reporting period or at any time during the quarter.

On behalf of the Committee

**Rico Leung**  
Chairman

26 July 2022

# Unified Exchange Compensation Fund

## Condensed statement of profit or loss and other comprehensive income

For the quarter ended 30 June 2022 (Expressed in Hong Kong dollars)

	Unaudited quarter ended	
	30 Jun 2022 \$'000	30 Jun 2021 \$'000
<b>Income</b>		
Interest income	134	44
<b>Expenses</b>		
Recoveries re-distributed	22	–
Auditor's remuneration	27	27
	49	27
<b>Surplus and total comprehensive income for the quarter</b>	<b>85</b>	<b>17</b>

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



# Unified Exchange Compensation Fund

## Condensed statement of financial position

As at 30 June 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited At 30 Jun 2022 \$'000	Audited At 31 Mar 2022 \$'000
<b>Current assets</b>			
Interest receivable		78	34
Fixed deposits with banks		97,760	97,670
Cash at bank		194	180
		<b>98,032</b>	97,884
<b>Current liabilities</b>			
Creditors and accrued charges		10,272	10,309
Relinquished trading rights payable to SEHK	4	2,000	1,850
		<b>12,272</b>	12,159
<b>Net current assets</b>		<b>85,760</b>	85,725
<b>Net assets</b>		<b>85,760</b>	85,725
Representing:			
<b>Compensation fund</b>		<b>85,760</b>	85,725

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

## Unified Exchange Compensation Fund

### Condensed statement of changes in equity

For the quarter ended 30 June 2022 (Expressed in Hong Kong dollars)

	Unaudited							Total \$'000
	Trading rights deposits from SEHK (note 4) \$'000	Excess transaction levy from SEHK \$'000	Additional contributions from SEHK and the SFC \$'000	Other contributions \$'000	Accumulated surplus \$'000	Contributions to ICF \$'000		
Balance at 1 April 2021	54,750	353,787	630,000	6,502	35,751	(994,718)	86,072	
Net contributions to SEHK	(100)	-	-	-	-	-	(100)	
Surplus and total comprehensive income for the quarter	-	-	-	-	17	-	17	
Balance at 30 June 2021	54,650	353,787	630,000	6,502	35,768	(994,718)	85,989	
Balance at 1 April 2022	54,300	353,787	630,000	6,502	35,854	(994,718)	85,725	
Net contributions to SEHK	(50)	-	-	-	-	-	(50)	
Surplus and total comprehensive income for the quarter	-	-	-	-	85	-	85	
Balance at 30 June 2022	54,250	353,787	630,000	6,502	35,939	(994,718)	85,760	

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

# Unified Exchange Compensation Fund

## Condensed statement of cash flows

For the quarter ended 30 June 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited quarter ended	
		30 Jun 2022 \$'000	30 Jun 2021 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the quarter		85	17
Adjustment for:			
Interest income		(134)	(44)
		(49)	(27)
Decrease in creditors and accrued charges		(37)	(37)
Increase/(decrease) in relinquished trading rights payable to SEHK		150	(50)
Net cash generated from/(used in) operating activities		64	(114)
<b>Cash flows from investing activities</b>			
Decrease in fixed deposits other than cash and cash equivalents		26,364	44,949
Interest received		90	51
Net cash generated from investing activities		26,454	45,000
<b>Cash flows from financing activities</b>			
Net trading rights deposits refunded to SEHK		(50)	(100)
Net cash used in financing activities		(50)	(100)
<b>Net increase in cash and cash equivalents</b>		26,468	44,786
Cash and cash equivalents at the beginning of the quarter		71,486	52,905
<b>Cash and cash equivalents at the end of the quarter</b>	3	97,954	97,691

### Analysis of the balance of cash and cash equivalents

	Unaudited	
	At 30 Jun 2022 \$'000	At 30 Jun 2021 \$'000
Fixed deposits with banks	97,760	97,569
Cash at bank	194	122
	97,954	97,691

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

# Unified Exchange Compensation Fund

## Notes to the condensed financial statements

For the quarter ended 30 June 2022 (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 2022. 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 2022 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 2022 to the interim financial information.

There were no significant changes in the operations of the Fund for the quarter ended 30 June 2022.

### 2. Equity securities received under subrogation

At the end of each reporting period, the fair value of the equity securities received under subrogation is remeasured, with any resultant gain or loss being recognised in "Recoveries". Dividend income, if any, is also recognised in "Recoveries".

As at 30 June 2022, the equity securities received under subrogation amounted to \$39 (as at 31 March 2022: \$68). The balances as at 30 June 2022 and 31 March 2022 are too small to appear on the condensed statement of financial position which is expressed in thousands of dollars.

## Unified Exchange Compensation Fund

### Notes to the condensed financial statements

For the quarter ended 30 June 2022 (Expressed in Hong Kong dollars)

#### 3. Cash and cash equivalents

	Unaudited At 30 Jun 2022 \$'000	Audited At 31 Mar 2022 \$'000
Cash at bank	194	180
Fixed deposits with banks	97,760	97,670
Amounts shown in the condensed statement of financial position	97,954	97,850
Less: Amounts with an original maturity beyond three months	–	(26,364)
Cash and cash equivalents in the condensed statement of cash flows	97,954	71,486

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

According to Section 104 of the repealed Securities Ordinance, The Stock Exchange of Hong Kong Limited (SEHK) contributes to the Securities and Futures Commission (SFC) in respect of each trading right at the rate of \$50,000. In the absence of claims or other provisions as set out in Section 106 of the repealed Securities Ordinance, the SFC must refund to SEHK the deposit within six months after the trading right was relinquished. During the quarter, deposits of \$100,000 in respect of 2 new trading rights were received from SEHK. As at 30 June 2022, 40 trading rights totalling \$2,000,000 were relinquished but not yet refunded (as at 31 March 2022: 37 trading rights totalling \$1,850,000 were relinquished but not yet refunded).

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

	Unaudited quarter ended	
	30 Jun 2022 \$'000	30 Jun 2021 \$'000
Balance at the beginning of the quarter	54,300	54,750
Add: new trading rights issued	100	100
Less: relinquished trading rights refunded	–	(250)
Adjustment for: net (increase)/decrease in relinquished trading rights payable to SEHK	(150)	50
Balance at the end of the quarter	54,250	54,650

#### 5. Related party transactions

The Fund has related party relationships with the Investor Compensation Fund (ICF) and the SFC. There were no related party transactions during the quarters ended 30 June 2022 and 2021.

## **Securities and Futures Commission**

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