

# Securities and Futures Commission

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

For the nine months ended 31 December 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited Nine months ended		Unaudited Three months ended	
		31 Dec 2022 \$'000	31 Dec 2021 \$'000	31 Dec 2022 \$'000	31 Dec 2021 \$'000
<b>Income</b>					
Levies		1,275,786	1,619,185	462,612	465,262
Fees and charges		80,056	124,743	24,381	33,383
Net investment (loss)/income					
Investment (loss)/income		(10,091)	8,418	145,149	29,294
Less: custody and advisory expenses		(7,537)	(8,810)	(2,455)	(2,899)
Recoveries from the Investor Compensation Fund	7(a)	4,437	4,258	1,480	1,406
Exchange (loss)/gain		(16,152)	13,560	(27,381)	7,256
Other income		1,668	1,425	219	1,198
		1,328,167	1,762,779	604,005	534,900
<b>Expenses</b>					
Staff costs and directors' emoluments	7(b)	1,132,896	1,060,078	376,123	352,404
Depreciation					
Fixed assets		82,335	70,580	27,329	25,151
Right-of-use assets		109,603	107,566	36,560	36,295
Other premises expenses		26,517	25,062	8,926	8,533
Finance costs		5,122	6,001	1,634	1,927
Other expenses		146,260	121,247	55,293	36,267
		1,502,733	1,390,534	505,865	460,577
<b>(Deficit)/surplus and total comprehensive income for the period</b>		<b>(174,566)</b>	<b>372,245</b>	<b>98,140</b>	<b>74,323</b>

The notes on pages 34 to 37 form part of these condensed consolidated financial statements.

## Securities and Futures Commission

### Condensed consolidated statement of financial position

As at 31 December 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited At 31 Dec 2022 \$'000	Audited At 31 Mar 2022 \$'000
<b>Non-current assets</b>			
Fixed assets		230,750	263,235
Right-of-use assets		737,352	846,508
Deposits for leases		37,536	38,118
Financial assets at amortised costs – debt securities	8	2,940,113	3,007,591
		<b>3,945,751</b>	4,155,452
<b>Current assets</b>			
Financial assets at amortised costs – debt securities	8	311,982	184,105
Financial assets at fair value through profit or loss			
Debt securities	8	393,478	403,442
Pooled funds	8	794,475	891,958
Debtors, deposits and prepayments		265,712	310,861
Fixed deposits with banks	3	3,194,675	3,015,832
Cash held for Grant Scheme	4	129,563	69,296
Cash at bank and in hand	3	64,091	157,790
		<b>5,153,976</b>	5,033,284
<b>Current liabilities</b>			
Fees received in advance		7,976	7,689
Creditors and accrued charges		427,048	235,589
Lease liabilities		118,873	119,326
Provisions for reinstatement cost		873	–
		<b>554,770</b>	362,604
<b>Net current assets</b>		<b>4,599,206</b>	4,670,680
<b>Total assets less current liabilities</b>		<b>8,544,957</b>	8,826,132
<b>Non-current liabilities</b>			
Lease liabilities		616,453	722,189
Provisions for reinstatement cost		88,047	88,920
		<b>704,500</b>	811,109
<b>Net assets</b>		<b>7,840,457</b>	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		4,547,617	4,722,183
		<b>7,840,457</b>	8,015,023

The notes on pages 34 to 37 form part of these condensed consolidated financial statements.

## Securities and Futures Commission

### Condensed consolidated statement of changes in equity

For the nine months ended 31 December 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	–	–	372,245	372,245
Balance at 31 December 2021	42,840	3,125,000	4,878,693	8,046,533
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	–	–	(174,566)	(174,566)
Balance at 31 December 2022	<b>42,840</b>	<b>3,250,000</b>	<b>4,547,617</b>	<b>7,840,457</b>

The notes on pages 34 to 37 form part of these condensed consolidated financial statements.

# Securities and Futures Commission

## Condensed consolidated statement of cash flows

For the nine months ended 31 December 2022 (Expressed in Hong Kong dollars)

	Note	Unaudited nine months ended	
		31 Dec 2022 \$'000	31 Dec 2021 \$'000
<b>Cash flows from operating activities</b>			
(Deficit)/surplus for the period		(174,566)	372,245
Adjustments for:			
Depreciation – Fixed assets		82,335	70,580
Depreciation – Right-of-use assets		109,603	107,566
Finance costs		5,122	6,001
Interest income on deposits for leases		(217)	(214)
Investment loss/(income)		10,091	(8,418)
Exchange loss/(gain)		16,133	(13,599)
Gain on disposal of fixed assets		(3)	(58)
		48,498	534,103
Increase in right-of-use assets		(5)	(1)
Decrease in debtors, deposits and prepayments		75,828	88,734
Increase in cash held for Grant Scheme		(60,267)	(76,552)
Increase/(decrease) in fees received in advance		287	(871)
Increase in creditors and accrued charges		190,920	207,822
Net cash generated from operating activities		255,261	753,235
<b>Cash flows from investing activities</b>			
Increase in fixed deposits other than cash and cash equivalents		(373,393)	(801,116)
Interest received		92,681	77,212
Debt securities at fair value through profit or loss purchased		(174,227)	(411,358)
Debt securities at fair value through profit or loss sold or redeemed		160,761	403,936
Pooled funds sold		3,819	4,700
Debt securities at amortised cost purchased		(223,979)	(92,016)
Debt securities at amortised cost redeemed at maturity		132,922	22,530
Fixed assets purchased		(49,317)	(60,826)
Proceeds from fixed assets disposal		9	58
Net cash used in investing activities		(430,724)	(856,880)
<b>Cash flows from financing activities</b>			
Principal element of lease payments		(106,631)	(103,762)
Interest element of lease payments		(5,122)	(6,001)
Net cash used in financing activities		(111,753)	(109,763)
<b>Net decrease in cash and cash equivalents</b>		<b>(287,216)</b>	<b>(213,408)</b>
Cash and cash equivalents at the beginning of the nine-month period		973,151	855,099
<b>Cash and cash equivalents at the end of the nine-month period</b>	3	<b>685,935</b>	<b>641,691</b>

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

	Unaudited	
	At 31 Dec 2022 \$'000	At 31 Dec 2021 \$'000
Fixed deposits with banks	621,844	594,290
Cash at bank and in hand	64,091	47,401
	685,935	641,691

The notes on pages 34 to 37 form part of these condensed consolidated financial statements.

# Securities and Futures Commission

## Notes to the condensed consolidated financial statements

For the nine months ended 31 December 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* issued 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 the 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 31 December 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 nine months ended 31 December 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 the 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 31 December 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 \$120,931,000 (as at 31 March 2022: \$121,436,000). The total notional contract amount was \$120,766,000 (as at 31 March 2022: \$121,728,000).

## Securities and Futures Commission

### Notes to the condensed consolidated financial statements

For the nine months ended 31 December 2022 (Expressed in Hong Kong dollars)

#### 3. Cash and cash equivalents

	Unaudited At 31 Dec 2022 \$'000	Audited At 31 Mar 2022 \$'000
Cash at bank and in hand	64,091	157,790
Fixed deposits with banks	3,194,675	3,015,832
Amounts shown in the condensed consolidated statement of financial position	3,258,766	3,173,622
Less: Amounts with an original maturity beyond three months	(2,572,831)	(2,200,471)
Cash and cash equivalents in the condensed consolidated statement of cash flows	685,935	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 (loss)/gain 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 31 December 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 nine months ended 31 December 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 elsewhere in these condensed consolidated financial statements, the Group has the following related party transactions.

##### (a) Reimbursement from the ICF for all the ICC’s expenses, in accordance with Section 242(1) of the SFO

During the period, \$4,437,000 was recovered from the ICF for the ICC’s expenses (31 December 2021: \$4,258,000). As at 31 December 2022, the amount due to the ICF from the ICC included in the creditors and accrued charges balance was \$325,000 (as at 31 March 2022: \$106,000).

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

	Unaudited Nine months ended	
	31 Dec 2022 \$'000	31 Dec 2021 \$'000
Directors’ fees and salaries, allowances and benefits in kind	20,892	24,095
Retirement scheme contributions	1,803	2,136
	22,695	26,231

The total remuneration is included in “staff costs and directors’ emoluments” on page 30. 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 (31 December 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 nine months ended 31 December 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 31 December 2022 (Unaudited)</u>				
Debt securities	–	393,478	–	393,478
Pooled funds	794,475	–	–	794,475
	794,475	393,478	–	1,187,953
<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 nine months ended 31 December 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 31 December 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 31 December 2022 (Unaudited)</u>					
Financial assets at amortised costs					
– debt securities	3,252,095	2,985,510	–	2,985,510	–
<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.