



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

# Quarterly Report

## July - September 2022

This second Quarterly Report of the Securities and Futures Commission for financial year 2022-23 covers the period from 1 July to 30 September 2022.

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# Highlights

## Regulatory enhancements

**Specialist technology companies<sup>1</sup>:** After discussion with us, the Stock Exchange of Hong Kong Limited (SEHK) launched a public consultation in October on proposals to introduce a new listing regime for specialist technology companies which cannot meet the existing revenue or profit track record requirements.

**Share schemes:** SEHK followed up on our 2019 review of its listing function and concluded a consultation in July on proposals to enhance the disclosure of share schemes and provide issuers with greater flexibility to grant share options and share awards whilst protecting shareholders from excessive dilution. The amended rules will come into effect on 1 January 2023.

## Listing regulation

**Listing applications:** We vetted 29 new listing applications, including four from pre-profit biotech companies.

**Corporate conduct:** As part of our review of corporate disclosures, we issued section 179<sup>2</sup> directions to gather additional information in 11 cases.

**Takeovers:** The Takeovers Panel<sup>3</sup> ruled that a special waiver from the general offer obligation may be granted to a company in a seller-forced disposal. In another case, the panel ruled on the appropriate offer price for a mandatory general offer which involved the acquisition of shares in a listed company.

## Intermediaries

**Licensing:** As at 30 September, the total number of licensees and registrants remained stable at 48,969, of which 3,274 were licensed corporations (LCs).

**Supervision:** We commenced 53 on-site inspections of LCs to review their compliance with regulatory requirements.

**Online financial services:** In August, we published our findings from a review of LCs and their compliance with regulatory requirements when onboarding clients and distributing or advising on investment products via their online platforms.

<sup>1</sup> Post-reporting period.

<sup>2</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>3</sup> Takeovers and Mergers Panel.

## Highlights

**SFC-HKMA joint product survey:** Our annual joint survey with the Hong Kong Monetary Authority (HKMA) showed that both the number of investors who purchased investment products and of firms engaging in the sale of investment products increased 5% from 2020, whilst the number of firms using online platforms for the distribution of investment products increased 21%.

**Virtual assets:** In August, we launched a new list of licensed virtual asset trading platforms on the SFC's website to enable investors to easily ascertain whether a particular platform is licensed by the SFC.

## Products

**Product authorisations and registrations:** We authorised 37 unit trusts and mutual funds (including 19 Hong Kong-domiciled funds), two investment-linked assurance schemes and 103 unlisted structured investment products for public offering in Hong Kong. We registered 22 new open-ended fund companies.

**Fund flows:** Hong Kong-domiciled SFC-authorised funds reported overall net outflows of US\$0.1 billion during the quarter.

**ETF Connect:** At the scheme's launch in July, four Hong Kong exchange-traded funds (ETFs) were eligible for southbound trading and 83 Mainland ETFs were eligible for northbound trading. ETFs' eligibility for the scheme will be reviewed every six months.

**Asset and Wealth Management Activities Survey:** 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.

## Markets

**Swap Connect:** In July, we announced jointly with the People's Bank of China and the HKMA the development of Swap Connect which will enable offshore investors to execute interest rate derivatives transactions with onshore investors in Mainland China to manage interest rate risks arising from investments in the Mainland bond market.

**Stock Connect:** We announced jointly with the China Securities Regulatory Commission (CSRC) the in-principle approval for enhancements to the Stock Connect trading calendar. This will enable Stock Connect trading on all days when both the Mainland and Hong Kong markets are open.

**Investor identification regime:** We have been preparing for the launch of the regime for the securities market in Hong Kong, including closely monitoring the readiness of intermediaries to obtain client consent and update client information. We also launched a publicity campaign to help the investing public better understand the regime.

## Enforcement

**Disciplinary actions:** We disciplined four LCs and five individuals during the quarter, resulting in total fines of \$20.1 million.

**Court proceedings:** The Court of First Instance dismissed a judicial review application brought against the SFC in relation to restriction notices we issued during our investigation into a suspected "ramp-and-dump" scheme. Separately, 13 suspects were charged with criminal offences at the Eastern Magistrates' Courts following our earlier joint operation with the Hong Kong Police Force against a sophisticated ramp-and-dump syndicate.

**Market surveillance:** We made 1,929 requests for trading and account records triggered by untoward price and turnover movements.

**Cooperation with the CSRC:** In September, the CSRC and SFC's enforcement units held a working-level meeting to discuss urgent requests for investigatory assistance in some major cases.

## Highlights

**Joint operation with the Police:** We conducted a joint operation with the Police concerning suspected bogus transactions involving a company formerly listed on the Stock Exchange of Hong Kong. Eight people were arrested for suspected fraud.

### Regulatory engagement

**International:** Our Chief Executive Officer Mr Ashley Alder chaired an IOSCO<sup>4</sup> Board meeting in September which focused on non-bank financial intermediation.

**Mainland:** We welcomed the Central Government's support initiatives announced in September by Mr Fang Xinghai, Vice-Chairman of the CSRC, to enhance Hong Kong's status as an international financial centre, offshore renminbi centre and a risk management centre.

### Sustainable finance

**Climate-related risks:** In August, the first phase of the new regulatory requirements came into effect requiring large fund managers to incorporate climate-related risks into their governance, investment and risk management approaches as well as to make related disclosures.

**New agenda:** We published our Agenda for Green and Sustainable Finance to set out further steps to support Hong Kong's role as a regional sustainable finance centre. We are also working closely with SEHK to develop a climate reporting framework for Hong Kong listed companies which aims to align with the global baseline being developed by the International Sustainability Standards Board.

### Stakeholders

**WeChat:** In August, we introduced our official WeChat account which features updates on topics of interest to Mainland-oriented investors and industry professionals.

<sup>4</sup> International Organization of Securities Commissions.

# Operational Review

## Corporates

### Listing applications

Our oversight of listing matters includes vetting of listing applications. During the quarter, we vetted 29 new listing applications, including four from pre-profit biotech companies. Two companies achieved secondary listing on the Main Board under Chapter 19C of the Listing Rules in the quarter.

Exercising our powers under the Securities and Futures (Stock Market Listing) Rules, we issued three requisition letters directly to three listing applicants during the quarter. Amongst our concerns was the genuineness of the business and financial information of the listing applicants.

### Specialist technology companies<sup>1</sup>

After discussion with the SFC, the Stock Exchange of Hong Kong Limited (SEHK) launched a public consultation in October on proposals to introduce a new regime for the listing of specialist technology companies which cannot meet the existing revenue or profit track record requirements. SEHK initially identified five target specialist technology industries: (i) next-generation information technology; (ii) advanced hardware; (iii) advanced materials; (iv) new energy and environmental protection and (v) new food and agriculture technologies. The consultation period will end on 18 December.

<sup>1</sup> Post-reporting period.

<sup>2</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.

## Share schemes

Following up on the observations in our 2019 review of SEHK's listing function, SEHK reviewed the Listing Rules and consulted the market in October 2021 on proposals to enhance the disclosure of share schemes and provide issuers with greater flexibility to grant share options and share awards whilst protecting shareholders from excessive dilution. SEHK published the consultation conclusions in July 2022 and the amended rules will come into effect on 1 January 2023.

## Corporate conduct

We conduct daily reviews of corporate announcements to identify potential misconduct and irregularities. During the quarter, we issued section 179<sup>2</sup> directions to gather additional information in 11 cases.

## Takeovers matters

In August, the Takeovers and Mergers Panel ruled that a special waiver from the general offer obligation may be granted to a company in a seller-forced disposal, in which event the company would become the single largest shareholder and the leader of a concert group, thereby triggering a mandatory general offer for Jinke Smart Services Group Co. Ltd. under the Takeovers Code.

In September, the Panel ruled on the appropriate offer price for a mandatory general offer triggered as a result of the completion of two agreements for sale and purchase and assignment which involved the acquisition of shares in Suncity Group Holdings Limited.

## Corporates

### Listing applications and takeovers activities

	Quarter ended 30.9.2022	Six months ended 30.9.2022	Six months 30.9.2021	YoY change (%)
Listing applications	29	98	198	-50.5
Takeovers and share buy-backs transactions	81	160	202	-20.8%

# Intermediaries

## Licence applications

In the quarter, we received 1,897 licence applications<sup>1</sup> including 48 corporate applications, down 13.7% from the same quarter last year but up 25% from the last quarter.

As at 30 September 2022, the number of licensees and registrants remained stable at 48,969, of which 3,274 were licensed corporations.

## Virtual assets

In July, we attended the first Legislative Council Bills Committee meeting on the Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Bill 2022 (the bill). The bill will introduce a new regime for the SFC to license centralised virtual asset exchanges trading non-security tokens in Hong Kong.

In August, we launched a new list of licensed virtual asset trading platforms on our website to enable investors to easily ascertain whether a particular platform is licensed by the SFC. We also promoted investors' awareness of the list on social media.

The Financial Services and the Treasury Bureau, InvestHK and our Fintech Unit co-hosted a closed-door meeting with key virtual asset players in August, to give them updates on the key considerations behind the bill, explain Hong Kong's regulatory stance and direction for virtual assets, and exchange viewpoints. After this meeting, our Fintech Unit held two other similar meetings in September with industry representatives to address common questions and misconceptions about security token offerings.

## Review of online brokerage, distribution and advisory services

In August, we published our findings from a review of licensed corporations (LCs) which provide online services and their compliance with regulatory requirements when onboarding clients and distributing or advising on investment products via their online platforms. We also reminded LCs of the regulatory standards expected of them when carrying out their business activities in a digital environment.

## SFC-HKMA joint product survey

In September, we and the Hong Kong Monetary Authority (HKMA) published the report of our annual joint survey of the sale of non-exchange traded investment products. The survey showed that the number of investors who purchased investment products increased 5% from 2020 to 770,000. The total number of firms engaged in the sale of investment products also increased 5% to 390 (comprising 327 LCs and 63 registered institutions). Structured products (\$2,385 billion) continued to account for the largest share of the aggregate transaction amount of \$5,015 billion, followed by collective investment schemes (CIS) (\$1,491 billion) and debt securities (\$818 billion). The survey also found that the number of firms using online platforms for the distribution of investment products increased 21% from 2020, and CIS was the most popular product type sold online, accounting for 91% of total online sales. The findings enable both regulators to better understand market trends, identify risks and strengthen supervisory work in protecting investors.

## Anti-money laundering and counter-terrorist financing

Following the Government's publication of the second *Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report* on 8 July, we issued a circular on the same day to draw LCs' attention to the assessment results. The circular highlighted key updates on the securities sector, including new money laundering threats and vulnerabilities such as the increase in social media investment scams, use of nominee and dubious investment arrangements as well as online trading, which can provide new opportunities for online fraud and related money laundering activities. LCs were also reminded to take into account the findings when assessing their own risk exposure to money laundering and terrorist financing.

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

## Intermediaries

### Licensees and registrants

	As at 30.9.2022	As at 31.3.2022	Change (%)	As at 30.9.2021	YoY change (%)
Licensed corporations	3,274	3,231	1.3	3,180	3
Registered institutions	111	111	0	111	0
Licensed individuals	45,584	45,059	1.2	45,073	1.1
<b>Total</b>	<b>48,969</b>	<b>48,401</b>	<b>1.2</b>	<b>48,364</b>	<b>1.3</b>

### Licensing applications

	Quarter ended 30.9.2022	Six months ended 30.9.2022	Six months ended 30.9.2021	YoY change (%)
Applications to conduct new regulated activity	7,512	13,439	13,272	1.3
Applications for SFC licences <sup>^</sup>	1,897	3,414	3,760	-9.2

<sup>^</sup> Figures do not include applications for provisional licences. During the quarter, we received 1,350 provisional licence applications compared with 1,682 in the same quarter last year.

### Inspections of licensed corporations

	Quarter ended 30.9.2022	Six months ended 30.9.2022	Six months ended 30.9.2021	YoY change (%)
On-site inspections commenced <sup>^</sup>	53	113	137	-17.5

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

# Products

## ETF Connect

ETF Connect was launched on 4 July. Under the scheme, four Hong Kong exchange-traded funds (ETFs) are currently eligible for southbound trading and 83 Mainland ETFs (including 53 on the Shanghai Stock Exchange and 30 on the Shenzhen Stock Exchange) are eligible for northbound trading. The list of eligible ETFs will be reviewed in accordance with the eligibility criteria and adjusted every six months. Turnover of southbound trading of Hong Kong ETFs reached \$14.4 billion in September, tripled that of the turnover in July when ETF Connect was first launched. In the first three months after the launch, total turnover of southbound ETF trading reached \$26.8 billion while that of northbound trading of Mainland ETFs amounted to RMB1.9 billion.

## Asset and Wealth Management Activities Survey

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 assets under management (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. The AUM of the asset management and fund advisory business increased 8% to \$25,888 billion. Assets held under trusts increased 5% to \$4,719 billion. The AUM of the private banking and private wealth management business decreased 6% to \$10,583 billion, mainly due to changes in the values of clients' investments.

## Authorisations

During the quarter ended 30 September, we authorised 37 unit trusts and mutual funds (including 19 Hong Kong-domiciled funds), two investment-linked assurance schemes (ILAS) and 103 unlisted structured investment products for public offering in Hong Kong.

## OFC registrations

As of 30 September, there were 100 registered open-ended fund companies (OFCs), of which 22<sup>1</sup> were new OFCs registered during the quarter.

## Hong Kong-domiciled funds

As at 30 September, the AUM of Hong Kong-domiciled funds decreased by 12% from the previous quarter to US\$148.8 billion. Net fund outflows of about US\$0.1 billion were recorded during the quarter and the number of firms licensed for Type 9 regulated activity (asset management) increased 1.2% to 2,063 in the same period.

## Mutual recognition of funds (MRF)

Under the Mainland-Hong Kong MRF scheme, as of 30 September, we authorised a total of 47 Mainland funds (including two umbrella funds) whilst the China Securities Regulatory Commission approved 38 Hong Kong funds.

The cumulative net subscription was about RMB1.05 billion for Mainland funds and about RMB11.45 billion for Hong Kong funds as of 30 September. During the quarter, Mainland funds recorded a net subscription of about RMB7.69 million, compared to a net redemption of about RMB44.71 million in the previous quarter. Hong Kong funds recorded a net subscription of about RMB172.93 million this quarter, compared to a net redemption of about RMB915.48 million in the last quarter.

<sup>1</sup> This figure includes 17 private OFCs.

## Products

### Authorised collective investment schemes

	As at 30.9.2022	As at 31.3.2022	Change (%)	As at 30.9.2021	YoY change (%)
Unit trusts and mutual funds – Hong Kong-domiciled	882 <sup>a</sup>	866	1.8	852	3.5
Unit trusts and mutual funds – non-Hong Kong-domiciled	1,393	1,381	0.9	1,378	1.1
ILAS	301	300	0.3	300	0.3
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	213	2.8
Others	25 <sup>b</sup>	25	0	25	0
<b>Total</b>	<b>2,878</b>	<b>2,849</b>	<b>1</b>	<b>2,827</b>	<b>1.8</b>

a This figure includes 111 approved pooled investment funds (retail AIFs) 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).

### Authorised unit trusts and mutual funds domiciled in Hong Kong – fund flows by type<sup>a</sup> (US\$ million)

For the six months ended 30 September, Hong Kong-domiciled funds reported overall net inflows of US\$416 million.

	Six months ended 30.9.2022			Six months ended 31.3.2022			Six months ended 30.9.2021		
	Subscription	Redemption	Net subscription/ (redemption)	Subscription	Redemption	Net subscription/ (redemption)	Subscription	Redemption	Net subscription/ (redemption)
Bond <sup>b</sup>	3,534	6,507	(2,973)	5,075	8,958	(3,883)	7,094	7,605	(511)
Equity <sup>b</sup>	6,504	7,703	(1,199)	10,123	10,709	(586)	10,591	10,511	80
Mixed <sup>b</sup>	4,779	5,746	(967)	5,025	4,454	571	7,749	5,165	2,584
Money market	11,221	9,428	1,793	9,637	9,185	452	9,653	9,657	(4)
Feeder funds <sup>c</sup>	2	1	2	1	0	1	2	2	0
Index <sup>d</sup>	29,136	25,374	3,763	30,165	21,452	8,713	19,587	14,602	4,985
Guaranteed	0	2	(2)	0	3	(3)	0	3	(3)
<b>Total<sup>e</sup></b>	<b>55,176</b>	<b>54,760</b>	<b>416<sup>f</sup></b>	<b>60,026</b>	<b>54,761</b>	<b>5,265</b>	<b>54,676</b>	<b>47,545</b>	<b>7,131</b>

<sup>a</sup> Based on data reported by funds domiciled in Hong Kong.

<sup>b</sup> From 31 March 2021, fund of funds (excluding feeder funds) have been re-categorised into other types of funds based on the underlying exposure of their investment strategies.

<sup>c</sup> From 31 March 2021, feeder funds have been separated from the previous "Fund of funds" category. In addition, the subscription and redemption amounts of feeder funds whose master funds are authorised by the SFC have been excluded from the fund flows figures under the "Feeder funds" category to better reflect the total fund flows.

<sup>d</sup> Including ETFs and leveraged and inverse products.

<sup>e</sup> Figures may not add up to total due to rounding.

<sup>f</sup> This figure includes net fund outflows of US\$1.2 billion reported by retail approved pooled investment funds which MPFs may invest into and may also be offered to the public in Hong Kong.

## Products

### Registered OFCs

	As at 30.9.2022	As at 31.3.2022	Change (%)	As at 30.9.2021	YoY change (%)
OFCs	100 <sup>^</sup>	62	61.3	27	270.4

<sup>^</sup> This figure includes 85 private OFCs.

### Authorised unlisted structured investment products

	As at 30.9.2022	As at 31.3.2022	Change (%)	As at 30.9.2021	YoY change (%)
Unlisted structured investment products <sup>^</sup>	234	187	25.1	146	60.3

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

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

	As at 30.9.2022
<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	57
Unlisted funds (non-RMB denominated) with RMB share classes	357
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>	233
<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	51
ETFs (non-RMB denominated) with RMB trading counters and/or RMB share classes	13
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 the 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

## Swap Connect

In July, we announced jointly with the People's Bank of China and Hong Kong Monetary Authority the development of Swap Connect, a mutual market access programme which will enable offshore investors to execute interest rate derivatives transactions with onshore investors in Mainland China to manage interest rate risks arising from investments in the Mainland bond market. Swap Connect is expected to be launched in the first quarter of next year.

## Position limit regime

Further to our consultation which ended in June on proposed changes to the position limit regime for listed futures and options contracts, we are revising some of the proposals based on the comments received. We are also considering additional amendments including updating and recasting the description of contracts included in the subsidiary legislation and adjusting the position limits for stock futures and options contracts. A further consultation on these proposals will be launched in due course.

## Investor identification

We have been preparing for the launch of the investor identification regime at the trading level for the securities market in Hong Kong. During the quarter, an end-to-end system test for intermediaries was completed to assess their system connectivity for conducting business activities under the new regime. Market rehearsals were arranged

for them to assess system readiness. We are also assessing the readiness of intermediaries to obtain client consent and update client information as required by the regime.

Subject to the status of these preparations, we will announce the official launch date of the regime in due course.

## Stock Connect

In August, we announced jointly with the China Securities Regulatory Commission the in-principle approval for enhancements to the Stock Connect trading calendar, which will apply to both northbound and southbound trading.

The enhancements will enable Stock Connect trading on all days when both the Mainland and Hong Kong markets are open, even when the corresponding settlement day falls on a public holiday<sup>1</sup>. Stock exchanges and clearing houses in both markets are preparing for the implementation of the enhancements. The official launch date will be announced in due course.

## Automated trading services

As of 30 September, the number of automated trading services (ATS) providers<sup>2</sup> authorised under Part III of the Securities and Futures Ordinance (SFO) was 51, whilst 27 corporations, including 13 dark pool operators, were licensed under Part V of the SFO to provide ATS.

## ATS providers

	As at 30.9.2022	As at 31.3.2022	Change (%)	As at 30.9.2021	YoY change (%)
Under Part III	51	50	2	53	-3.8
Under Part V	27	25	8	24	12.5

<sup>1</sup> For northbound trading, Stock Connect is now closed on a Mainland market trading day when the corresponding settlement day (ie, T+1) is a public holiday in Hong Kong because banking services are not available to support payments for transactions. Similarly, southbound Stock Connect trading is currently not open on trading days in Hong Kong when the settlement day falls on a Mainland public holiday.

<sup>2</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 dismissed a judicial review application brought against us by Tam Sze Leung, Kong Chan and Lee Ka Lo which sought to challenge restriction notices we issued, during our ongoing investigation into a suspected “ramp-and-dump” scheme, to freeze their assets in various trading accounts held with certain licensed corporations.

The Eastern Magistrates’ Courts convicted Chan Siu Tai and her sister Janice Chan of illegal short selling. They were fined \$114,000 and ordered to pay the SFC’s investigation costs.

Following an earlier joint operation by the SFC and the Police against a sophisticated ramp-and-dump syndicate, 13 suspects were charged with various criminal offences at the Eastern Magistrates’ Courts. Five defendants were charged with the offences of conspiracy to defraud and conspiracy to employ a scheme with an intent to defraud or deceive in transactions involving securities

under common law, section 300 of the Securities and Futures Ordinance (SFO) and sections 159A and 159C of the Crimes Ordinance (Cap. 200). Two of them face additional charges of money laundering together with eight other defendants.

The Eastern Magistrates’ Courts fixed a pre-trial review day on 6 December 2022 for prosecutions against two individuals after they pleaded not guilty to charges of unlicensed activities.

## Market Misconduct Tribunal

We commenced proceedings in the Market Misconduct Tribunal against a responsible officer of an asset management company, for allegedly engaging in false trading in the shares of two Hong Kong-listed companies.

## Disciplinary actions

We disciplined four corporations and five individuals during the quarter, resulting in total fines<sup>1</sup> of \$20.1 million.

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

Company/Name	Breaches	Action
Rifa Futures Limited	Failed to perform adequate due diligence on client supplied systems used by clients for placing orders, conduct adequate ongoing monitoring of clients’ fund movements and implement two-factor authentication for clients to log in to their internet trading accounts	Reprimanded and fined \$9 million
Tang Kai Shing	Failed to discharge his duties as a responsible officer and a member of the senior management of Rifa Futures Limited	Suspended for eight months

## Mishandling client assets

Company/Name	Breaches	Action
RBC Investment Services (Asia) Limited	Failed to segregate client money and transferred client securities without standing authority from the clients	Reprimanded and fined \$7.7 million

## Sponsor failures

Company/Name	Breaches	Action
TC Capital International Limited	Failed to discharge its duties as the sponsor in the listing application of China Candy Holdings Limited	Reprimanded and fined \$3 million
Edward Wu Wen Guang	Failed to discharge his duties as a responsible officer and sponsor principal of TC Capital International Limited in charge of China Candy’s listing application	Suspended for seven months

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

## Enforcement

### Other regulatory breaches and criminal convictions

Company/Name	Breaches/convictions	Action
KTF Capital Management Limited	Failed to comply with the Securities and Futures (Financial Resources) Rules	Reprimanded and fined \$400,000
Lam Ki Fung	Convictions of conspiracy to defraud	Banned from re-entering the industry for three years
Chan Ka Hey	Falsified a customer's signature in a bank document	Banned from re-entering the industry for six months

### Securities and Futures Appeals Tribunal

We suspended Christopher James Aarons, responsible officer and chief executive officer of Trafalgar Capital Management (HK) Ltd., for two years after the Securities and Futures Appeals Tribunal affirmed our disciplinary action against him for breaches of the SFC's Code of Conduct for Persons Licensed by or Registered with the SFC.

Our disciplinary action followed administrative proceedings against Aarons in South Korea which found that he had breached Korean legislation by dealing in the shares of a company listed on the Korea Exchange based on material non-public information.

### Restriction notice

We issued a restriction notice to a securities brokerage company prohibiting it from disposing of or dealing with certain assets held in a client account that holds proceeds of suspected insider dealing. Our investigation is ongoing.

### Joint operation with the Police

We conducted a joint operation with the Hong Kong Police Force concerning suspected bogus transactions involving a company formerly listed on the Stock Exchange of Hong Kong. Eight people, including the company's current and former executive directors and senior executives, were arrested by the Police for suspected fraud. Our investigation is ongoing.

### Enforcement cooperation with the CSRC

During the quarter, the China Securities Regulatory Commission (CSRC) and the SFC continued to support one another's high-priority cases efficiently despite travel restrictions amidst the COVID-19 pandemic. The enforcement units of the two Commissions held a working-level meeting in September, where we discussed urgent requests for investigatory assistance in certain major cases and agreed on the follow-up actions for these requests. In addition, we exchanged views on arranging training programmes for enforcement officers.

### Market surveillance

Our surveillance of untoward price and turnover movements resulted in 1,929 requests for trading and account records from intermediaries in the quarter.

We published one high shareholding concentration announcement to caution investors about trading in the shares of companies where a small number of shareholders hold a high concentration of shares.

## Enforcement

### Enforcement activities

	Quarter ended 30.9.2022	Six months ended 30.9.2022	Six months ended 30.9.2021	YoY change (%)
S179 <sup>a</sup> inquiries commenced	12	17	32	-46.9
S181 <sup>b</sup> inquiries commenced (number of letters sent)	46 (1,929)	86 (3,321)	129 (5,052)	-34.3
S182 <sup>c</sup> directions issued	39	63	126	-50
Investigations started	43	67	130	-48.5
Investigations completed	39	83	65	27.7
Individuals and corporations charged in criminal proceedings	4	7	2	250
Criminal charges laid	33	80	18	344.4
Notices of Proposed Disciplinary Action <sup>d</sup> issued	6	12	25	-52
Notices of Decision <sup>e</sup> issued	6	12	15	-20
Individuals and corporations subject to ongoing civil proceedings <sup>f</sup>	173	173	178	-2.8
Compliance advice letters issued	20	43	93	-53.8
Cases with search warrants executed	9	20	25	-20

a Section 179 of the Securities and Futures Ordinance (Cap. 571) gives the SFC the power to compel the production of records and documents from persons related to a listed company in relation to fraud or other misconduct.

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

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

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

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

f As of the last day of the period.

# Regulatory engagement

## IOSCO

We 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 September, Mr Alder chaired an IOSCO Board meeting which focused on non-bank financial intermediation. He also 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.

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.

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 included non-bank financial intermediation, sustainable finance and crypto assets. 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.

## Sustainable finance

In August, we published our Agenda for Green and Sustainable Finance to set out further steps to support Hong Kong's role as a regional sustainable finance centre, having achieved the goals set out in our 2018 Strategic Framework for Green Finance. Our work in this area will focus on corporate disclosures, environmental, social and governance (ESG) funds, asset management, green taxonomies, education and training, technology, innovation and carbon markets.

Also in August, the first phase of the new regulatory requirements<sup>2</sup> came into effect requiring large fund managers to incorporate climate-related risks into their governance, investment and risk management approaches as well as to make related disclosures.

During the quarter, we participated in workstreams under the IOSCO STF which conducted a technical assessment of the International Sustainability Standards Board's (ISSB) exposure draft standards on general requirements for the disclosure of sustainability-related financial information and climate-related disclosures against IOSCO's criteria for endorsement, and also considered the assurance and digital reporting of sustainability information. We chair the Sustainable Finance Working Group of the IOSCO APRC, which completed a members' survey to understand the latest regulatory developments in sustainable finance within the region and arranged a meeting with the IFRS Foundation to provide regional perspectives on the ISSB exposure draft standards.

In August, we issued a comment letter in response to the ISSB consultation on the exposure draft standards, welcoming the ISSB's ambition to develop comprehensive global baseline standards for sustainability reporting. We also shared our high-level observations on the standards' interoperability, phasing and scaling, and the need for implementation guidance, with a view to maximising the breadth and pace of international implementation.

We are working closely with the Stock Exchange of Hong Kong Limited (SEHK) to develop a climate reporting framework for listed companies in Hong Kong which aims to align with the global baseline being developed by the ISSB, taking into account their capabilities and readiness. In addition, we have engaged with the China Securities Regulatory Commission (CSRC) to ensure that our approach takes into account the pace of regulatory developments on the Mainland.

In a discussion at the 2022 Annual Forum of Greater Bay Area Green Finance Alliance and Hong Kong Green Finance Association held in September, Mr Alder shared the latest sustainable finance initiatives undertaken by the SFC. In particular, he emphasised the importance of globally-aligned, comparable corporate sustainability disclosures and the central role Hong Kong can play in supporting this initiative.

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

<sup>2</sup> Amendments to the Fund Manager Code of Conduct announced in August 2021.

## Regulatory Engagement

### Mainland China

During the quarter, we worked closely with the CSRC and other Mainland authorities on cross-boundary regulatory cooperation and market development initiatives to strengthen Hong Kong's competitiveness as an international financial centre.

We welcomed the Central Government's supportive initiatives announced in September by Mr Fang Xinghai, Vice-Chairman of the CSRC, to enhance Hong Kong's status as an international financial centre, an offshore renminbi centre and a risk management centre. The initiatives include broadening the scope of Stock Connect to include foreign companies primary-listed on SEHK to be accessible by Mainland investors via southbound trading, and making additional companies listed on the Shanghai and Shenzhen stock exchanges eligible for trading by overseas investors via the northbound link. In addition, Mr Fang announced the CSRC's support for Hong Kong to introduce treasury bond futures and to study the inclusion of renminbi counters in Stock Connect for southbound trading. Our discussions on these initiatives with the CSRC, SEHK and the Mainland stock exchanges are underway.

We worked closely with the CSRC and Mainland and Hong Kong stock exchanges to enhance the Stock Connect trading calendar<sup>3</sup>.

We also continued to work with the Mainland authorities on a number of initiatives set out in the Guangdong-Hong Kong-Macao Greater Bay Area development plan as well as on other regional cooperation initiatives, including enhancements to the Cross-boundary Wealth Management Connect pilot scheme.

### Other regulatory engagement

In September, we shared our experience regulating the Hong Kong takeovers and mergers market with securities regulators from Brunei, Cambodia and Vietnam in an online workshop hosted by the IOSCO Asia Pacific Hub.

During the quarter, we met with the Hong Kong Monetary Authority to introduce recent initiatives such as our digitalised licensing platform and to discuss fintech developments and licensing issues for family offices and private equity firms as well as licensing requirements for individual practitioners under the enhanced competence requirements.

<sup>3</sup> See Markets on page 12.

# Stakeholders

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

In July, we launched a publicity campaign to help the investing public better understand the Hong Kong Investor Identification Regime<sup>1</sup>. We posted two videos on the SFC's website and social media platforms to highlight key information about the regime. We also produced other promotional materials including posters, pamphlets and face mask holders for banks, brokers and retail investors.

In August, we introduced our official WeChat account which features updates on topics of interest to Mainland-oriented investors and industry professionals including mutual market access, sustainable finance, investor alerts and other SFC initiatives.



Follow the SFC by scanning the QR code or searching "Securities and Futures Commission" in the WeChat App

During the quarter, our senior executives spoke at 14 local and international events to provide regulatory updates on a variety of topics including sustainable finance, listing regulation and the roles of the SFC and company directors in upholding a quality market. Our Chairman Mr Tim Lui delivered speeches at the HKIoD<sup>2</sup> Directors' Conference 2022 and the Business Sustainability Conference organised by the Chinese University of Hong Kong Business School. Our Chief Executive Officer (CEO) Mr Ashley Alder spoke at the Annual Forum of Greater Bay Area Green Finance Alliance and Hong Kong Green Finance Association. We also supported two industry events.

In an article we contributed to the September/October 2022 issue of The Hong Kong Institute of Bankers' newsletter *Banking Today*, our Deputy CEO and Executive Director of Intermediaries Ms Julia Leung talked about the regulation of virtual assets to support their healthy and orderly market development.

We released the following publications in the quarter:

- The SFC's *April-June 2022 Quarterly Report* which summarised our key regulatory work, corporate developments and financial information.
- The *Asset and Wealth Management Activities Survey 2021* which provided a comprehensive overview of Hong Kong's asset and wealth management industry<sup>3</sup>.
- The *Financial Review of the Securities Industry* which provided statistics on the financial positions and performance of securities dealers and securities margin financiers in the first half of 2022.
- The *Half-yearly Review of the Global and Local Securities Markets* which discussed the performance of major stock markets as well as risks and uncertainties facing Hong Kong and international markets in the first half of 2022.
- The September issue of the *Takeovers Bulletin* which highlighted the Takeovers Panel's decisions in relation to a special waiver from a general offer obligation and a mandatory general offer.

We also issued 14 circulars providing guidance on a wide range of matters, including the Investor Identification Regime, Over-the-counter Securities Transactions Reporting Regime and anti-money laundering and counter-financing of terrorism.

<sup>1</sup> See Markets on page 12.

<sup>2</sup> The Hong Kong Institute of Directors.

<sup>3</sup> See Products on page 9.

# Stakeholders

## Publications and other communications

	Quarter ended 30.9.2022	Six months ended 30.9.2022	Six months ended 30.9.2021	YoY Change (%)
Press releases	32	53	55	-3.6
Policy statements and announcements	2	4	1	300
Consultation papers	0	3	1	200
Consultation conclusions	0	2	4	-50
Industry-related publications	5	6	5	20
Codes and guidelines <sup>a</sup>	4	4	0	N/A
Circulars to industry	14	25	25	0
Corporate website average daily page views <sup>b</sup>	53,109	51,096	27,688	84.5
General enquiries	521	1,032	3,034	-66

a Includes updates to previous versions.

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

# Corporate Developments

## Board

In July, we announced that our Chief Executive Officer, Mr Ashley Alder, will be leaving the SFC in late 2022.

Dr James C Lin and Mr Victor Dawes, SC were reappointed as Non-Executive Directors for two years effective 1 August. 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.

In September, Mr Christopher Wilson and Mr Michael Duignan were appointed as Executive Directors for three-year terms effective from 1 November.

## Finance

Our income for the quarter was \$325 million, 19% lower than the previous quarter and 47% lower than the same quarter last year. Average daily turnover in Hong Kong's securities market was \$97 billion, 24% lower than the \$127 billion recorded in the previous quarter. Our

expenditure for the quarter was \$503 million, 2% higher than last quarter and 9% higher than the same quarter last year. We recorded a deficit of \$178 million for the quarter.

After setting aside \$3.3 billion for the possible acquisition of office premises, our reserves stood at \$4.4 billion as of 30 September.

## Staffing

As of 30 September, we had 909 staff members, up from 901 a year ago.

## Information technology

As part of ongoing security enhancements to WINGS, our integrated platform for electronic submissions, a new authentication feature was added to safeguard users' accounts and information. Other enhancements were made to facilitate convenient digital submissions to the SFC.

## Finance

(\$ million)	Quarter ended 30.9.2022	Six months ended 30.9.2022	Six months ended 30.9.2021	YoY Change (%)
Income	325	724	1,228	-41
Expenses including depreciation	503	997	930	7.2
(Deficit)/Surplus	(178)	(273)	298	N/A

# Activity Data

**Table 1 Takeovers activities**

	Quarter ended 30.9.2022	Six months ended 30.9.2022	Six months ended 30.9.2021	YoY change (%)
<b>Codes on Takeovers and Mergers and Share Buy-backs</b>				
General and partial offers under Code on Takeovers and Mergers	12	19	23	-17.4
Privatisations	4	4	12	-66.7
Whitewash waiver applications	3	7	11	-36.4
Other applications under Code on Takeovers and Mergers <sup>1</sup>	62	126	153	-17.6
Off-market and general offer share buy-backs	0	3	2	50
Other applications under Code on Share Buy-backs <sup>1</sup>	0	1	1	0
<b>Total</b>	<b>81</b>	<b>160</b>	<b>202</b>	<b>-20.8</b>
<b>Executive Statements</b>				
Sanctions imposed with parties' agreement <sup>2</sup>	0	1	1	0
<b>Takeovers and Mergers Panel</b>				
Meetings for review of Codes on Takeovers and Mergers and Share Buy-backs	0	0	1	N/A
Hearings before the Panel (disciplinary and non-disciplinary)	2	2	0	N/A
Statements issued by the Panel <sup>3</sup>	2	2	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.

3 Pursuant to section 16.1 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 30.9.2022	Six months ended 30.9.2022 <sup>5</sup>	Six months ended 30.9.2021 <sup>5</sup>	YoY change (%)
Failure to comply with Securities and Futures (Financial Resources) Rules	3	5	4	25
Failure to safekeep client securities	5	9	12	-25
Failure to maintain proper books and records	6	8	11	-27.3
Failure to safekeep client money	5	12	19	-36.8
Unlicensed dealing and other registration issues	1	6	7	-14.3
Breach of licensing conditions	2	4	0	N/A
Breach of requirements of contract notes/statements of account/receipts	7	20	21	-4.8
Failure to make filing/notification	1	1	1	0
Breach of margin requirements	2	3	4	-25
Dealing malpractices	0	0	3	N/A
Breach of Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission <sup>2</sup>	70	116	116	0
Breach of Corporate Finance Adviser Code of Conduct	6	8	4	100
Breach of Fund Manager Code of Conduct	10	44	56	-21.4
Breach of regulation of on-line trading	2	6	7	-14
Non-compliance with anti-money laundering guidelines	57	110	146	-24.7
Breach of other rules and regulations of the Exchanges <sup>3</sup>	0	1	3	-66.7
Internal control weaknesses <sup>4</sup>	100	206	206	0
Others	15	43	40	7.5
<b>Total</b>	<b>292</b>	<b>602</b>	<b>660</b>	<b>-8.8</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, 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 30.9.2022	As at 31.3.2022	Change (%)	As at 30.9.2021	YoY change (%)
Bond <sup>1</sup>	168	174	-3.4	174	-3.4
Equity <sup>1</sup>	203	199	2	199	2
Mixed <sup>1</sup>	111	110	0.9	111	0
Money market	42	37	13.5	36	16.7
Feeder funds <sup>2</sup>	46	41	12.2	38	21.1
Index <sup>3</sup>	167	161	3.7	147	13.6
Guaranteed	1	1	0	1	0
Sub-total	738	723	2.1	706	4.5
Umbrella structures	144	143	0.7	146	-1.4
<b>Total</b>	<b>882</b>	<b>866</b>	<b>1.8</b>	<b>852</b>	<b>3.5</b>

  

b) Assets under management by type	Total NAV (US\$ million) as at 30.9.2022	Total NAV (US\$ million) as at 31.3.2022	Change (%)	Total NAV (US\$ million) as at 30.9.2021	YoY change (%)
Bond <sup>1</sup>	24,450	30,925	-20.9	38,348	-36.2
Equity <sup>1</sup>	42,337	55,601	-23.9	62,196	-31.9
Mixed <sup>1</sup>	26,307	33,402	-21.2	35,306	-25.5
Money market	11,284	9,548	18.2	9,091	24.1
Feeder funds <sup>2</sup>	20	23	-13	26	-23.1
Index <sup>3</sup>	44,378	49,102	-9.6	45,846	-3.2
Guaranteed	33	41	-19.5	48	-31.3
<b>Total<sup>4</sup></b>	<b>148,810</b>	<b>178,642</b>	<b>-16.7</b>	<b>190,861</b>	<b>-22</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 September 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 September 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 30.9.2022	As at 31.3.2022	Change (%)	As at 30.9.2021	YoY change (%)
Luxembourg	1,049	1,033	1.5	1,037	1.2
Ireland	239	242	-1.2	234	2.1
United Kingdom	29	29	0	29	0
Mainland China	49	49	0	50	-2
Bermuda	1	1	0	1	0
Cayman Islands	21	22	-4.5	22	-4.5
Others	5	5	0	5	0
<b>Total</b>	<b>1,393</b>	<b>1,381</b>	<b>0.9</b>	<b>1,378</b>	<b>1.1</b>

b) Assets under management by origin	Total NAV (US\$ million) as at 30.9.2022	Total NAV (US\$ million) as at 31.3.2022	Change (%)	Total NAV (US\$ million) as at 30.9.2021	YoY change (%)
Luxembourg	993,690	1,319,312	-24.7	1,463,111	-32.1
Ireland	196,741	249,259	-21.1	280,939	-30
United Kingdom	56,494	75,548	-25.2	79,399	-28.8
Mainland China	23,144	27,853	-16.9	30,473	-24.1
Bermuda	145	135	7.4	125	16
Cayman Islands	1,412	2,048	-31.1	3,251	-56.6
Others	54,885	73,155	-25	60,235	-8.9
<b>Total<sup>1</sup></b>	<b>1,326,511</b>	<b>1,747,310</b>	<b>-24.1</b>	<b>1,917,531</b>	<b>-30.8</b>

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

<sup>1</sup> Figures may not add up to total due to rounding.

## Activity Data

c) Number of funds by type	As at 30.9.2022	As at 31.3.2022	Change (%)	As at 30.9.2021	YoY change (%)
Bond <sup>1</sup>	360	358	0.6	357	0.8
Equity <sup>1</sup>	759	757	0.3	747	1.6
Mixed <sup>1</sup>	147	142	3.5	136	8.1
Money market	12	14	-14.3	15	-20
Feeder funds <sup>2</sup>	3	3	0	3	0
Index <sup>3</sup>	26	25	4.0	37	-29.7
Hedge	1	1	0	1	0
Sub-total	1,308	1,300	0.6	1,296	0.9
Umbrella structures	85	81	4.9	82	3.7
<b>Total</b>	<b>1,393</b>	<b>1,381</b>	<b>0.9</b>	<b>1,378</b>	<b>1.1</b>

d) Assets under management by type	Total NAV (US\$ million) as at 30.9.2022	Total NAV (US\$ million) as at 31.3.2022	Change (%)	Total NAV (US\$ million) as at 30.9.2021	YoY change (%)
Bond <sup>1</sup>	404,154	523,431	-22.8	612,889	-34.1
Equity <sup>1</sup>	678,146	918,428	-26.2	1,004,035	-32.5
Mixed <sup>1</sup>	145,889	182,033	-19.9	180,050	-19
Money market	8,973	9,039	-0.7	11,809	-24
Feeder funds <sup>2</sup>	0	0	0	0	0
Index <sup>3</sup>	89,205	114,244	-21.9	108,623	-17.9
Hedge	145	135	7.4	125	16
<b>Total<sup>4</sup></b>	<b>1,326,511</b>	<b>1,747,310</b>	<b>-24.1</b>	<b>1,917,531</b>	<b>-30.8</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 September 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 September 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 30.9.2022	Six months ended 30.9.2022	Six months ended 30.9.2021	YoY change (%)
Conduct of licensees	219	434	346	25.4
Conduct of registered institutions	17	32	10	220
Listed companies and disclosure of interests	188	376	1,250	-69.9
Market misconduct <sup>1</sup>	96	170	330	-48.5
Product disclosure	6	8	4	100
Unlicensed activities	266	285	65	338.5
Breach of offers of investments	18	25	14	78.6
Boiler rooms and suspicious websites	92	150	214	-29.9
Scams and frauds <sup>2</sup>	69	234	195	20
Other financial activities not regulated by the SFC <sup>3</sup>	73	167	124	34.7
<b>Total</b>	<b>1,044</b>	<b>1,881</b>	<b>2,552</b>	<b>-26.3</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

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

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

### Introduction

We have reviewed the interim financial information set out on pages 29 to 36, which comprises the condensed consolidated statement of financial position of Securities and Futures Commission (the SFC) and its subsidiaries (together, the Group) as at 30 September 2022 and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and notes, comprising significant accounting policies and other explanatory information. The directors of the SFC are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

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

### Conclusion

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

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 28 November 2022

## Securities and Futures Commission

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

For the three months ended 30 September 2022 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2022 \$'000	30 Sep 2021 \$'000
<b>Income</b>		
Levies	371,176	619,799
Fees and charges	30,266	41,603
Net investment loss		
Investment loss	(77,318)	(53,578)
Less: custody and advisory expenses	(2,506)	(2,927)
Recoveries from the Investor Compensation Fund	1,473	1,428
Exchange gain	1,789	11,771
Other income	78	82
	324,958	618,178
<b>Expenses</b>		
Staff costs and directors' emoluments	378,215	348,442
Depreciation		
Fixed assets	28,010	22,690
Right-of-use assets	36,521	35,635
Other premises expenses	8,884	8,334
Finance costs	1,707	2,000
Other expenses	49,517	46,221
	502,854	463,322
<b>(Deficit)/surplus and total comprehensive income for the quarter</b>	<b>(177,896)</b>	<b>154,856</b>

This condensed consolidated statement of profit or loss and other comprehensive income for the three months ended 30 September 2022 is for information only.

## Securities and Futures Commission

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

For the six months ended 30 September 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2022 \$'000	30 Sep 2021 \$'000
<b>Income</b>			
Levies		813,174	1,153,923
Fees and charges		55,675	91,360
Net investment loss			
Investment loss		(155,240)	(20,876)
Less: custody and advisory expenses		(5,082)	(5,911)
Recoveries from the Investor Compensation Fund	7(a)	2,957	2,852
Exchange gain		11,229	6,304
Other income		1,449	227
		724,162	1,227,879
<b>Expenses</b>			
Staff costs and directors' emoluments	7(b)	756,773	707,674
Depreciation			
Fixed assets		55,006	45,429
Right-of-use assets		73,043	71,271
Other premises expenses		17,591	16,529
Finance costs		3,488	4,074
Other expenses		90,967	84,980
		996,868	929,957
<b>(Deficit)/surplus and total comprehensive income for the period</b>		<b>(272,706)</b>	297,922

The notes on pages 33 to 36 form part of these condensed consolidated financial statements.

## Securities and Futures Commission

### Condensed consolidated statement of financial position

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

	Note	Unaudited At 30 Sep 2022 \$'000	Audited At 31 Mar 2022 \$'000
<b>Non-current assets</b>			
Fixed assets		246,466	263,235
Right-of-use assets		773,465	846,508
Deposits for leases		37,464	38,118
Financial assets at amortised costs – debt securities		3,014,758	3,007,591
		4,072,153	4,155,452
<b>Current assets</b>			
Financial assets at amortised costs – debt securities		227,845	184,105
Financial assets at fair value through profit or loss			
Debt securities		389,027	403,442
Pooled funds		705,999	891,958
Debtors, deposits and prepayments		241,140	310,861
Fixed deposits with banks		3,139,062	3,015,832
Cash held for Grant Scheme	4	140,393	69,296
Cash at bank and in hand		73,853	157,790
		4,917,319	5,033,284
<b>Current liabilities</b>			
Fees received in advance		7,466	7,689
Creditors and accrued charges		380,278	235,589
Lease liabilities		119,115	119,326
Provisions for reinstatement cost		873	–
		507,732	362,604
<b>Net current assets</b>		4,409,587	4,670,680
<b>Total assets less current liabilities</b>		8,481,740	8,826,132
<b>Non-current liabilities</b>			
Lease liabilities		651,376	722,189
Provisions for reinstatement cost		88,047	88,920
		739,423	811,109
<b>Net assets</b>		7,742,317	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		4,449,477	4,722,183
		7,742,317	8,015,023

The notes on pages 33 to 36 form part of these condensed consolidated financial statements.

## Securities and Futures Commission

### Condensed consolidated statement of changes in equity

For the six months ended 30 September 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 period	–	–	297,922	297,922
Balance at 30 September 2021	42,840	3,125,000	4,804,370	7,972,210
Balance at 1 April 2022	<b>42,840</b>	<b>3,250,000</b>	<b>4,722,183</b>	<b>8,015,023</b>
Deficit and total comprehensive income for the period	–	–	(272,706)	(272,706)
Balance at 30 September 2022	<b>42,840</b>	<b>3,250,000</b>	<b>4,449,477</b>	<b>7,742,317</b>

The notes on pages 33 to 36 form part of these condensed consolidated financial statements.

## Securities and Futures Commission

### Condensed consolidated statement of cash flows

For the six months ended 30 September 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited six months ended	
		30 Sep 2022 \$'000	30 Sep 2021 \$'000
<b>Cash flows from operating activities</b>			
(Deficit)/surplus for the period		(272,706)	297,922
Adjustments for:			
Depreciation – Fixed assets		55,006	45,429
Depreciation – Right-of-use assets		73,043	71,271
Finance costs		3,488	4,074
Interest income on deposits for leases		(144)	(143)
Investment loss		155,240	20,876
Exchange gain		(11,237)	(6,338)
Gain on disposal of fixed assets		(3)	(58)
		2,687	433,033
Decrease in debtors, deposits and prepayments		84,372	44,601
Increase in cash held for Grant Scheme		(71,097)	(81,513)
Decrease in fees received in advance		(223)	(821)
Increase in creditors and accrued charges		144,140	150,859
Net cash generated from operating activities		159,879	546,159
<b>Cash flows from investing activities</b>			
(Increase)/decrease in fixed deposits other than cash and cash equivalents		(750,555)	193,875
Interest received		56,225	51,612
Debt securities at fair value through profit or loss purchased		(135,252)	(344,879)
Debt securities at fair value through profit or loss sold or redeemed		124,378	346,978
Pooled funds sold		2,637	3,190
Debt securities at amortised cost purchased		(119,349)	(68,643)
Debt securities at amortised cost redeemed at maturity		62,273	22,530
Fixed assets purchased		(37,694)	(23,847)
Proceeds from fixed assets disposal		9	58
Net cash (used in)/generated from investing activities		(797,328)	180,874
<b>Cash flows from financing activities</b>			
Principal element of lease payments		(71,024)	(68,679)
Interest element of lease payments		(3,488)	(4,074)
Net cash used in financing activities		(74,512)	(72,753)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(711,961)</b>	<b>654,280</b>
Cash and cash equivalents at the beginning of the six-month period		973,151	855,099
<b>Cash and cash equivalents at the end of the six-month period</b>	3	<b>261,190</b>	<b>1,509,379</b>

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

	Unaudited	
	At 30 Sep 2022 \$'000	At 30 Sep 2021 \$'000
Fixed deposits with banks	187,337	1,460,747
Cash at bank and in hand	73,853	48,632
	261,190	1,509,379

The notes on pages 33 to 36 form part of these condensed consolidated financial statements.

# Securities and Futures Commission

## Notes to the condensed consolidated financial statements

For the six months ended 30 September 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 (the 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 (HKFRSs).

The interim financial information is unaudited and the financial information relating to the financial year ended 31 March 2022 included in this report as comparative information does not constitute the Group's statutory annual financial statements for that financial year but is derived from those financial statements.

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

### 2. Recent developments in HKFRSs

*Interest Rate Benchmark Reform – Phase 2 – amendments to HKFRS 9, HKAS 39, HKFRS 7 and HKFRS 16*

The Group has certain debt securities at amortised cost that are referenced to the 3-month USD London Interbank Offered Rate (LIBOR). These exposures will remain outstanding until the Interbank Offered Rate (IBOR) ceases and will therefore transit in future. The Group has assessed the impact and there was no significant effect on the condensed consolidated financial statements. The Group is closely monitoring the market and managing the transition to a new benchmark interest rate, including announcements made by the relevant IBOR regulators.

As at 30 September 2022, the carrying amounts of debt securities at amortised cost that are referenced to USD LIBOR and have yet to be transitioned to an alternate benchmark was \$121,660,000 (as at 31 March 2022: \$121,436,000). The notional contract amount was \$121,462,000 (as at 31 March 2022: \$121,728,000).

## Securities and Futures Commission

### Notes to the condensed consolidated financial statements

For the six months ended 30 September 2022 (Expressed in Hong Kong dollars)

#### 3. Cash and cash equivalents

	Unaudited At 30 Sep 2022 \$'000	Audited At 31 Mar 2022 \$'000
Cash at bank and in hand	73,853	157,790
Fixed deposits with banks	3,139,062	3,015,832
Amounts shown in the condensed consolidated statement of financial position	3,212,915	3,173,622
Less: Amounts with an original maturity beyond three months	(2,951,725)	(2,200,471)
Cash and cash equivalents in the condensed consolidated statement of cash flows	261,190	973,151

#### 4. 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.

#### 5. 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 of financial assets denominated in USD.

#### 6. Investments in subsidiaries

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

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

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

As at 30 September 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 six months ended 30 September 2022 (Expressed in Hong Kong dollars)

#### 7. 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, \$2,957,000 was recovered from the ICF for the ICC's expenses (30 September 2021: \$2,852,000). As at 30 September 2022, the amount due to the ICF from the ICC included in the creditors and accrued charges balance was \$632,000 (as at 31 March 2022: \$106,000).

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

	Unaudited six months ended	
	30 Sep 2022 \$'000	30 Sep 2021 \$'000
Directors' fees and salaries, allowances and benefits in kind	13,022	16,742
Retirement scheme contributions	1,114	1,491
	14,136	18,233

The total remuneration is included in "staff costs and directors' emoluments" on page 29. 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 September 2021: \$242,000) for the period under normal commercial terms and conditions.

# Securities and Futures Commission

## Notes to the condensed consolidated financial statements

For the six months ended 30 September 2022 (Expressed in Hong Kong dollars)

### 8. 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 September 2022 (Unaudited)</u>				
Debt securities	–	389,027	–	389,027
Pooled funds	705,999	–	–	705,999
	705,999	389,027	–	1,095,026
<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 six months ended 30 September 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 September 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 September 2022 (Unaudited)</u>					
Financial assets at amortised costs					
– debt securities	3,242,603	2,960,746	–	2,960,746	–
<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 half-yearly report together with the unaudited condensed financial statements for the six months ended 30 September 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 period ended 30 September 2022 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 39 to 45.

## Members of the Committee

The members of the Committee during the period 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 reporting period.

On behalf of the Committee

**Rico Leung**

Chairman

28 November 2022

## Investor Compensation Fund

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

### Introduction

We have reviewed the interim financial information set out on pages 40 to 45, which comprises the condensed statement of financial position of Investor Compensation Fund (the Fund), established under Part XII of the Securities and Futures Ordinance, as at 30 September 2022 and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six-month period then ended, and notes, comprising significant accounting policies and other explanatory information. The directors of the Securities and Futures Commission are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

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

### Conclusion

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

#### **PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 28 November 2022

## Investor Compensation Fund

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

For the three months ended 30 September 2022 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2022 \$'000	30 Sep 2021 \$'000
<b>Income</b>		
Interest income	11,655	1,357
Exchange gain	518	3,278
	12,173	4,635
<b>Expenses</b>		
Investor Compensation Company Limited expenses	1,473	1,428
Auditor's remuneration	55	55
	1,528	1,483
<b>Surplus and total comprehensive income for the quarter</b>	<b>10,645</b>	<b>3,152</b>

This condensed statement of profit or loss and other comprehensive income for the three months ended 30 September 2022 is for information only.

## Investor Compensation Fund

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

For the six months ended 30 September 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2022 \$'000	30 Sep 2021 \$'000
<b>Income</b>			
Interest income		17,938	3,031
Exchange gain		3,236	1,780
		21,174	4,811
<b>Expenses</b>			
Investor Compensation Company Limited expenses	2	2,957	2,852
Auditor's remuneration		110	110
		3,067	2,962
<b>Surplus and total comprehensive income for the period</b>		<b>18,107</b>	<b>1,849</b>

The notes on pages 44 and 45 form part of these condensed financial statements.

## Investor Compensation Fund

### Condensed statement of financial position

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

	Note	Unaudited At 30 Sep 2022 \$'000	Audited At 31 Mar 2022 \$'000
<b>Current assets</b>			
Interest receivable		13,629	1,689
Due from Investor Compensation Company Limited		632	106
Fixed deposits with banks		2,462,001	2,455,431
Cash at bank		375	1,346
		2,476,637	2,458,572
<b>Current liabilities</b>			
Provision for compensation	4	3,394	3,394
Creditors and accrued charges		232	274
		3,626	3,668
<b>Net current assets</b>		2,473,011	2,454,904
<b>Net assets</b>		2,473,011	2,454,904
Representing:			
<b>Compensation fund</b>		2,473,011	2,454,904

The notes on pages 44 and 45 form part of these condensed financial statements.

## Investor Compensation Fund

### Condensed statement of changes in equity

For the six months ended 30 September 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
Surplus and total comprehensive income for the period	–	–	1,849	1,849
Balance at 30 September 2021	994,718	108,923	1,342,260	2,445,901
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 period	–	–	<b>18,107</b>	<b>18,107</b>
Balance at 30 September 2022	<b>994,718</b>	<b>108,923</b>	<b>1,369,370</b>	<b>2,473,011</b>

The notes on pages 44 and 45 form part of these condensed financial statements.

## Investor Compensation Fund

### Condensed statement of cash flows

For the six months ended 30 September 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2022 \$'000	30 Sep 2021 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the period		18,107	1,849
Adjustments for:			
Interest income		(17,938)	(3,031)
Exchange gain		(3,236)	(1,780)
		(3,067)	(2,962)
Increase in amount due from Investor Compensation Company Limited		(526)	(244)
Decrease in creditors and accrued charges		(42)	(42)
Net cash used in operating activities		(3,635)	(3,248)
<b>Cash flows from investing activities</b>			
(Increase)/decrease in fixed deposits other than cash and cash equivalents		(453,896)	527,376
Interest received		6,003	4,589
Net cash (used in)/generated from investing activities		(447,893)	531,965
<b>Net (decrease)/increase in cash and cash equivalents</b>		(451,528)	528,717
Cash and cash equivalents at the beginning of the six-month period		451,903	647,514
<b>Cash and cash equivalents at the end of the six-month period</b>	3	375	1,176,231

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

	Unaudited	
	At 30 Sep 2022 \$'000	At 30 Sep 2021 \$'000
Fixed deposits with banks	–	1,175,649
Cash at bank	375	582
	375	1,176,231

The notes on pages 44 and 45 form part of these condensed financial statements.

## Investor Compensation Fund

### Notes to the condensed financial statements

For the six months ended 30 September 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.

The interim financial information contains condensed 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 Investor Compensation Fund (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 as comparative information does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

We have 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 six months ended 30 September 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 six months ended 30 September 2022, the ICC incurred costs of \$2,957,000 for its operation (for the six months ended 30 September 2021: \$2,852,000) which were reimbursed by the Fund.

#### 3. Cash and cash equivalents

	Unaudited At 30 Sep 2022 \$'000	Audited At 31 Mar 2022 \$'000
Cash at bank	375	1,346
Fixed deposits with banks	2,462,001	2,455,431
Amounts shown in the condensed statement of financial position	2,462,376	2,456,777
Less: Amounts with an original maturity beyond three months	(2,462,001)	(2,004,874)
Cash and cash equivalents in the condensed statement of cash flows	375	451,903

# Investor Compensation Fund

## Notes to the condensed financial statements

For the six months ended 30 September 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 September 2022 was \$3,394,000, which was 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 six months ended 30 September 2022 and 2021.

### 6. Contingent liabilities

In addition to the provision for compensation made as described in note 4, there were 13 outstanding claims as at 30 September 2022 (12 outstanding claims as at 31 March 2022). The maximum liability in respect of these claims in aggregate was \$2,048,000 (as at 31 March 2022: \$1,875,000). 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. All financial assets are denominated in either USD or HKD which are pegged within the Convertibility Zone. For the six months ended 30 September 2022 and 2021, the Fund's exchange gain was mainly driven by the revaluation of 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 half-yearly report together with the unaudited condensed financial statements for the six months ended 30 September 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 September 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 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 period ended 30 September 2022 and the financial position of the Fund as at that date are set out in the unaudited condensed financial statements on pages 48 to 54.

## Members of the Committee

The members of the Committee during the period 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 reporting period.

On behalf of the Committee

**Rico Leung**  
Chairman

18 November 2022

# Unified Exchange Compensation Fund

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

### Introduction

We have reviewed the interim financial information set out on pages 49 to 54, which comprises the condensed statement of financial position of Unified Exchange Compensation Fund (the Fund), established under Part X of the repealed Securities Ordinance (Chapter 333), which remains effective in respect of the operation of the Fund to the extent described in Section 74 of Schedule 10 of the Securities and Futures Ordinance, as at 30 September 2022 and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six-month period then ended, and notes, comprising significant accounting policies and other explanatory information. The directors of the Securities and Futures Commission are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

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

### Conclusion

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

### PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 18 November 2022

## Unified Exchange Compensation Fund

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

For the three months ended 30 September 2022 (Expressed in Hong Kong dollars)

	Unaudited and unreviewed Three months ended	
	30 Sep 2022 \$'000	30 Sep 2021 \$'000
<b>Income</b>		
Interest income	374	36
<b>Expenses</b>		
Auditor's remuneration	27	27
<b>Surplus and total comprehensive income for the quarter</b>	<b>347</b>	<b>9</b>

This condensed statement of profit or loss and other comprehensive income for the three months ended 30 September 2022 is for information only.

## Unified Exchange Compensation Fund

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

For the six months ended 30 September 2022 (Expressed in Hong Kong dollars)

	Unaudited Six months ended	
	30 Sep 2022 \$'000	30 Sep 2021 \$'000
<b>Income</b>		
Interest income	508	80
<b>Expenses</b>		
Recoveries re-distributed	22	–
Auditor's remuneration	54	54
	76	54
<b>Surplus and total comprehensive income for the period</b>	<b>432</b>	<b>26</b>

The notes on pages 53 and 54 form part of these condensed financial statements.

## Unified Exchange Compensation Fund

### Condensed statement of financial position

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

	Note	Unaudited At 30 Sep 2022 \$'000	Audited At 31 Mar 2022 \$'000
<b>Current assets</b>			
Interest receivable		258	34
Fixed deposits with banks		96,675	97,670
Cash at bank		523	180
		97,456	97,884
<b>Current liabilities</b>			
Creditors and accrued charges		10,299	10,309
Relinquished trading rights payable to SEHK	4	1,450	1,850
		11,749	12,159
<b>Net current assets</b>		85,707	85,725
<b>Net assets</b>		85,707	85,725
Representing:			
<b>Compensation fund</b>		85,707	85,725

The notes on pages 53 and 54 form part of these condensed financial statements.

## Unified Exchange Compensation Fund

### Condensed statement of changes in equity

For the six months ended 30 September 2022 (Expressed in Hong Kong dollars)

	Unaudited						
	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	Total \$'000
Balance at 1 April 2021	54,750	353,787	630,000	6,502	35,751	(994,718)	86,072
Net contributions from SEHK	200	–	–	–	–	–	200
Surplus and total comprehensive income for the period	–	–	–	–	26	–	26
Balance at 30 September 2021	54,950	353,787	630,000	6,502	35,777	(994,718)	86,298
Balance at 1 April 2022	54,300	353,787	630,000	6,502	35,854	(994,718)	85,725
Net contributions to SEHK	(450)	–	–	–	–	–	(450)
Surplus and total comprehensive income for the period	–	–	–	–	432	–	432
Balance at 30 September 2022	53,850	353,787	630,000	6,502	36,286	(994,718)	85,707

The notes on pages 53 and 54 form part of these condensed financial statements.

## Unified Exchange Compensation Fund

### Condensed statement of cash flows

For the six months ended 30 September 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited Six months ended	
		30 Sep 2022 \$'000	30 Sep 2021 \$'000
<b>Cash flows from operating activities</b>			
Surplus for the period		432	26
Adjustment for:			
Interest income		(508)	(80)
		(76)	(54)
Decrease in creditors and accrued charges		(10)	(10)
Decrease in relinquished trading rights payable to SEHK		(400)	–
Net cash used in operating activities		(486)	(64)
<b>Cash flows from investing activities</b>			
Decrease in fixed deposits other than cash and cash equivalents		22,764	23,877
Interest received		284	91
Net cash generated from investing activities		23,048	23,968
<b>Cash flows from financing activities</b>			
Net trading rights deposits (refunded to)/received from SEHK		(450)	200
Net cash (used in)/generated from financing activities		(450)	200
<b>Net increase in cash and cash equivalents</b>		22,112	24,104
Cash and cash equivalents at the beginning of the six-month period		71,486	52,905
<b>Cash and cash equivalents at the end of the six-month period</b>	3	93,598	77,009

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

	Unaudited	
	At 30 Sep 2022 \$'000	At 30 Sep 2021 \$'000
Fixed deposits with banks	93,075	76,507
Cash at bank	523	502
	93,598	77,009

The notes on pages 53 and 54 form part of these condensed financial statements.

# Unified Exchange Compensation Fund

## Notes to the condensed financial statements

For the six months ended 30 September 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. As the Unified Exchange Compensation Fund (the Fund) will eventually cease operation as a result of the Securities and Futures Ordinance which came into effect from 1 April 2003, we have 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 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 as comparative information does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements.

We have 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 six months ended 30 September 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 September 2022, the equity securities received under subrogation amounted to \$41 (as at 31 March 2022: \$68). The balances as at 30 September 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 six months ended 30 September 2022 (Expressed in Hong Kong dollars)

#### 3. Cash and cash equivalents

	Unaudited At 30 Sep 2022 \$'000	Audited At 31 Mar 2022 \$'000
Cash at bank	523	180
Fixed deposits with banks	96,675	97,670
Amounts shown in the condensed statement of financial position	97,198	97,850
Less: Amounts with an original maturity beyond three months	(3,600)	(26,364)
Cash and cash equivalents in the condensed statement of cash flows	93,598	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 six-month period, deposits of \$200,000 in respect of 4 new trading rights were received from SEHK and deposits of \$1,050,000 in respect of 21 relinquished trading rights were refunded to SEHK. As at 30 September 2022, 29 trading rights totalling \$1,450,000 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 period was as follows:

	Unaudited Six months ended	
	30 Sep 2022 \$'000	30 Sep 2021 \$'000
Balance at the beginning of the six-month period	54,300	54,750
Add: new trading rights issued	200	700
Less: relinquished trading rights refunded	(1,050)	(500)
Adjustment for: net decrease in relinquished trading rights payable to SEHK	400	–
Balance at the end of the six-month period	53,850	54,950

#### 5. Related party transactions

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

## **Securities and Futures Commission**

54/F, One Island East  
18 Westlands Road, Quarry Bay, Hong Kong

Telephone : (852) 2231 1222  
Facsimile : (852) 2521 7836  
Website : [www.sfc.hk](http://www.sfc.hk)